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Public Financial Management Performance Assessment Report

Volume I: Central Government

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Preface

This is the second Public Expenditure and Financial Accountability (PEFA) Assessment undertaken. The last assessment was carried out in 2006 and covered just the public finance management systems of the central government. The current assessment covered the central government as well as a select representative sample of sub national government (SNG) institutions.

The Ministry of Local Government and Rural Development selected five Metropolitan, Municipal and District Assemblies (MMDA). They were Saboba, Wassa West and Manya Krobo District Assemblies, Kumasi Metropolitan Assembly, and Elmina Municipal Assembly. The main purpose for looking at sub-national government is to inform a SN reform. Such an assessment should help to identify and resolve weaknesses in the structure of the sub-national level. In order to keep the assessment manageable, the scope of SN assessment was limited.

The results of the central government PEFA Assessment are presented here in Volume I. The results of the PEFA Assessment carried out on 5 select MMDAs are presented in Volume II.

Acknowledgements

A PEFA Assessment is a highly collaborative process and credit must shared by too many to all be listed here, but much gratitude is still due. First, the Consultants wish to state their appreciation to the Minister of Finance and Economic Planning and his senior management team for providing strong leadership during the assessment, for allocating significant staff time to the mission, and for hosting the meetings July 6th to July 31st, 2009. The Consultants wish to thank the Government of Ghana; especially the officials in the different PFM institutions who provided their time and much assistance, as well as the information necessary for assessing the indicators presented in this report. The interviewees were forthcoming with information and patient in carefully explaining the PFM systems and procedures under their responsibility.

In particular the Consultants would like to thank the Honourable Deputy Minister, Ministry of Finance and Economic Planning (MoFEP), Mr. Seth Terkper, for his leadership role in driving the review process; also the PEFA Steering Group led by Professor Newman K. Kusi, Acting Chief Director, for its oversight role and who guided and closely supported the efforts at understanding the institutional arrangements, arranging for interviews and following up on information requests. Our special thanks go to Mr. Kwabena Boadu Oku-Afari, Director of the Policy Analysis and Research Division, MoFEP; Mr. Samuel Danquah Arkhurst of the Public Expenditure Management Unit (PEMU), MoFEP; and Dr. Alhassan Iddrisu, Acting Director of the Economic Planning Division, MoFEP for assistance and support in arranging for and scheduling the meetings. The Consultants are particularly grateful to Dan Boakye (Task Manager), Dr. David Nguyen-Thanh, GTZ (lead), Mr. Ruud van der Helm, Netherlands (Deputy Lead) and Dr. Helmut Schon, KFW (Acting Lead) of the Development Partner PFM Sector Group who provided much support and assistance throughout the mission. Special mention must be made of the tireless efforts of Ms. Stefanie Rauscher, GTZ, in reproducing the training materials and arranging for the training facility used for the two-day PEFA workshop carried out at the start of the mission.

Also important to mention are Mr. Seth Botchway and Ms. Mona Bempah of the Public Expenditure Management Unit, MoFEP who accompanied the team on all its meetings and provided crucial logistical support throughout the mission. We are also grateful for all their follow up in securing information and data requested for. We also thank Mr. Charles Hegbor, Quistron Inc. for assisting the team with data requests.

The Consultants are especially grateful to the Netherlands Embassy for arranging all of the interviews with the Developing Partners and hosting the team for two full days to carry out the interviews. The cocktail party hosted at the by the Ambassador, Her Excellency Mrs Lidi Remmelzwaal provided a pleasant and effective opportunity for the PEFA team to informally meet with many of the principal PFM officials. The European Delegation in Ghana sponsored this assessment. Its officials, Mr. Guy Samzun and Mr. Baptiste Mandouze, provided much appreciated assistance and support.

The information contained in this report does not necessarily reflect the position or opinion of the MoFEP or of the European Commission. Responsibility for the views expressed and for any errors of fact or judgement remains with the consultants who are accountable for providing an accurate assessment of events, opinions and comments. The PEFA Assessment exercise and the consultants aim to be as factual as possible.

Currency and Exchange Rates

Currency Unit – Ghana Cedi (GHS)
GHS 1 = 10,000 Cedis
Euro 1 = GHS 2.06
US$1 = GHS 1.44
Note: The currency was re-denominated on July 1st, 2007.

Fiscal Year

January 1st to December 31st

PEFA Assessment Period

FY 2006, FY 2007, FY 2008

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Abbreviations and Acronyms

ADMD	Aid and Debt Management Division
ADR	Alternative Dispute Resolution
AG	Auditor-General
AGA	Autonomous Government Agencies
AO	Accounting Officer
AOSL	Administrator of Stool Lands
ARIC	Audit Report Implementation Committee
ASB	Accounting Standards Board
BoG	Bank of Ghana
BPEMS	Budget and Public Expenditure Management System
CAGD	Controller and Accountant General's Department
CD	Chief Director
CEPS	Customs Excise and Preventive Services
CF	Consolidated Fund
CIDA	Canadian International Development Agency
COFOG	Classifications of Functions of Government
CPI	Consumer Price Index
CSDRMS	Commonwealth Secretariat Debt Recording and Management System
DACF	District Assemblies Common Fund
DeMPA	Debt Management Performance Assessment
DFID	Department for International Development
DG	Director General
DP	Development Partner
EC	European Commission
EPCC	Economic Policy Coordinating Committee
ERPFM	External Review of Public Finance Management
FAA	Financial Administration Act
FAR	Financial Administration Regulations
FC	Financial Committee
FDI	Foreign Direct Investment
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAS	Ghana Audit Service
GCC	Ghana Chamber of Commerce
GCM	Ghana Chamber of Mines
GDP	Gross Domestic Product
GES	Ghana Education Service
GETFund	Ghana Educational Trust Fund
GFS	Government Financial Statistics
GHS	Ghana Cedi, Ghanaian currency
GHS	Ghana Health Service

GNI	Gross National Income
GoG	Government of Ghana
GPRSII	Growth and Poverty Reduction Strategy II
GRAP	Generally Recognised Accounting Practice
HIPC	Highly Indebted Poor Country
IAA	Internal Audit Agency
IAU	Internal Audit Unit
ICT	Information and Communication Technology
ID	Identification Document
IFMIS	Integrated Financial Management Information System
IGF	Internally Generated Funds
IIA	Institute of Internal Audit
IMF	International Monetary Fund
INTOSAI	International Organisation of Supreme Audit Institutions
IPPD	Integrated Personnel and Payroll Database
IPSAS	International Public Sector Accounting Standards
IRS	Internal Revenue Service
ISA	International Standards on Auditing
KfW	German Kreditanstalt fur Wiederaufbau (KFW)
MDA	Ministries, Departments, Agencies
MDBS	Multi Donor Budget Support
MDF	Minerals Development Fund
MDRI	Multilateral Debt Relief Initiative
MMDA	Metropolitan, Municipal and District Assemblies
MoESS	Ministry of Education Science and Sports
MoFA	Ministry of Food and Agriculture
MoFEP	Ministry of Finance and Economic Planning
MoH	Ministry of Health
MoLGRD	Ministry of Local Government and Rural Development
MoT	Ministry of Transport
MRH	Ministry of Roads and Highways
MTEF	Medium Term Expenditure Framework
NA	National Assembly
NDPC	National Development Planning Commission
NHIF	National Health Insurance Fund
NPA	National Procurement Assessment
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OHCS	Office of the Head of the Civil Service
PAC	Public Accounts Committee
PCF	Portfolio Committee on Finance
PE	Personnel Emoluments
PEFA	Public Expenditure and Financial Accountability
PEMU	Public Expenditure Management Unit,
PETS	Public Expenditure Tracking Survey
PFM	Public Finance Management
PFM PMF	Public Finance Management Performance Management Framework
PI	Performance Indicator
PPA	Public Procurement Authority
PPB	Public Procurement Board

PPP	Public Private Partnership
PU	Procurement Unit
PUFMARP	Public Financial Management Reform Programme
RAGB	Revenue Agencies Governing Boards
RF	Roads Fund
SBS	Sector Budget Support
SCM	Supply Chain Management
SEC	State Enterprises Commission
SNG	Sub National Government
SoE	State Owned Enterprise
ToR	Terms of Reference
TPU	Tax Policy Unit
TSA	Treasury Single Account
USAID	United States Agency for International Development
VAT	Value Added Tax
WAMZ	West African Monetary Zone
WB	World Bank

Summary Assessment

This Public Expenditure and Financial Accountability (PEFA) assessment was initiated through a coordinated effort between the Government of Ghana (GoG) and its Development Partners (DP). The PEFA exercise adopted a harmonised approach. The PEFA assessment was sponsored by the European Commission; the training workshop was sponsored by GTZ, and the mission was managed by the PEFA Steering Group, comprising the GoG, the World Bank (WB) and the Development Partner PFM Sector Group Lead. It was undertaken with the formal agreement and active support of the Government of Ghana. The PEFA Assessment reviewed the performance of the PFM systems of the Central Government and five selected Metropolitan, Municipal and District Assemblies (MMDAs). The results of the PEFA Assessment done on the five selected MMDAs are reported on in a separate volume[1].

This assessment of the central government's Public Finance Management (PFM) is the second one to be carried out. The first, which established the baseline, was carried out in 2006 and covered the fiscal years 2003 to 2005. The assessment adopts the widely accepted methodology of the Public Financial Management Performance Measurement Framework (PFM-PMF) issued by the PEFA multi-donor programme in June 2005. The PEFA approach is based upon a careful consideration of the demonstrated observable Public Finance Management (PFM) systems, procedures and practices in Ghana at the time of the assessment as determined through direct interviews with Government officials and the reviews of official documents and reports. It is also based upon the use of corroborating evidence sought from a variety of independent sources where ever possible. In essence it provides an independent snapshot of the current status of the central government's PFM. The PEFA Assessment should serve to identify both areas of strength and weakness. This second PEFA Assessment provides an opportunity to map the progress that has been made over time by comparing the ratings scored in 2009 with 2006. In so doing, it should present a basis for evaluating the effectiveness of Ghana's PFM reform agenda

This assessment is not designed to comment upon any aspects of specific fiscal or expenditure policy and has been careful not to do so. It has not taken into account considerations of capacity, except to the degree implicit in successfully carrying out the assessed PFM procedures. It is important also to underscore that the objective of the assessment has not been to evaluate or score the performance of institutions or any PFM

[1] See Draft Ghana PEFA Assessment 2009: Volume II, Five Selected MMDAs

offices or officials, but rather to assess the status of the PFM systems themselves to support sound fiscal policy and financial management[2].
The PEFA performance review for Ghana presents an assessment of the 31 high-level indicators of the PEFA Performance Measurement Framework. It is anticipated that the PEFA assessment will further inform the Government's PFM reform agenda. In addition it is expected to support the on-going dialogue between the government and its Development Partners on aid delivery modalities and arrangements for continuing support to PFM reform in Ghana.

This report, by design, neither articulates specific recommendations for PFM improvements nor details an action plan. It is anticipated, though, that the results, which establish areas of both PFM strength and weakness, shall assist the government in further defining its PFM reform priorities and the subsequent reform activity sequencing and activity roll-out schedule. Further, it should serve separately as a useful tool to Development Partners for supporting dialogue in providing harmonised donor support to the Government's PFM reform efforts.

Integrated Assessment of PFM Performance

In the following sections of the summary assessment, the performance of PFM systems, procedures and practices are discussed in terms of six critical dimensions of PFM as defined within the PEFA methodology. These are credibility of the budget; comprehensiveness and transparency; policy based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and oversight. While donor practices were also assessed, these are not treated here under a separate section. Rather they are considered as part of the discussion by way of their impact on the country's PFM within each section.

Credibility of the budget

When considered at the aggregate level, and restricted to an assessment of primary expenditure, Ghana does not perform very well with respect to the credibility of the budget. However, one key pre-requisite to achieving a credible budget process is met. The comparison of revenue estimates to actual outturns performs very well (see PI-3). It is important though to note that the revenue forecasts principally adopt an inductive historical statistics approach and do not explicitly incorporate planned production output. Given the relatively low revenue contributions of mineral royalties and cocoa export duties, this omission has not had a significant impact on revenue estimates. However, as Ghana's oil revenues begin to come on stream and contribute a sizeable proportion to overall revenue, incorporating estimates on future production will become crucial.

[2] In essence this assessment provides a measure of whether the main necessary conditions for delivering upon sound PFM practice has been met, rather than providing an insight into all of the sufficient conditions necessary to conclude that sound PFM is being carried out. For example while it assesses whether the PFM systems provide a sound framework for assessing fiscal risk arising from Public Enterprise activity, it makes no comment as to what authorities do or should do in response to the information provided by the fiscal risk assessment. Such responses may be purely political and a comment on such would be beyond the remit or competence of a PEFA assessment.

The macro-fiscal frame, developed on a three-year rolling basis, does not yet serve as an effective instrument of budgetary top-down discipline. First, reliable expenditure estimates remain elusive as a consequence of the challenges of predicting the wage bill given the timing of labour union negotiations; predicting the energy subsidies (payments to Volta River Authority (VRA)) and the oil import subsidies (payments to Tema Oil Refinery (TOR)). Second, the actual outturns of net domestic borrowings have not been in keeping with the GPRSII or the approved annual budget estimates. Given that the macro-fiscal estimates are anchored on domestic debt forecasts, such large deviations of actual outturns of domestic debt net borrowings undermine the reliability of the three-year forecasts.
Actual primary expenditure compared with expenditure shows significant deviations at both the aggregate level and at the level of individual Ministries, Departments and Agencies (MDAs). The largely ineffective establishment control and commitment controls, complicated further by unpredictable budget releases, and not fully disseminated budget ceilings down to the level of budget management ceilings, undermine efforts to maintain expenditure within budget ceilings. It should be noted that both the establishment and commitment controls are premised upon a series of authorizations and visas. But this is distinct from having achieved effective control.

The primary expenditure includes a number of statutory funds, which implicit in their design requires a non-discretionary interpretation of the executive's legal obligation to fully fund in accordance with the transfer levels set in the Appropriations Act. In practice, this requirement was not adhered to for the period of review.

Given the limited expenditure arrears monitoring and reporting, it is not possible to ascertain the precise level of expenditure arrears. Available evidence suggests the amounts to be sizeable and large enough to be impacting the current budgetary operations of a number of MDAs. The long delays in processing new hires onto the personnel database, results in significant instant expenditure arrears upon hiring. While these amounts are not reported on, the Controller and Accountant General's Department (CAGD) describes the amounts in aggregate to be large enough to have budgetary implications.

A Public Expenditure Tracking Survey (PETS) carried out in 2008 covering 2005/2006 expenditure data identified extensive delays in the receipt of budgetary releases. Internal documentation maintained by MoFEP and statements by officials indicate these delays continue to be substantial. Given such unpredictability in budget releases, coupled with the very late implementation of Budget Expenditure Ledgers (used to effect a manual commitment control) accrued expenditure arrears under other recurrent expenditure (administrative and service charges) must also be substantial. These too are not currently monitored or reported on.

Investment expenditure is completely centralised and all payments are made directly by the MoFEP. This arrangement should provide an opportunity for implementing an effective commitment control system. It should also facilitate monitoring and accurately reporting on accrued expenditure arrears. In practice, this is not the case. The Auditor General's Report for 2007 finds that the MoFEP grossly understates the level of both accrued roads and non-roads arrears. A comparison of the Auditor General's Report with data provided the PEFA team directly by the Ministry of Transport shows the Audit Report in turn to be understated. Using data from the Ministry of Transport and the Auditor–General´s report, accrued expenditure arrears under Investment expenditure alone in 2007 was 5% of primary expenditure.

The CAGD has adopted a rather narrow definition of Articles 40 and 41 of the Financial Administration Act, 2003 (FAA) with respect to financial reporting on the Consolidated Fund activities rather than on a broad definition of the central government's funds. This interpretation has led to an omission of expenditure reporting on retained Internally Generated Funds (IGF) in consolidated financial reports. It has also led to an omission of reporting on Development Partner funded investment expenditure. It appears to have also contributed to financial reporting that is not completely consistent with the budget documentation definitions. This financial reporting approach has given rise to apparent discrepancies between the budget figures which sometimes state gross amounts, and the CAGD's financial reports, which state net figures offset by components not deemed to be a strict constituent of the Consolidated Fund.
When the assessment considers expenditure in greater detail, and looks beyond primary expenditure[3] there are important issues that impact on the overall credibility of the budget which are important to note. These include the high level of predictability (both volumes and timeliness) in the disbursement of donor budget support under the Multi Donor Budget Support (MDBS). This has had a positive impact upon the predictable management of budget releases. In contrast, the lack of a consistent definition of budget estimate for Development Partner funded projects, and the lack of alignment of donor budget estimates and financial reporting with the government's budget classification and fiscal year impacts negatively on budget credibility[4]. What is employed, when provided by Development Partners, is instead a reflection of some combination of pledge, commitment and projected disbursement. This, rather than a careful determination of budget estimates based upon the likelihood of disbursement given the applicable conditionalities, the absorptive capacity that take into account the procurement planning and implementation schedules of the projects to be financed. The limited attention to actual budget estimates rather than the unfiltered adoption of pledges, commitments and projected disbursements tend to undermine the credibility of the budget. In the case of financial reporting, there has not been an across the board adoption of the Government's modified accounting standard in the financial reporting on projects and programmes. The mix of accrual accounting and cash accounting standards makes the consolidation of expenditure figures a rather meaningless exercise. Finally the timing of the submittal of fiscal reports must be consistent with the requirements of the Government's financial reporting to allow for complete and credible reports on outturns (see PI-25 and D-2).

The PFM systems accommodate for well controlled virement procedures with well documented and suitably controlled procedures for in-year adjustments to budget allocations above the level of management of MDAs through a well controlled use of supplementary budgets with parliamentary oversight. That the budgetary adjustments are

[3] Development Partner funding represents approximately 30% of the central government budget and so issues pertaining to their impact on budget credibility are quite germane.

[4] The Aid and Debt Management Division (ADMD) collects and aggregates data on commitments and disbursements which must be commended; however, these are not strictly consistent with the budgetary and financial reporting requirements of the national systems.

required to take place with clear guidelines add to the credibility of the budget. The credibility of the original budget allocations is maintained by specifying in advance an adjustment mechanism in a systematic and fairly transparent manner. However, in 2008 (an election year) the supplementary budget process was ignored; this in spite of massive expenditure over approved budget ceilings (see PI-1). Closely related has been the lack of budgetary discipline applied to domestic debt. The Loans Act, 1970 requires all loans to be approved by Parliament. It however accommodates a mechanism to be applied to such short term instruments as Treasury Bills whereby the executive does not require approval on each loan by Parliament; provided it remains within approved budgetary ceilings and unchanging terms. Again this is an area where actual levels of domestic borrowings far surpassed parliamentary approved ceilings. Ignoring these legal and regulatory oversight and control procedures undermines budget credibility.

Two factors that can undermine the credibility of the budget are significant extra-budgetary activities, and the poor monitoring of fiscal risk, debt and contingent liabilities. The issue of extra budgetary expenditure is well addressed and contributes positively to the credibility of the budget. It should be noted that the increasing levels of Public Private Partnership arrangements without complete reporting on these activities could lead to less budget credibility (see PI-7). Without consolidation of fiscal risk issues pertaining to Public Enterprises unforeseen negative impacts, vis-à-vis the Consolidated Fund, might emanate out of unforeseen expenditure burdens arising out of sub national government loans or public enterprise bail outs (see PI-9).

Comprehensiveness and transparency
By way of comprehensiveness, Ghana's central government PFM systems and procedures are fairly sound. The budget documentation is fairly complete, comprehensible and comprehensive including the macroeconomic assumptions, the fiscal balance along with the make up of any deficit financing, the debt profile and status, and clear explanations on the impacts of new major revenue policy initiatives. It still excludes complete information on the financial assets and the historical budget outturns detailed at the level of MDAs.

The budget classification is a hybrid one that adopts line item budgeting for personnel emoluments and administrative charges (representing approximately 70% of discretionary MDA spending) and activity based budgeting for services and investment expenditure. The government has adopted standards for the budget formulation and execution that are based on economic and administrative classifications but exclude functional or programme classification considerations at this time. These budget classification standards can produce consistent documentation according to GFS/COFOG standards using bridging tables. The chart of accounts is consistent with the budget classifications. The budget classification, institutional arrangements and accounting and financial reporting is not yet capable of directly supporting a functional outcome budgeting process although a categorization of the administrative classification allows some linkage to the National Development Strategic Framework on the basis of three main pillars; Private Sector Competitiveness, Human Resource Development, and Good Governance and Civic Responsibility.

The budget documents submitted to Parliament are comprehensive and comprehensible. They include a Medium Term Expenditure Framework and an annual budget. The three year framework is not yet done on a rolling basis as it relates to subsequent budget years. At this time the outlying years are merely indicative and do not represent base lines for subsequent annual budgets.

All security agency funds are reported on in aggregate, even if details of expenditure remain undisclosed. There is no centralised reporting on Public-Private Partnerships. At this time the level of PPP activity remains limited and so this omission does not yet have significant impacts on the comprehensiveness of extra budgetary reporting. There have been cases of bridging loans undertaken with commercial banks. While the interest payments have been included in domestic debt reports the details of these bridging loan transactions have been excluded.

Part of the revenues generated directly by MDAs (IGF) is transferred to the Consolidated Fund. Expenditure out of the retained IGF is reported on in MDA financial statements but not in the consolidated financial reports prepared by the CAGD. The CAGD has the capacity to oversee revenue and expenditure transactions through monthly bank reconciliations of the Consolidated Fund. However, reconciliation of the retained IGF is done in some cases only annually. The financial reports on the Consolidated Fund are based upon a reconciliation process between sources of funds and applications which reasonably assures that, outside of retained IGF funds, there are no significant extra-budgetary fund transactions. Reporting on Development Partner activity is comprehensive (see PI-7).

By way of transparency, Ghana does very well with respect to public access to budgetary and financial documentation (see PI-10); however with respect to inter-governmental fiscal transfers it does poorly (see PI-8). Audited financial reports are submitted for public enterprises however with respect to the consolidation of fiscal risk, the oversight of public enterprises and public borrowing are areas where weaknesses remain (see PI-9).

There are two levels of sub national government: the district assemblies and the traditional authorities. The aggregate amount of transfers from the Central Government to Sub National Government (SNG), though not segregated and reported on explicitly, is quite substantial. A review of the mechanisms for the vertical and horizontal allocation of resources to Sub-national Government suggests a non transparent system which leaves out any parliamentary oversight for most vertical allocations save for the District Assemblies Fund (DACF) and the HIPC contributions. The horizontal allocations of resources between SNG entities are rule based for only part (approximately 40%) of the DACF and the Minerals Fund. A large proportion of the transfers made to the SNG entities is directly embedded in the Central Government budget and is not clearly delineated between the two levels of government. The payroll of most of the staff of District Assemblies and Traditional and Divisional Councils are paid for by the Central Government. The SNG entities are required to prepare annual financial statements to be submitted to the Auditor General within three months of the close of the fiscal year. In practice there is a large backlog of un-submitted financial statements.

The Financial Reports on the Consolidated Fund prepared by the CAGD includes schedules on the Government’s investment in the Public Entities. Most of the public entities submit audited financial statements to the State Enterprise Commission; however there is no consolidation of fiscal risk issues.

The culture of transparency with regards to budget documentation is very active and there is budgetary, financial reporting, procurement and audit information that are made available in a timely fashion through the government gazette, the Book Shop of the Government Publishing Company Ltd. and on the Internet through various government websites. There have also been efforts made at improving access to public information through the use of simplified budget material. A PETS was carried out in 2008. There is not yet regular annual information available on the amounts of resources recei ved by the front line facilities such as primary schools and primary health care facilities.

Policy-based budgeting

The budget process and documentation in Ghana adopts much of the terminology of policy based budgeting such as MTEF, sector strategies, objectives, functions, inputs, activities, and outputs; however as this assessment demonstrates, the effectiveness of the policy based approaches instituted remain severely constrained. This occurs as a consequence of the PFM systems having not yet established the basic pre-requisites for adopting policy based budgeting including: budget credibility, a macro-fiscal framework that serves as an effective instrument of top-down budgetary discipline, predictability in budget releases, and effective budgetary and expenditure control. This state of affairs persists in spite of continuing immense efforts made by the budgetary institutions.

The underlying institutional arrangements to support a policy based budget process such as sector working groups are absent. The budget process carries the burden of the administration of an MTEF without deriving the correspondent benefits. The budget process reflects much of the form of policy based budget without incorporating its substance. This outcome appears to have resulted as a direct consequence of the imposition of "*a one size fit all approach*" to PFM reform with insufficient care taken as to the current status of PFM or an adherence to sound reform sequencing or implementation roll out principles (see Chapter 4).

With respect to policy based budgeting, the central government scores well with respect to the orderliness and participation in the annual budget process, the scope and frequency of debt sustainability analysis and the existence of costed sector strategies

Ghana adopts a single budget process with both the recurrent and capital budget process coordinated by the Ministry of Finance and Economic Planning (MoFEP). It has adopted a three-year Medium Term Expenditure Framework for its budgetary processes. It should be noted that previous MTEF expenditure estimates do not serve as effective base lines since they typically differ significantly from the call circular budget ceilings. The budget process occurs within a pre-announced resource envelope based upon three-year forecasts. The macro-fiscal framework is derived from a three year revenue forecast, a three-year pro-forma debt profile based upon both policy and macro-economic considerations. At the present time the macro-fiscal framework defines both aggregate as well as economic classifications in its forecasts. These though are not directly linked to the annual budget ceilings.

The budget process encompasses policy input by the Cabinet at the beginning of the budget process, and by both the Cabinet and the Parliament at the end of the budget cycle. At the end of the budget cycle, parliamentary oversight is facilitated by the debates on the Budget Statement. The budget process occurs in accordance with a definite budget calendar and is guided by clear and timely budget call circulars that facilitate an early budget preparation process by the budget holders. The budget preparation process as carried out by the budget holders is based upon ceilings indicated in the call circulars. However, these do not serve as hard budgetary ceilings since the submitted budget estimates differs significantly from the budget guidelines ceilings. This undermines the budget process and appears to have contributed to MDAs submitting budget requests well in excess of 100% above the budget call circular ceilings. The MDAs have six to eight weeks to prepare their budget bids. Finalised ceilings authorised by cabinet which are provided towards the end of the budget preparation cycle facilitate about a month for MDAs to finalise their budgets with Cabinet approved bids incorporated.

The national vision, mission and development objectives have been articulated within a national development strategic framework, the GPRSII. Aligned with achieving the Millennium Development Goals, it was formally launched in 2006, aiming to grow Ghana's economy to middle income status by 2015 and reduce poverty. This national development framework serves as a basis for the development of sector strategies. Most large MDAs prepare sector strategies along with updated annual corporate plans. Many, though not all, of the sector strategies, are developed within a fiscal frame and fully costed with recurrent cost implications taken into account. Debt sustainability analysis (DSA) is performed on an annual basis by the MoFEP. The debt sustainability assessment is performed both for domestic and external debt. In recent years the DSA has been carried out in conjunction with the IMF.

Links between the sector development plans and the budget occur mainly on a qualitative basis. Two factors weaken the link between sector strategies and the annual budgets. The first is that in some cases projects are introduced into the budget that were not derived out of the sector strategies, the second is that the large cuts that are made to the MDA budget submittals in order to be able to reconcile them with the budgetary ceilings, distort the relationships between the investment budget and the forward linked recurrent costs.
The executive completes its budget allocation planning approximately six weeks prior to the start of the fiscal year. The Parliament approved the appropriations prior to the start of the fiscal year in two out of the three years reviewed and only two weeks after the start of the fiscal year in the third. Article 26 of the FAA Act allows for continued spending by the executive prior to the approval of the appropriations up to three months into the new fiscal year.

Predictability and control in budget execution
The PFM systems of Ghana's central government score well with respect to some aspects of revenue administration, debt management, payroll management and procurement, but overall predictability and control in budget execution remains an area of concern. The areas of concern include the discretionary elements of the revenue legal and regulatory framework, the controls in the taxpayer registration system, the predictability in the availability of funds for the commitment of expenditures, the extent of consolidation of

the government's bank cash balances, the effectiveness of the establishment control and the effectiveness of the commitment control.

Predictability in budget execution is premised upon revenue adequacy which in turn requires sound revenue administration. Some elements of revenue administration work very well. These include clarity of taxpayer obligations and liabilities (Export tax and IRS provisional and final assessments), the sustaining of vigorous tax awareness and educational programs, and transfers to the Consolidated Fund work very well. Tax arrears remain high even though that is compensated for by a high debt collection ratio. Areas of concern include the absence of legal constraints on officer discretion in the application of IRS assessments, Export Duties, penalty waivers and rates; the selection basis for tax audits; and the lack of effective controls in the taxpayer registration system.

Cash management is a particular challenge to the PFM systems of the central government of Ghana. Its weaknesses results in highly unpredictable budget releases. It should be noted though that cash management in the central government works reasonably well with regards to the considerations of predictability of revenue and debt service. The specific challenge arises as a consequence in the management of budget releases to facilitate expenditure. Ghana uses a dual warrant system for the authority for MDAs to incur expenditure. The General Warrant is applied to personnel emoluments (Item-1) and administrative charges (Item-2). Specific Warrants are applied to services (Item-3) and investment (Item-4) expenditure. In the case of Specific Warrants these are issued in response to requests made by MDAs.

The General Warrants, without the benefit of updated MDA cash plans, are issued on a monthly basis, but in the month that they cover and in some instances well into the month. The consequence of which is that MDAs have a predictability horizon of less than a month for General Warrant expenditure. Further complication is introduced through a combination of personnel emoluments budget estimates being unrealistically low, coupled with the non-discretionary interpretation of this classification of expenditure, and the absence of an effective establishment control leads to the personnel rolls dictating actual payments under Item-1 rather than it arising from a careful cash management process. With cost centres often not receiving Budget Expenditure Ledgers (used to control commitments) till months into the fiscal year, it is unlikely that effective commitment controls are implemented at the level of district cost centres.

The Specific Warrants are applied to services and investment expenditure. There are extensive delays in the processing of Specific Warrants as MDAs must first compile and consolidate requests from their cost centres prior to submitting them to the MoFEP. When issued the funds must be disaggregated and disbursed to the corresponding treasuries. This process is so delayed that often the Specific Warrant request are made retroactively. The PETS reports that some districts only receive one tranche of services releases and that in the fourth quarter.
The Government has four main groups of bank accounts[5]. These are the Consolidated Fund Account, the Sub Consolidated Fund Accounts, the Retained IGF accounts and the donor funded project accounts. The consolidation and calculation of balances are weekly

[5] There is a fifth but these are just facilitation accounts to address revenue transfers.

for the Consolidated Fund Account, monthly for the Sub Consolidated Fund Accounts, between quarterly and annual for the retained IGF accounts, and in many cases never for the donor funded project accounts.

Debt is monitored using the CS-DRMS 2000+ system and regularly reconciled and reported on with respect to stock as well as debt service. In spite of an effective recording, reconciliation and reporting on debt stock and debt service, the lack of a timely consolidation of the government's cash and the lack of administration's capacity to disburse to the Departments in accordance with agreed draw-down schedules undermines the administration's capacity to manage cash balances in overnight markets and thus reduce the net cost of capital. Debt management is enhanced by having the authority to incur loans being vested in a single authority - the Minister of Finance, subject to Cabinet and Parliamentary approval. However, this is grossly weakened by ignoring the ceilings on net domestic borrowings approved in the submitted budget.

Payroll management is facilitated using a transverse computerised payroll system, IPPD2. This system directly links the personnel database, which serves as a control file, and the payroll database. Absent however is a directly linked establishment of posts database[6] to effectively control new entries, transfers and promotions in the personnel database. Changes to these databases leave an audit trail and permit only selected access dependent upon function. The databases are encrypted. All civil servants are registered through IPPD2 that include appropriate fields to protect against duplication[7]. There are extensive authorisation procedures for the entry of new hires, that include budgetary controls through MoFEP approvals, but these are largely ineffective. The Office of the Head of Civil Service maintained a manual establishment database until 2006. It discontinued it in response to the database being by-passed to automatically introduce new hires out of teacher training colleges and medical and nursing training facilities. Payroll management includes through the use of verification procedures, exception reports and regular physical payroll audits, however fair assurance of the integrity of the payroll management system remains elusive as a consequence of the absence of an effective directly linked establishment control.

The legal regulatory requirements clearly establish open competition as the default method of procurement. The Ghana Chamber of Commerce reports on an improved perception of public procurement being more broadly accessible and fair. Data from the Public Procurement Authority suggests that open competition is predominantly employed to award contracts above GHS 20,000. There is an effective procurement complaints resolution process which is subject to oversight of an independent body.

That said there are a few areas of concern. While the legal and regulatory framework is clear on the controls for each of the main steps of the procurement and expenditure cycle, these are not applied uniformly across all MDAs. A 2005 audit of selected flows found that there was not strict adherence to the application of expenditure controls. Officials indicate that there have not been substantial improvements made since then.

[6] CAGD officials report that there is a module included within IPPD2 but that this was not implemented.

[7] Of course the effectiveness of unique entry fields is dependent on how robust a country's identification systems are. Where it is easy to obtain forged National IDs, the unique identification fields are rendered ineffective.

Internal audit in Ghana is overseen by the Internal Audit Agency. Though many modern aspects of internal audit have been adopted, its implementation must be seen as a work in progress. It adopts the IIA standards and has developed manuals that are aligned with these standards. The Internal Audit Units (IAU) prepare a risk assessment of their Departments and elaborate annual audit work plans. The audit work plans include considerations of risk, control and governance. The plans incorporate areas of focus, or thrust areas, informed by risk considerations and identify a range of audit types including compliance, financial audits, payroll audits, and systems audits. A sampling of audit work plans and interviews with officials suggests that only a limited amount of the audit time (approximately 20%) is deemed spent on systemic issues.

The Internal Audit Units are required to submit quarterly reports to the Internal Audit Agency, the accounting officer, and the Audit Report Implementation Committee (ARIC). In the case of Annual Internal Audit Reports, these are disseminated to the Office of the President for onward submission to the Parliament; the MoFEP; and the Ghana Audit Service. According to the Internal Audit Agency, in the case of MDAs the follow up on recommendations is still low.

Accounting, recording and reporting

For the accounts managed by the GAGD, balances are calculated monthly (see PI-17) and used as the basis to reconcile the monthly expenditure returns emanating solely out of the Consolidated Fund (see PI-24). The CAGD managed bank accounts are reconciled on a monthly basis following clear guidelines and procedures issued in the Accounting Manual. These take place within four to six weeks of the close of the month. For the other government accounts, the retained IGF bank accounts and those related to development partner funded projects, these remain outside this arrangement. The retained IGF accounts are reconciled quarterly in some ministries but at least annually for all in the preparation of the final accounts.

As part of the year end closing procedures suspense accounts (expenditure) are cleared at the end of each year to facilitate the issuance of the annual financial statements. The main sources of advances are staff-vehicle advances, staff-special advances and the departmental vehicle revolving fund. As part of the year end closing procedures the advances accounts are reconciled generally within two months of the close of the year with some un-cleared balances brought forward.

A Public Expenditure Tracking Survey (PETS) for the health and education sectors was undertaken in 2008 on 2007 expenditure. The objective was to determine efficiency of public spending at the facilities level and the quality and quantity of services delivery. The report concludes that the extensive delays in public expenditure releases from central ministries and agencies have repercussive effects on the whole system which contributes to inefficient resource utilization.

Article 41 of the FAA, 2003 requires that a monthly statement of public accounts be published in the Government Gazette within 15 days of the close of each month. It comprises a balance sheet showing assets and liabilities, a statement of revenue and expenditure and a cash flow statement. The monthly financial statement does not report

on expenditure at the time of commitment. In practice the CAGD publishes monthly expenditure returns, within four to six weeks of the close of the month. The format permits only a partial comparison of revenue and expenditure to the original budget allocations which are included in the budget tables. This is because expenditure out of retained IGF is reported separately in MDA financial statements without providing a consolidated view.
There are some concerns on data integrity since accuracy cannot be assured by a full consolidation and reconciliation process (against bank statements) of all public accounts including retained IGF funds. Maintaining dual expenditure streams without a consolidation and synchronised reconciliation of both poses a risk as to what degree of overlap there might be between the expenditure out of the two streams. This would be particularly so for expenditure carried out under an imprest mechanism.

The Financial Administration Act, 2003 (FAA) and the Financial Administration Regulations, 2004 (FAR) along with the recently published Accounting Manual define the accounting standards and legal and regulatory framework for public accounting in Ghana. Article 41 of the FAA, 2003 requires the CAGD to account for all transactions out of the Consolidated Fund. The CAGD presents its figures on a net basis offsetting any funds not forming part of the Consolidated Fund[8]. Financial statements encompass revenues, expenditures, liabilities and financial assets. Specifically they exclude retained IGF, expenditure arrears, revenue arrears, and donor financed projects and programs. For each of the three years under review the Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund) were submitted three months after the close of the fiscal year. The accounting manual adopts standards in accordance with the International Public Sector Accounting Standards (IPSAS). All published financial statements include a brief outline of the accounting policies applied in the preparation of the statements along with a full set of notes and schedules that provide some disclosure of the accounting standards adopted.

External scrutiny and audit

The role of the Auditor General is enshrined in the Constitution, 1992 and the Audit Service Act, 2000. Ghana Audit Service (GAS) has jurisdiction over the central government, the local authorities, the courts, the public corporations and all bodies established by an Act of Parliament. The audits broadly adhere to appropriate auditing standards (INTOSAI). The office of the Auditor General has some important elements of independence although the President maintains effective control over the hiring and setting of the salary of the Auditor General. It gives him or her independence to frame work plans and also addresses the financial independence of the Auditor General. The tenure of the Auditor General is fixed. The Constitution protects the Auditor General from arbitrary removal limited to reasons of misbehaviour, incompetence or inability to carry out responsibilities resulting from infirmity of body or mind as determined by a Judiciary panel. The Constitution empowers the Auditor General to have access to all books, records, returns and documents relevant to the public accounts.

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[8] Each MDA also prepares stand alone financial statements that are completed within two months of the close of the fiscal year and submitted to the Auditor-General for audit. The audited stand alone MDA financial statements are also presented to parliament.

The Auditor-General is required to submit audit reports to Parliament within six months after the close of the fiscal year. The audits cover revenue, expenditure, assets and liabilities. In particular the debt portfolio is audited each year. The audits cover more than 90% of total revenues and expenditures. The Ghana Audit Service (GAS) has begun to address some aspects of performance auditing. It also carries out procurement and payroll audits. Under the terms of the Multi Donor Budget Support Framework Memorandum the Ghana Audit Service supervises the audit of selected flows.

The audit reports on the financial statements on the Consolidated Fund are submitted to the Parliament within 3 months of the receipt of the draft Accounts from the CAGD, or 6 months after the close of the fiscal year. The audit reports are made public at the time of submission to the Parliament. Part of the audit methodology of each audit is a check as to whether previous recommendations have been followed up. The GAS perceives that a substantial part of the recommendations is effectively being followed up. Such follow up on recommendations is driven by close cooperation between the Office of the Auditor General, Audit Report Implementation Committees (ARIC) and the Public Accounts Committee (PAC). The audit report on the Public Accounts Consolidated Funds contains formal management responses but less systematic information on follow up.

Ghana is characterised by a democratic system and the parliamentary oversight of the government's budget processes also includes actual expenditure achievements and the quality of expenditure management. Parliament's role begins with the submission of the Budget Statement, Medium Term Expenditure Framework and the Annual Estimates. This process usually starts in the middle of November. The Parliament has clear organisation and a set of procedural rules that are enshrined in the Standing Orders. The Parliament functions on the basis of a number of committees. The parliamentary rules are comprehensive, detailed and publicly available. The legislative review covers some aspects of fiscal policy but principally focuses on the details of revenue and expenditure estimates. This debate tends to focus on the fiscal policy and the macroeconomic framework underpinning the budget estimates, but does not cover the medium term fiscal framework.

There have been recent efforts to pass the Appropriations Bill prior to the start of the new fiscal year. While gaining in one aspect PFM performance (see PI-11), this has led to a dilution of performance as to the extent of parliamentary scrutiny of the budget (see PI-27). The combined time available to the Parliament for the review of the budgetary documents referred to above is approximately 5 to 6 weeks and has been adhered to for the budgets of the years 2006, 2007 and 2008.

There are clear rules for in-year budget amendments that set out strict limits. These include rules on expenditure in advance of appropriation, expenditure out of the contingency allocation, virement, the use of supplementary budgets for expenditure beyond approved estimates; and the use of revote warrants. As per the Loans Act, 1970 the executive domestic debt may be incurred without each transaction being approved ex-ante provided it does not exceed the approved budget domestic borrowing levels. In 2008 expenditure substantially exceeded approved budget estimates and borrowings were far in excess of the approved budget even though no supplementary budget was submitted. For a number of years the domestic borrowing limits have not been respected. Further in all three years reviewed the Executive did not adhere to the approved budget amounts for the statutory funds transfers.

The timeliness of scrutiny of the audit reports that were issued in 2006, 2007 and 2008 was negatively impacted by the disputed legitimacy of the tenure of the Auditor General. As a consequence, the audit reports on the consolidated funds of 2006 and 2007 were only tabled in 2009. Hearings are a common part of the review by the PAC of AG reports. Typically, they include the main stakeholders and consider the most severe irregularities. Since 2007, the PAC has held public hearings. Due to the mentioned delay with the PAC review of audit reports, such public hearings have not continued to be carried out and so cannot yet be described as routine. The PAC finalises its review of AG reports by tabling a report including recommendations to the Parliament. After parliamentary approval, the recommendations are forwarded to the ARIC in each entity. The PAC keeps track on the follow up to the recommendations and possesses other evidence that some recommendations have been implemented.

Assessment of the impact of PFM strengths and weaknesses

When viewed from the perspective of the three main objectives of a sound PFM system, namely aggregate fiscal discipline, strategic allocation of resources and the efficient delivery of services; Ghana does not yet score well on all key aspects of aggregate fiscal discipline. Given that this is a foundational element of sound PFM, it impacts upon the effectiveness of the other two main objectives of sound PFM. The limited top-down discipline role that the macro-fiscal framework serves does not fully facilitate the meaningful bottom-up budget participation by MDAs who submit budget requests too high above budget guideline ceilings to permit meaningful reconciliation of the top-down and bottom up budget processes. This in spite of having adopted a definite budget calendar, which accommodates policy based inputs and the use of clear budget guidelines set within pre-announced ceilings.

There is a decoupling between approved budgets and budget execution. Personnel emoluments quickly outstrip their budget ceilings as a consequence of both unrealistic Item-1 budget ceilings as well as ineffective establishment controls. The highly unpredictable budget releases and weak commitment controls lead to a high accrual of expenditure arrears and point to the inefficient delivery of services. A Medium Term Expenditure Framework was introduced as part of the PUFMARP launched in 1996, the adoption of costed sector strategies aligned with a well articulated overarching national development framework has been achieved, there are annual debt sustainability analyses carried out; and yet all of these successes have not been fully effective in strategically allocating resources in line with government policy objectives.

Revenue administration and procurement reform is showing signs of positive impact; unreported extra budgetary activity is limited; there is good and timely public access to budgetary and fiscal information; the recording, reconciliation and reporting on debt service and the debt portfolio is strong; both internal audit and external audit have been reformed, even though in some respects it may still be described as a work in progress; Parliament reviews both the budget proposals and actual expenditure. And yet weaknesses in the achievement of fiscal discipline dilute the overall impact of these achievements on the overall performance of public finance management.

There are four main factors that characterise the PFM of the central government in Ghana:

1. *Transfers to sub national government remains largely embedded within the central government budget*: The Districts Assemblies Common Fund (DACF), a statutory fund, and representing a little over 7% of primary expenditure, along with the HIPC transfers are the only disaggregated element of inter-governmental fiscal transfers. Substantial personnel emolument payments, some administrative charges, counterpart fund contributions and mineral fund transfers add another 5% of primary expenditure that is transferred in a non predictable or transparent way. This has impacts on decentralization policy formulation; the budgetary performance of the MMDAs and also on such MDAs as the CAGD, Ministries of Chieftaincy Affairs and Local Government and Rural development whose budgets embed such transfers.

2. *The narrow interpretation of CAGD financial reports to only reflect Consolidated Fund Transactions:* This narrow interpretation of the FAA, 2003 has led to consolidated financial reports reflecting only a portion primary expenditure and excluding expenditure out of retained IGF. Further, it has meant excluding the reporting of expenditure on development partner funded projects and programmes. It has also meant that in some cases financial figures reported are offset by those amounts that are not considered strictly emanating out of the Consolidated Fund, whereas the budget documentation do not necessarily make those distinctions. The upshot of this has been a reduction in the transparency of financial reporting, a weakening of the reconciliation mechanism as it has introduced a dual expenditure reporting system for MDAs with possible opportunity for overlap. It also increases expenditure management complications with respect to having to setting up dual commitment and establishment controls to be applied separately to Consolidated Fund expenditure as distinct from retained IGF expenditure.

3. *The hybrid budget classification system:* The budget classification incorporates both line item and activity based budgeting. This, it appears, has required the implementation of a dual warrant and budget release mechanism; one to address the lime item classifications (Item-1 and Item-2 carried out by the CAGD) and the activity budget classifications (Item-3 and Item-4 carried out by MoFEP).

4. *The expenditure management remains manual:* The Budget and Public Expenditure Management System includes a commitment control module, but has not been rolled out across all cost centres. Consequently, expenditure management including the issuance of purchase orders (commitment control), invoice verification (goods, services and works received note) and payment vouchers remain manual.

Aggregate Fiscal Discipline

With respect to aggregate fiscal discipline, Ghana's reliable revenue estimates (PI-3) present a good starting point for achieving aggregate fiscal discipline. The single authority with stringent oversight and approval legal requirements for contracting loans stand the PFM systems in good stead to achieve fiscal discipline. Low levels of unreported extra-budgetary expenditure, good and timely public access to key fiscal information, the adherence to a fixed budget calendar, with the adoption of clear budget circulars which reflect Cabinet approved ceilings, the preparation of multiyear fiscal forecasts, high average debt collection ratios for tax arrears, regular and timely revenue transfers to the Consolidated Fund, the recording, reconciliation and reporting of debt service and the debt portfolio, predictable budget support disbursements, timely in year budget implementation reports and annual financial reports, with effective timely external audit and parliamentary scrutiny all contribute positively to achieving aggregate fiscal discipline. Ghana cannot yet be said to have achieved this foundational step towards sound PFM.

The achievement of aggregate fiscal discipline remains elusive as a consequence of a macro-fiscal frame that remains ineffective as an instrument of top-down discipline (PI-12), a bottom budget preparation process that results in budget request that exceed ceilings by often in excess of 100% thus rendering any top-down, bottom up reconciliation processes ineffective (PI-11). The high unpredictability and large delays in the budget releases, coupled with the ineffective establishment and commitment controls undermine the achievement of fiscal discipline (PI-16, PI-18, and PI-20). The ignoring of approved budget ceilings on domestic borrowing (see PI-1for fuller discussion) and the poor oversight of aggregate fiscal risk from SNGs contribute negatively (PI-9).

Strategic Allocation of Resources

Even though Ghana has in place a number of important steps towards achieving a budgetary process that is capable of the strategic allocation of resources in line with Government policy, the lack of achievement with respect to fiscal discipline render these less than fully effective. Ghana has adopted an activity based budgeting approach, but due to its partial implementation and the absence of functional or program alignments; there are only weak links with policy objectives. The Parliament does not review medium term fiscal framework to introduce a longer term, and so more effective approach, to policy debate. While sector strategies are largely aligned with the national development strategic framework (GPRSII), and a number of the larger ones, though not all, of the sector strategies are developed within a fiscal frame that are fully costed with recurrent cost implications taken into account; the links between the sector development plans and the budget occur only on a qualitative basis. Debt sustainability analysis (DSA) is performed on an annual basis by the MoFEP and so provides a context to develop realistic strategies within realistic debt levels. But a practice of ignoring domestic borrowing ceilings undermines the value of the DSA.

Ghana’s development objectives rely heavily upon Development Partner inputs. There important missed strategic opportunities that arise due to the lack of a close alignment of donor grants with the budget process and a broad absence of timely consistent financial reporting on project and programme achievements consolidated into the national financial reporting framework (see PI-25 and D2). The effectiveness of the central government’s success in allocating resources strategically requires timely disciplined budget releases in accordance with such strategic considerations. It also requires the incorporation of effective monitoring and evaluation to inform and continue evolving and refining strategy. Particularly important to assessing the impact of policy objectives is the tracking of resources received by front line service delivery units such as primary schools and primary health care facilities (see PI-23).

Efficient Service Delivery

The improving procurement performance (PI-19) has a positive impact on efficient service delivery. The improved timeliness achieved in the approval of the appropriations bill by Parliament contributes significantly to achieving efficient service delivery since it provides more time for implementing the budget. However, weaknesses in aggregate fiscal discipline undermine the overall effectiveness of efficient service delivery. The weak linkages between taxpayer registration databases and other relevant government registration systems do not assure comprehensive coverage of the potential taxpayer base. The high levels of discretionary powers of officers with respect to the legal and regulatory framework for tax revenues with respect to provisional and final tax assessments, penalty rates and waivers, export taxes impacts negatively on efficient service delivery. The weaknesses in the establishment control leads to a high incidence of ghosts; and even though there is a system of annual payroll audits this is a matter of addressing the symptoms rather than fixing the underling cause. The high unpredictability of budget releases and weak commitment control impact negatively on the efficient use of procurement methods. It also leads to high accruals of expenditure arrears that impact negatively upon value for money. The recording, reconciliation and reporting on debt service and debt stock is strong. However, cash management is not yet strong enough to facilitate a close integration of debt and cash management so as to support a lowering of the net cost of money through participation in the overnight money markets. A greater emphasis on systemic issues with respect to internal audit (PI-21) would provide the opportunity to curb the application of inefficient procedures.

Prospects for reform planning and implementation

Ghana´s PFM reform programme has been on-going for well over a decade. These reforms have had support at the highest political levels across two separate governments. The results of these reform efforts have been mixed. There has been some success demonstrated in the areas of revenue administration, debt management, internal and external audit, and procurement. This contrasts with other areas for which there have been much less encouraging progress such as the implementation of a Medium Term Expenditure Framework (MTEF), an effective commitment control, an effective establishment control and the implementation of an integrated financial management information system (BPEMS[9]).

The series of reforms it has engaged in over the years may be characterized as comprehensive and ambitious. They however have not had a specification of platforms whereby an appropriate and sustainable package of measures is designed to achieve increasing levels of PFM competence over a longer-term timeframe. Further not enough care was always taken with regards to the appropriate sequencing or coordination of PFM reform activities. The sequencing of reforms implemented do not appear to have fully considered the country's capacity constraints, incentive structures and the reform circumstances with respect to the current macroeconomic and political context. Finally, there has not been a strong focus on reform roll out schedules or considerations of the inter-linkages between PFM activities.

[9] BPEMS is an acronym for an integrated financial management information system. It stands for Budgeting and Public Expenditure Management System.

At the beginning of 2006, MoFEP adopted its three-year strategic plan and its short and medium-term Action Plan, covering the period 2006-2009. While this plan does not outline a complete sequencing and roll out strategy it identifies "*quick wins*" and medium term reform efforts. The selection of reform activities was informed by the outcome of the PEFA Assessment carried out in 2006. Most of the proposed "*quick wins*" have been addressed.

The commitment to continuing improvements in PFM in Ghana currently has political championship at the very highest levels through the Minister and Deputy Minister for Finance. The new administration is emphasizing PFM reform. In May 2009, the MoFEP presented at a workshop an outline of the new administration's PFM reform focus and approach.

The approach, which may be characterized as emphasizing the basics, seeks to adopt the institution of a Secretariat with a full time project lead and project team; and to coordinate the PFM reforms more closely with the broader public sector reforms. The intended reform focus is cash management including the setting up of a treasury single account and improving reconciliation procedures between MoFEP, CAGD and the Bank of Ghana; the upgrading or replacement of BPEMS; the continuing improvements in revenue administration and the establishment of clear cash and accrual basis of accounting. The Supplementary Budget issued in August 2009 identifies three areas of reform focus: (i) the introduction of a Treasury Single Account (TSA) that will permit a daily compilation of the overall cash position of the Consolidated Fund; (ii) a Cash Management System involving the monthly forecast of cash inflows and outflows with its required financing; and (iii) the establishment of a National Revenue Authority. The reform is intended to incorporate some aspects of the E-Government/E-Ghana project that seeks to computerize domestic tax administration procedures.

However, significant institutional challenges remain. At the present time there is no cabinet approved PFM reform strategy. The heads of divisions and departments are responsible for reforming activities within their purview. However, there are no clearly specified institutional arrangements to address coordination between inter-linked PFM activities, or between the central agencies and the MDAs and MMDAs. There is no redundancy built in to the institutional arrangements to ensure continuity. The strategy is not fully costed, and there is no a clear single coordinated funding arrangement outlined. Finally, there is no clear monitoring and evaluation scheme to effectively oversee and manage implementation. A cabinet approved strategy with all of these elements would more readily facilitate a "*strengthened approach*" to development partner support of the PFM reforms based upon development partner harmonization working with a single pool of reform information.

While there are a number of important cross-cutting PFM reform objectives embarked upon within the Strategic Action Plan (SAP) 2006-2009, there is no strategic framework that specifically targets and prioritises the achievement of all three main objectives of sound Public Finance Management (PFM) i.e. fiscal discipline, strategic allocation of resources and efficient service delivery. However, it may be necessary to embark on each of these objectives one at a time, looking to consolidate a particular "platform" before fully embarking on the next. The PEFA Assessment suggests that budget credibility and predictability and control in budget execution remain challenges to Ghana's PFM. There remain significant difficulties with cash management and budget releases, with establishment control and difficulties with expenditure over primary estimates. These areas may require first priority, before focusing on a more policy based approach to budgeting, or on efficiency improvements.

Impact of Donor Practices on PFM Performance

Development Partner financial flows account for approximately 39% of the budget. The adoption of the MDBS has had a very positive impact on the predictability of budget releases (D1).

There are though, important missed strategic opportunities that arise due to the lack of a close alignment of donor funded projects with the budget process. There is a broad absence of timely consistent financial reporting on project and programme achievements consolidated into the national financial reporting framework (PI25 and D2). The lack of a consistent definition of budget estimate for donor funded projects, and the lack of alignment of donor budget estimates and financial reporting with the government's budget classification and fiscal year impacts negatively on budget credibility. What is employed, when provided by Development Partners, is instead a reflection of some combination of pledge, commitment and projected disbursement. This, rather than a careful estimate of actual disbursement based upon commitment, the likelihood of disbursement given the applicable conditionality's and the absorptive capacity taking into account the procurement planning and implementation schedules of the projects to be financed. The limited attention to actual budget estimates rather than the unfiltered adoption of pledges, commitments and projected disbursements tend to undermine the credibility of the budget. In the case of financial reporting, there is not across the board adoption of the Government's modified accounting standard. The mix of accrual accounting adopted by a number of development partners for their project reporting submissions and the modified cash accounting standards adopted by the Government adversely affects the consolidation of expenditure figures. Finally the timing of the submittal of fiscal reports must be consistent with the requirements of the Government's financial reporting to allow for complete and credible reports on outturns (see D-2).

Table 0.1 Overall summary of PFM Performance Scores

PFM Performance Indicator		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C				**C**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	C				**C**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				**B**
PI-4	Stock and monitoring of expenditure payment arrears	M1	NS	D			**NS**
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				**C**
PI-6	Comprehensiveness of information included in budget documentation	M1	B				**B**
PI-7	Extent of unreported government operations	M1	A	A			**A**
PI-8	Transparency of inter-governmental fiscal relations	M2	C	D	D		**D+**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	D			**D+**
PI-10	Public access to key fiscal information	M1	A				**A**
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	A	A	B		**A**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	D	A	B	C	**C+**
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	D	A	C		**C+**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		**C**
PI-15	Effectiveness in collection of tax payments	M1	B	A	C		**C+**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C	D	D		**D+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	C	C		**C+**
PI-18	Effectiveness of payroll controls	M1	A	C	B	B	**C+**
PI-19	Competition, value for money and controls in procurement	M2	A	B	B		**B+**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D	B	C		**D+**
PI-21	Effectiveness of internal audit	M1	C	B	D		**D+**
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	C	C			**C**
PI-23	Availability of information on resources received by service delivery units	M1	B				**B**
PI-24	Quality and timeliness of in-year budget reports	M1	C	B	C		**C+**
PI-25	Quality and timeliness of annual financial statements	M1	C	A	C		**C+**
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	B	B	C		**C+**
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	B	D	**D+**
PI-28	Legislative scrutiny of external audit reports	M1	D	C	B		**D+**
D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	A	A			**A**
D-2	Financial info provided by donors for budgeting/reporting on project/program aid	M1	B	C			**C+**
D-3	Proportion of aid that is managed by use of national procedures	M1	D				**D**

Tracking Progress over Time

The PEFA scoring scheme provides a direct, if not completely simple, basis for tracking PFM performance progress over time. It is important to point out that in making scoring comparisons one must take into account that the indicators represent high-level aggregate measures which do not necessarily capture all of the change detail. Also a literal comparison with previous scores may not always be fully meaningful. Consequently reported changes in scores require an accompanying explanation narrative and may be best served by some recalibration of previous scores to place both sets of scores on a more consistent basis.

Direct comparison with previous scores can be made complicated by changed budgetary classifications, differing methodology assumptions, changes in definitions, improved availability of or access to information, different data sampling and aggregation and possible scoring methodology mistakes. In making a comparison with the 2006 PEFA Assessment, it was determined that nine of the indicators could not be compared directly and would require recalibration in order to establish whether there had been progress made over the period on that particular indicator[10]. Annex 5 provides a detailed analysis of the differences in scores between the two assessments, and hence the basis for the recalibrated scores. The recalibrated scores have been used as the basis to establish both improvements and slippage in PFM performance.

On the basis of the recalibrated scores Ghana shows improvements in ten scored indicators, and slippage in four. The changes and by how much are discussed in the following sections. As noted in Chapter 4, the Short Term and Medium Term Action Plan issued in 2006 identified "quick wins" derived from the 2006 PEFA Assessment that were implemented. As a consequence, there were positive impacts made on their PEFA scores. In spite of these improvements many elements of PFM are still not fully effective.

The PFM systems have clearly benefited from the substantial progress made with respect to the strengthening of the legal and regulatory framework for public finance management and fiscal decentralization. Other areas that have demonstrated some progress or show promise for improvement have been in the areas of budget preparation (PI-11), accounting and reporting (PI-22, PI-23, and PI-25), aid and debt management (PI-17, D1), revenue administration (PI-3, PI-13, and PI-15), audit reform (PI-21 and PI-26), procurement reform (PI-19), and the implementation of an integrated personnel and payroll management system (PI-18). In contrast other areas have shown much more disappointing results. These include the implementation of MTEF (see PI-5, PI-6 and PI-12), the implementation of BPEMS (PI-20), the implementation of a commitment control system (PI-4 and PI-20), the implementation of effective establishment controls (PI-1, PI-2, PI-18), cash and budget release management (PI-4 and PI-16) and fiscal decentralization (PI-8).

[10] It is not part of the remit of a PEFA Assessment to review any previous PEFA scorings; however given the differences that can arise in different assessments and in order to keep the discussion of tracking progress over time simpler and more straight forward, a recalibration of the scores to make it more consistent with the definitions and approaches applied in this assessment has been included. This is not to serve as a comment on the previous PEFA scorings, but merely to establish a more consistent basis for applying the scores to track progress over time.

When these two sets of outcomes are considered, a pattern emerges that suggests that a price has been paid for not placing enough emphasis on sequencing and reform roll out scheduling. Success has for the most part been constrained to elements of fiscal discipline which would typical fall into the first platform of PFM reform; and areas with limited roll out scheduling required due to their relatively centralised implementation. Much greater challenges have been faced in attempting to address issues of strategic allocation of resources, that sequencing arguments would place in a later reform platform, and highly de-concentrated implementation (at the level of cost centres or MMDAs) where careful attention to a roll out scheduling strategy is necessary.

Credibility of the Budget

Aggregate expenditure outturn compared to the original approved budget shows slippage. A consideration limited to outturns on discretionary MDA expenditure would score even lower, a D. The higher score is merely a consequence of compensating factors due to not transferring the full transfers of the statutory funds. This represents a serious slippage with highly significant impacts on the overall credibility of the budget. The aggregate revenue outturn to original approved revenue estimates shows a slippage in score. In contrast to PI-1 this appears to be less egregious. The annual results were close; that is 2003 - 97.8%, 2004 - 106.3%, 2005 - 94.0%, compared with 2006 -96.4%, 2007 – 94.1%, and 2008 – 116.8%. The overall performance remains comparable. The monitoring of and stock of expenditure was poor in 2006 and remains poor. The weaknesses have very significant impacts on the overall credibility of the budget.

Comprehensiveness and Transparency

Ghana has shown some improvement of the comprehensiveness of information included in budget documentation. The 2008 Budget Statement included budgetary impacts of all the major revenue policy changes. There were also previous year budget outturns, but these were only reported at the aggregate levels. While not enough to impact the score on the extent of unreported government operations; two elements are noted. These are the increasing role of public private partnerships and the use of bridge financing arrangements with commercial banks. Neither of these is explicitly reported on. By way of transparency Ghana has shown improvements with respect to public access to key fiscal information. Specifically contract awards are now published on the PPA website and quarterly and monthly expenditure returns are made available to the public on a timely basis.

Policy Based Budgeting

Ghana has made significant strides in improving several elements of policy based budgeting. In particular the period for the approval of the Appropriations Bill has improved significantly. In two years out of three the bill was approved prior to the start of the fiscal year, and in the third only two weeks after the start of the fiscal year. There has been overall improvement with respect to multi-year perspective in fiscal planning, expenditure policy and budgeting; but the detailed progress has been mixed. There have also been improvements in the scope and preparation of debt sustainability analysis, though slippage with respect to the multi-year fiscal forecasts and the linkages between investment budgets and forward expenditure estimates.

Predictability and Control in Budget Execution

The two main areas of improvement have been in revenue administration and procurement. There have been significant improvements made with respect to taxpayers' access to information on tax liabilities and administrative procedures and on the collection of tax arrears. There have also been improvements in the use of open competition and in the establishment of an administrative procurement complaints mechanism. There have been some improvements made in the recording, reconciliation and reporting on debt service and debt stock. There is evidence that there have been significant institutional improvements in internal audit but a greater emphasis on systemic issues is still required and would provide the opportunity to curb the application of inefficient procedures

Accounting Recording and Reporting

A PETS was carried out in 2008 which provided information on the resources that were actually received in cash and in kind by the primary schools and the primary health clinics. Also of some importance has been the completion of the Accounting Manual which is aligned with the IPSAS standard. However, its full impact is yet to be demonstrated.

External Scrutiny and Audit

Though not significant enough to register an improvement in overall rating external audit has seen improvements by way of the timeliness in the submission of audit reports and in the scope and nature of audits performed. The slippage shown in the legislative scrutiny of the annual budget law arises principally because rules for in-year amendments to the budget without ex-ante approval by the legislature were not respected in many instances during the period of review. There was also slippage in the time the legislature has to review the budget. This was however a direct consequence of the improvements made in the timeliness of the approvals of the Appropriations Bill (see PI-11). The slippage in the legislative scrutiny of the external audit reports was as a consequence of the court case that questioned the legitimacy of the auditor general and restricted the PAC from reviewing the audit reports.

Donor Practices

There has been substantial improvement made in the predictability of direct budget support with respect to the in-year timeliness of Development partner disbursements.

Table 0.2 Tracking Performance over Time

PFM Performance Indicator	2006 Original	2006 Recalibrated	2009
A. Credibility of the Budget			
1. Aggregate expenditure out-turn compared to original approved budget	B	B	C
2. Composition of expenditure out-turn compared to original approved budget	D	D	C
3. Aggregate revenue out-turn compared to original approved budget	A	A	B
4. Stock and monitoring of expenditure payment arrears	B+	NS	NS
B. Comprehensiveness and Transparency			
5. Classification of the budget	B	C	C
6. Comprehensiveness of information included in budget documentation	C	C	B
7. Extent of unreported government operations	A	A	A
8. Transparency of Inter-Governmental Fiscal Relations	C	D+	D+
9. Oversight of aggregate fiscal risk from other public sector entities.	C	D+	D+
10. Public Access to key fiscal information	B	B	A
C (i) Policy-Based Budgeting			
11. Orderliness and participation in the annual budget process	B	B	A
12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C	C+
C (ii) Predictability and Control in Budget Execution			
13. Transparency of taxpayer obligations and liabilities	B	C	C+
14. Effectiveness of measures for taxpayer registration and tax assessment	C	C	C
15. Effectiveness in collection of tax payments	D+	NS	C+
16. Predictability in the availability of funds for commitment of expenditures	C	D+	D+
17. Recording and management of cash balances, debt and guarantees	B	C+	C+
18. Effectiveness of payroll controls	C+	C+	C+
19. Competition, value for money and controls in procurement	NS	NS	B+
20. Effectiveness of internal controls for non-salary expenditure	C	D+	D+
21. Effectiveness of internal audit	D+	D+	D+
C (iii) Accounting, Recording and Reporting			
22. Timeliness and regularity of accounts reconciliation	C	C	C
23. Availability of information on resources received by service delivery units	D	D	B
24. Quality and timeliness of in-year budget reports	C+	C+	C+
25. Quality and timeliness of annual financial statements	C+	C+	C+
C (iv) External Scrutiny and Audit			
26. Scope, nature and follow-up of external audit	C+	C+	C+
27. Legislative scrutiny of the annual budget law	C+	C+	D+
28. Legislative scrutiny of external audit reports	C+	C+	D+
D. Donor Practices			
D-1 Predictability of Direct Budget Support	C+	C+	A
D-2 Financial information provided by donors for budgeting and reporting on project and program aid	C	C	C+
D-3 Proportion of aid that is managed by use of national procedures	D	D	D

Key: Recalibrated score. Improved score Slipped Score

1 Introduction

1.1 Objective of the PFM-PR

The purpose of the central government[11] Public Expenditure and Financial Accountability (PEFA) Assessment has been two-fold. It has been first, to assess the current status of the Central Government of Ghana's Public Finance Management (PFM) systems, procedures and practices using the PEFA methodology; and second to track what progress has been made since the previous baseline central government PEFA Assessment was carried out in 2006.

The PEFA methodology[12] is based upon a set of 28 high-level performance indicators that measure the current status of the Central Government's PFM systems, plus 3 high-level performance indicators that measure the performance of donor practices with respect to the impact on the government's budgetary processes. The performance indicators, which are scored on a rating system from A to D is presented along with a narrative. The narrative provides a scoring context through a brief description of PFM processes and procedures adopted by the government and the evidence applied to support and explains the scorings.

In addition to the performance indicator scores, this PFM performance report presents a summary assessment that qualitatively measures Ghana's PFM performance with respect to three main objectives of sound PFM; fiscal discipline, the strategic allocation of resources in accordance with government's policy objectives, and efficient service delivery. PFM performance is further measured with respect to six main dimensions, namely: budget credibility, comprehensiveness and transparency; policy based budgeting; predictability and control in budget execution; accounting, recording and reporting; and external scrutiny and audit. Further, the PFM performance report reviews the country context in which such PFM is carried out, the legal and regulatory framework, the institutional arrangements and an assessment of the PFM reforms currently being undertaken.

This PEFA assessment aims to benchmark current PFM systems, procedures and practices within the central government of Ghana and through the identification of weaknesses, serve as a basis for guiding improvements made to achieve better public financial management. The PEFA approach is consistent with Ghana setting its own agenda for PFM reform around which a coordinated program of Development Partner

[11] As part of the PEFA mission a separate assessment of five selected MMDAs was carried out. The results of this assessment of selected SNG entities are presented in a separate volume.

[12] A full description of the PEFA methodology is available in the PEFA Performance Measurement Framework Manual available on the website of the PEFA Secretariat at (www.pefa.org).

participation can be aligned. This Performance Measurement Report is intended to serve as a common information pool on PFM performance in the Central Government of Ghana for government, development partners and other stakeholders. The report set out below will also serve as one element of the continuing monitoring basis for the outcomes of PFM reform in Ghana.
In keeping with the "*Strengthened Approach*", and hence adopting a harmonised approach, the Government of Ghana (GoG) and the Development Partners (DPs) agreed to jointly undertake a second PEFA Assessment. The three main objectives of the Strengthened Approach for Ghana are:

- *Adopting a country-led agenda for reform for Ghana* which is fully cognizant of its capacity constraints and being willing to accept second-best reform alternatives should that be the price necessary to ensure Government leadership in the PFM reform process.
- *Promoting a coordinated program of Development Partner support and alignment around Ghana's PFM reform agenda* through a dialogue between government and development partners, and incorporates analytical and advisory work, technical assistance, funding support and training which are appropriately phased over a medium term time frame.
- *Monitoring Ghana's PFM reform results through a common information pool*; This Performance Measurement Report is intended to serve as a common information pool on PFM performance in Ghana for government, development partners and other stakeholders at country level.

The impetus for carrying out this PEFA Assessment is to inform Ghana's continuing program of Public Financial Management (PFM) reforms, and to encourage Development Partners to more fully utilize national systems. The broader rationale, though, for carrying out this PEFA Assessment has been to benchmark the PFM performance of the central government of Ghana against a widely adopted international standard, to provide feedback on the outcome of its PFM reforms since 2006, and to identify areas of weakness to guide the areas of focus for continuing improvements. Further this assessment should serve to provide all Development Partners with a common information pool on the PFM systems, procedures and practices as a way to assist with their decision making with regards to the most effective aid modalities for continuing support to Ghana. Finally, it is intended to serve as a basis for achieving effective dialogue on how to achieve improved outcomes from Development Partner participation in the budgetary process.

The PEFA assessment is not designed to comment upon any aspects of specific fiscal or expenditure policy. It does not take into account considerations of capacity, except to the degree implicit in the capacity to successfully carry out the assessed PFM procedures. It is important also to underline that the objective of the assessment is not to evaluate and score the performance of institutions or any PFM offices or officials, but rather to assess the capacity of the PFM systems themselves to support sound fiscal policy and financial management[13]. The report, in keeping with the "*Strengthened Approach*" intentionally does not proffer any recommendations for PFM reform.

[13] In essence this assessment provides a measure of whether the main necessary conditions for delivering upon sound PFM practice has been met, rather than providing an insight into all of the sufficient conditions

1.2 Process of preparing the PFM-PR

This PEFA assessment was sponsored by the European Commission. It was managed by The PEFA Steering Group, comprising the GoG, the World Bank (WB) and the Development Partner PFM Sector Group Lead. A focal person was appointed by the PEFA Steering Group to undertake day-to-day management of the process. The PEFA Steering group prepared the terms of reference[14] (ToR) and through an EC framework contract bidding process selected the PEFA team. The ToR was circulated within Government and to a number of Development Partners.

Although not foreseen in the ToR, three weeks prior to the scheduled field mission a presentation of the PEFA methodology and the intended approach was made to the PEFA Steering Group. The Minister of Local Government and Rural Development identified five Metropolitan, Municipal and District Assemblies (MMDAs) to be assessed under the sub-national government PEFA Assessment (see Volume II). A work plan was prepared and a detailed schedule of requested interviews agreed with the government. The terms of the contract specified two weeks of interviews, however at the request of the team this was agreed by the government to be expanded to four weeks and the contract amended accordingly. Copies of the work plan were disseminated to the government officials who were to participate in the interview process.

Just prior to the start of the field mission, a 2-day full training workshop, including case studies, was presented to about fifty (50) Government and development partners to enable them to understand the challenges, the modalities and the requirements of the evidence-based PEFA assessment and how it relates with PFM. The workshop was found to be extremely helpful at the time of the interviews. There was excellent cooperation from Government officials in terms of making time available. Discussions were open and candid. Officials were fully engaging during meetings and any information requested was provided promptly. In particular a number of officials agreed to meet the Consultants together as a way of accommodating the tight interview schedule. The officials were outstanding in their hospitality and generosity with refreshments. One outcome of the interview process, which involved a great number of personnel covering a cross section of PFM functions in the central government, was a clear demonstration of how well officials understand the PFM systems and procedures for which they are responsible. It also provided a clear sense as to the degree they focus upon grappling with the challenges of improving performance further. Except for a few meetings all of the scheduled interviews were made.

There was an exit workshop to present the aide memoir at the end of the central government assessment field mission. This draft report is to be shared with the Government and its development partners to fact check the draft report and for their

necessary to conclude that sound PFM is being carried out. For example while it assesses whether the PFM systems provide a sound framework for assessing fiscal risk arising from Public Enterprise activity, it makes no comment as to what authorities do or should do in response to the information provided by the fiscal risk assessment. Such responses may be purely political and a comment on such would be beyond the remit or competence of a PEFA assessment.

[14] See Appendix 1

comment and input. Copies are also to be sent to the PEFA Secretariat for review of adherence to the PEFA methodology.

A final workshop with government officials particularly those interviewed as well as cooperating partners was in order to discuss and agree the findings of the assessment. This final report was prepared after consideration of the comments received by the PEFA Secretariat, the Government of Ghana and the Development Partners and on the outcome of the final workshop.

1.3 Methodology

- The PEFA evaluation was carried out between June and September 2009. The field mission was carried out between July 6th and July 31st 2009. Meetings were arranged with the assistance of the MoFEP. At least one MoFEP official, often along with several DP officials, accompanied the consulting team on the interviews. The PEFA assessment involved:
- Reviewing legal and regulatory documentation, budget documentation and financial and audit reports;
- Assessing the requirements for further analysis and evaluation of PFM practice in the central government of Ghana, based upon:
- Interviews with Government Officials in the MoFEP (across a number of divisions and departments), the Controller and Accountant General as well as the Revenue Agencies, the Bank of Ghana, the Parliament, the Office of the Auditor-General, the Ministries of Local Government and Rural Development, Chieftaincy Affairs, Education, Health, Transport, Mines and Agriculture. Other public entities that provided interviews included the Office of the Civil Service Commission, the Administrator of Stool Lands, the statutory funds including the Ghana Educational Trust Fund (GETFund), the District Assemblies Common Fund (DACF), and the Roads Fund; COCOBOD, the Minerals Commission, and the State Enterprises Commission. The development partners interviewed included the United States, the United Kingdom, the European Commission, Canada, Japan, Netherlands, Germany, Denmark, France, the World Bank and Switzerland. There were also interviews with private sector organisations. The interview approach included a method of triangulation to ascertain the accuracy, consistency and relevance of information provided;
- Quantitative analysis of official financial and budgetary data;
- Reviews and assessment of legal and regulatory documentation;
- Assessments of PFM procedures and systems; and
- The application of professional judgement.

An important consideration in developing these indicators is an appreciation of the quality, comprehensiveness and accuracy of data that is used to determine the indicators. The reliability of the indicators can only be as good as the accuracy of the financial data upon which they were calculated. The consultants therefore emphasised the completeness and quality of financial data in determining the PEFA indicator measures. An important principle to appreciate in the methodological approach adopted in carrying out a PEFA assessment is a consideration of the impacts that arise through its adoption of coarse-grained high–level performance indicators in assessing PFM performance. The adoption of high level indicators and the use of a standardized analytical and performance measurement framework of course has important advantages by way of facilitating a comprehensive, timely, cost effective and consistent performance measurement framework. On the other hand there is some bias in reflecting more the central ministry's top down functions and less so the bottom up line ministry functions. Consequently, the approach adopted in selecting institutions to review recognises such bias and seeks to strengthen the assessment qualitatively through complementary interviews with MDAs that can then provide a balanced context for evaluating the scorings obtained and provide for a narrative that properly places the scorings within a context that is specific to PFM practice in Ghana.

One fundamental principle of PEFA has to do with the inter-linkages that exist between the PFM indicators that in turn reflect the inter-linkages in the PFM functions. This aspect has important consequences in the methodological approach that was adopted. Measures of performance in one dimension may depend upon the reliability of the measure of another dimension[15], and hence it is crucially important to gain a handle on the reliability and accuracy of financial data used in arriving at indicator results which are based upon quantitative calculations. These PFM linkages also provide a unique opportunity to introduce self consistency reconciliation methods for assessing the reliability of the rating of a particular dimension. Rigour was introduced to the indicator analysis through a self-consistency reconciliation check process premised upon the activity linkages between the different PFM functions and their consequent dependencies. These complementary methodologies are of particular importance given that this particular assessment is to serve to assist Government and DPs to assess current PFM reforms and to identify potential PFM areas where (further) institutional support is required. For this reason the team's approach did not just incorporate interviews that are primary responsibility of a given PFM office, but also considered the inter-linked PFM activities and how these impact upon a given function.

1.4 Scope of the assessment

The assessment focuses on all public revenues and expenditures of the central government and the institutions responsible for such. The scope of the central government PEFA Assessment was limited to the central government PFM systems and did not include the Local Governments institutions. The SNG institutions were addressed separately (see Volume II). The assessment does not include an assessment of the public enterprises (commercial and non commercial, financial and non financial). Consequently, this assessment covers a part of the public sector. It was not possible to determine a breakdown of the public sector with the available reports. However, analysis developed as part of the PEFA assessment indicates that SNG expenditure (exclusive of expenditure emanating out of own revenues) is approximately 12% of the size of central government primary expenditure.

[15] As an example, indicators PI-1, PI-2, PI-3 presume the accuracy of accounting expenditure and revenue data and an absolute consistency between budget structure and accounting structure. So these indicators must be evaluated along with a careful consideration PI-22, PI-23, PI-24 and PI-25

The assessment covers the fiscal years 2006, 2007 and 2008. This is the second PEFA Assessment to be carried out on the central government of Ghana. The previous one was carried out in 2006 and covered the fiscal years 2003, 2004 and 2005. The PEFA methodology presumes that assessments shall be carried out every three to four years and in doing so will provide a clear and accessible basis for monitoring PFM reform progress over the long term. The structure of the rest of the evaluation report is as follows:

- Chapter 2 provides background information and the economic and fiscal context for the evaluation;
- Chapter 3 explains the scores for the 31 individual performance indicators;
- Chapter 4 describes the government's reform programme; and
- A series of appendices provides more detailed reference information, including the TOR for the evaluation (Annex 1); a summary of the PEFA scoring calibration (Annex 2); a list of the stakeholders visited by the team (Annex 3), and a list of the documentation reviewed (Annex 4); a table mapping progress over time for the PEFA indicators (Annex 5); and a note on the PEFA method for scoring indicator PI-2 and its consequences for measuring progress over time (Annex 6). Annex 7 presents the comments of the Government of Ghana, the PEFA Secretariat and the Development Partners along with the responses.

2 Country background information

2.1 Description of country economic situation

2.1.1 Country context

Ghana became independent in 1957. Its first three decades of independence was plagued by political instability and truncated economic development. Since the forming of the Fourth Republic in 1992 Ghana has adopted a democratic form of government that has seen the transfer of power between opposing political parties twice. It is continuing to deepen its democratic traditions and institutions and has set up an effective legal and institutional framework for fiscal management. In 2008 Transparency International rated Ghana 3.9 for a ranking of 67th on its Corruption Perception Index.

Ghana is a lower-income emerging market with a GNI per capita of $590[16] with a population of about 23.5 million. The primary sector is based on agriculture, services, mining, and agriculture. Agriculture is the dominant sector, accounting for around two-thirds of employment and around 35 percent of total GDP. Agricultural production is predominantly small-scale and is concentrated on cocoa and staple food crops. Services comprise the second largest sector in the economy, accounting for an increasing share of GDP. Exports are centred on gold and cocoa. There is a small industrial sector. It features a sound and well regulated financial sector and a growing infrastructure base. Economic growth in Ghana has been robust since 2003. It has been a substantial beneficiary of debt forgiveness under HIPC and the Multilateral Debt Relief Initiative. The Budget Statement and Economic Policy for 2009 targets an economic growth rate of 5.9%. Ghana's economy grew in real terms by more than 6% on average during the period 2006-2008. The government seeks to impose greater fiscal and monetary discipline to bring back the macroeconomic framework into greater balance. It is targeting a fiscal deficit of 9.4% in 2009 continuing on to a medium term target of 3%. Table 2.1 provides a summary of key economic indicators.

An end of year inflation rate of less than 10% was set as part of the convergence criteria to be met for the West Africa Monetary Zone (WAMZ). Since 2001, this target has not been met. Until 2007 there was a general decreasing trend to a low of 10.7% in 2007. However, there was a major increase in 2008 to 18.1%. The high inflationary pressures are particularly due to soaring food prices, increasing petrol prices, and domestic supply constraints in certain sectors.

[16] Source: the World Bank based on the Atlas method and quoted for 2007.

The current account deficit increased noticeably in the period 2006-2008 and is mainly reflected by a higher growth in imports vis-à-vis exports; especially so with rapid petroleum price increases during the period under review. The deficit was covered by remittances, official development aid and FDI inflows.

Table 2.1 Selected Economic Indicators

	2006	2007	2008
Population			
Total population, millions		23.01	23.46
National income and prices			
Nominal GDP (Billions GHS)	11.70	14.00	17.60
GDP, annual real growth, %	6.40%	6.30%	7.3%
End of year inflation rate, %	10.90%	10.20%	18.10%
External sector (US$, Millions)			
Current account balance	1,043-	2,152-	3,474-
Capital account balance	230	188	387
Financial account balance	1,255	2,403	2,279
Net errors and omissions	27-	27-	133-
Overall balance of payments	415	413	941-
Gross International reserves (Months of Imports)	4.0	3.5	1.8

Source: World Bank (population, GDP); IMF Staff Report for the 2009 Article IV Consultation, June 2009 for Balance of Payments data and GDP growth rates; Budget Statement inflation rates

2.1.2 Overall government reform program

The Government of Ghana issued its Growth and Poverty Reduction Strategy Paper GPRS II in 2006 which maps out the Government’s vision and strategic focus for the period 2006 to 2009. The stated primary goal of the overarching national development strategy is to transition the country into becoming a middle income country by the year 2015. This strategic focus, while a significant shift from the focus of the earlier Ghana Poverty Reduction Strategy Paper (2003 to 2005), which was principally directed at poverty reduction, remains consistent with and complimentary to it. The Ghana Poverty Reduction Strategy, 2003 to 2006 (GPRS) articulated the Millennium Development Goals as the aligning framework for the national development goals whose achievement was to be based principally upon: (i) achieving macroeconomic stability through fiscal discipline and sound monetary policy; (ii) increasing budgetary allocations to poverty alleviation budget lines including basic education and primary health care; and (iii) implementing sound principles of good governance and civic responsibility. The Growth and Poverty Reduction Strategy Paper, 2006 to 2009 (GPRSII), extends these development objectives by adding on and prioritizing: (iv) accelerated private sector-led growth; sustained by (v) vigorous human resource development including providing greater budgetary support to the secondary and tertiary tiers of education.

2.1.3 Rationale for PFM reforms

Ghana's national development framework GPRSII targets middle income country status by 2015. It is not enough to merely articulate a vision of growth and shared prosperity, but important to also be able to deliver on such a promise. This requires a sound public finance management framework, its implementation being consequent to the successful implementation of PFM reforms. In 1996, under PUFMARP, the government commenced upon a number of major financial management and budget reforms in order to improve the fiscal sustainability, alignment of spending with the new national priorities and the maximisation of existing resources towards these priorities. This reform has achieved some substantial improvements, but as is attested to by the results of this assessment, there remain a number of key areas that still require improvement especially as it pertains fiscal discipline. This is particularly relevant given the government's stated desire to reduce the fiscal deficit significantly over the medium term.

2.2 Description of budgetary outcomes

2.2.1 Fiscal performance

The budget deficit increased significantly over the three years reviewed as a consequence of the expansionary fiscal policy pursued by the Government. This posture was exacerbated in 2008 as a consequence of the global financial crisis. Ghana has been cushioned substantially as a result of the strong prices obtained for its two major exports; cocoa and gold. Ghana's revenue benefited from strong economic growth and increasing grant receipts. It required the Government to resort to exceptional financing from Development Partners. The total revenue and grants increased from 27.3% of GDP in 2006 to 28.8% of GDP in 2007. Tax revenues increased from 19.9% of GDP in 2006 to 20.1% of GDP in 2007. It however fell back to approximately the 2006 level in 2008. In contrast expenditure went from 34% of GDP in 2006 to 41% of GDP in 2008.

The deficit was financed in part by divestiture receipts which were at GHS 707 Million in 2008. Net borrowings increased over the period from 7% of GDP to 11% of GDP. This increase was incurred in spite of substantial debt relief receipts. The diminished budgetary performance has contributed to higher interest costs, higher inflation and decrease in the value of the currency by more than 25% in 2008. Table 2.2 provides a summary of the central government's fiscal operations.

Table 2.2 Central government fiscal operations (GHS, million)

	2006	2007	2008
Revenue and Grants	3,192	4,052	4,839
Expenditures	4,009	5,245	7,229
of which: Wages	1,137	1,419	1,988
Goods and Services	428	565	648
Transfers and Subsidies	602	804	1,154
Interest	393	440	679
Capital	1,449	2,017	2,760
Budgetary Balance	817-	1,193-	2,390-
Arrears Clearance and VAT Refunds	63-	100-	168-
Overall balance	880-	1,293-	2,558-
Primary Balance/Deficit	487-	853-	1,879-
Financing			
Divestiture Receipts	1	115	707
Foreign (net)	225	861	171
Foreign Exceptional (debt relief)	93	92	78
Domestic Net	579	180	1,735
Total Financing	898	1,247	2,690
Discrepancies	18	46-	132
Nominal GDP	11,672	14,046	17,618
Total Revenue and Grants, % of GDP	27.3%	28.8%	27.5%
Total Expenditure, % of GDP	34.3%	37.3%	41.0%
Budgetary Balance, % of GDP	-7.0%	-8.5%	-13.6%
Overall Balance, % of GDP	-7.5%	-9.2%	-14.5%
Primary Balance/Deficit, % of GDP	-4.2%	-6.1%	-10.7%

Source: IMF, Staff Report for the 2009 Article IV Consultation, June 2009. Note (i) Figures for 2008 are estimates; (2) Primary Balance/Deficit is determined as Revenue and Grants less non-interest expenditure.

2.2.2 Allocation of resources

GPRSII is the government's national development framework which aims to raise growth and reduce poverty. The national development framework identifies three thematic areas: Private Sector Competitiveness, Human Resource Development and Good Governance and Civic Responsibility. The national strategic priorities are translated into sector strategies and further into the 3-year MTEF then operationalised into the annual budget. In principle then sector budget allocations tend should reflect the overall priorities of the government. However, weak alignment to the budget undermines the implementation intent of the national development framework (see PI-1, PI-2, PI-4).

The consistent economic expansion since the mid 1980s has allowed public spending to increase in all areas. The targeting of expenditure for poverty focused areas has been a central element of the anti-poverty strategy. Table 2.3 shows a slight reduction in the proportional allocation of resources to Human Resource Development that includes the health and education sectors. The larger shifts have been to Private Sector Competitiveness, which includes the infrastructure sector, away from Good Governance and Civic Responsibility. As depicted in Table 2.3, the largest thematic area of government spending is on Human Resource Development (about 50% of total expenditure at the central level).

Table 2.3 Actual expenditure by functional classification (as a percentage of total expenditures)

	2007	2008
Private Sector Competitiveness	12.2%	20.7%
Human Resource Development	50.9%	49.9%
Good Governance and Civic Responsibility	36.9%	29.4%
Total	100.0%	100.0%

Source: Financial Reports on the Consolidated Fund Account for 2007 and 2008. Note: (i) the functional classifications was changed in 2007 and so does not permit direct comparison with 2006; (ii) the figures used to determine the allocation ratios exclude retained internally generated funds (IGF) and statutory fund transfers.

Table 2.4 shows the allocation of expenditure by economic classification. Approximately 28% of total expenditure reflects compensation of government employees. The biggest share of expenditures at 38.2% in 2008 has been on capital expenditure. Growth in payments for capital assets reflects the government commitment to address infrastructure backlogs and accelerate economic growth.

Table 2.4 Actual expenditure by economic classification (as percentage of total expenditures)

	2004/05	2005/06	2006/07
Expenditure	100%	100%	100%
Wages and Salaries	28.4%	27.1%	27.5%
Goods and services	10.7%	10.8%	9.0%
Transfers and Subsidies	15.0%	15.3%	16.0%
Interest	9.8%	8.4%	9.4%
Capital Expenditure	36.1%	38.5%	38.2%
Total	100.0%	100.0%	100.0%

Source: Derived from figures shown in Table 2.2.

2.3 Description of the legal and institutional framework for PFM

2.3.1 The Legal Framework for PFM

The legal framework for PFM in Ghana encompasses a range of laws and regulations that emanate out of the Constitution (1992). The main PFM laws are the Financial Administration Act (2003), the Loans Act (1970), the Public Procurement Act (2003), the Audit Service Act (2000), the Internal Audit Agency Act (2003). The main fiscal decentralization laws are the Local Government Act (1993), the Local Government Service Act (2003), the District Assemblies Common Fund Act (1993), and the Chieftaincy Act (2008).

Constitution

The Constitution (1992) of Ghana sets out the roles of the executive, legislative and judicial branches and provides the basis provides the basis for resource mobilization and their expenditure. It defines the consolidated fund and requires all revenues and moneys to be paid into it excepting only those that may be payable to some other specific fun d established by an Act of Parliament. It requires that general policy of the Government shall be established by the President with the assistance of the Cabinet. The authorization of expenditure is derived from the President submitting estimates of revenu e and expenditure to Parliament for approval. The Constitution requires the estimates to be classified by programme or activities. Under the constitution all loans raised by Government requires the Authority of an Act of Parliament. It specifies the role of the Auditor General and empowers his or her access to all financial and expenditure documentation. It also establishes the basis of the Auditor General's independence. It requires the Auditor General to submit audit reports within six months of the close of the fiscal year. The role of the Minister with respect to public funds is spelled out in the Financial Administration Act, 2003.

Financial Administration Act (FAA), 2003

The FAA details the financial management regulatory framework for the central government, statutory corporations and other public institutions. It was introduced as part of a broader strategy on improving financial management in the public sector. The FAA specifies the principal officers of public finance management to be the Minister, the Controller and Accountant-General (CAGD), Deputy Controllers and Accountants General and Principal Account Holders. The Minister is responsible for fiscal policy. The Controller and Accountant General serves as the principal accounting officer and is responsible for the custody, safety and integrity of the Consolidated Fund and other designated public funds. No specific role is set out for Principal Account Holders. However it requires all persons who collect or receive public moneys to keep records of receipts and deposits in a manner as prescribed by the Controller and Accountant General. The role of Heads of Departments is prescribed in the Financial Administration Regulations, 2004. We note that the lines of accountability are blurred without a clear role for Principal Account Holders and a specific mechanism for their appointment.

The FAA, 2003 requires monthly financial statements of the Consolidated Fund to be prepared by the CAGD within 15 days of the close of each month and submitted to the Minister and the Auditor General. Such reports must include a statement of revenue and expenditure, a balance sheet and a cash flow statement and must be published in the Government Gazette. It also requires that within three months of the close of the fiscal year annual financial statements of the Consolidated Fund to be transmitted to the Auditor General and the Minister. Each Head of Department is responsible for preparing a complete set of financial statements on the departments financial transactions. The consequence of the law making reference to the Consolidated Fund for CAGD financial statement has resulted in a partial consolidated financial statement on public funds, which is not reported in consistent formats with the budget estimates. The budget estimates addressing all funds whereas the CAGD financial statements addressing only elements reflected in the Consolidated Fund transactions.

The FAA, 2003 requires that no payments be made in excess of the amounts approved under an Appropriation Act.

The receipt of bribes, fraud , falsification of financial records, extortion are all treated as criminal offences punishable by fines and prison sentences up to 10 years.

The Loans Act, 1970

Under the Loans Act, 1970 all loans, domestic and external, requires the approval of the Cabinet upon submission of a request by the Minister; and the approval by Parliament. Under Article 11, Parliament may approve standard terms and conditions of loan agreements and prescribe debt limits without the need for further approval by Parliament as might become necessary in the case of domestic debt instruments such as Treasury Bills. No statutory corporations may raise loans without the written approval of the Minister. All guarantees must be signed by the Minister and approved by Parliament.

Procurement Legislation

The Public Procurement Act, 2003 establishes competitive tendering as the preferred procurement method. It sets thresholds for procurement methods that guide the use of less competitive methods. The institutional arrangements for public procurement set up under the act include a Public Procurement Board (PPB) with responsibility for policy, regulatory oversight, publications of contract awards, the development of a cadre of procurement professionals, maintaining a procurement database and administrative review. It also includes Tender Committees, Tender Evaluation Panels, and an independent Tender Review Board. The Public Procurement Act establishes an administrative dispute resolution process to promote the effective and timely resolution of bid protests. The law includes a mandatory 21 day standstill period between contract award letter and the signing of the contract. The law makes any contravention of the Act an offence punishable by fines or prison terms not exceeding five years. The Public Procurement Act, 2003 does not explicitly address public private partnerships.

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Internal Audit Agency Act, 2003 (Act 658)

The Internal Audit Agency Act establishes and Internal Audit Agency responsible for setting the standards and procedures for the conduct of internal audit within the MDAs and the MMDAs. Its role is to safeguard public funds, ensure compliance with the legal and regulatory framework, policies, plans and standards and to ensure that financial reports are accurate, regular and timely, and that risks are managed effectively. It is also responsible for promoting economy, efficiency and effectiveness in the implementation of government programmes. The law establishes Internal Audit Units within each MDA and MMDA and makes Audit Report Implementation Committees (ARIC) responsible for the implementation of internal audit recommendations.

The Audit Service Act, 2000

This Audit Service Act establishes the authority and basis for the operation of the Ghana Audit Service (GAS). With respect to jurisdiction the GAS has responsibility for auditing the public accounts of the central government, the local authorities, the courts, the public corporations and all bodies established by an Act of Parliament. The office of the Auditor General has some important elements of independence although the President maintains effective control over the hiring and setting of the salary of the Auditor General. The Act gives the Auditor General the independence to frame work plans. The tenure of the Auditor General is fixed and is determined by the President. Removal requires action of the Chief Justice supported by a resolution voted on by at least two thirds of all members of the Judicial Council. Justification for removal is limited to stated misbehaviour, incompetence or inability to carry out responsibilities resulting from infirmity of body or mind. The Auditor general has the authority to decide on the appointment of the entire staff of the Ghana Audit Service and to publish and disseminate audit reports. The Auditor-General is required to submit audit reports to Parliament within six months after the close of the fiscal year. The Audit Service Act establishes the ARICs to be responsible for the implementation of audit findings and recommendations of the Public Accounts Committee (PAC).

Local Government Act, 1993 (Act 462)

The Local Government Act sets out the political and administrative arrangements at the regional and local levels. It establishes the Regional Coordinating Councils (RCCs) and the Metropolitan, Municipal and District Assemblies (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. It specifies the operations of the general assembly, planning functions, financial issues, rating responsibilities and audit requirements. The Act also establishes the allowable revenues that can be generated by District Assemblies. The fiscal year is the same as for the central government.

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 for the RCCs and MMDAs.

District Assembly's Common Fund Act, 2003

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 DACF to be allocated to the MMDAs for development purposes. This proportion was raised to 7.5% in 2008.

The Chieftaincy Act, 2008

The Chieftaincy Act sets out the political administration of the traditional authorities. It establishes a National House of Chiefs, Regional Houses of Chiefs and Traditional and Divisional Councils. Under the Act, Parliament sets the amounts to be allocated and requires the expenses incurred in the performance of the Act to be paid out of the Consolidated Fund. The National House of Chiefs, Regional Houses of Chiefs and Traditional and Divisional Councils are required to keep books of account and the Internal Audit Agency is responsible for setting up Internal Audit Units. The Auditor General is required to audit the accounts and submit them to the Minister. The fiscal year is the same as for the central government.

2.3.2 The Institutional Framework for PFM

Ghana is a Constitutional democracy, centred on the 1992 Constitution. A system of checks and balances provides for power sharing between a President, a unicameral Parliament, a Council of State, and an independent Judiciary.

Legislature

The Constitution vests the legislative power in a unicameral Parliament which consists of a legislative assembly with 230 seats. The Parliament is responsible for passing laws, oversight of the executive and providing a forum where people's representatives can publicly debate issues of national concern. The Parliament has the prerogative to establish Committees that oversee the activities of the executive. Among these are a number of committees dealing with fiscal oversight including the PAC and Finance Committee (FC). The PAC examines the financial statements as well as audit reports on the statements of all government departments and constitutional institutions. It also examines the Auditor-General's reports, and other financial statements or reports referred to it. It may also initiate any investigation in its area of competence, and may perform other functions related to financial oversight or supervision. The FC is responsible for examining all bills with financial and tax implications, all loan agreements; reviewing budget estimates for all MDAs; and monitoring foreign exchange and receipts/transfers through the Bank of Ghana.

The Parliament reviews and debates the Budget Proposal. Under the current law the role of the Legislatures in the budget process empowers them modify allocations but not increase the budget.

Executive
The President is Head of State and Head of Government. The President is elected by popular vote for a maximum of two four-year terms. The President nominates a Cabinet subject to approval by Parliament. The executive is accountable for its actions and policies to the Parliament. According to the 1992 Constitution, the majority of the Ministers of State selected by the President must be Members of Parliament. The Constitution also provides for two Presidential advisory bodies: a Council of State, which provides an advisory and consultative role to the President, especially in consideration of bills and public appointments and a National Security Council

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The public sector is comprised of 39 ministries, departments and agencies, 5 Statutory Funds, 34 State-Owned Enterprises and 170 MMDAs. The main central agencies are the Ministry of Finance and Economic Planning (MoFEP), the Public Service Commission (PSC), the Office of the Head of Civil Service (OHCS), the State Enterprises Commission (SEC), and the National Development Planning Commission (NDPC). The Bank of Ghana is the Government's banker although GoG also operates accounts at commercial banks. There is an independent Public Procurement Authority (PPA) governed by the Public Procurement Board (PPB) and the Internal Audit Agency. ARICs responsible for ensuring follow up on PAC, external and internal audit findings have been set up in all MDAs and MMDAs.

Judiciary
The Judiciary of Ghana is an independent branch of government. Its independence is guaranteed by the Constitution. The Ghanaian court structure consists of the Supreme Court, the Court of Appeal, High Courts, Regional Tribunals and other courts established by an Act of Parliament. The judicial system of Ghana includes a number of commercial courts amongst which are used for the referral of tax disputes and procurement complaints.

The Ghana Audit Service
The Ghana Audit Service, headed by the Auditor-General, is the supreme audit institution in Ghana. It is overseen by an Audit Service made up of seven members including the Auditor General and the Head of the Civil Service. It is an independent constitutional body, accountable to the National Assembly. The Auditor-General is empowered to audit

any and all government entities including security agencies. It must report on its activities and the performance of its functions to the Assembly at least once a year.

Audit Report Implementation Committees

The responsibilities of the Audit Committees are outlined in Section 30 of the Audit Service Act, 2000. It is responsible to ensure that heads of departments have fully responded to the findings of internal audit, external audit and the PAC.

The Ministry of Finance and Economic Planning

The functions of the Ministry of Finance and Economic Planning (MoFEP) are detailed in the FAA, 2003. The Minister of Finance is accountable to the Cabinet and Parliament for ensuring compliance of the MoFEP with its responsibilities under the FAA, 2003. The Minister is empowered to delegate the day-to-day operations of the Treasury. The MoFEP is empowered to develop the overall macroeconomic and fiscal framework, co-ordinate intergovernmental fiscal relations and the budget preparation process, manage the implementation of a budget and promote and enforce revenue, manage the government's assets and liability. It also plays a financial oversight role over other organs of state in all spheres of government.

The *Budget Division* advises and assists the Minister for Finance and Economic Planning in formulating budget policies. It develops and implements the National Budget by playing a coordination and budget execution role. The Budget Division's functions are carried out in close collaboration with the National Development Planning Commission, other Divisions of the Ministry of Finance and Economic Planning and the MDAs. The Budget Development Unit (BDU), a unit of the Budget Division, leads the process of institutionalizing, deepening and widening the MTEF process. It is also responsible for reviewing the implementation of the MTEF and proposing reforms and changes to the process. Another unit within the division, the Public Expenditure Management Unit (PEMU) is responsible for Cash Management, the Commitment Control System and the reconciliation of MDA Accounts with the accounts of the Controller and Accountant-General's Department and the Bank of Ghana. The Non-Tax Revenue Unit (NRU) is responsible for the facilitation of the mobilization of Non-Tax Revenue.

The *Policy Analysis and Research Division* (PARD) is responsible for carrying out research and analysis of financial, economic, social and other development strategies and policies. Further it is responsible for monitoring and evaluating on-going strategies and policies; and advise on required changes and modifications to improve the management of the economy. It is organised to include the Public Finance and Fiscal Policies and Operations Unit, the Wage Policy Unit, the Tax Policy Unit, the Real Sector Policy Section, Monetary Policy Section, External Policy Section and the Sectoral Policy Modules. The Tax Policy Unit is responsible for analysing, monitoring and evaluating the revenue effects, the economic impacts and distributional consequences of existing tax policy and changes in tax policy; and working in conjunction with the revenue agencies to undertake public education on taxation issues in order to inform taxpayers and to create a system which facilitates voluntary compliance.

The *Aid and Debt Management Division* seeks to establish a more integrated and effective approach to the sourcing, utilization and management of external and domestic loans and grants. The responsibilities of the Division include to source out funds at a minimum cost within an acceptable level of risk; also to support a well functioning domestic capital markets; and to facilitate the government's long term access to both domestic and international financial capital markets. It seeks to achieve these while maintaining long term debt sustainability in the face of accelerated growth and development. Under the Aid and Debt Management Division, the External Resource Mobilisation (Multilateral) is responsible for sourcing and mobilising funds from the country´s multilateral development partners and for the effective utilization of such funds. Similarly the External Resource Mobilisation (Bilateral) is responsible for sourcing and mobilising funds from the country´s bilateral development partners.

The *Economic Planning Division's* role is to ensure effective linkage between Ghana's development plan and the annual budget. It is also to model the macroeconomic status for policy analysis and to undertake sectoral analysis. It is responsible to monitor and evaluate government's major activities and programmes.

The *Revenue Agencies Board* is responsible for mobilising revenues and coordinating the activities of the revenue agencies including the Internal Revenue Service (IRS), the Value Added Tax Service (VATS) and the Customs Excise Protection Service (CEPS)

The *Controller and Accountant General's Department* is responsible for the accounting of the Consolidated Fund (CF) and arranging banking services for Central Government, developing and implementing accounting policies, and preparing consolidated financial statements. The CAGD is responsible for receiving all public and trust money payable into the consolidated fund; provide secure custody for public and trust moneys. It has the responsibility to make disbursements on behalf of the government and establish Government bank accounts. Its responsibilities include preparing, financial statements on the Consolidated Fund of Ghana and issuing Departmental accounting instructions to promote the development of efficient accounting systems in all Government Departments.

Financial Management Systems

The MoFEP is responsible for the development of financial management systems for the central government. There are a number of computer systems that are currently employed. They include:

- Personnel and Payroll Management (IPPD2) using Oracle software;
- ACTIVATE used for budget preparation
- BPEMS (using Oracle software) used for financial management and accounting (not fully implemented) along with a host of stand alone accounting packages;
- GCSMS/GSNet used for managing custom duties;
- VATS system software used for managing value added tax collections and reporting;
- CS-DRMS 2000+ used for recording and reporting on debt; and

The data network while rapidly expanding does not have full national coverage. The government data network systems while largely integrated at the headquarters' level does not integrate the treasuries or cost centres.

Ministries Departments and Agencies (MDA)

The Minister serves as the political head of the department, and the Chief Director, the head civil servant and the accounting officer. The Minister is responsible for setting policies and is accountable for the achievement of departmental outcomes. This includes seeking legislature's approval and adoption of the department's budget vote. The Chief Director of an MDA is responsible for the management of the implementation of the budget and achievement of departmental outputs for which he is accountable to Parliament.

The Bank of Ghana

The Bank of Ghana (BoG) has operational independence which is constitutionally guaranteed. As part of its activities, BoG performs international banking and international treasury services, acts as banker and funding agent of the government and facilitates the effective functioning of the domestic financial markets. It keeps track of all public sector borrowing. The BoG publishes fiscal statistics and information in its Quarterly Statistical Bulletins and Annual Economic Reports.

Table 2.5 Matrix of Institutional Responsibilities for PFM Functions

		Ministry of Finance and Economic Planning															Line Ministries				Other Offices				Parliament		DPs
PFM Function	Cabinet	MF	CD	PARD	BD	PEMU	EPD	RAGB	IRS	VATS	CEPS	ADMD	ERM-B	ERM-M	CAGD	IAA	LM	CD	TC	IAU	PPA	OHCS	AG	NDPC	PAC		
Policy Elaboration and Planning																											
Policy/Budget Approvals	ü	ü		ü													ü									ü	
Loan Approvals	Endorse	ü																								ü	
Supplementary Budgets	ü	ü		ü	ü	ü											ü	ü								ü	
National Development Plan	ü	ü	ü														ü	ü						ü			Consult
Sector Development Plans				ü			ü										ü	ü									Consult
Annual Corporate Plans				ü			ü										ü	ü									Consult
Budget Formulation/Preparation																											
MTEF	ü	ü	ü		ü												ü	ü									
Budget Circular		ü	ü	ü	ü	ü																					
Macro-Fiscal Framework		ü	ü	ü																							
Annual Budget Estimates	ü	ü	ü		ü												ü	ü									Consult
Revenue Administration/Collections																											
Tax Revenue				ü				ü	ü	ü	ü																
Non Tax Revenue					ü												ü										
Grants/Loans					ü							ü	ü	ü													ü
Budget Execution																											
Debt Management												ü															
Budget Allocation/Cash Management						ü									ü												
Cash Release						ü									ü			ü									
Establishment Control															ü			ü				ü					
Personnel Rolls															ü			ü									
Payroll															ü			ü									
Procurement/Supply Chain																		ü	ü		ü						ü
Non-Salary Recurrent Expenditure						ü									ü			ü									
Capital Expenditure						ü												ü		ü							ü
Payments			ü			ü									ü			ü									ü
Financial Reporting						ü									ü		ü	ü									ü
Accounting						ü									ü		ü	ü									
Internal Audit																ü				ü							
External Scrutiny/ Budget Oversight																											
External Audit																							ü				ü
Budget Oversight																										ü	
Procurement Oversight																					ü						
Expenditure/Audit Oversight																									ü	ü	
PFM Reform																											
Reform Policy/Approval		ü	ü	ü	ü																				ü		Consult
Reform Coordination/Monitoring																											
Reform Implementation			ü	ü	ü	ü		ü									ü	ü									

Abbreviations: MF - Minister of Finance, CD – Chief Director, PARD – Policy Analysis and Research Division, BD - Budget Division, PEMU – Public Expenditure Management Unit, EPD- Economic Policy Division, RAGB- Revenue Agencies Governing Board, IRS – Internal Revenue Service, VATS- Value Added Tax Service, CEPS- Customs and Excise Preventive Services, ADMD – Aid and Debt Management Division, CAGD – Controller and Accountant General's Department, IAA – Internal Audit Agency, LM – Line Minister, TC – Tender Committees, IAU – Internal Audit Units, PPA – Public Procurement Authority, OHCS – Office of the Head of Civil Service, AG – Auditor General, NDPC – National Development and Planning Commission, PAC – Public Accounts Committee, DP – Development Partners.

2.3.3 The Key Features of the PFM system

The financial year for central government, metropolitan, municipal and district assemblies (MMDA) and traditional and divisional councils is January 1st to December 31st. The budget process begins in May. Usually the draft budget, based upon a medium term expenditure framework, is submitted to Parliament in mid November after the Budget Speech. The annual appropriations law is typically passed by Parliament prior to the start of the new fiscal year and enacted into law by the signature of the President. Authority to incur expenditure is facilitated two separate warrants – a General Warrant issued monthly by the CAGD covering personnel emoluments and administrative charges; and a Specific Warrant issued by the MoFEP on request, covering service and investment expenditure

The Government of Ghana adopts a modified cash accounting basis for the preparation of its accounts. The final accounts are prepared by the MDAs and a consolidated financial information report by the CAGD.

In addition to the District Assemblies Common Fund, Minerals Development Fund and HIPC transfers, the Central Government pays for the personnel emoluments and some administrative charges for MMDAs and traditional and divisional councils.

Having adopted a narrow interpretation of Articles 40 and 41 of the FAA, 2003, the CAGD provides accounts solely on the transactions emanating out of the Consolidated Fund. One consequence of this posture is that expenditure out of retained Internally Generated Funds are not consolidated and appear only in individual MDA financial reports. The upshot of this is that the consolidated financial statements provide only a partial picture of the central government's financial transactions.

The Office of the Auditor-General is broadly independent and has jurisdiction over all government entities including public enterprises. The Constitution and Audit Service Act authorise the Auditor-General the requisite independence and jurisdiction to receive all documentation necessary to carry out his work and places no restrictions on the publication of his or her findings. The Head of Department is responsible and held accountable for implementing all recommendations emanating out of an audit and PAC recommendations. The ARICs are responsible for ensuring that there is systematic follow up on Auditor-General findings and PAC recommendations.

An independent Public Procurement Authority has been set up to regulate and oversee public procurement. It facilitates an administrative dispute resolution process.

Direct budget support is provided by the development partners through a single coordinated funding vehicle- the Multi Donor Budget Support (MDBS). This facility involves the direct transfer of financial resources from Development Partners to GoG's Consolidated Fund to support budget activities, against the attainment of policy and programme benchmarks negotiated in a policy matrix and reviewed by the MDBS partners annually.

3 Assessment of the PFM systems, processes and institutions

3.1 Budget credibility

3.1.1 PI-1 Aggregate expenditure out-turn compared to original approved budget

This central government PEFA assessment covers the fiscal years 2006, 2007 and 2008; 2008 being the most recent fully executed fiscal year and for which final appropriations[17] accounts were available at the time of the assessment. The budget estimates while presented within a three-year expenditure framework are prepared on an annual basis (see PI-12) rather than within a rolling multi-year fiscal frame serving to provide top-down discipline. The budget documentation, including budget circulars, present estimates along with budget figures for two–outlying years. In spite of the predictability of debt service payments, and the relative predictability of revenue receipts (see PI-3), the reliability of annual expenditure estimates are challenged by the difficulties posed in predicting wage negotiation outcomes with the unions (personnel emoluments represent 68% of consolidated fund expenditure), and the energy and oil subsidies to Volta River Authority and Tema Oil Refinery respectively.

The financial reports clearly segregate debt service payments and financial asset transfers from expenditure payments. However, report formats for consolidated expenditure outturns do not mirror the presentation of budgetary expenditure estimates and only provide a partial picture of the budget execution financed by GoG sources. The unreported outturns component represents approximately 7% to 8% of original primary expenditure, and so not an insignificant portion (see Table 3.1). The CAGD interprets its legal and regulatory remit to be to account only for expenditure emanating out of the Consolidated Fund. Articles 40 and 41 of the Financial Administration Act, 2003 makes reference to financial accounts (though not limited to) reflecting the financial status of the consolidated fund.

The reporting formats of the budget documentation specify four main categories of expenditure estimates: namely; (1) Government of Ghana expenditure (GoG; corresponding to government expenditure whose sources are originated centrally through the Consolidated Fund), (2) the retained internally generated fund expenditure (IGF; corresponding to government expenditure whose sources are originated directly by MDAs and retained and spent through bank accounts controlled directly by them); (3) the

[17] At the time of the field missions only draft final appropriations accounts were available for 2008 and so these were employed in making the computations.

separately financed and managed Funds (including the GOG financed statutory funds whose transfers are treated as direct charges to the Consolidated Fund though managed by sub-vented Fund Secretariats, and the donor financed HIPC fund and MDRI held in separate bank accounts at the Bank of Ghana); and (4) the Donor financed projects and programmes. There is a fifth category that may be inferred from expenditure estimates; the (5) other transfers and subsidies which include the safety net for petroleum deregulation, tax exemptions and lifeline consumers of electricity.

The prepared audited financial accounts do not provide outturns for all five categories. No reporting on actual expenditure is provided for (2) the retained internally generated fund expenditure nor on (4) the Development Partner financed projects and programmes. The other transfers and subsidies (5) are only partially reported on and not presented in the same classification as the budget documentation or Appropriations Acts. The GoG financed statutory funds are reported on only in the accounting notes.

These differences in reporting formats of budget estimates and expenditure outturns calls for a careful and consistent interpretation of PEFA's methodological focus of aggregate expenditure performance based upon primary expenditure comparisons. First, we note that the actual outturns derived from the audited financial statements correspond only to a partial execution of the budget. As stated above the data restrictions limit the current analysis to only approximately 92% of original primary expenditure.

Simply put, primary expenditure[18] in the context of Ghana's central government's PFM systems would include all GoG financed central government expenditure exclusive of interest payments. It would exclude all donor financed programmes and projects. Therefore it should include (1) all expenditure classified as GoG (this refers only to MDA discretionary expenditure originating out of the Consolidated Fund); (2) all retained internally generated funds (IGF); (3) those statutory funds whose transfers from the central government are treated as a direct charge to the Consolidated Fund and disbursed within the administrative budget framework to sub-vented agencies of the central government budget (i.e. the GETFund, the Energy and Exploration Fund, the National Health Insurance Fund, and the Road Fund)[19] and all other transfers and subsidies.

Primary expenditure, consistent with the PEFA definition, should exclude all Development Partner financed projects and programmes, and HIPC and MDRI financed expenditure. The District Assemblies Common Fund (DACF) is excluded from any consideration of primary expenditure pertaining to the central government because it represents a vertical allocation of public funds to sub national government and so should remain external to central government budgetary considerations.

While budget estimates segregate GoG expenditure from IGF expenditure, actual expenditure reporting does not segregate these two components of expenditure[20]. The

[18] According to the PEFA Manual Primary Expenditure excludes two expenditure categories. These are debt service payments and donor funded project expenditure (see page 13 of the PFM Performance Measurement Framework, June 2005).

[19] Note that these funds operate as autonomous entities with fully constituted boards of directors and submitting audited financial statements directly to parliament. The

[20] Note that the retained revenue collections are reported upon in the notes of the audited financial statements, however the subsequent expenditure is not. These are only reported in the individual MDA financial statements.

approved budget estimates, as identified in the Appropriations Acts, report only on the aggregated statutory expenditure estimates. However, the proposed budget estimates provide a breakdown of statutory expenditure estimates and so permits an indirect (if convoluted) determination of the specific approved statutory funds expenditure estimates broken down by administrative classification. The actual outturns of the detailed statutory fund expenditures are not reported upon in the main financial tables, but are provided for in the accounting notes. The donor funds managed through the HIPC and MDRI accounts are identified separately within the budgetary and financial reporting documentation. The audited report on the Consolidated Fund does not, at this time, include any reporting on outturns of Donor financed projects and programmes.

Consequently it is possible to identify and measure aggregate primary expenditure estimates against primary expenditure outturns for approximately 92% of expenditure estimates by a comparison of the estimates of GoG expenditure, plus central government Statutory Fund transfer estimates, plus other Transfers and Subsidies against audited financial statements. The original approved expenditure estimates presented in Table 3.1 were obtained from the promulgation notices of the Appropriations Acts for 2005, 2006 and 2008. The actual expenditures were obtained from the Report of the Auditor-General on the Public Accounts of Ghana (Consolidated Fund) for the Year Ended 2006 and 2007; and from the draft financial statements for 2008 issued by the Controller and Accountant General.

The Government of Ghana has adopted modified cash accounting for its central government accounts. At this time there are no stated end of year closing procedures pertaining to the halting of the issuance of commitments prior to the close of the fiscal year. Neither is there any clearly defined standard period for allowing outstanding payments from the previous fiscal periods to be paid for in the current period. Regulation 41 of the Financial Administration Regulations, 2004 allow for outstanding commitments for goods, works and services (i.e. open purchase orders) not delivered by the end of the fiscal year to be rolled over to the next budget year for up to ten working days provided that " A head of department shall furnish the Minister with a schedule of un-discharged commitments which may be properly carried forward with unexpended balances of the previous year's appropriation that are available to finance their discharge". Under such circumstances a Revote Warrant may be issued to address the outstanding commitments. Such amounts must be included in supplementary estimates submitted to Parliament in the new fiscal year. There is no clear standardised defined period for when an outstanding payment converts to an expenditure arrear. The upshot of which is, there is no precise and consistent definition of the accounting period against which outturns are reported. Further, there is no comprehensive mechanism applied across cost centres for addressing the management of accrued year end outstanding payments and ensuring that these do not convert to expenditure arrears.

Any uncommitted funds at the close of the fiscal year are returned to the CAGD and are lost by the MDA. One consequence of this implementation of the end of year procedures is that a number of MDAs tend towards increased expenditure rates and the adoption of alternate expenditure management procedures in the last months as MDAs seek to avoid having to return unspent funds. This pressure on spending may contribute to the accrual of expenditure arrears, as well as contribute to an increased incidence of direct procurement during the last month. Weaknesses in cash planning (see PI-16) and commitment control (PI-20), and the absence of the in-year commitment reporting (see PI-24) to better gauge and forecast the rate of budget implementation undermines any opportunity to mitigate the situation and thus avoid a rush to spend at the end of the year. According to the Ghana Chamber of Commerce, suppliers to the Central Government appear to be aware of this rush to spend at the end of the year.

The results presented in Table 3.1 show that actual expenditure deviated from budgeted estimate by more than 15% in one year, 2008. This performance corresponds to a C rating under the PEFA methodology. However, it is important to note that such a score suggests a better performance than is actually warranted. First, the in spite of the central government statutory fund transfers being established as non-discretionary direct charges under the law, the execution of such transfers in the three period considered have not been strictly discharged in accordance with the law. For example the Ghana Education Trust Fund Act, 2000 requires that be transfers to the fund be setoff as a direct charge to the Consolidated Fund in strict adherence to the approved statutory allocations. However, Table 3.1 demonstrates that for all of the statutory funds this was not the case in most of the years considered. The upshot of these egregious deviations from the dictates of the Appropriations Acts is a reduction in the overall deviation PEFA measured performance. Second, given that this assessment does not include the outturns of the retained IGF, the availability of such outturns for inclusion in the analysis could have resulted in a lower measured performance. The aggregate assessment of PI-1 obscures important and significant deviations in the comparisons of discretionary primary expenditure. If we were to apply the analysis solely to MDA discretionary spending the rating drops to a D.

Table 3.1 Comparison of Budget Estimates against Actuals (Primary Expenditure, million GHS)[21]

[21] A number of reporting inconsistencies were identified in the audited financial reports used to derive the data presented in this table. For example the Report of the Auditor General on the Public Accounts of Ghana (Consolidated Fund) for the Year Ended 31 December 2007 reports the Total of Items 1, 2, 3 and 4 as 2,370,780,115, 2,334,351,389 and 2,370,780,115 under different schedules of the Report.

	2006				2007				2008			
	Estimate	Actual	Deviation		Estimate	Actual	Deviation		Estimate	Actual	Deviation	
			Amount	%			Amount	%			Amount	%
Central Government												
Personnel Emoluments	999,000,000	1,112,304,697	113,304,697	11.3%	1,316,700,000	1,440,744,851	124,044,851	9.4%	1,559,889,708	2,052,811,293	492,921,585	32%
Administration	218,680,000	247,406,306	28,726,306	13.1%	316,159,200	433,140,759	116,981,559	37.0%	385,638,300	408,649,141	23,010,841	6%
Service	80,880,000	86,148,769	5,268,769	6.5%	99,839,700	132,113,999	32,274,299	32.3%	120,602,499	206,578,937	85,976,438	71%
Domestic Financed Investment	168,480,000	214,776,230	46,296,230	27.5%	259,894,000	364,780,506	104,886,506	40.4%	215,925,800	688,464,417	472,538,617	219%
Total (GoG)	**1,467,040,000**	**1,660,636,002**	**193,596,002**	**13.2%**	**1,992,592,900**	**2,370,780,115**	**378,187,215**	**19.0%**	**2,282,056,307**	**3,356,503,788**	**1,074,447,481**	**47%**
Transfers and Subsidies												
Retained IGF	156,050,713	Not Consolidated	Not Available		223,392,400	Not Consolidated	Not Available		299,184,428	Not Consolidated	Not Available	
Transfers to Households	182,690,000	212,446,117	29,756,117	16%	255,150,999	287,959,359	32,808,360	13%	318,036,806	397,189,310	79,152,504	25%
Utility Price Subsidies	0	0	0	0%	11,620,000	31,855,148	20,235,148	174%	0	0	0	0%
Other Transers and Subsidies	35,000,000	98,654,118	63,654,118	182%	368,577,600	272,886,242	-95,691,358	-26%	380,025,002	407,653,571	27,628,569	7%
Total Transfers and Subsidies	**217,690,000**	**311,100,235**	**93,410,235**	**43%**	**623,728,599**	**560,845,601**	**-62,882,998**	**-10%**	**698,061,808**	**397,189,310**	**-300,872,498**	**-43%**
% Primary Expenditure not reported on	**7.58%**				**7.30%**				**8.57%**			
Statutory Funds (Central Government)												
GETFund	138,630,000	113,604,180	-25,025,820	-18%	177,520,000	153,380,920	-24,139,080	-13.6%	163,025,513	204,085,100	41,059,587	25.2%
NHF	151,370,000	98,654,117	-52,715,883	-35%	182,319,001	181,823,883	-495,118	-0.3%	235,429,513	204,500,000	-30,929,513	-13.1%
Energy and Exploration Fund	2,890,000	2,872,954	-17,046	-1%	3,020,000	2,799,798	-220,202	-7.3%	3,502,236	2,763,993	-738,243	-21.1%
Road Fund	106,890,000	108,584,600	1,694,600	2%	111,380,000	106,592,904	-4,787,096	-4.3%	129,159,467	119,923,976	-9,235,491	-7.2%
Total Satutory Funds (CG)	**399,780,000**	**323,715,851**	**-76,064,149**	**-19.0%**	**474,239,001**	**444,597,506**	**-29,641,495**	**-6.3%**	**531,116,729**	**531,273,069**	**156,340**	**0.0%**
Reported Primary Expenditure	**1,901,820,000**	**2,083,005,971**	**181,185,971**	**9.5%**	**2,835,409,501**	**3,103,336,979**	**267,927,478**	**9.4%**	**3,193,198,038**	**4,284,966,167**	**1,091,768,129**	**34.2%**
Sub National Government												
Statutory Funds (Sub National Govt.)												
DACF	120,430,000	128,071,500	7,641,500	6.3%	162,670,000	142,999,400	-19,670,600	-12.1%	234,290,700	217,008,095	-17,282,605	-7.4%

Source: Promulgation notices of the Appropriations Acts for 2005, 2006 and 2008. The actual expenditures were obtained from the Report of the Auditor-General on the Public Accounts of Ghana (Consolidated Fund) for the Year Ended 2006 and 2007; and from the draft financial statements for 2008 issued by the Controller and Accountant General.

These results point to Ghana having not yet achieved a key pre-requisite to the attainment of both the credibility of the budget as well as aggregate fiscal discipline. The appropriate interpretations of the result of a comparison of primary expenditure estimates to actual primary expenditure are premised upon the availability of accurate financial data. There are many elements of this PEFA assessment that suggest such accuracy is not yet fully achieved as is demonstrated by a consideration of the management and reporting of arrears (see PI-4), the reconciliation of bank accounts (see PI-22), the reporting on budget implementation and financial reporting (see PI-25).

In the three fiscal years reviewed there were some substantive major factors that significantly impacted on budget expenditure including the meteoric price hikes in oil., and 2008 was an election year.

No.	Credibility of Budget	Score	Justification
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	Actual primary expenditure deviated from expenditure estimates by over 15% for one of the years considered. Deviations were 9.5%, 9.4% and 34.2% respectively. These results almost certainly overstate actual performance given the practice of under funding the GOG financed central government statutory funds, which arithmetically compensated for the overspend in discretionary MDA expenditure.

3.1.2 PI-2 Composition of expenditure out-turn compared to original approved budget

The PEFA methodology adopts as a measure of how much the reallocations between budget votes have contributed to variance up and above the deviations in the overall levels of primary expenditure. Adopting this methodology, an analysis of budget deviations between budget estimates and actual out-turns by budget head was performed for the years 2006, 2007 and 2008. The budget to expenditure deviations for each Budget Vote is presented in 3.3 The analysis of this table shows that the average weighted deviations shown in Table 3.2 improved over the three year period reducing from 10.3% to 4.6% thus qualifying for a C score and suggesting that improvements were steadily made over the period reviewed.

The relatively low variances up and above the expenditure deviation at the aggregate level and shown in Table 3.2 according to the PEFA methodology would suggest a significant coupling between the budget formulation and preparation process, and in turn between budget estimate and implementation. However this is in stark contrast to the reality as a casual inspection of the data presented in Table 3.3 demonstrates. As it turns out, the PEFA methodology for the measure on the composition of expenditure outturn compared to original approved budget does not provide a consistent and representative measure of the extent to which variance in original primary expenditure composition exceeded overall deviation. It merely measures the ratio of the sum of negative deviations to the total of budget estimates. Appendix 6 provides a mathematical proof and a full discussion of the PEFA method for measuring performance on the composition of expenditure outturn compared to original approved budget. In summary the score of B determined in the PEFA analysis is merely a consequence of the large deviations in the aggregate expenditure outturn compared to the original approved budget (which leads to a very low ratio of negative of negative deviations to the total of budgetary estimates. Where this ratio becomes 0, the PEFA method necessarily scores an A[22].

The average score of C hardly suggests that Ghana's PFM systems have achieved remarkable budgetary discipline, and have the expenditure management systems in place to assure that outcomes are in line with budgetary intent. It is evident by a mere inspection of Table 3.3. A weak composition of expenditure outturn compared to original approved budget would be consistent with a high level of expenditure arrears (PI-4); the lack of effectiveness of pre-announced budget ceilings in the preparation of the budget (PI-11); unpredictable budget releases (PI16, PI-23); a weak fiscal framework for implementing top-down discipline (PI-12); the absence of an effective establishment control (PI-18), and the lack of an effective commitment control system (PI-20).

Table 3.2 shows the results of the analysis of the expenditure variance by vote. It indicates that the variance in excess over total deviation was over 10% for only one of the three years reviewed.

Table 3.2 Expenditure composition variance in excess of total expenditure deviation

	2006	2007	2008
Total Primary Expenditure Deviation	8.6%	14.1%	38.2%
Total Primary Expenditure Variance	18.9%	20.4%	42.8%
Variance over Expenditure Deviation	10.3%	6.2%	4.6%

Source: Author's calculations derived from the data presented in Table 3.3.

No.	Credibility of Budget	Score	Justification
PI-2	Composition of expenditure out-turn compared to original approved budget	C	Adopting the PEFA methodology to measure the performance of the composition of expenditure outturn compared to original approved budget variance in primary expenditure composition exceeded overall expenditure deviation by no more than 10% in only one of the years considered. Variance in expenditure composition exceeded overall deviation primary expenditure by 10.3%, 6.2% and 4.6% respectively; suggesting an improving trend over the period. However, the results are spurious and are merely a consequence of a flaw in the method adopted by PEFA to score the indicator. See Appendix 6 for a full discussion.

[22] See for example the score on PI-2 for the Kenya PEFA Assessment carried out for 2006.

Table 3.3 Comparison of Budgeted and Actual Expenditure (GHS)

2006			2007			2008		
Budget Heads	Estimate	Actual	Budget Heads	Estimates	Actuals	Budget Heads	Estimates	Actuals
Ministry of Education	670,950,200	802,233,516	Ministry of Education, science and sports	975,092,302	1,034,149,326	Ministry of Education, science and sports	1,042,961,146	1,423,884,180
Ministry of Health	343,383,300	353,994,095	Ministry of Health	430,509,370	476,801,425	Ministry of Health	503,946,548	511,553,679
Ministry of Interior	177,096,130	105,886,860	Ministry of Finance & Economic Planning	153,997,900	254,902,957	Ministry of Transportation	213,465,309	348,035,796
Ministry of Finance & Economic Planning	83,145,958	96,703,347	Ministry of Interior	136,710,600	153,689,610	Ministry of Energy	8,715,777	227,860,231
Ministry of Defence	67,105,430	86,007,082	Ministry of Transport	212,398,499	223,397,921	Ministry of Finance & Economic Planning	211,077,650	182,303,465
Ministry of Roads and Transport	168,984,626	192,027,503	Office of Government Machinery	50,172,100	108,517,369	Ministry of Interior	155,831,966	155,830,878
Office of Government Machinery	65,673,886	68,380,048	Ministry of Foreign Affairs	66,357,800	96,824,372	Office of Government Machinery	56,255,790	152,691,017
Ministry of Foreign Affairs	51,548,552	63,557,197	Ministry of Defence	103,433,700	76,150,524	Ministry of Foreign Affairs	68,961,957	97,679,343
Ministry of Food and Agriculture	27,274,932	37,779,025	Ministry of Energy	8,202,402	47,352,913	Ministry of Defence	110,779,624	83,270,221
Ministry of Local Government	19,975,608	26,164,965	Ministry of Local Government	32,627,299	42,821,947	Ministry of Food and Agriculture	31,005,763	68,534,219
Ministry of Works and Housing	10,924,418	19,379,469	Ministry of Food and Agriculture	33,825,300	40,365,292	Ministry of Local Government	43,385,308	57,643,332
Ministry of Environment, Science	18,041,975	17,879,522	Ministry of Tourism	4,026,500	24,474,773	Ministry of Lands Forestry and Mines	15,681,315	41,551,171
Office of Parliament	16,370,013	17,099,446	Ministry of Chieftaincy & Culture	6,060,600	22,469,737	Ministry of Water Resources	16,665,318	40,878,557
Judicial Service	14,730,698	16,304,885	Office of Parliament	21,915,267	22,295,956	Judicial Service	26,339,172	31,285,885
Ministry of Youth and Sports	4,726,685	12,832,925	Ministry of Water Resources	17,111,199	22,191,207	Electoral Commission	36,803,056	28,383,697
Audit Service	11,512,140	10,367,330	Ministry of Lands Forestry and Mines	12,946,352	15,248,060	Office of Parliament	20,703,627	24,135,017
Ministry of Lands and Forestry	8,055,969	9,683,373	Audit Service	14,346,279	14,485,159	Audit Service	14,049,117	19,711,738
Ministry of Information and Presidential Affairs	7,809,322	9,329,135	Ministry of Information	10,433,661	12,306,765	Ministry of Information	13,070,454	19,559,699
Ministry of Manpower and employment	7,891,001	7,950,353	Ministry of Trade Industry, PSD & PSI	12,547,000	10,913,039	Ministry of Trade Industry, PSD & PSI	13,030,048	18,938,004
Ministry of Justice	8,714,094	7,729,522	Ministry of Justice	12,286,554	9,537,064	Ministry of Justice	14,576,595	16,376,683
Remaining Heads	46,630,315	25,935,207	Remaining Heads	151,831,217	106,482,204	Remaining Heads	196,023,837	337,670,045
Overall total	1,827,655,251	1,984,351,853	Overall total	2,466,831,901	2,815,377,621	Overall total	2,813,329,377	3,887,776,857

Source: Financial Statistical Tables Budget Review 2006, 2007, 2008, Draft Consolidated Financial Information 2008

3.1.3 PI-3 Aggregate revenue out-turn compared to original approved budget

Tax revenues form the largest share of Government of Ghana (GoG) Revenue,[23] with other inflows coming from Non-Tax Revenues, Divestiture Receipts and Development Partners funds. In 2008 total GoG revenue outturn was GHS 5.08, Billion (excluding retained internally generated funds). In 2008 taxes constituted 77% of domestic revenue. Non-Tax revenue included lodged internally generated funds, divestiture receipts and dividends. Over the period under review, divestiture receipts grew significantly from 0.6 Million GHS in 2006 to 986 Million GHS in 2008.

The major tax revenues constituting of Customs and Excise Duty, Value Added Tax (VAT) and Income Tax are administered by the Customs, Excise and Preventive Service (CEPS); the Value Added Tax Service (VATS) and the Internal Revenue Service (IRS) respectively. These agencies operate under the supervision and co-ordination of the Revenue Agencies Governing Board (RAGB). Non-Tax Revenues includes Internally Generated Fund (IGF) collections by MDAs. The non-tax revenues are managed by the Non-Tax Revenue Unit (NTRU) in the Ministry of Finance and Economic Planning. In 2008 Income Tax represented 26%, VAT 25% and Customs Duties represented 18% of GoG Revenues. Cocoa exports and mining (principally gold mining) are two main stays of the Ghana economy. COCOBOD, a public corporation, is responsible for the procurement and export of all the country's cocoa. It contributes to tax revenues by way of an Export Duty which is administered and collected by CEPS. The Government of Ghana's Cocoa revenues fell from 4% of GoG revenue in 2006 to 1% in 2008 - this during a period of growing cocoa exports. The mining companies, regulated by the Minerals Commission under the Ministry of Lands, Forestry and Mines pay mining royalties to the IRS which in 2008 was approximately 1% of GoG revenue.

Ghana is slated to start producing oil at a rate of approximately 120,000 barrels a day in 2010[24]. The public entity responsible for regulating the sector and monitoring revenue shall be the Ghana National Petroleum Company (GNPC). No forecasts on oil revenues have been included in the revenue forecasts in the three year medium term budgetary frameworks for 2008 (2008 to 2010). The public entity responsible for regulating the sector and monitoring revenue shall be the Ghana National Petroleum Company (GNPC). No forecasts on oil revenues have been included in the revenue forecasts in the three year medium term budgetary frameworks for 2008 (2008 to 2010).

Revenue estimates are developed using a two-tier process developed over the period July to October. The revenue projections of the agencies take into account projected macro-economic variables like GDP estimates and inflation estimates. The Revenue Agencies develop detailed revenue forecasts which are submitted to MoFEP. The Economic Policy Co-ordinating Committee (EPCC) considers these inputs within the macro-economic and policy outlook framework. The membership includes representatives from the Tax Policy

[23] The Audited financial statements only report fully on the revenue receipts to the consolidated fund. So for example such receipts as VAT receipts are offset by the GETFund collections. It therefore is crucially important in making comparisons of revenue estimates and actual outcomes to confirm that either full figures or offset figures are used consistently.

[24] According to Tullow Oil, the Jubilee oil field has about 1.8 billion barrels of oil. Commercial production in the field is expected to start in June 2010. According to the Deputy Minister of Energy, Dr Kwabena Donkor in Phase One of the Jubilee Field project, 120,000 barrels will be produced in 2010.

Unit (TPU), Ghana Statistical Service, (GSS), and RAGB. These first tier inputs are then adjusted to accommodate the macro-economic forecasts and current policy considerations. The revenue estimate models focus on a single year but are presented in three-year frameworks based upon a 2.5% to 5% growth extrapolation in the two outer years. The MoFEP has announced its intention to develop a macroeconomic model on revenue forecasting.

There are two revenue forecasting models that are currently in use. One is a monthly revenue model developed by Duke University and the other is an in-house revenue forecasting model. Both models can be characterised as being principally extrapolative based solely upon historical data. Neither specifically considers direct forward based inputs based upon investment plans from the largest corporations in the most important sectors of the economy. So at this time there are no direct considerations of future cocoa production or mining volumes incorporated into the models. COCOBOD does provide one year forecasts to CEPS of revenues, but as it turns out given that the COCOBOD fiscal year is from October 1 to September 30, and that almost all revenues are received in the first quarter, such submissions at best serve as cash flow projections for the final quarter of the central government's fiscal year[25]. Given the relatively low contributions of cocoa and mining royalties to GoG revenue, the absence of future production considerations do not appear to have impacted significantly on the reliability of aggregate estimates. However, with Ghana being on the cusp of receiving relatively large oil revenues, the absence of future production considerations in the forecast models does not augur well for the credibility of the current three-year macro-fiscal frames or for the reliability of revenue estimates in future years. In practice, the revenue estimate model that produces the higher target is adopted and usually, the in-house model prevails. Some of the parameters factored into the Duke University model include GDP growth rate, consumer price index (CPI), inflation rate provided by GSS and previous years' revenue data by tax type provided by RAGB. The models also include a collection efficiency ratio that is incorporated on a rather arbitrary basis at this time.

There are number of measures that are currently planned or are being undertaken that should improve revenue collection. These include the setting up of the Transit Monitoring Unit by the CEPS to prevent the diversion of transit goods back into the country; the improved revenue administration within IRS including the introduction of computerised systems and expanding the special tax audit of companies to cover some medium and small scale businesses in the informal sector; the continuing registration of retailers and intensified public education on the VAT Flat Rate Scheme (VFRS) in VATS; and the strengthening of both Large VAT Office (LVO) and the Large Taxpayers Unit (LTU).

The performance of aggregate revenue outturn compared to original approved budget is very good for two the years under review but slips in 2007. A comparison of budgeted versus actual revenues demonstrates actuals falling short of revenue estimates in 2006 by 4%, again falling short but by 6% in 2007, and exceeding revenue estimates by 17% in 2008 (see Table 3.4 below). In developing the table to compare outturns to revenue estimates it is important to take into account that the audited financial statements report

[25] COCOBOD officials indicate that they would be in a position to provide competent three-year revenue forecasts based upon production forecasts to CEPS if they were requested to do so.

outturns on a net basis after offsetting any revenue elements that do not strictly fall within the remit of the Consolidated Fund. Constructing the data in Table 3.4 required reconstituting the gross revenue collection amounts based upon the entries in the accounting notes.

We note that the revenue estimates for 2007 included an amount of GHS 182.4 Million for National Health Insurance even as the budget foresaw no collections from the Revenue Agencies during that period. If this amount is excluded from the analysis the revenue collection performance in 2007 improves to over 99% of revenue estimate and so results in only one out of the three years falling just short of the 97% benchmark. Such an adjustment, however would improve the overall score to an A. In conclusion, though it suggests that Ghana's PFM systems with respect to reliable revenue estimates are sound and so have achieved one key prerequisite of budget credibility.

Table 3.4 Comparison of Budgeted and Actual Revenue Receipts (Domestic, GHS million)

		2006		2007		2008	
Original		**Estimate**	**Actuals**	**Estimate**	**Actuals**	**Estimate**	**Actuals**
Direct Taxes		726,860,000	718,310,000	887,678,800	901,497,910	1,122,430,687	1,216,954,019
Indirect Taxes		1,360,060,000	1,260,290,322	1,412,460,300	1,367,999,890	1,548,478,354	1,698,998,537
International Trade Taxes		485,850,000	510,620,000	613,642,300	605,071,722	746,294,775	743,013,626
National Health Insurance				182,390,000	-	235,429,513	267,705,590
Non-Tax Revenue		71,100,000	92,300,000	326,869,700	272,229,150	423,973,630	169,784,480
Divestture Receipts		33,500,000	600,000	67,340,000	138,443,908	275,732,000	986,573,284
Total GoG Revenue		**2,677,370,000**	**2,582,120,322**	**3,490,381,100**	**3,285,242,580**	**4,352,338,959**	**5,083,029,536**
Deviation	Amount	95,249,678-		205,138,520-		730,690,577	
	Percentage	-3.6%		-5.9%		16.8%	

Source: The Budget Statements 2006, 2007 and 2008. The Draft Financial Statement for 2008 and the Report of the Auditor-General on the Public Accounts of Ghana (Consolidated Fund) for the year ended 31.12.2006 and 31.12.2007 [Audited Report and Financial Statements on Public Accounts of Ghana Consolidated Fund)

No.	Credibility of Budget	Score	Justification
PI-3	Aggregate revenue out-turn compared to original approved budget	B	Domestic revenue collection was 94.1% in 2007 (below 97%) of budgeted domestic revenue estimates [as per published financial statements]. Revenue collection was 96% in 2006 and 117% in 2008.

3.1.4 PI-4 Stock and monitoring of expenditure payment arrears

A comprehensive monitoring of expenditure arrears is not carried across all budgetary classifications and all cost centres. The audited financial statements do not provide any reports on the status of expenditure arrears. What is reported on is limited to Item-4 expenditure and merely makes reference to the allocation of resources to make payment on outstanding commitments, along with the amounts actually paid. There are four main classifications of expenditure. These are Item-1 (Personnel Emoluments), Item-2 (Administrative Expenditure), Item-3 (Services), and Item-4 (Investment).

There is no standard definition adopted for expenditure arrears. Neither the Financial Administration Act, 2003 (act 654) nor the Financial Administration Regulation, 2004

(L.I 1802) define the precise period after which an invoice is verified and an outstanding payment is classified under expenditure arrears[26]. MoFEP adopts a 90 day standard for measuring it arrears. Data on outstanding commitments is generated annually by MoFEP, based solely on received requests for payment on domestically financed investment (Item-4), and the pay-down included in the Budget Statement. The estimate of these outstanding payments is separated into roads and non-roads obligations. Not only do the MoFEP figures represent an incomplete picture of the total expenditure arrears generated (it leaves out personnel emoluments, administrative expenditure and service expenditure arrears, these three categories representing approximately 80% of MDA discretionary expenditure) but even the reported figures tend to be understated. For example, the Auditor-General's Report on the Public Accounts of Ghana (Consolidated Fund) for 2007 reports an understatement of the reported figures in the public accounts. The report indicates that the Road Arrears is understated by 67% and the Non-Roads Arrears is understated by 91%. A comparison with data provided directly from the Ghana Highways Authority shows in turn that the Auditor General's Report in turn grossly understates the status of expenditure arrears for the roads sector. Table 3.5 presents such a comparison for 2007.

Table 3.5 Comparison of Roads Arrears Figures Reported for 2007 from Different Sources (Domestic, GHS million)

Data Source	Road Arrears 2007	Ratio of Roads Arrears to GHA Data
Auditor Generals Report	15,994,765	37%
Public Accounts Figure	3,686,316	9%
Ghana Highway Authority	42,759,866	100%

Source: Auditor-Generals Report on the Public Accounts of Ghana (Consolidated Fund), 2007 and direct submittals to the PEFA team from the Ghana Highways Authority.

In the case of Item-1 expenditure, the total requests for payment are always executed irrespective of whether such payments exceed General Warrant or budgetary ceilings. Consequently, any delayed payments that might translate into expenditure arrears are a consequence principally of new hires whose administrative processing may take as long as a year or more so that directly upon being entered into the payroll system the retroactive payment requirements translate into instant arrears. The CAGD reports that while such arrears are not monitored, they are substantial and in aggregate are large enough to have budgetary implications. The absence of effective commitment control mechanisms for Item-2 expenditure, and the observation of retroactive applications for Specific Warrants in the case of Item-3 expenditures, suggests that the accrual of substantial levels of arrears poses a significant risk for these two categories of expenditure.

In the case of Item-2 expenditure, while strong cash controls have been instituted by the CAGD, the commitment controls effected by the Treasuries are done at the end of the expenditure cycle rather than at the beginning and so are not fully effective. All MDAs are required to implement commitment control ledgers to limit non-salary expenditure; however MDAs indicate that the Budget Expenditure Ledgers indicating the budget ceilings to the budget management centres are typically not in place until six months into the fiscal year. Further, the weak predictability of budget releases (see PI-16) coupled with a two tier budget release structure (MoFEP to MDA headquarters, then MDA

[26] The standard applied for revenue arrears by CEPS, IRS an VATS is 30 days

headquarters to budget management centre) presents particular challenges for establishing spending ceilings within a large enough horizon period to serve as effective commitment control limits. The issuance of purchase orders or contracts (the commitment documents) is thus not subject to effective expenditure limits. Such limits are applied at the time of payment request from the Treasury which may be rejected if a payment request exceeds the unencumbered commitment balance. Such rejections assure cash control but they do not serve to control commitments and thus restrain the accrual of expenditure arrears.

Item-3 expenditure is executed upon applications for budget release transfers under Specific Warrants. Internal reports indicate that some MDAs request Item-3 releases on a retrospective basis, suggesting that expenditure may have already been committed to at the time of request and since such request are subject to the approval of the MoFEP, such expenditures were not subject to commitment ceilings constrained by Special Warrant amounts[27]. Consequently opportunity remains for the significant accrual of expenditure arrears under Item-3.

The CAGD makes direct payment for Item-4 expenditure against Interim of Completion Certificates. The CAGD monitors all unpaid bills and makes reservations as appropriate to cover any outstanding bills. As indicated above, it has however in practice under reported the accrual of expenditure arrears.

Table 3.6 Summary of Monitoring Status under of the Expenditure Arrears for the Different Expenditure Classifications

Label	Budget Classification	Expenditure Ratio	Arrears Monitoring Status	Remarks
Item-1	Personnel Emoluments	61%	No	The CAGD reports that while the expenditure arrears are not monitored they are very substantial as a result of the extensive delays in bringing on to the payroll new hires (six months to a year is not unusual). They are large enough for the arrears payments to have budgetary impacts.
Item-2	Administration	12%	No	These arrears are not monitored; however they would appear to be very substantial given that what is practiced by the treasuries may be better termed as effective payment control rather than commitment control. Expenditure control is often made at the end of the expenditure cycle (payment), rather than prior to the issuance of a purchase order (commitment). The status of cash planning, reliability and horizon of ceilings for expenditure commitment (see PI-16) and the weak commitment controls (see PI-20) all point to the accrual of substantial arrears.
Item-3	Service	6%	No	Similar arguments hold true for expenditure management under Item-2 except that payments under Item-3 are made subject to the issuance of a Specific Warrant by MoFEP. The fairly common practice of MDAs making payment

[27] A Public Expenditure Tracking Survey carried out in 2007 revealed that delays of transferring Item 3 expenditure in the Ministry of Health were prevalent at all levels of administration – headquarters, district office, facility. Delays at the upper level were continued through to the lower level of government. The tracking survey shows that 96% of districts received only one tranche of Item-3, and 77% of them received the funds in or after September. Such budget release performance is a clear recipe for a significant accrual of expenditure arrears.

				requests retroactively, coupled with the long delays experienced in the bidding process under the Special Warrant further exacerbates the problem.
Item-4	Investment	21%	Yes, under reported	MoFEP directly makes all payments under Item-4 and so in principle should be in a position to monitor expenditure arrears (provided all requests are submitted in a timely manner). In practice what is monitored are the outstanding bills. The arrears under Item-4 are substantial. Based upon figures for 2008 reported in the Auditor General's Report and issued by GHA, the arrears for Item 4 alone made up 5% of MDA discretionary expenditure.
Overall	MDAs Discretionary Budget	100%	No, for the most part	The data on expenditure arrears is incomplete. Where it is reported it is very unreliable.

Note: Expenditure ratios were derived from Table 3.1

Table 3.6 provides a summary of the monitoring status of the expenditure arrears. It becomes clear that it is not possible to determine what the total stock of arrears is and even where data on the stock of arrears is published it remains unreliable. It should be noted that the BPEMs system includes as two of six implemented modules a commitment control module as well as an accounts payable module. These modules would facilitate both an effective commitment control as well as an effective expenditure arrears monitoring system (subject to a uniform definition of the period required for outstanding payments to become expenditure arrears). However, at this time BPEMs has not been rolled out across enough cost centres for these two modules to be implemented effectively.

It would appear that expenditure arrears pose an important challenge to achieving sound PFM practice in Ghana. The Ghana Chamber of Commerce indicates that the government has a major difficulty with late payments. The level of arrears is so high that officials from the MDAs indicate that the implementation of their budgets reflects as much maintaining the payment of expenditure arrears as carrying out current activities. Commercial bank officials indicate that there is a freeze on all credit to contractors carrying out works for the government until the arrears problem can be better addressed.

No.	Credibility of Budget	Score	Justification
PI-4	Stock and monitoring of expenditure payment arrears	<NS>	
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	<NS>	It is not possible to determine the stock of the arrears based upon present expenditure arrears monitoring and reporting systems.
(ii)	Availability of data for monitoring the stock payment arrears	D	Data on the stock of expenditure arrears is generated annually but is not complete. Expenditure arrears data on Item 4 is grossly under reported.

3.2 Comprehensiveness and transparency

3.2.1 PI-5 Classification of the budget

Ghana's central government budgetary framework may be characterised as a hybrid between line item budgeting and activity based budgeting. Four main economic classifications are identified, two of which, personnel emoluments and administrative expenditures, constitutes 73% of the MDA discretionary budget[28]. These two are structured on a line item basis. The other two are service and investment and account for the remaining 27% of the MDA discretionary budget. These are structured on the basis of activities. The budget is formulated on an administrative and economic basis. Budget preparation and negotiations are carried out on an administrative basis and there are no institutional arrangements for supporting a functional or programme based formulation. The execution of the budget by way of releases, virement and other budgetary control, commitment control and accounting are administratively based. Budget and reporting documentation identify three main pillars – private sector competitiveness, human resource development and good governance and civic responsibility in line with the national development strategy framework. However, this is a simply a grouping of administrative classifications made in budgetary reporting and does not reflect any institutional or systems arrangements for formulating or executing the budget. The activity based classifications reflect symbols of modern budgeting systems including objectives, outputs, inputs and activities but these do not consolidate into functions or sub-functions, nor do they into programmes or sub-programmes. The budget documentation makes reference to functions; however these are developed through the application of bridging table. Revenues are classified as tax and non-tax revenue and by own sources and external grants.

A bridging table is used to produce documentation consistent with COFOG at the functional levels. The individual MDA budgets include a functional table based on the COFOG standard. The chart of accounts for the Central Government budget monitoring is derived from the GFS 2001 standard and so facilitates monthly reports based upon that standard. The chart of accounts includes a field to track the source of funds, and so Development Partner funds can now be individually reflected directly in the budget and financial reporting documentation.

No.	Comprehensiveness and transparency	Score	Justification
PI-5	Classification of the budget	C	The budget formulation and execution is based on economic and administrative classifications that can produce consistent documentation according to GFS/COFOG standards at the functional level. The chart of accounts is derived from the GFS 2001 standard.

[28] This figure is derived from Table 3.1 for the year 2008

3.2.2 PI-6 Comprehensiveness of information included in budget documentation

The budget documentation presented to Parliament includes comprehensive information on the budgetary context, intent and recent financial achievements; but only at the aggregate level. The budget is set against a three-year budgetary framework. Only proposed budget estimates are prepared and published in the budget documentation. The approved votes are gazetted and promulgated as Appropriation Acts of Parliament. The three-year budget format is presented in the Budget Statement and includes forward estimates (budget year plus two forward years), revised estimates for the year prior to the budget year, provisional outcomes for two years previous to the budget year. However, these are not classified administratively and are only reported at the most aggregate level.

Budget documentation (2008) is comprehensive, and consists of the following main components:

- The Budget Statement by the Minister of Finance which outlines fiscal, macroeconomic policies, and all new tax policy initiatives and an explanation of their impacts on revenues. For each sector proposed policies are outlined along with an assessment of the performance of the sector in the previous year.
- The Budget Statement also includes:
  - The economic policy and outlook
  - The fiscal policy framework
  - Three year forward revenue and expenditure estimates
  - The summary of external and domestic borrowing
  - A summary of domestic and external debt stock. Note that the domestic debt stock is reported within the body of the budget statement whereas the external debt stock is reported in tables in an appendix.
  - The division of revenue and intergovernmental transfers through the District Assemblies Common Fund and the HIPC transfers
- The Medium Term Expenditure Framework and the Annual for the MDAs which contain the votes, activity appropriations with three year forward estimates.
- Also presented to Parliament are:
  - The Audited Financial Reports prepared by the CAGD on the consolidated fund
  - The Audited MDA specific financial reports prepared by the MDAs and audited by the Auditor-General.

The budget statement underscores the policy priorities for the respective budget year. It contains the information pertaining to the overall macroeconomic and fiscal framework within which the medium term expenditure framework has been developed. These then form the basis for the annual expenditure estimates prepared for each MDA.

Elements of budget documentation	Availability	Notes
Macro-economic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate	Yes	Estimates for GDP growth, inflation, interest rates, population growth, the exchange rate, and balance of payments position among a host of other assumptions are presented in the budget statement
Fiscal deficit, defined according to GFS or other internationally recognised standard	Yes	Fiscal deficit defined according to GFS is presented in the Macroeconomic Framework
Deficit financing, describing anticipated composition	Yes	The composition by way of domestic versus foreign debt is presented and further the breakdown of domestic debt

Elements of budget documentation	Availability	Notes
		instruments tobe used for financing the debt is described.
Debt stock, incl. details at least for the beginning of the current year	Yes	There is statement of outstanding public debt segregated between foreign and domestic debt which details type of debt.
Financial assets, incl. details at least for the beginning of the current year	No	Information on the cash balance is provided but not on any other kind of financial assets.
Prior year's budget out-turn, presented in the same format as the budget proposal	No	This information in provided reported only at the central government aggregated level.
Current year's budget (revised budget or estimated out-turn), presented in the same format as the budget proposal	No	This information in provided reported only at the central government aggregated level.
Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year	No	The budget includes summarised data according to the main classification for revenue for the current year and previous year. It also includes summarised data according to the economic classifications of expenditure but does not break then down administratively.
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs	Yes	The Budget Statement outlines all new tax policy initiatives with estimates of the budgetary impact.

No.	Comprehensiveness and transparency	Score	Justification
PI-6	Comprehensiveness of information included in budget documentation	B	Budget documentation fulfils 5 out of the 9 benchmarks.

3.2.3 PI-7 Extent of unreported government operations

One element of government operations which affects fiscal discipline and the efficient allocation of resources is unreported government expenditure. In general, it is difficult to ascertain the full extent of unreported government operations, but every indication suggests that there is not a substantial level of unreported expenditure. There are though a growing number of deferred financing and other lease arrangements through Public Private Partnerships that are currently planned including roads projects under GHA and the leasing of stadium facilities under the Ministry of Education, Science and Sports. As a consequence of its subsidy policy in the Energy sector there are indirect expenditures made to Independent Power Producers currently providing power to the Electricity Corporation of Ghana, a public corporation.

While the Government subsidises a number of commercial public enterprises it addresses all subsidies through the budget. However it does not report on guarantees. So for instance where subsidies may be unforeseen, the Government could issue guarantees which would allow the cash strapped commercial public enterprises to raise short term funds in the financial markets until the adjustment budget or next fiscal year when the subsidy can be accommodated through a budget process. Officials state that promissory notes, repurchase agreements, sell-backs and other off balance sheet financial instruments are never used to finance subsidies. Consequently, all subsidies are reflected in the budget.

Over the period in review there were instances where the government entered into short term bridge financing arrangements with commercial banks to expedite and speed up the implementation of projects that were deemed crucial as was the case for CAN 2008. Officials indicate that while these specific transactions were not reported on, any interest payments would have been embedded in the interest payments reported in the fiscal reports. While an important omission, the interest charges involved given the short term nature of the transactions would have been relatively small and almost certainly less than 1% of primary expenditure.

Intelligence and security activity funds are reported in the budget even if all the details of expenditure are not disclosed. The Auditor-General reviews and reports on these expenditures. The Statutory Funds are included in the budget documentation and each of the funds are audited annually. These are submitted to Parliament.

Public Private Partnerships (PPPs) are not currently included at the time of the preparation of sector strategies. Currently, PPPs in the energy sector only indirectly impact upon the budget. However, as PPPs become more common in Ghana, especially in the energy and infrastructure sectors, they properly should be fully incorporated within the GoG budgetary process and be presented during the development stage of the PPP within the votes of the MDAs that engage in this mechanism for funding projects.

Development Partner funds currently make up approximately 39% of the total budget. Although donor flows are not directly integrated into the budgetary outturns, the ADMD provides detailed reports on grant and loan financed donor projects including that those that operate outside of account held with the Bank of Ghana. It reports on aid flows from all of the bilateral and multilateral donor agencies for all the different aid support modalities. As well, it reports on non-DAC country activities including China which is currently the third largest bilateral donor. These reports certainly represent more than 90% if not all disbursements flows received from Development Partners.

No.	Comprehensiveness and transparency	Score	Justification
PI-7	Extent of Unreported government Operations	A	
(i)	Level of unreported extra-budgetary expenditure	A	Every indication suggests that there is not a substantial level of unreported expenditure. Not all revenues generated directly by the MDAs are transferred to the Consolidated Fund. The MDA financial statements do however provide expenditure reports on the retained IGF. Consequently there is no consolidated view on these expenditures. Sources of extra budgetary expenditure include the practice of entering into short term bridging loan arrangements with commercial banks, and not

No.	Comprehensiveness and transparency	Score	Justification
			reporting fully on PPP activity. At this stage these elements remain small but are becoming more important.
(ii)	Income/Expenditure information on donor-funded projects	A	ADMD reports on aid flows from all of the bilateral and multilateral donor agencies for all the different aid support modalities. As well, it reports on non-DAC country activities including China which is currently the third largest bilateral donor. These reports certainly represent more than 90% if not all disbursements flows received from Development Partners.

3.2.4 PI-8 Transparency of inter-governmental fiscal relations

In order to fully assess the challenges facing public finance management at the local level it is necessary to appreciate the dual governing systems that are operational in Ghana at the sub national level. The two systems are comprised of the District Assemblies, whose decentralization liaison is the Ministry of Local Government and Rural Development (MoLGRD), and the Traditional Authorities whose decentralization liaison is the Ministry of Chieftaincy Affairs. Both also liaise with the Administrator of Stool Lands. The first system is made up of a three tier structure. The Central Government, , the Regions which coordinate decentralisation issues through the Regional Coordinating Councils, and the Municipal, Metropolitan and District Assemblies (MMDAs). The MMDAs in turn oversee town, area and zone councils. The second system of administration is built upon traditional authority. Such authority is deeply grounded in history and tradition. The legal and regulatory framework within which financial management by the Traditional Councils and Stools are managed is embodied in the Chieftaincy Act, 2008. It is made up of the Traditional Councils which in turn oversee the stools.

These two governing systems translate into a two tier structure to Sub National Government (SNG) in Ghana. There are 170 Metropolitan, Municipal and District Assembles (MMDA) coordinated through 10 Regional Coordinating Councils and a number of Traditional and Divisional Councils. There are clear laws and regulations governing expenditure management by the District Assemblies. The Chieftaincy Act, 2008 requires Traditional Councils to prepare annual financial statements and submit them to the Auditor General within 3 months of the close of the fiscal year. The Traditional Councils receive a share (20%), and the Stools (25%) of all royalty payments paid to the local communities.

The MMDAs are regulated by the Constitution, the FAA (2003), the Local Government Act (1993), the Local Government Service Act, 2003, and the Local Government Service Regulations, 2008. The fiscal year for MMDAs and Traditional Councils is January 1st to December 31st coincident with Central Government. The Local Government Service Regulations, 2008 governs the transfer of district level central government departments to the MMDAs along with the corresponding budgets through a decentralization programme. The Traditional Councils and Stools are regulated by the Constitution, the

Office of the Administrator of Stool Lands Act, 1994 and the Chieftaincy Act, 2008. The fiscal year, like for the central government, for the Traditional Councils is January 1st to December 31st .

There are a number of funds transfer mechanisms that currently operate from the Central Government to Sub National Government. In the case of MMDAs these include (1) Personnel Emolument payments, (2) some Administration Charges, (3) District Assemblies Common Fund (DACF) transfers, (4) HIPC transfers, (5) ceded revenues (which were halted in 2006), (6) counterpart fund contributions to donor funded MMDA projects, and (7) Minerals Development Fund transfers. For traditional councils these are Personnel Emolument Payments and Mineral Development Fund transfers. Timber royalties and ground rent are collected on behalf of the Traditional Councils by central government agencies and so are not considered as transfers. The total transfers from central government to Sub National Government represent approximately 12% of actual primary expenditure in 2008, with the DACF transfers accounting for approximately 7%. Table 3.7 presents a summary of the allocations between central government and sub national government. The main funds transfer mechanisms are further outlined below:

DACF Transfers

The transfers from the DACF, currently set at 7.5% of GoG revenues, are broadly transparent and their horizontal allocations are based upon a formula approved by Parliament except for a 30% component that is transferred to a reserve fund used for youth employment. There are no clear rules for horizontally allocating the youth employment allocations across MMDAs. Further, in the implementation of DACF transfers, sometimes purchases have been made on behalf of MMDAs and such expenditures offset against their disbursements. Such practices of course diminish the degree of transparency in the allocation of transfers. Outside of the youth employment expenditure the transfers out of the DACF are primarily applied for investment. MMDAs prepare accounts and submit to the DACF monthly

HIPC Transfers

Transfers under HIPC are primarily applied to investment and are released to MMDAs through the CAGD and the MoLGRD. The bulk allocation to the MMDAs is included in the budget with specified functional allocations, however whereas the vertical allocations to MDAs are specified in the budget documentation, the horizontal allocation to MMDAS is not. HIPC transfers to MMDAs based upon requests made by the MMDAs. The MMDAs prepare accounts and submit returns to CAGD and NDPC through the RCCs

Personnel Emolument and Administration Expenditure Payments

Some of the staff of the MMDAs and the Traditional and Divisional Councils are on the central government payroll and are paid for out of the central government budget by the CAGD. Some administrative expenditure is paid for by the central government through the MoLGRD. The MMDAs do not participate in the Central Government budget preparation process and are given no reports indicating the level of personnel emoluments and administrative charges they are to receive. Consequently from their perspective these transfers are not transparent.

Mineral Development Fund Transfers

The Mineral Development Fund transfers are based upon a fixed percentage of the mineral royalties (based upon the tax revenues of the mining entities operating within the district) collected by the central government from within their respective districts. This makes for a transparent and rule based horizontal allocation in principle of mineral development fund transfers. However, the Districts often have to obtain the royalty payment information directly from the mining entities. The transfers are facilitated through the Office of the Administrator of Stool Lands (OASL). OASL then disburses the funds to MMDAs and Traditional Authorities and others by a 55% to 45% respectively allocation. In the case of Traditional Authorities the complex historical and cultural relationships between stools and traditional councils results in a non transparent allocation of resources. Representatives of the traditional authorities meet with officials of the OASL to negotiate and agree allocations. MMDAs prepare central government monthly final accounts that include mineral development fund receipts for submission to the CAGD through the Regional Coordinating Councils (RCC).

Table 3.7 provides a summary of the transfers made to the MMDAs and the Traditional Authorities. Figures for the Personnel Emolument transfers to the Traditional Authorities were not obtained. However, their relative amounts are small and the results still permit the unambiguous conclusion that over 10% but less than 50% of the horizontal allocations are determined by transparent and rules based approaches.

Table 3.7 Transfers to SNGs indicating whether transfers are transparent and rules based (GHS, million)

	2007		2008		Transparent/Rule Based Horizontal Allocations
Local Authorities					
Personnel Emoluments	102.95	37.87%	134.16	35.76%	No, CAGD does not provide reports on MMDA PEs
Administrative Charges	0.17	0.06%	0.228	0.06%	No, CAGD does not provide reports on MMDA PEs
Counterpart Funds	0.61	0.22%	1.665	0.44%	No
DACF					
Other Transfers	100.10	36.82%	151.9	40.48%	Yes, based on application of formula approved by parliament
Youth Employment (30%)	42.90	15.78%	65.1	17.35%	No, reserve fund set up no clear allocation rules
Total DACF	143.00	52.60%	217.00	57.83%	
HIPC	22.10	8.13%	15.94	4.25%	No
Minerals Development Fund	1.68	0.62%	3.42	0.91%	Yes, in principle
Total Local Authorities	270.51	99.49%	372.42	99.25%	
Traditional Councils					
Personnel Emoluments	n/a	n/a	n/a	n/a	No, but this would form a small amount of SNG transfers
Minerals Development Fund	1.375	0.51%	2.799	0.75%	Yes
Total Traditional Councils	1.375	0.51%	2.799	0.75%	
Total SNG	271.9	100.00%	375.2	100.00%	
Transparent/Rule Based		**37.94%**		**42.14%**	

Source: OASL, MoFEP, CAGD and Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund) 2007, 2008.

The MMDAs do not receive information on the allocations to be transferred to them till well into the fiscal year after the Parliament has approved the proposed allocations out of the DACF and the Administrator of the DACF. In the case of the personnel emoluments and administrative charges they do not receive advance information; for the minerals development fund they often first receive indications from the companies operating mines in their districts; and for the HIPC transfers they are made only upon the submission of requests. At this time the 3-year MTEFs submitted by the MDAs for budgetary approval are not reliable enough in the outlying years (see PI-12) to allow MMDAs to derive indicative estimates before the start of their detailed budgeting processes.

The MMDA charts of accounts differ significantly from the Central Government's. The chart of accounts of the MMDAs has six (6) main expenditure items (personal emoluments; travel and transportation; general; maintenance, repairs and renewals; miscellaneous; and capital) and the MDAs use four economic classifications (personal emoluments, administration, services and investments). CAGD has developed a harmonized chart of accounts, but it has not yet been implemented. The MMDAs prepare annual financial accounts that are audited but these are not consolidated. The DACF prepares a consolidated report of expenditure against DACF transfers. This represents approximately 58%[29] of total expenditure. At this time the financial report is not presented in a format consistent with the central government fiscal reporting.

No.	Comprehensiveness and transparency	Score	Justification
PI-8	Transparency of Inter-governmental fiscal relations (M2)	D+	
(i)	Transparent and objectivity in the horizontal allocation among SN government	C	The transfers to sub national government are made from a variety of sources including the DACF, HIPC, Personnel Emolument and Administrative Charge payments, Minerals Development Fund, and counterpart funds. Over 10% but less than 50% of the transfers are determined by transparent and rules based approaches.
(ii)	Timeliness of reliable information to SN government on their allocations	D	The MMDAs do not receive information on the allocations to be transferred to them till well into the fiscal year and in some cases not at all. At this time the 3-year MTEFs submitted by the MDAs for budgetary approval are not reliable enough in the outlying years to allow MMDAs to derive indicative estimates before the start of their detailed budgeting processes.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	D	The MMDAs prepare annual financial accounts that are audited but these are not consolidated. The DACF prepares a consolidated report of expenditure against DACF transfers. This represents approximately 80% of total expenditure, but at this time is not presented in a format consistent with the central government fiscal reporting.

3.2.5 PI-9 Oversight of aggregate fiscal risk from other public sector entities

There are 34 public boards and corporations and investments in over 60 other companies. The State Enterprises Commission (SEC) receives annual audited reports from most public corporations on an annual basis. In addition it receives quarterly reports in the majority of them. The audited financial accounts of the Consolidated Fund provide a consolidated view on the equity position of government in these corporations. However, no consolidated overview of the fiscal risk posed by these autonomous government

[29] See Table 3.7

agencies and public enterprises is prepared to facilitate a general financial oversight of these enterprises. The audited income and expenditure statements of the Statutory Funds are sent directly to Parliament via the Auditor-General, and subsequently are integrated into the Consolidated Fund annual audited financial statements. Whilst information is collected on government guarantees is consolidated and monitored by the ADMD no assessment of the likely fiscal impact is presented in the documentation provided to Parliament.

According to the Local Government Act, 1993 (Clause 88), MMDAs are restricted to domestic borrowing and require approval from the Minister of Local Government and Rural Development (MoLGRD), given in consultation with the Minister of Finance for all loan amounts greater than 20 Million Cedis (2,000 GHS). The MMDAS may borrow on the basis of loans or overdrafts for amounts lower without approval provided that these do not require central government guarantees. However, without a consolidated overview of the fiscal status of the MMDAs it is not clear to what degree these legal limits are adhered to in practice. Further, the law is not clear about accruing much larger overall debt provided that the individual loan amounts do not exceed 20 Million Cedis.

The issuance of a central government guarantee requires the authorisation of the Minister of Finance. Consequently, MMDA borrowing can generate fiscal liabilities for the central government. A number of local authorities issue audited annual financial statements, however neither the consolidated debt position of the MMDAs is not provided in any reports.

In the case of Traditional Councils, they are not permitted to raise loans or overdrafts and so cannot generate fiscal liabilities in this way. It does not explicitly exclude such liabilities as expenditure arrears accrued by the Traditional Councils so these may remain a fiscal risk to the central government. At this time the Traditional Councils do not provide audited financial statements to the Office of the Administrator of Stool Lands (OASL).

There has been a very large backlog of financial reports from MMDAs going back to 1999. In a District Development Fund study carried out by the CAGD in 2009, the status of financial reporting by MMDAs was shown to be incomplete, inaccurate and much in arrears. Consequently, it has not been possible to monitor the SNG fiscal position.

No.	Comprehensiveness and transparency	Score	Justification
PI-9	Oversight of aggregate fiscal control	D+	
(i)	Extent of central government monitoring of AGAs/PEs	C	A consolidated view of fiscal risk is not provided in any reports; however, most major autonomous government agencies and public enterprise prepare annual audited financial statements.
(ii)	Extent of central government monitoring of SN governments' fiscal position	D	In a District Development Fund study carried out by the CAGD in 2009, the status of financial reporting by MMDAs was shown to be incomplete, inaccurate and much in arrears. Consequently, it has not been

No.	Comprehensiveness and transparency	Score	Justification
			possible to monitor the SNG fiscal position.

3.2.6 PI-10 Public access to key fiscal information

Fiscal transparency depends on whether information on the budget and its execution by the government is easily accessible by the general public or at least the relevant interest groups. Such transparency requires that the Government makes relevant information widely available in a comprehensive, understandable and timely fashion.

The information available to public covers the entire budget cycle i.e. budget formulation and planning, budget execution, and external scrutiny and audit. Public access to key fiscal information in Ghana is transparent, generally comprehensive, and timely. The main source of information is through the internet[30], the MoFEP bookstore and the Government Publishing Company Ltd. Bookstore. Relevant information is also made available through other means such as university libraries and printed media. The MoFEP website also includes a succinct and easy to read version of the Budget Statement called "*The Citizens Guide to the Budget Statement*" to assist enhance engagement of the public in the budget process. The importance of dissemination of fiscal information is recognised by both the government as well as the public.

Budget documents are made available to the public at the time they are tabled by the Minister of Finance in the Parliament. Parliamentary sessions on budget discussions are open to the public and are broadcasted on national TV and radio. The budget is also broadly discussed in the print media. In-year execution reports and audit reports are routinely made available through the MoFEP website and Auditor-General Office website and are circulated to Development Partners and other stakeholders. The reports are also made available in the Government Book Shop. Until March 2007 the Monthly Expenditure Returns were posted on a monthly basis on the website. Since then these have been substituted by half year fiscal summary tables.

Contract Tenders and Awards are made available on the Public Procurement Authority's Website. Nevertheless, the information is not segregated by contract amount and there is no readily viewable full list of awarded contracts. Each individual contract must be assessed separately. The information is published once the contract has been awarded

In spite of a clear commitment to making budgetary information publicly accessible three factors impede the achievement of full transparency. The first is that the expenditure reports only reflect a partial implementation of the central government's budget because of the CAGD's narrow interpretation of the FAA, 2003 to mean that it should only report on expenditure originating out of the Consolidated Fund. The consequence of this is that where the budget identifies gross revenues, the CAGD reports present net figures with revenues outside of the Consolidated Fund offset. Second, not maintaining a format strictly consistent with the budget documentation makes it difficult to readily track budget

30 See the following websites: http://www.mofep.gov.gh; http://www.ppbghana.org; and http://www.cagdghana.org.

implementation over time. Third, the massive volumes of the MDA budgets, without the inclusions of summaries or past outturn performance make it impossible to track budgetary implementation at the MDA level.

Elements of information for public access	Availability and means
Annual budget documentation when submitted to the legislature	Yes - these are made available to the public through the internet and public libraries when it is submitted to the legislature. The annual budget documentation includes all elements mentioned in PI-6
In-year budget execution reports within one month of their completion	Yes - the public has ready access to regular and reliable information on budget implementation. These are made available to the public within one month (30 days) of their completion.
Year-end financial statements within 6 months of completed audit	Yes - these are made available immediately upon completion of audit.
External audit reports within 6 months of completed audit	Yes - The Consolidated Financial Statement and the Audit Report are made available typically within 7 months after end of fiscal year and within 1 month of completed audit. Other audit reports are made available upon their completion.
Contract awards (app. USD 100,000 equivalent) published at least quarterly	Yes – Contract Tenders and Awards are made available on the Public Procurement Authority's Website Nevertheless, the information is not segregated by contract amount and there is no overall list of awarded contracts but rather individual contracts. The information is published once the contract has been awarded.
Resources available to primary service unit at least annually	No - these are not made available to the public annually since only one Public Expenditure Tracking Survey was carried during the period under review (see PI-23).

No.	Comprehensiveness and transparency	Score	Justification
PI-10	Public access to fiscal information	A	Five of the six listed elements of information are made available to the public access via the web and other means. The exception is the information on resources available to primary service units.

3.3 Policy-based budgeting

3.3.1 PI-11 Orderliness and participation in the annual budget process

Ghana's budget process adopts documentation that present three-year estimates. These are not premised upon a three year rolling macro-fiscal framework. Three year revenue figures are extrapolated out of an annual revenue forecast. The challenges of the impact of wage negotiations with the unions on the annual forecasts, the subsidies to the energy (VRA) and petroleum (ToR) sectors undermine the reliability of the annual budget estimates (see PI-1) and leave the macro-fiscal frame void of sufficient credibility to serve as an effective instrument of top-down discipline, or an effective guide to sector programme prioritisation, efficient re-programming of resources or programme implementation control. The budget documentation mirrors a number of elements of a

Medium Term Expenditure Framework (MTEF); however Ghana's PFM systems have not yet achieved many of the pre-requisites for an effective MTEF implementation.

These pre-requisites include effective institutional arrangements to support policy bodies to debate and agree, implement and monitor medium term strategic allocations; a credible macro-fiscal framework – within which effective policy debate can reconcile sector allocations to serve as sector ceilings (see PI-12); a budget classification that can readily incorporate policy objectives (PI-5); fully costed sector strategies (investment costs plus forward linked recurrent expenditure) (see PI-12); a high degree of credibility of the budget (see PI-1, PI-2, PI-4); an orderly budget process developed within a definite calendar guided by a well developed budget call circular and that has clear elements of bottom-up participation fully reconciled with top-down discipline; predictability in budget execution (PI-16,PI-18, PI-20)and accurate, regular and timely financial reporting in a classification structure consistent with the MTE F (see PI-24, PI-25); along with effective internal (PI-21)and external audit (PI-26). Clearly Ghana's PFM systems do not yet adequately address these pre-requisites for an effective MTEF. It might be said that Ghana's budget process carries much of the burden of an MTEF without being able to benefit from an effective implementation of an MTEF such as improved resource predictability, increased efficiency in resource allocation and closer alignment of programmes with policy objectives.

The budget procedures are guided by a definite budget calendar and budget circulars submitted in July which are clear and serve as useful preparation guidelines that are generally adhered to. The calendar allows for the meaningful completion of MDA budgets. A Budget Circular is issued by MoFEP in July to the MDAs based upon policy guidelines issued by the Cabinet that reflects the broad allocations to the three pillars – private sector competitiveness, human resource development and good governance and civic responsibility. The MDAs enter into negotiations on reconciled budget estimates in October. The budget is tabled before Parliament in mid November.

The budget circulars include budget ceilings but as shown in Table 3.8 these ceilings neither serve as an effective three-year instrument of top-down discipline, nor do they serve as an effective instrument of annual budgetary discipline since it does not necessarily reflect the eventual estimates submitted to Parliament. Some MDAs report that their budget submissions exceed the Budget Circular figures by over 100%[31]. Clearly the figures included in the Budget Circulars do not serve as effective ceilings for budget preparation.

[31] The Ghana 2009 External Review of Public Finance Management report s that "in response to the malleability of the initial MoFEP ceilings, the largest 16 MDAs submitted initial spending bids 49 percent higher than their aggregate ceilings".

Table 3.8 Comparison of Budget Circular Ceilings to Actual Budget Estimates (GHS)

		2007	2008	2009
2006 Budget Circular	Item 1	991,495,200		
	Item 2	196,830,200		
	Item 3	77,379,900		
	Item 4	265,136,700		
	Total GoG	**1,530,842,000**	**1,842,593,700**	**2,325,917,200**
2007 Budget Circular	Item 1		1,531,876,900	
	Item 2		448,710,000	
	Item 3		141,700,000	
	Item 4		319,141,000	
	Total GoG		**2,441,427,900**	
2008 Budget Circular	Item 1			1,824,719,904
	Item 2			433,370,977
	Item 3			159,662,992
	Item 4			2,702,866,358
	Total GoG			**5,120,620,231**
Actual Budget Estimates	Item 1	1,316,700,000	1,559,889,708	2,533,831,393
	Item 2	316,159,200	385,638,300	266,324,815
	Item 3	99,839,700	120,602,499	149,016,120
	Item 4	259,894,000	215,925,800	305,764,500
	Total GoG	**1,992,592,900**	**2,282,056,307**	**3,254,936,828**

The budget calendar allows for the passing of the Appropriations Bill before the start of the fiscal year. In the three years reviewed, the Parliament approved the budget prior to the start of the fiscal year in two of the years and approved it two weeks after the start of the fiscal year for the 2008 budget.

Table 3.9 Calendar of Budget Approvals by Parliament

	2006	2007	2008
Budget Approved	December 2005	December 2006	January 2008

No.	Policy-based budgeting	Score	Justification
PI-11	Orderliness and participation in the annual budget process	A	
(i)	Existence of and adherence to a fixed budget calendar	A	A clear annual budget calendar exists that is generally adhered to and the calendar allows eight weeks for MDAs to meaningfully complete their detailed estimates of revenue and expenditure.
(ii)	Guidance on the Preparation of budget submissions.	A	A Budget Circular is issued by MoFEP in July to the MDAs based upon policy guidelines issued by the Cabinet that reflects the broad allocations to the three pillars – private sector competitiveness, human resource development and good governance and civic responsibility.
(iii)	Timely budget approval by the legislature.	B	In the three years reviewed, the Parliament approved the budget prior to the start of the fiscal year in two of the years and approved it two weeks after the start of the fiscal year for the 2008 budget.

3.3.2 PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

Ghana has adopted a multi-year perspective to its budget formulation process. The Policy Analysis and Research Division (PARD) is responsible for developing a three-year macro-fiscal frame to serve as the principal instrument for top down fiscal control. Although the ceilings define three year resource envelopes for the MDAs, the focus is on the coming budget year. The outer year ceilings are described as indicative. There is little evidence however, that the ceilings for the outer years have any practical effect on resource allocation decisions.

The process considers principally revenue, expenditure and debt forecasts informed by the macro-economic context and different policy initiatives. It is anchored on the domestic debt forecast. Medium-term projections over 3 years are provided by the ADMD. It should be noted though that even though the GPRSII outlines borrowing targets, in practice there is large deviations from these targets. This presents a first challenge to achieving a credible macro-fiscal frame. The revenue forecasts provide for fairly reliable one year forecasts (see PI-3), however the two outlying years are the results of simple extrapolations on revenue growth. The expenditure forecasts are hampered by the difficulties posed with projecting the wage bill accurately (68% of MDA discretionary expenditure). Officials state that an accurate statement of forecast is deemed to negatively affect negotiations with the unions. The subsidies to the energy sector (through payments to the Volta River Authority) and the petroleum sector (through payments to Tema Oil Refinery) add another complicating element. Consequently, it has been difficult to establish an effective medium term fiscal framework based upon three year rolling aggregate forecasts. As is demonstrated by a consideration of the links of the budget circular ceilings and budget documentation to future forecasted fiscal aggregates (PI-11), the multi-year estimates are not linked to the annual budget ceilings. While forecasts of fiscal aggregates are prepared for the main categories of economic classifi cation for three years, it has not been possible to do so on an updated rolling basis.

The ADMD prepares an annual debt sustainability analysis (DSA) covering both external and domestic debt. The 2006 DSA was done using Debt-Pro software. Since 2007 DSA has been done in close coordination with the IMF and World Bank and used the joint BANK/FUND debt sustainability analysis framework for low-income countries. The DSA is coordinated through the Policy Analysis and Research Division where key macroeconomic variables are gathered and assumptions discussed. Policy discussions take place under the umbrella of the EPCC. There is very good data sharing on such fiscal variables as total expenditure and revenue and the primary balance.
The Growth and Poverty Reduction Strategy (GPRSII) Framework with a four year planning horizon defines the national strategic direction. The GPRSII specifies an aggregate fiscal resource envelope, though not with sectoral allocations. The major MDAs, including Health, Education, Transport and Agriculture, prepare Sector Strategies aligned with the national strategic framework. MDAs work with the National Development Planning Commission (NDPC) to align their sector plans and policies with the GPRSII. The planning horizons differ from the GPRSII and for the MDAs. A number of major MDAs prepare fully costed strategies within broadly consistent fiscal forecasts

including education, health and transport[32]. These three sectors represent approximately 60% of primary expenditure. MDAs also prepare annual operational plans.
The budget circulars instruct the MDAs to identify projects that are consistent with the National development Framework. The budget circulars remain silent on the matter of recurrent cost implications to investment (Item 4) estimates. The MDAs utilize a software budgeting tool ACTIVATE to prepare budget estimates. This tool provides a basis developing estimates within ceilings and for determining out lying year estimates. However, it does not provide a basis to link forward recurrent expenditure estimates to investments. Officials indicate that while the budget preparation process is informed by the sector strategies, such linkages are weakened by the inclusion of investments outside of the strategies. While they state that there is some effort made to consider forward linked recurrent expenditure implications to their investment considerations, such links are undermined because of the extensive cuts that are applied to the budget estimates. Consequently investment decisions have only weak links with sector strategies and do not reflect recurrent cost implications in forward budgets.

In Ghana, any achievement the linkages of recurrent cost implications with forward budget estimates is undermined by the poor integration of donor projects and programmes into the budget preparation process (see D-2). While the great majority of investment projects are financed by donor funds, there is no consideration of forward linked recurrent costs implications considered in the preparation of the national budget.

No.	Policy-based budgeting	Score	Justification
PI-12	Multi-year perspective in fiscal planning, expenditure Policy and budgeting	C+	
(i)	Multi-year fiscal forecast and functional allocations	D	Forecasts of fiscal aggregates are prepared for three years, including the budget year. However, given the severe limitations in achieving reliable forecasts, it has not yet been possible to achieve a rolling basis to the forecasts.
(ii)	Scope and frequency of debt sustainability Analysis	A	DSA for external and domestic debt is carried out every year by both the ADMD.
(iii)	Existence of costed sector strategies	B	Sector strategies exist for all the major MDAs. These are aligned with the GPRSII. For approximately 60% of primary expenditure, sector strategies are developed with broadly consistent fiscal aggregate forecasts and are fully costed including forward linked recurrent cost implications.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	Links, though weak, exist between the budget and the sector strategies. The recurrent cost implications even when considered in forward estimates are undermined by massive reconciliation cuts. Further,

[32] Notably the MoFEP Strategic Plan, Short and Medium Term Action Plan 2006 to 2009 is neither developed within aggregate fiscal forecasts nor is it costed.

No.	Policy-based budgeting	Score	Justification
			almost no recurrent cost implications are considered in the case of donor financed investments.

3.4 Predictability and control in budget execution

3.4.1 PI-13 Transparency of taxpayer obligations and liabilities

Revenue mobilization in Ghana is the responsibility of the Ministry of Finance and Economic Planning (MoFEP). Main revenues are administered by the Revenue Agencies Governing Board (RAGB) through its revenue agencies the Customs, Excise and Preventive Services (CEPS), Value Added Tax Service (VATS) and the Internal Revenue Service (IRS). In this assessment five main elements of revenue are considered. These are the main sources of tax revenue: income taxes, value added taxes, and customs duties; the revenues derived from the main stays of the Ghanaian economy: first the mining and minerals resources sector (regulated through the Minerals Commission) and for which royalties are collected by the IRS, and second the cocoa industry (managed by COCOBOD) a public corporation[33].

The legal authority to supervise, co-ordinate, administer, collect and account for government revenue is contained in the Revenue Agencies Governing Board Act, 1998 (Act 558); Value Added Tax Act, 1998 (Act 546); Internal Revenue Act, 2000 (Act 592); and Customs, Excise and Preventive Service (Management) Law, 1993 (P.N.D.C.L. 330). The legal authority to regulate and collect revenue in the other areas considered in this assessment includes the Minerals and Mining Act, 2006 (Act 703); the Cocoa Duty Act, 1974; the Ghana Cocoa Board Act, 1984; Cocoa Industry (Regulation) Act, 1968; and the Regulations and Guidelines for the Privatization of Internal Marketing of Cocoa. There remain many discretionary elements to the tax laws. The Ghana Investment Promotion Center has discretionary power to grant tax exemptions. The discretionary application of exemptions undermines confidence in the equity and effectiveness of the tax regime.

The RAGB seeks to promote taxpayer awareness of responsibilities and rights. RAGB has ensured that taxpayer education campaigns are conducted by the revenue agencies of CEPS, IRS and VATS through taxpayer seminars, radio, television and print media. Brochures and leaflets are printed and distributed to the public to improve tax awareness. The tax laws are available to the public in hard copies and are also hosted in the RAGB website. Hard copies may be purchased from Ghana Publishing Company Limited (Assembly Press) bookshops. The laws pertaining to Cocoa are available upon request. The dispute resolution framework comprises of two broad levels: an objection mechanism within the Revenue Agencies and an appeals process to the courts with jurisdiction to

[33] There is a sixth element not here considered. It is the Ghana National Petroleum Company (GNPC) which is responsible for regulation of the oil and gas sector, and is also involved in oil exploration and production. Ghana is not expected to receive substantial oil revenues until 2010 and so some elements of the PEFA assessment are not yet applicable to GNPC; however there are a number of relevant elements pertaining to the legal framework and institutional arrangements. This is commented on separately under sub section 3.8.

hear and determine tax disputes. Appeals can also be made against High Court decisions to the Supreme Court.

Customs, Excise and Preventive Service (CEPS) – Customs and Excise

CEPS is responsible for the collection of Import Duty, Import VAT, National Health Insurance Levy, Export Duty, Petroleum Tax, Import Excise, the ECOWAS Community Levy, Export Development and Investment Fund and other taxes specified in the Customs Law (P.N.D.C.L. 330). The customs law is supported by regulations and the Harmonised System (HS) code. Ghana is a member of the Economic Cooperation of West African States (ECOWAS). CEPS operates on the basis of self assessments that are controlled through the use of post clearance audits. The legal and regulatory framework for the administration of Customs and Excise is clear and comprehensive; however the Commissioner maintains significant discretionary powers.

In the case of determining customs duties the Customs Officers have no discretion on how duties are set and very limited discretion in how duties are applied. Ghana has adopted the 4-band import duty structure (0%, 5%, 10% and 20%) which limits the discretion in the setting and application of import duty rates. Values are based up on a self declaration process. The Commissioner, may review valuations set by destination inspection companies, but may do so only upwards of the recommended valuation. The volumes and item specifications are verified on a sample basis. There are post clearance procedures that use separate inspectors to check on volumes and item specifications after the goods have been cleared. The selection criteria include the risk profile on the types of goods imported, the country of origin, the volume and value of import, and the industry. The combined procedures do not provide for much discretion in the application of duties.

However, the commissioner has the authority to waive penalties for any shortfalls found through post clearance audits. The penalty rates levied are discretionary and vary between 100% and 300%. At this time there is no internal policy or regulatory instrument that set guidelines as to the implementation of the Commissioner’s discretion with respect to waiving and setting of penalties associated with duty shortfalls.

The clearing of goods may only be done by registered accredited clearing agents and direct importers and exporters. Upon application, large businesses are also licensed provided they have trained personnel who have knowledge in customs procedures. The accreditation process involves extensive education on customs procedures including the procedures for administrative dispute resolutions. Any new procedures for importers and exporters are shared through education programs prior to roll out. Beneficiaries of stakeholder forums include the Association of Ghana Industries, Ghana National Chamber of Commerce and Industries, the Federation of Association of Ghanaian Exporters, Ghana Institute of Freight Forwarders, Customs Brokers Association of Ghana and a host of others. The publication of brochures, Commissioner’s orders, newspaper advertisements and interactive radio and television programs have been effective in improving compliance. Other education initiatives employed by CEPS include wall and desk calendars, desk and pocket diaries; press conferences on topical issues such as tax waivers on selected commodities

Appeals against CEPS determination of duty arise from disputed valuations and post-clearance audits. The import declaration forms spells out the importer’s rights of appeal.

Where an importer is dissatisfied with the CEPS determination they may appeal to the Sector Commanders, who in turn transfer the appeal request to the Investigations Unit (independent from the field officers but a unit within CEPS) for review. If the importer remains dissatisfied with the outcome, the appeal may be submitted to the Commissioner. Thereafter, the importer has rights to appeal to the courts. There is not an independent alternative disputes resolution body to administratively resolve tax appeals. Further resolution must be judicial. Specialised tax courts have not been created although court assessors with tax expertise support the court process. Officials state that the fast track Commercial Courts have served to resolve disputed judicially in a fairly timely manner. Still at this time most disputes are resolved at the Revenue Administration level with only very few cases streaming into the courts.

Value Added Tax Service (VATS) - Value Added Tax

The legal and regulatory framework governing the collection and accounting for Value Added Tax (VAT) are the Value Added Tax Act, 1998 (Act 546) plus Amendment Acts and the Value Added Tax Regulations, 1998 (L.I. 1646). The VATS also collects the National Health Insurance Levy (NHIL) at the rate of 2.5% on the VAT base as well as domestic Excise Duty on behalf of CEPS. The legislative framework for the administration of the VAT is clear and comprehensive. The Act is made available on the Service's website (www.vats.gov.gh) and through the Ghana Publishing Company Ltd. book shop. The law allows for only limited discretionary powers. The standard VAT rate of tax is 12.5% on the value of taxable supply of goods, services or import except for exempt and zero-rated supplies. These are clearly listed in the VAT Act. Penalties and late payment penalties are automatically applied by the VAT computer software. However, it is not currently being applied because it accumulated interest indiscriminately even on non-recoverable arrears. We note that discontinuing the application of this module may introduce in practical terms an element of discretion as to which taxpayers pay penalties and who might not.

The Public Affairs and Information unit of VATS drives the taxpayer service program. This program encompasses taxpayer education to target groups such as consultants, accounting and purchasing officers in MDAs, and hotel operators. There is also the publication and dissemination of brochures, newspaper advertisements, and what have turned out to be very effective interactive in enhancing compliance: call-in radio and television programs. Other outreach events undertaken include participation in trade fairs, market and large public social gathering presentations.

In 2006 the VATS established Taxpayer Appeals Committees at the Head Office as well as at Field Offices to more effectively resolve disputes against imposed taxes administratively. The Head Office addresses disputes that remain unresolved at the level of the Field Offices. The Head Office committee has 5 members with some independent representation from the Institute of Taxation and from the Ghana Chamber of Commerce. The composition of the Tax Appeals Committees is made up of VAT Service staff. The table below shows the number of objections/petitions handled by the Tax Appeals Committees in 2006, 2007 and 2008. Table 3.10 indicates the administrative dispute resolution process to be largely effective. Very few cases have been sent on to the courts for resolution. VATS internal reports indicate five pending court cases; one from 2005, three from 2006 and one from 2007.

Table 3.10 Statistics on Objections/Petitions of Assessments processed by Appellate Committees

YEAR	Outstanding from previous period		Received during the period		Resolved during the period		Unresolved	
	No.	Value GHc	No.	Value GHc	No.	Value GHc	No.	Value GHc
2006	18	1,379,005	44	1,038,800	43	2,001,461	9	416,345
2007	9	416,345	60	1,476,580	48	481,571	21	1,402,353
2008	21	1,402,353	40	2,418,315	37	927,997	24	2,894671

Source: VATS internal reports.

Internal Revenue Service (IRS) - Income Tax

The legislative framework for the administration of Income Tax is the Internal Revenue Act, 2000 (Act 2000) with amendments. In addition to Income Tax, the IRS is also responsible for the collection of Stamp Duty, Gift Tax, Capital Gains Tax and Mineral Royalties. The Act was promulgated through a Gazette notification. It is published by the Ghana Publishing Company Limited and is available through its book shop. The Income Tax Act is also available on its website. The Act is clear and comprehensive.

The law provides for important elements of administrative discretionary powers to the Commissioner in determining tax liabilities in the case of provisional and final assessments. With respect to the waiving of taxes there are no discretionary powers provided. The law requires the Minister responsible for Finance in consultation with the Commissioner and subject to the prior approval of Parliament by resolution grant a waiver or variation of tax imposed in favour of any person or authority. However with respect to provisional assessments and in the application of late payment penalties there is substantial discretion. There is a segregation of taxpayers who pay taxes on the basis of a self assessment (larger taxpayers) and those assessed by the IRS (smaller taxpayers). There is a fair degree of discretion applied with respect to the assessments made by IRS on smaller taxpayers. Defaulting taxpayers with respect to withholding taxes may have penalties waived and negotiate payment terms on late payment penalties and interest at the discretion of the Commissioner. The discretion on payment terms though is subject to internal policy guidelines.

IRS's taxpayer education activities include tax education seminars, road shows and visiting taxpayers in their premises under a public awareness program known as "IRS at your door step". The Public Relations department publishes and distributes tax education pamphlets and posts advertisements in the Daily newspapers to inform taxpayers of their obligations and rights. Areas of focus have included the payment of withholding taxes, the sale of vehicle income tax stickers and tax stamps. Some of the publications include A Guide to Tax Stamp Duty (IRS 26), Sept. 2006; IRS Handbook (IRS 04), Oct. 2006; A Guide to Income Taxation in Ghana (IRS 06), March 2007; Your Tax Office – where it is (IRS 07), February 2009. In order to take services closer to the people, IRS had by 2007, opened 130 offices in all the 11 Tax Regions country-wide. Interactive call–in on radio and television programs have proved very effective and improved compliance. However, the television outreach program has been hampered by financial constraints.

Disputes arising from IRS determination of tax assessments can be resolved upon taxpayer's objection, by the Commissioner or where the taxpayer is dissatisfied by the Commissioner's decision, on appeal to the courts. Appeals can also be made to the Supreme Court. There is no other intermediary appeals tribunal independent of IRS besides the Courts. Officials state that in practice however, most cases are settled administratively at the Commissioner's level.

Mineral Royalties

The Minerals and Mining Act with respect to royalties is comprehensive and clear. The discretionary powers of the regulator Minerals Commissioner are strictly limited. Under the Minerals and Mining Act, 2006 (Act 703) "*A holder of a mining lease, restricted mining lease or small scale mining licence shall pay royalty that may be prescribed in respect of minerals obtained from its mining operations to the Republic, except that the rate of royalty shall not be more than 6% or less than 3% of the total revenue of minerals obtained by the holder*". The royalty rate applied (3% to 6%) is rules based derived from the ratio of the operating margin and the gross value of the minerals extracted. In practice all mining operations have paid the lowest rate 3%. This outcome appears to be related to the inappropriateness of the royalty application formula that consistently determines rates to be less than 3% which in accordance with the law are set at the lower limit; an is not a consequence of discretion in the way that royalty rates are determined.

Under the law, only licensed operators may mine minerals in Ghana. Through the Minerals Commission, in conjunction with the Ghana Chamber of Mines, a number of educational programs are carried out to inform mining operators about their obligations and rights.

Royalty collections are the responsibility of the IRS. Consequently all disputes pertaining to royalty payments are subject to the same tax appeals mechanisms as operated by the IRS and described in the previous section.

Export Duties

The legal and regulatory framework governing the cocoa sector from which export duties are derived is comprehensive and clear. The legal and regulatory instruments include the Cocoa Duty Act, 1974; the Ghana Cocoa Board Act, 1984; Cocoa Industry (Regulation) Act, 1968; and the Regulations and Guidelines for the Privatization of Internal Marketing of Cocoa. The website includes detailed information for the licensing and registration procedures for licensed buying companies and pricing information for cocoa production.

The legal and regulatory framework is highly discretionary with respect to two main areas that impact upon government revenues. The first has to do with the determination of the export duty paid. Despite the label and its collection by CEPS, Export Duties are not determined on the basis of the values of cocoa exports. The Export Duty paid is determined as the residual of a negotiated allocation of cocoa proceeds with all of the main stakeholders operating in the cocoa sector. These would include representatives of the farmers, the haulers, the licensed buying companies (LBC), COCOBOD, ISSER and the MoFEP. Government sets the prices paid to producers for cocoa and in that way makes the producer prices non-discretionary. But the other costs are due to a process of negotiation which leaves the Export Duty as a residual balance of the negotiated allocations. One consequence of this discretionary approach to determining export duties is illustrated by Table 3.11. The export duties expressed as a ratio of total turnover in the period 2006 to 2008, a time when international cocoa prices and exports were high, show a decline from 10.2% to 2.8%. We note that the different amounts reported in the financial statements of COCOBOD and MoFEP may be attributed to the differences in fiscal years and the adoption of different accounting standards.

A second discretionary element is in the selection and interest rate differentiation applied to the pre-financing of the operations of licensed buying companies. Again the consequences of such discretion are demonstrated in the accounts receivable due from trade debtors. It shows an increase in the ratio trade debtors' accounts receivable to gross turnover of 5% to 29% over the period 2006 to 2008.

Table 3.11 Ratio of Export Duties and Trade Debtor Accounts Receivables to Gross Turnover (Amounts in GHS)

	2006	2007	2008
GrossTurnover	1,100,691,700	1,076,000,394	1,411,702,318
Export and Local Duty (COCOBOD)			
(amount)	61,600,000	92,937,262	46,252,800
(%)	5.6%	8.6%	3.3%
Export Duty (MoFEP)			
(amount)	111,725,200	43,500,000	40,000,000
(%)	10.2%	4.0%	2.8%
Trade Debtors			
(amount)	56,104,400	87,505,397	378,987,129
(%)	5.1%	8.1%	26.8%

Source: Audited Financial Statements 2007,2008 for COCOBOD; Audited Financial Statements for the Consolidated Fund 2006,2007 and draft financial statement for the Consolidated Fund, 2008.

COCOBOD has a number of active education programs for cocoa producers both with respect to extension services as well as disease control. It works together with the Pricing Association of Cocoa Framers to educate farmers on cocoa prices. It also has active education programs for the LBCs and the haulers.

At the present time there are no specific institutional arrangements set up to address administrative appeals. The COCOBOD receives appeals from farmers and LBCs[34] in the case of under payment or non payment

No.	Predictability and control in budget execution	Score	Justification
PI-13	Transparency of taxpayers obligations and liabilities	C+	
(i)	Clarity and comprehensiveness of tax liabilities	D	Legislation is clear in all major taxes i.e. Customs Excise and Preventive Services, Value Added Tax and Income Tax in terms of obligations and rights. It is also clear with respect to mineral royalties and cocoa export duties. However, discretionary powers in terms of waivers, penalties and the setting of tax rates vary widely from Mineral royalties with strictly limited discretionary dimensions, to VATS where there are fairly limited discretionary powers, through CEPS that have substantial discretionary powers to IRS and

[34] Under the current laws of Ghana, all cocoa produced in Ghana belongs to the state and must be surrendered to COCOBOD through LBCs. Consequently the farmers have specifically defined obligations with respect to surrendering their cocoa harvests. In this respect their relationship with COCOBOD may be considered analogous to the taxpayers' relationship to the tax revenue agencies. The LBCs are audited and in principle, though not in practice, the farmers may be audited to assure full and complete surrender of all cocoa harvests in accordance with the law.

No.	Predictability and control in budget execution	Score	Justification
			COCOBOD where there are important elements of discretion in assessing tax liabilities.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	A	All the Revenue Agencies have extensive taxpayer education programs spanning seminars through radio, television, print media and trade fairs as well as publication of brochures and leaflets. The leaflets and brochures are fairly simple to understand. Also, the Minerals Commission and COCOBOD maintain active education and awareness programs.
(iii)	Existence and functioning of a tax appeals mechanism	C	A tax appeals system of administrative procedures has been established in VAT Service which has some independent representation in the Tax Appeals Committee set up. Results suggest that these mechanisms are effective. IRS and CEPS also have administrative tax appeal mechanism but function without independent representation. No data was provided to establish their effectiveness. IRS addresses appeals with respect to mineral and mining royalties which are collected by the IRS. While COCBOD receives appeals from farmers and LBCs no specific institutional arrangements have been set up to address these nor are their dispute resolutions systematically monitored.

3.4.2 PI-14 Effectiveness of measures for taxpayer registration and tax assessment

Customs, Excise and Preventive Service (CEPS) – Customs and Excise

All importers are registered in the Ghana Customs Service Management System (GCSMS) which is deployed over the Ghana Customs Network (GCNet). At this time 98% of all customs revenue is managed through the GCSMS. A unique tax identification number (TIN) is used. There are linkages to the VATS database, but not to the IRS database which currently remains manual. However, clearing goods requires a tax clearance certificate which serves as a mechanism for enhancing income tax registration.

In Ghana the evasion duty payments, whether through fraudulent declarations or false-registration is a criminal offence with the associated penalties including fines and prison terms. The Customs law gives CEPS powers to impose penalties and interest for non-compliance and late payment of duties for various infractions of the Customs provisions. There is a strict regime of late payment penalties and interest charges. Penalties up to 300% can be levied of the original duty and the CEPS. Late payment charges on penalties are levied at prevailing commercial bank rates.

Post clearance tax audits are carried out with selections based upon clear risk criteria such as country of origin, industry sector, nature of goods, value and volume of import etc. Annual tax audit work plans are prepared and reported on.

Value Added Tax Service (VATS) - Value Added Tax

Taxpayers volunteer to be registered. Two factors point to high registration rates. The first is the incentive to deduct VAT payments and the second is as a consequence of a program of field officers who survey potential taxpayers. Taxpayers are identified on the basis of a universal Tax Identification Number. Security and client identification has improved markedly since 2004 as a result of the requirement of registrants to verify identity using such national IDs as passports, driver licenses, and voter IDs.

Under the law evasion of VAT payments is a criminal offence and subject to penalties including fines and prison terms. The VATS is authorized to shut down the operations of a business for non compliance of the tax code. There is a clear and well define penalty structure that is set sufficiently high to serve as an effective deterrent. Until recently the automatic application of these penalties served to ensure that they were consistently administered. However, with the recently discontinued use of the automatic penalty application module, the administration of these penalties has been made less consistent.

The Control and Investigations Department is responsible for carrying out VAT audits. Annual audit work plans are prepared and quarterly audit reports issued. There is a module for the selection of taxpayers to be audited but this is not currently implemented. Selections are done manually without a clear and consistent set of risk criteria employed.

Internal Revenue Service (IRS) - Income Tax

IRS currently undertakes revenue administration using manual systems. The tax payers are registered in a manual filing system which makes direct linkages to the CEPS and VATS registration databases impossible. However, ad hoc linkages to these databases are made as part of investigation procedures.

Tax evasion, whether through fraudulent declarations or non-registration is a criminal offence with the associated penalties including fines and prison terms. There is a strict and well defined penalty structure for all areas of non compliance to the tax code. The penalties for non-filing or late filing of tax returns and late payments are set sufficiently high to serve as an effective deterrent. However, an inconsistent administration of these penalties dilutes their full effectiveness.

The IRS undertakes tax audits and fraud investigations. Annual audit work plans are drawn up and quarterly audit reports prepared against the work plan. There are also ad hoc audits and investigations carried out in response to leads from the public to be investigated. However, there have been no clear risk criteria established against which tax audit selections are made.

Mineral Royalties and Export Duties

Mineral royalties are collected and administered by IRS and so the registration, effectiveness of penalties and the planning and monitoring of tax audit programs are subject to the same standards and procedures as for the IRS. CEPS is responsible for the collection of export duties and so the registration, effectiveness of penalties and the planning and monitoring of tax audit programs are subject to the same standards and procedures as for the IRS.

No.	Predictability and control in budget execution	Score	Justification
PI-14	Effectiveness of measures for taxpayer registration system	C	
(i)	Controls in taxpayer registration system	C	Taxpayers are registered in databases systems for income tax, VAT and CEPS but not directly linked to each other nor other Government institutions or financial entities. IRS operates a manual registration system which is supplemented by mechanisms requiring tax clearance certificates to carry out a number of important economic transactions that have direct links with each other and with the Registrar of Companies and through the inclusion of bank accounts with the Financial Sector. The Customs database is linked to the Income Tax through VAT.
(ii)	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	Penalties and interest for all major taxes are set sufficiently high to act as deterrent to non-compliance. However, substantial improvements to the consistency of their application will be required to ensure a real impact on compliance enough to deter against non compliance with registration and filing. In addition SARS is empowered to bond the businesses revenues and bank accounts to cover any unpaid tax liabilities.
(iii)	(iii) Planning and monitoring of tax audit and fraud investigation programs	C	Tax audits are carried out based upon annual audit work plans with quarterly reporting. They are managed based on risk assessment procedures in the case of CEPS. However, such clear risk selection criteria are not employed by VATS or IRS.

3.4.3 PI-15 Effectiveness in collection of tax payments

The accumulation of tax arrears is significant for both the IRS and for the VATS. The tax arrears ratio to revenue was 6% in 2008. The data shows a decline over the three years reviewed for the IRS. The VATS only provided data on tax arrears for 2008. The tax arrears for CEPS remained insignificant over the period reviewed at less than 1%. The performance on the collection of mineral royalties is embedded in the IRS tax arrears collection performance data, given that the IRS collects mineral royalties. COCOBOD reported no receivables on cocoa exports. Further, given the mechanisms for the determination and payment of export taxes to CEPS, any such arrears would be only indirectly linked to CEPS performance. As regards late receipts from COCOBOD that would be reflected in the data for CEPS.

The tax arrears collection ratios reported for IRS was high and increasing for all three years reviewed. VATS provided data for only 2008 that showed a low collection ratio. The debt collection ratio for CEPS was very low in the period reviewed except for one year. In spite of the lack of data provided by VATS it was possible to determine a rating based on considerations of the average debt collection ratio of the last two fiscal years as required by the PEFA methodology. The approach adopted considered a worst case scenario for VATS in 2007 with a debt collection ratio of 0%. Under this assumption the average debt collection ratio for the last two years was 82%. Consequently we can conclude that the score is at least a B.

Table 3.12 Collection ratios for tax arrears for IRS, VAT and CEPS (Amounts in Millions of GHS)

	2006	2007	2008
IRS			
Beginning Tax Arrears	84.3	91.6	87.6
Accrued Tax Arrears	75.7	83.6	307.5
Collections	68.5	87.6	195.5
Closing Tax Arrears	91.6	87.6	199.5
Revenue	718.0	901.5	1,217.0
Tax Arrears Ratio	11.7%	10.2%	7.2%
Debt Collection Ratio	81%	96%	223%
VATS			
Beginning Tax Arrears	N/A	N/A	96.0
Accrued Tax Arrears	N/A	N/A	25.5
Collections	N/A	N/A	21.0
Closing Tax Arrears	N/A	96.0	100.5
Revenue	686.9	909.9	1,158.0
Tax Arrears Ratio	N/A	N/A	8.3%
Debt Collection Ratio	N/A	N/A	22%
CEPS			
Beginning Tax Arrears	0.7	1.7	3.7
Accrued Tax Arrears	1.2	3.4	N/A
Collections	0.2	1.4	1.1
Closing Tax Arrears	1.7	3.7	N/A
Revenue	510.6	605.0	743.0
Tax Arrears Ratio	0.1%	0.3%	0.5%
Debt Collection Ratio	27%	78%	29%
Aggrgate Tax Arrears Ratio	**N/A**	**N/A**	**6.0%**
Aggergate Debt Collection Ratio	**N/A**	**N/A**	**116%**

Source: Data provides by CEPS, IRS and VATS

Customs, Excise and Preventive Service (CEPS) – Customs and Excise

Tax collections for customs duties are managed using GCSMS/GCNet with payments received into either of Ghana Commercial Bank or Ecobank. Transfers to the consolidated fund are made on a daily basis, with a funds transit time not exceeding two days. The GCSMS/GCNet system provides for reconciliation between declarations, collections and transfers. This is carried out on a daily basis. The only source of arrears arises as a consequence of post clearance audits which are reported separately. Only collections and transfers are reconciled daily. The transfers, upon consolidation by the RAGB, are reconciled with the CAGD receipts on a monthly basis.

Value Added Tax Service (VATS) - Value Added Tax

VAT payments are made through Ghana Commercial Bank. The funds transit period from the local offices to the Accra Headquarters does not exceed three days. Transfers from the Headquarters account to the Consolidated Fund are done daily. The computerised revenue management system monitors tax assessments, collections, arrears and transfers. However, only collections and transfers to the Consolidated Fund are reconciled daily. The transfers, upon consolidation by the RAGB, are reconciled with the CAGD receipts on a monthly basis. The assessments, collections and arrears are reconciled on an annual basis within three months of the close of the fiscal year.

Internal Revenue Service (IRS) - Income Tax

All collections by the IRS are paid into its Ghana Commercial Bank accounts on a next business day basis. These are transferred to the Headquarters on a daily basis. The funds transit period does not exceed three days. Transfers from the Headquarters account to the

Consolidated Fund are made on a daily basis. The deposits to the IRS accounts are reconciled with the cash book on a daily basis. The transfers, upon consolidation by the RAGB, are reconciled with the CAGD receipts on a monthly basis. At this time the assessments, collections and arrears are reconciled only on an annual basis within three months of the close of the year.

Mineral Royalties and Export Duties

Mineral royalties are collected and administered by IRS and so the transfer of collections and the reconciliation mechanisms are as per the IRS. CEPS is responsible for Export Duties and so the transfer of collections and the reconciliation mechanisms are as per CEPS. In addition the EPCC in its monthly meetings considers whether COCOBOD is adhering to its committed payment schedule of Export Duties.

No.	Predictability and control in budget execution	Score	Justification
PI-15	Effectiveness in collection of tax payments (M1)	C+	
(i)	Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	B	The aggregate tax arrears is significant at 6%. The aggregate collection ratio could only be determined for 2008. However, an analysis demonstrates that the average of the two most recent years must be at least 82% and so assures a minimum score of B.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	The tax revenues are transferred to the Treasury on a daily basis. The funds in transit period do not exceed 3 days, but these delays are not to be included in the time period.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	Although CEPS an VATS have a built in facility to reconcile tax assessments, collections, arrears and transfers, only CEPS does so on a regular basis. However, all revenue agencies perform complete account reconciliation between tax assessments, collections, arrears and transfers annually within three months of the close of the fiscal year.

3.4.4 PI-16 Predictability in the availability of funds for commitment of expenditures

In spite of fairly predictable revenue streams (see PI-3), the three year fiscal framework has not been very effective in serving as an instrument of top-down discipline (see PI-12). The persistent low budget estimates for personnel emoluments (Item-1) coupled with its large ratio to total primary expenditure, and its treatment as a quasi statutory payment results in significant over expenditure in Item-1. This in turn contributes to significant unpredictability in Item-3 and Item-4 expenditure. Administration expenditure (Item-2) tends to be more protected since it is more directly linked with Item-1.

There are two types of warrants (authority to incur expenditure) issued to control expenditure. The first, referred to as the General Warrant, covers expenditure under Item-1 and Item -2. It is issued by the CAGD on a monthly basis and is applicable to the month in which it is issued. The second type of warrant is issued to cover expenditure under

Item-3 and Item-4 and is referred to as a Specific Warrant. This second type of warrant is issued by the Ministry of Finance in response to requests submitted by the MDAs. Both warrants are issued on the authority of and in accordance with the appropriations act.

The General Warrant is supposed to be informed by draw-down schedules which are annual pro forma cash flow statements submitted by the MDAs to the Ministry of Finance and the CAGD at the beginning of the fiscal year. These are to be updated on a monthly basis to take into account actual expenditure rates. However, in practice such monthly updates are almost always ignored. General Warrants are issued typically within the first week of the month even though a review of General Warrants indicates that they have been issued as late as the third week of the month. From the perspective of cost centres, required to configure commitment ledgers according to the limits set out in the General Warrants, they are provided reliable information on commitment ceilings less than a month in advance.

In the case of the Specific Warrants these are only informed on the basis of requests made by the MDAs. This mechanism is plagued by long delays. The request mechanism goes through a two tier process from cost centre to MDA headquarters, and then after consolidation from MDA headquarters to MoFEP. The budget releases also goes through a two step tier process from the MoFEP to the MDA headquarters level, and then from the headquarters level to the district offices. That actual execution of the Specific Warrant is subject to funds availability. This has meant further delays in the disbursement of funds (where there is deferment) or reductions where there are insufficient funds to cover the requests. Records kept by the Budget Division indicate that applications for budget releases are often made retrospectively – suggesting that delays can be very substantial and that almost certainly expenditure commitments are being made prior to the receipt of the Specific Warrant. A Public Expenditure Tracking Survey (PETS) carried out in 2008 showed that many MDA district offices received only one of four tranches under the special warrant; and that was in the fourth quarter. The consequence of this is that in practice, given the very long delays, under the Special Warrant mechanism MDAs are often not receiving advance information on commitment ceilings.

Adjustments to budgetary allocations should be made by normal ex-ante virement procedures; or possibly by issuing a Supplementary Budget, once or so within the year; or alternatively it may occur by ex-post regularisation of unauthorised spending. In Ghana, in accordance with Article 171 of the FAR, 2004 virements between activities (Items 3) or between sub- items (Item 2) do not require ex-ante approval beyond the Line Minister. For personnel emoluments and transfers between Items this requires Ministry of Finance approval. Under Article 172 of the FAR, 2004 expenditure in excess over approved budget ceilings requires the approval of a supplementary budget by Parliament. Article 177 of the Constitution requires that *"where an advance is made from the Contingency Fund a supplementary estimate shall be presented as soon as possible to parliament for the purpose of replacing the amount so advanced"*. Although there was extensive discretionary MDA expenditure over approved budget estimates in all three years under review, there was no supplementary budget process in 2008. As a consequence of the lack of an effective establishment control (see PI-18) and an effective commitment control (PI-16), in practice there has been expenditure carried out in excess of approved budgets de facto by default, rather through a transparent predictable process.

No.	Predictability and control in budget execution	Score	Justification
PI-16	Predictability in the availability of funds for commitment of expenditures (M1)	D+	
(i)	Extent to which cash flows are forecast and monitored	C	Pro-forma cash flows are submitted to MoFEP annually by MDAs but these are rarely updated.
(ii)	Reliability and horizon of periodic in-year information to Line Ministries on ceilings for expenditure commitment.	D	Departments are provided General and Specific Warrants that typically provide reliable information on commitment ceilings less than one month in advance. In the case of the General Warrant, although a monthly issued instrument, the MDAs are provided reliable information on commitment ceilings less than a month in advance. In practice, given the very long delays, under the Special Warrant mechanism MDAs are often not receiving advance information on commitment ceilings.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	D	As a consequence of the lack of an effective establishment control (see PI-18) and an effective commitment control (PI-16, PI-20), in practice there has been expenditure carried out in excess of approved budgets de facto by default, rather through a transparent predictable process. .

3.4.5 PI-17 Recording and management of cash balances, debt and guarantees

The MoFEP issued a debt strategy in 2006, Ghana New Financing and Debt Strategy, 2006 that focuses upon extending the average maturity rate of the domestic debt portfolio; better integrating debt and cash management; and improving transparency with the expectation of achieving subsequent gains with respect to the government's cost of money. While the GPRSII sets out borrowing targets, the debt strategy does not set clear benchmarks for government debt such as the domestic debt to GDP ratio, the foreign debt to GDP ratio, or the contingent liability to GDP ratio.

The Aid and Debt Management Division (ADMD) within MoFEP is responsible for managing debt and does so with a full panoply of debt instruments (bonds, treasury bills, inflation index linked bonds, and floating rate bonds). The Commonwealth Secretariat Debt Recording and Management System (CSDRMS 2000+) is employed to record, monitor and report on debt. ADMD captures and maintains all external debt data as well as government on-lending and loan guarantees in CS-DRMS. The external debt database is of high quality, up-to-date, and secure. Bank of Ghana (BoG) currently maintains all domestic debt data which is transferred to ADMD on a daily basis.

Comprehensive records on domestic and external debt are compiled and are updated and reconciled on a monthly basis. The reconciliation is done on the basis of internal consistency checks as well as reconciliation with the bank statements from the lending institutions. Weekly reconciliation is done with the CAGD and a monthly reconciliation done with the Bank of Ghana and creditor statements. The Ghana Audit Service's annual audit includes a full reconciliation of the debt transaction records. Monthly reports, with a one month lag, are prepared by the ADMD that covers the debt stock, currency composition, and debt service. It reports annually as part of the budget statement a debt analysis and summary report. The BoG publishes a quarterly statistical bulletin on debt. At this time neither institution publishes a comprehensive management report that includes operations.

There are four main categories of government bank accounts[35]. These are (1) what is referred to as the Consolidated Fund Account held with the Bank of Ghana's head office in Accra; (2) what is referred to as the Sub-Consolidated Fund Accounts held with the Bank of Ghana regional branch offices that facilitate the Treasuries around the country; (3) the IGF accounts held in commercial banks to manage retained internally generated funds; and (4) the government accounts to facilitate the implementation of donor funded projects and programmes. The cash balances are calculated and consolidated for the Consolidated Fund Account weekly; those for the Sub-Consolidated Fund Account, monthly; those for the retained IGF at least annually. While progress reports on project implementation are provided to the respective MDAs and annual financial statements are submitted each year, there does not appear to be any regular process for regularly calculating bank balances or consolidating these accounts into a national accounts summary. Approximately 60% of government expenditure is managed through the Consolidated Fund and Sub-Consolidated Fund accounts, 10% through the retained IGF, and 30% through the donor funded accounts. This suggests that the calculation and consolidation of most government cash balances take place monthly.

The Bank of Ghana has six branches which are inter-connected via a Wide Area Network (WAN); the bank's software has the facility of generating daily, weekly and monthly bank statements for the treasury; however the CAGD receives statements for the sub-consolidated bank accounts on a monthly basis. Further it does not receive bank statements on the retained IGF bank accounts that it does not directly manage.

The Constitution (Article 181), 1992 and the Loans Act, 1970 govern the Central Governments contracting of loans. The Constitution requires Parliament to authorise the Government to enter into loan agreements. The Loans Act, 1970, as amended, vests the sole authority with the Minister of Finance to contract loans for the public sector, subject to cabinet and parliamentary approval. Article 13 of the Loans Act, 1970 empowers the Minister to grant guarantees.

With respect to domestic debt, debt instruments may be issued weekly which makes it practically impossible to implement the law in the same way as external debt. However, under Loans Act, 1970 the Government is allowed to determine total treasury bills to be issued in a given period of time for Parliament to give approval for the terms and conditions and as long as the terms and conditions remain unchanged, the Government need not seek approval before such loans are contracted. Hence the approval of the budget, specifically stating the amount of new domestic borrowings, serves as the

[35] There are in addition a number of facilitation accounts that are hold moneys temporarily merely to facilitate the transfer of funds to the consolidated fund; or alternatively to facilitate payments.

effective ceiling (and control) on domestic borrowing. No clear overall ceilings are set out for the issuance of guarantees.

In practice, all external debt has been contracted with approval of Parliament and is subject to fiscal targets set out in the budget in line with agreements with International Financing Institutions. However, in the case of domestic debt the approved budget sets the fiscal targets and is supposed to serve as the criteria against which the government may borrow. In practice, though, this has not been adhered to. This suggests that the budget does not serve as the basis for ceilings on domestic debt. For example, in 2008 the budget statement sets the domestic borrowing ceiling at GHS 0. The provisional outturn for domestic borrowing for 2008 as reported in the 2009 budget statement was GHS 1,589,086,600. Clearly the level of domestic borrowing, while approved by the Parliament, is not decided on the basis of clear guidelines, criteria or overall ceilings.

While Central Government's contracting of loans and the issuance of guarantees are always approved by a single responsible government entity, the contracting of domestic debt and the issuance guarantees are not made within clear limits for total debt and total guarantees.

No.	Predictability and control in budget execution	Score	Justification
PI-17	Recording and management of cash balances, debt and guarantees	C+	
(i)	Quality of debt recording and reporting	B	Domestic and foreign debt records are complete and reconciled each month for both external and domestic debt. Reconciliation is done monthly and the debt transactions audited annually by the GAS. he ADMD puts out an annual statistical reports as part of the Budget Statement . The Bank of Ghana issues comprehensive quarterly statistics reports. However, no comprehensive management reports that include operations are issued.
(ii)	Extent of consolidation of the Government's cash balances	C	Calculation of government balances held in the Consolidated Fund is carried out weekly; while balances held in the Sub-Consolidated Fund accounts are calculated monthly. Balances in the retained IGF accounts are calculated annually. There are balances also maintained in Donor managed project and programme bank accounts that remain outside of the cash management (reconciliation and reporting) arrangements
(iii)	Systems for contracting loans and issuance of guarantees	C	The Constitution, 1992 and the Loans Act, 1970 empowers the Minister of Finance solely to contract loans, subject to approval by the Parliament and to issue guarantees. In practice the contracting of domestic debt and the issuance guarantees are not made within clear limits for total debt and total

No.	Predictability and control in budget execution	Score	Justification
			guarantees.

3.4.6 PI-18 Effectiveness of payroll controls

Personnel emoluments (Item-1) accounts for around 60% to 65%of the primary budget of the GoG (see PI-1, Table 3.1). Therefore control of the payroll is a crucial part of Ghana's PFM system. Payroll processing is centralised in Ghana. The Payroll Processing Division (PPD) of the CAGD executes payroll for all MDAs, MMDAs and Traditional Authorities. Since October 2006, the GoG has implemented an updated integrated payroll and personnel computerized system (IPPD2). The system, which is Oracle based, fully integrates the payroll and the personnel database. Payroll expenditures are executed monthly directly via bank transfer.

Required changes to personnel records for most categories of changes are done monthly within the next month in time for the next payroll run. Up to three months delays do occur on occasion that have to be addressed retroactively. The CAGD reports that in the case of new hires delays in receiving all approvals and authorization typically take six months and can take as long as two years. Consequently such entries do not require any retroactive changes to individual personnel records. There are though instant expenditure arrears that must be addressed in the first month's pay. In aggregate this has been extensive enough to have budgetary impacts. Item-1 payments are treated as quasi non-discretionary and so such accrued expenditure arrears are paid even though the budget may not have taken into account the additional funds required.

Access to the personnel and payroll system is restricted using module sensitive password control that permits data entry clerks, supervisors and database administrators separate and restricted access. The personnel and payroll system includes an in-built audit trail for all modifications into its databases that tracks record change, user, date and time. Internal controls include a unique identification code, even though its effectiveness is undermined by the weak ID controls in the broader country. It is susceptible to abuse as a consequence of false IDs. There are controls in place for automatic retirement.

The personnel database, which serves as a control file to the payroll, is decentralised and controlled by the Personnel Processing Sections (PPS) of the various MDAs. MDAs make changes to the personnel database in one of two ways. Some MDAs directly manage a workstation interface with the IPPD2.[36] Other MDAs process adjustments to the personnel database directly via the PPD within the CAGD. In either case all new entries and promotions are subject to the manual authorization by the Office of the Head of Civil Service (establishment control) and the MoFEP (budgetary control). Routine payroll outputs include: (1) payslips giving information to individual employees on their monthly payments; (2) payment vouchers giving information to Heads of MDAs and MMDAs on the number of employees and amounts paid for each MDA/MMDA; (3) a bank report and credit vouchers giving information on the bank transfers.

[36] The following MDAs are included in this category: Ministry of Health, General Education Service, Head of Civil Service, Ministry of Local Government, Ministry of Lands and Forestry, Ministry of Agriculture, Audit Service and the CAGD.

The purpose of the payment vouchers report is to serve as a basis for Departmen t Heads to verify all of the employees listed to eliminate any possible “ghosts”. Heads of Department or management units are obliged to examine and certify the personnel emolument payment vouchers in order to ensure the regularity of the payments. In accordance with Article 304 of the FAR, 2004 any Head of Department or management unit who fails to comply with the above shall be liable for disciplinary action. In practice two factors hamper the control effectiveness of these payment voucher reports: the first is that officials report that there has not been the paper to fully disseminate the reports to all cost centres; and second, of greater consequence, the physical distances between the facilities where employees are located and the district offices that serve as the cost centres (especially in the case of the health and education sectors) preclude such checks being done.
The insertion of a new hire in the personnel database requires a completed ‘personnel and payroll input form’.[37] with the following attachments: (1) a copy of appointment letter issued by Head of Department and acceptance letter by the employee; (2) an establishment warrant prepared by the Head of Department and endorsed by the servicing Treasury; and (3) a Financial Clearance approved by the MoFEP. Basically the same procedure applies in the case of promotions even though in such cases no financial clearance is required for promotions. However, these extensive authorization requirements do not serve as effective establishment and budgetary controls. The first reason is that there are no direct ex-ante controls that preclude the possible insertion of new hires without such authorization. Only ex-post controls can be achieved through payroll audits, which may occur only many months after the insertion. The second is that the Office of the Head of Civil Service (OHCS) reports that since 2006 it has not maintained an establishment database to guide its approvals of personnel and payroll input forms. It argues that its work developing annual establishment databases was made ineffective because of new hires well in excess of the numbers in their establishment databases were automatically approved as a consequence of the implementation of policy to automatically hire all graduates of teacher training colleges and nursing and medical institutions. Consequently, since 2006 any new hire authorizations have been ad hoc, and have not been subject to effective ex-ante establishment controls.

The CAGD carries out head count surveys on a sample basis on a n on-going basis. In conjunction with the Ghana Audit Service (GAS) and the Ghana Statistical Service (GSS) it carried out a exhaustive payroll audit in 2007. In conjunction with GAS and GSS it carried out head count surveys for the Ministry of Education in 2008 and is currently carrying one out for the Ministry of Health. The following observations are derived from a payroll audit of the CAGD and interviews with government officials:[38]

- New entrants are entered into the system without necessarily deleting t he existing name that ceased working for with the management unit. In combination with delays in the return of the vouchers from the various management units to the PPD, payments are made to staff that are no longer employed by the GoG. Based on a comprehensive head count of the CAGD in 2008. Initial counts recorded irregularities of around 10%.

37 Source: payroll accounting manual
38 The Ghana Audit Service is currently undertaking a payroll audit, but no publication has yet been issued.

After detailed scrutiny of these cases and excluding transfers, this figure was adjusted to around 5 %.

- In the case of Ghana Education Service (GES) and Ghana Health Service (GHS) trainees are regularized directly by the system after their study period without adequate supporting documentation justifying the retention of the trainee.[39]
- In the case of entries in the personnel database that have been suspended by the PPD due to lack of proper supporting documents, the PPS of the management units may re-activate the entries without recourse to the PPD. In case the name affected is a new entrant, this reactivation automatically moves the reactivated name from the new entrant register to an established employee register.
- Claims for overtime are never justified and verified before execution and is often treated as a top up to employees' salaries.
- The control of 'financial clearance' by the MoFEP is not fully effective because information on which such clearance is based is incomplete. In case delays in the registration of new hires and promotions, financial clearance decisions are based on and underestimated actual payroll. This is particularly a challenge where physical distance from the headquarters is significant (e.g. teachers and nurses in remote districts), the validation of the changes into the system by PPD takes place long after the appointment/promotion has been issued.

In summary, weaknesses in establishment controls and the absence of direct links of an establishment database to the personnel and payroll system does not provide for effective budgetary discipline to the personnel database with respect to new hires and promotions. We note that an establishment database directly linked to the personnel database and serving as a control file with changes to it restricted to changes being made only by the OHCS would ensure that no new hires could be added without the availability of a position in the establishment database, and would not permit a promotion unless there was an available position to be promoted to. Further, where personnel have terminated through voluntary separation and there have been delays in updating the personnel file, no new hires or transfers could be effected until the absent staffer had been removed from the personnel database. The CAGD states that there is such a module available on the current system but that it has not been implemented.

No.	Predictability and control in budget execution	Score	Justification
PI-18	Effectiveness of Payroll Controls	C+	
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	The software application used in Ghana, IPPD2, allows for a direct link between the personnel and the payroll databases.
(ii)	Timeliness of changes to personnel records and the payroll	C	Payrolls are controlled monthly and changes are effected on average within a month pay period. However, retroactive changes are not rare and may extend more than 12 months. Such retroactive changes concern both new hires as well as staff that

[39] A slightly different interpretation (but to the same effect) was provided by the MoE. The MoE holds that students that enrol into the training institutions of GES are included on the payroll as trainee (grade 5). After graduation, the grade is automatically increased into grade 12. Such upgrading does not require financial clearance.

No.	Predictability and control in budget execution	Score	Justification
			have left the public service.
(iii)	Internal controls of changes to personnel records and the payroll	B	The authority and basis for changes to the personnel records are clear and access to the system is restricted and it provides an audit trail. The absence of a directly linked functioning establishment control to the personnel and payroll database has made ineffective the use of clear authorities, restricted access and audit trail.
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	B	The CAGD carries out on an on-going basis a sampling of head counts. In conjunction with GAS and GSS it carried out a comprehensive head count focusing on the identification of 'ghosts' in 2007 which was finalised by the CAGD (in 2008). In addition, the internal audit division of the CAGD has issued a report in 2007 focusing on systematic issues. Both internal audit units of the MDA's and the Audit Service conduct annual audits on a sample basis. CAGD, GAS and GSS carried out a head count for the Ministry of Education in 2008 and is currently doing one for the Ministry of Health

3.4.7 PI-19 Competition, value for money and controls in procurement

Public procurement is the vehicle by which a sizeable proportion of economic activity is transacted in Ghana. In 2007, it was estimated at 17 percent of GDP. This underscores the importance of effective and efficient procurement procedures.[40] Public procurement is governed by the Public Procurement Act, 2003. The Act establishes open competition as the preferred method of procurement. The main institutional arrangements for procurement under the Act are the Public Procurement Authority (PPA)[41], Procurement Entities, Tender Committees and Tender Review Boards. Procurement Entities include the MDAs, the sub-vented Agencies and the State Own Enterprises. Tender Committees are to be established in every Procurement Entity to ensure that at every stage of the procurement activity, procedures prescribed in the Act are followed. Separate authority levels are set for the various tender boards. At the lowest level is the Entity Tender Committee, then the Ministerial Tender Review Board (MTRB) and then the Central Tender Review Board (CTRB).

The PPA operates as an oversight body responsible for the regulatory framework, formulating procurement policy, monitoring and overseeing policy implementation, and developing capacity. The law empowers the PPA to obtain information concerning public procurement from contracting authorities without restriction. To obtain a national view in

[40] Source: Ghana 2007 External Review of Public Financial Management, Part II Public Procurement Assessment Report issued by the World Bank.

[41] Act 663 refers to the Procurement Board. However, as the Board could refer to both the institution as well the people composing the upper layer, the institution is now referred to Public Procurement Authority.

terms of performance and compliance with the provisions of the Act the PPA employs the Public Procurement Model of Excellence (PPME) a self assessment tool. It generates two main reports: the Performance Assessment System (PAS) report (based on 61 qualitative indicators covering the legal and regulatory framework, the institutional framework and capacity, procurement operations, and the integrity and transparency of the public procurement system; and the Performance Measurement Indicators (PMI) report (based on 11 quantitative indicators). The National Procurement Assessment, issued in 2006, 2007 and 2008, reports on both the PAS and the PMI. It shows the following figures on the actual use of the different procurement methods:[42]

Table 3.13 PPA Assessments of breakdown by Procurement Method

	National sample[43]			High spending entities[44]	
	2006	2007	2008	2007	2008
International Competitive Tendering (ICT)	12.0 %	0.5 %	1.0 %	6.1 %	9.1 %
National competitive tendering (NCT)	37.0 %	22.7 %	15.6 %	41.2 %	51.3 %
Price quotation (PQ)	38.7 %	66.0 %	75.1 %	43.4 %	23.9 %
Single source (SS)	3.1 %	8.6 %	3.2 %	2.2 %	9.1 %
Selective tendering (ST)	9.17 %	2.2 %	1.5 %	7.0 %	6.6 %
Low value procurement		-	3.5 %		

Source: National Procurement Assessment Reports 2006, 2007 and 2008

The PMI report does not include an indicator showing the percentage of tenders that have been conducted following the appropriate procurement method. Nevertheless, the Interim Report that covers the performance of High Spending Entities includes the following figures responding to PRSC 7 and MDBS 08 performance targets:[45]

Table 3.14 Public Procurement Performance Measures

	Target	Achievement
Use of appropriate procurement methods	80 %	97.55 %
Publication of Tender Notices	80 %	95.20 %
Publication of award of contracts	80 %	81.63 %

Source: Appendix 4 of the National Procurement Assessment Reports 2008

The figure indicates that in 97.55 % of the procurement processes the appropriate procurement method was used. This figure recognizes cases in which single source and/or selective tendering with prior approval of the PPA (in accordance with the Act) as appropriate. However, the reliability of these figures cannot be fully confirmed. An external team of Development Partners reviewed the country's self-assessment methodology in 2007. It confirmed the credibility of the PAS report, but considered the validity of the PMI report to be limited given the insufficient size of the sample and the quality of data entered in the system.[46] Since the review in 2007, the sample size has significantly increased and could be considered representative. Information is collected using consultants.

[42] The total figure of all procurement procedures reported by the entities that constitutes the basis for the per centages is not disclosed in the report.

[43] The sample included 213 entities in 2006, 515 entities in 2007 and 760 entities in 2008.

[44] These include 23 entities with a high procurement activity.

[45] It is included as appendix 4 in the 2008 national procurement assessment report.

[46] See point 3.39 of the External Review Public Finance Management (2007) conducted by the World Bank in cooperation with other donors involved in the Multi-Donor Budget Support (MDBS) framework.

In approximately 10 per cent of the public procurement non competitive methods Single Source (SS) and Selective Tendering (ST) are used. The Act requires prior approval by the PPA and lists in section 38 (for ST) and section 40 (for SS) the conditions in which reliance to these non competitive methods can be justified. The PPA received 193 requests for SS and 126 for ST in 2007. The Board of the PPA approved respectively 159 and 106 applications. The PPA publishes applications for non competitive tenders on the website and in the annual report.

The Public Procurement Act defines procedures for review of the procurement process.[47] Complaints are initially to be directed to the Procurement Entity. If the complaint is not satisfactorily resolved by the Head of the Procurement Entity within 21 days, then the complaint can be referred to the PPA for 'administrative review'. The PPA within 21 days of starting a review must issue a written decision concerning the complaint stating the reasons for the decision. In order to ensure that complaints are dealt with in accordance with professional standards, the Board of the PPA has delegated the task to assess complaints to a specialised Appeals and Complaints Panel (since 2007). The Appeals and Complaints Panel remains part of PPA and includes seven legal and procurement experts (including 4 PPA officials). In 2007 and 2008, 36 protests were recorded. Evidence on the follow-up of complaints is retrieved from the PPA's annual report which provides an overview of cases for administrative review. The PPA also makes decisions public via PPA's website.

[47] However, there are several exceptions specified in Act 663 section 78 (2) weakening this right. Not subject to a review are the method of procurement, the choice of selection procedure, limitation of procurement proceedings (nationality) and a decision by the procurement entity under section 29 to reject tenders, proposals, offers or quotations.

No.	Predictability and control in budget execution	Score	Justification
PI-19	Competition, value for money and controls in procurement (M2)	B+	
(i)	Evidence on the use of open competition for award of contracts that exceed the nationally established threshold for small purchases	B	The data show that 97.5 % of the procurement in high spending entities is conducted by appropriate procurement methods. This suggests that more than 75% of the contracts above the threshold are awarded on the basis of open competition. However, the data according to an independent external assessment may not be accurate. Given the qualification on the reported results a B is assigned.
(ii)	Extent of justification for use of less competitive procurement methods	B	Around ten per cent of procurement was based on sole sourcing and restrictive tendering for which approval of the PPA has been granted. Such approval is based on monthly Board decisions with reference to the requirements spelled out in the Public Procurement Act, Articles 38 and 40. Decisions are made public in PPA's annual reports.
(iii)	Existence and operation of a procurement complaints mechanism	A	The procurement complaint system as defined by Act 663 is operative and includes the possibility to refer resolution of the complaint to the PPA as an external body. The PPA publishes data on the resolution of complaints on its website and in its Annual Report.

3.4.8 PI-20 Effectiveness of internal controls for non-salary expenditure

Article 13 of the Financial Administration Act, 2003 restricts Heads of Departments to make payments out of the consolidated fund that "*shall not be in excess of the amount granted under an appropriation*". Article 39 of the Financial Administration Regulations, 2004 requires heads of accounts sections to limit payments to the "*funds available to the officer ordering disbursements*". However, compliance with these articles requires predictable flows of funds and an adequate budget release horizon to make fully commitment controls. This is not the case (see PI-4, PI-16). According to MDA officials, the difficulty is further exacerbated because Budget Expenditure Ledgers (used to control commitments) are often not available to the Budget Management Centres as much as six months into the fiscal year.

The expenditure cycle begins with the issuance of a commitment instrument (such as the purchase order or contract) which is carried out at the cost centre. The payments are done by the associated Treasuries that for such reasons as distance are not always made aware of the commitment until at the time of payment. Prior to payment the Treasuries check to see if funds are available – if not, the expenditure request is rejected. This achieves effective cash control, but arrives too late for effective commitment control. As corroborated by the Public Expenditure Tracking Survey (PETS) carried out in 2007 on the Health and Education sectors, there are extreme delays in the response to Specific

Warrants under Item-3 expenditure. In practice then commitment controls for non-salary expenditure are routinely violated.

In the case of Item-4 expenditure, the MoFEP makes all expenditure directly in response to purchase requests made by the MDAs. In principle such an arrangement should provide a firm basis for effecting a commitment control since all commencement certificates must first be approved by MoFEP. However, in practice substantial expenditure arrears continue to accrue (see PI-4) suggesting that in practice even for expenditure under Item-4 effective commitment controls are routinely violated.

An initial purchase request signed by the department head authorises procurement initiation. However while there is regulatory requirement for procurement plans[48] to serve as a control and link to the budget in practice these are not widely employed. Other controls on the expenditure chain include: the issuance of a general purchase order for the control of the issuance of commitments, the issuance of goods and services received note, and payment vouchers. The expenditure management rules and procedures are clear and accessible through manuals and circulars. Interviews with a wide variety of officials left an impression that there was familiarity with the rules and procedures. The expenditure procedures have appropriate documented control procedures employing effective separation of authorities. Procurement Entity Tender Committees and Ministerial Tender Committees supported by technical specification and evaluation committees are responsible for bid announcement and vendor selection.

The Auditor General's report highlights a significant number of cash irregularities including in the areas of wrongful payments, the misapplication of funds, unaccounted for payments and the improper authorization of payment vouchers. These irregularities had an impact of GHS 4.1 Million in 2006 and GHS 166 Million in 2007. Procurement irregularities had a considerably lower impact. The PETS carried out in 2007 reports on weaknesses in the recording of information. Officials suggest some concern about the abuse of procurement rules to circumvent the use of competitive methods during the period prior to the close of the fiscal year when there is typically an expenditure spike and there is an attempt to accelerate expenditure processing. While the legal and regulatory framework is clear about under what specific conditions sole source or restricted procurement methods can be justified based on emergencies.

No.	Predictability and control in budget execution	Score	Justification
PI-20	Effectiveness of internal controls for non-salary expenditure (M1)	D+	
(i)	Effectiveness of expenditure commitment controls	D	In practice then effective commitment controls for non-salary expenditure are routinely violated.
(ii)	Comprehensiveness, relevance and understanding	B	Other internal controls are well covered in the FAA, 2003, FAR 2004 and the accounting manual. The

[48] See for example page 122 of the Accounting Manual

No.	Predictability and control in budget execution	Score	Justification
	of other internal control rules/ procedures		expenditure management rules and procedures are clear and accessible through manuals and circulars. Interviews with a wide variety of officials left an impression that there was familiarity with the rules and procedures.
(iii)	Degree of compliance with rules for processing and recording transactions	C	Although compliance to rules is generally complied to in the majority of cases according to the Auditor General's report there are important concerns about cash irregularities.

3.4.9 PI-21 Effectiveness of internal audit

The Internal Audit Agency Act, 2003 (Act 658) and the Financial Administration Act, 2003 (Act 654) specify the internal audit function as a compulsory requirement for all MDAs and MMDAs. The function is to be carried out through the establishment of Internal Audit Units (IAUs). At the close of 2008 173 MDAs were operational out of which 153 had established IAUs; out of 170[49] MMDAs 109 had established IAUs.

The oversight of internal audit and assurance of full implementation of audit findings (internal and external) as well as Public Accounts Committee (PAC) recommendations is the responsibility of Audit Report Implementation Committees (ARICS) established under the Audit Service Act, 2000 (584). The ARICs' mandate is to review the effectiveness of internal controls and internal audit, to review the risk areas and to ensure that internal and external audit recommendations are duly addressed and resolved to ensure compliance with the legal and regulatory framework and in accordance with Internal Audit Agency standards. Out of 173 MDAs, 125 ARICs had been established at the close of 2008. The ARICs are composed of five members two of which are independent members nominated by the Internal Audit Agency and the Institute of Internal Auditors of Ghana. The Internal Audit Units are staffed by a number of qualified accountants and members of the Institute of Internal Auditors of Ghana (IIAG). The Internal Audit Agency adopts the IIA standards and has developed an audit manual that is aligned with these standards.

The Internal Audit Units prepare a risk assessment of their Departments and elaborate annual audit work plans. Such work plans are carried out in accordance with audit programmes developed by the Internal Audit Agency. Performance monitoring of the adherence to the audit programmes indicates that 55% of the IAUs developed audit work plans in conformity with the audit programmes. The audit work plans include considerations of risk, control and governance. The plans incorporate areas of focus, or thrust areas, informed by risk considerations and identify a range of audit types including compliance, financial audits, payroll audits, and systems audits. A sampling of audit work plans and interviews with officials suggests that only a limited amount of the audit time (approximately 20%) is deemed spent on systemic issues including consideration of such

[49] Currently there are only 169 MMDAs that are operational.

areas as procurement systems, the effectiveness of commitment controls, payroll systems, and the assurance of efficiency, the effectiveness and economy in the use of organizational resource. Much of Internal Auditors activity remains focused on pre-audit and compliance testing.

The Internal Audit Units are required to submit quarterly reports to the Internal Audit Agency and the accounting officer, and the ARIC. In some instance monthly progress reports are also reported. In 2008 thirty eight percent (38%) of the total expected quarterly reports were received corresponding to fifty one percent (51%) of the audited MDAs; this however marking a very significant improvement over submission rates in the two previous years. In the case of Annual Internal Audit Reports, consolidated by the Internal Audit Agency, these are disseminated to the Office of the President for onward submission to the Parliament; the Ministry of Finance and Economic Planning; and the Ghana Audit Service. Action and follow up by management on internal audit findings is monitored by the Internal Audit Agency. According to the Internal Audit Agency, in the case of MDAs the follow up on recommendations is approximately 15%.

No.	Predictability and control in budget execution	Score	Justification
PI-21	Effectiveness of internal audit	**D+**	
(i)	Coverage and quality of the internal audit function	C	The Internal Audit Function and its supervision by Audit Report Implementation Committees cover most MDAs. The Internal Audit Units apply the Internal Audit Agency Standards which are consistent with IIA standards. The Internal audit units prepare annual works plans that include process/full expenditure chain and procurement audits, payroll, compliance and financial audits, and systems audits. A sampling of audit work plans and interviews with officials suggests that only a limited amount of the audit time (approximately 20%) is deemed spent on systemic issues.
(ii)	Frequency and distribution of reports	B	Quarterly and Annual Reports are issued regularly for most audited entities. Annual Reports are disseminated to the Office of the President for onward submission to the Parliament; the Ministry of Finance and Economic Planning; and the Ghana Audit Service.
(iii)	Extent of management response to internal audit findings	D p	At this time most of the follow up recommendations in Internal Audit reports are ignored; however since 2007 the number of recommendations that have been followed up on has increased two fold and suggest that as the number of ARICS increase there can be expected to be significant improvement in the follow up of internal audit findings.

3.5 Accounting, recording and reporting

3.5.1 PI-22 Timeliness and regularity of accounts reconciliation

While there are four classifications of central government accounts, the treasury (CAGD) manages only two of these; what is referred to as the consolidated fund account and the sub-consolidated fund accounts. For the accounts managed by the treasury, balances are calculated monthly (see PI-17) and used as the basis to reconcile the monthly expenditure returns (see PI-24). The treasury managed bank accounts are reconciled to the cash book on a monthly basis following clear guidelines and procedures issued in the Accounting Manual and takes place within four to six weeks of the close of the month. For the other government accounts these are the retained IGF bank accounts and those related to development partner funded projects. These remain outside this arrangement. The retained IGF accounts are reconciled quarterly in some ministries but at least annually for all in the preparation of the final accounts.

A main source of suspense accounts has been un-acquitted travel allowances made to government officials for the purposes of foreign travel. As part of the year end closing procedures suspense accounts (expenditure) are reconciled at the end of each year to facilitate the issuance of the annual financial statements. The main sources of advances are staff-vehicle advances, staff-special advances and the departmental vehicle revolving fund. As part of the year end closing procedures the advances accounts are reconciled generally within two months of the close of the year with some un-cleared balances brought forward.

No.	Accounting, recording and reporting	Score	Justification
PI-22	Timeliness and regularity of accounts reconciliation (M2)	C	
(i)	Regularity of Bank reconciliations	C	All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 4 to 6 weeks the close of the month. There are other government accounts not managed by the treasury – these are specifically retained IGF accounts and donor funded project accounts which operate outside the treasury reconciliation process.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	C	The reconciliation and clearance of suspense accounts and advances is carried out at least annually usually within two months of the close of the fiscal year. Some accounts which remain un-cleared are reported on.

3.5.2 PI-23 Availability of information on resources received by service delivery units

A Public Expenditure Tracking Survey (PETS) for the health and education sectors was undertaken in 2008 for 2007 expenditure by the Ghana Statistical Services (GSS), Ministry of Finance and Economic Planning (MoFEP), Ministry of Education, Sciences and Sports (MOESS), and Ministry of Health (MOH) with assistance from DFID and DANIDA. The objective was to determine efficiency of public spending at the facilities level and the quality and quantity of services delivery. The survey was carried out based upon national sampling.

The main findings were that excepting the Ghana Education Service (GES), there were systemic weaknesses in financial information recording. In the case of Education central government releases were relatively efficient between MoFEP and GES, and between the GES Headquarters and District Education Offices (DEO); but much less so between the DEOs and the schools. In the case of Health discrepancies and delays in the flow of funds were found to be important sources of inefficiencies in the delivery of health services. The report concludes that the extensive delays in public expenditure releases from central ministries and agencies have repercussive effects on the whole system which contributes to inefficient resource utilization.

No.	Accounting, recording and reporting	Score	Justification
PI-23	Availability of information on resources received by service delivery units	B	A PETS was carried out for 2007 that demonstrates the level of resources received both in kind and in cash at the facilities level – i.e. the primary schools and primary health care centres.

3.5.3 PI-24 Quality and timeliness of in-year budget reports

Article 41 of the FAA, 2003 requires that a monthly statement of public accounts be published in the Government Gazette within 15 days of the close of each month. It comprises a balance sheet showing assets and liabilities, a statement of revenue and expenditure and a cash flow statement. The monthly financial statement does not report on expenditure at the time of commitment. In practice the CAGD publishes monthly, within four to six weeks of the close of the month, the consolidation of the MDA Monthly Expenditure Returns presented in a format by vote and classified by recurrent expenditure, transfers and subsidies, and capital expenditure. This format permits only a partial comparison of revenue and expenditure to the original budget allocations which are included in the budget tables. This is because expenditure out of retained IGF is reported separately in MDA financial statements without providing a consolidated view. Save for this omission of reporting on retained IGF expenditure, this format permits the direct comparison of revenue and expenditure to the original budget estimates. It also includes a Revenue Statement and a Summary of Cash Flow which highlights Exchequer revenue, Departmental requisitions, projected under-spending, net borrowing requirements, and changes in cash balances.

In practice MDAs submit on a quarterly basis typically within 30 days of the close of the month; but on some occasions have taken six weeks. It should be noted though that the MDA quarterly expenditure submissions include reports on both revenues lodged into the Consolidated Fund and retained in the IGF accounts.

There are some concerns on data integrity or accuracy since such accuracy cannot be assured by a full consolidation and reconciliation process (against bank statements) of all public accounts including retained IGF funds. Maintaining dual expenditure streams without a consolidation and synchronised reconciliation of both poses a risk as to what degree of overlap there might be between the expenditure out of the two streams. This would be particularly so for expenditure carried out under an imprest mechanism.

No.	Accounting, recording and reporting	Score	Justification
PI-24	Quality and Timeliness of in-year budget reports	C+	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	Comparison to the main budget is possible at the level of the vote and the main economic classifications. Information includes all items of expenditure at the payment level but not at the commitment level. However, the expenditure reported on is partial and excludes retained IGF expenditure.
(ii)	Timeliness of the issue of reports	B	Reports are prepared monthly by Departments and submitted to the CAGD. Typically the CAGD issues them in the gazette within 4 weeks but there has been slippage to six weeks.
(iii)	Quality of information	C	The aggregate reconciliation model employed is not comprehensive and so there remain some concerns about the accuracy of the information however this does not undermine their basic usefulness.

3.5.4 PI-25 Quality and timeliness of annual financial statements

The Financial Administration Act, 2003 (FAA) and the Financial Administration Regulations, 2004 along with the recently published Accounting Manual and circulars define the accounting standards and legal and regulatory framework for public accounting in Ghana. Article 41 of the FAA, 2003 requires the CAGD to account for all transactions out of the Consolidated Fund. The CAGD has adopted a narrow interpretation of the law and presents its figures on a net basis offsetting any funds not forming part of the Consolidated Fund. Budget estimates do not necessarily adopt the same basis and so hampers the direct comparison of outturns to budget estimates (see PI-1). Further, it obscures such aspects as the origins of excess funds for MDA discretionary expenditure over and beyond budgetary estimates. Each MDA also prepares stand alone financial statements that are completed within two months of the close of the fiscal year and submitted to the Auditor-General for audit. The audited stand alone MDA financial statements are also presented to Parliament.

Under the modified cash accounting system adopted the source document for accounting entries is the payment voucher. Financial statements encompass revenues, expenditures, liabilities and financial assets. Specifically they exclude retained IGF, expenditure arrears, revenue arrears, and donor financed projects and programs. Table 3.15 summarises the coverage of the financial reporting.

Table 3.15 Elements reported in the Financial Statements

	Reported in Financial Statements
Revenues	
Tax Revenues	Yes
Non Tax Revenues	Yes
Lodged IGF	Yes
Retained IGF	Yes, in notes
Expenditure	
Consolidated Fund	Yes
Retained IGF	**No**
Grants	Yes
Donor Funded Investment	**No**
Transfers and Subsidies	
Statutory Funds	Yes, in notes
Subsidies	Yes, in notes
Assets	
Revenue Arrears	**No**
Advances	Yes
Investments	Yes
Loans	Yes
Liabilities	
Domestic Debt	Yes
External Debt	Yes
Payments Outstanding to Statutory Funds	Yes
Expenditure Arears	**No**

For each of the three years under review the Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund) were submitted three months after the close of the fiscal year.

An accounting manual was published in 2009 based upon national public accounting standards that adopt standards in accordance with the International Public Sector Accounting Standards (IPSAS). The statements are presented in a consistent format from year to year. All published financial statements include a brief outline of the accounting policies applied in the preparation of the statements along with a full set of notes and schedules that provide some disclosure of the accounting standards adopted.

No.	Accounting, recording and reporting	Score	Justification
PI-25	Quality and timeliness of annual financial statements	C+	
(i)	Completeness of the financial statements	C	A consolidated government statement Is prepared annually. It excludes revenues arrears, and retained IGF expenditures, expenditure arrears and donor financed projects and programmes.
(ii)	Timeliness of submission of the financial statements	A	For each of the three years under review the Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund) were submitted three months after the close of the fiscal year.
(iii)	Accounting standards used	C p	The CAGD has recently adopted national standards consistent with IPSAS. These standards are currently being implemented.

3.6 External scrutiny and audit

3.6.1 PI-26 Scope, nature and follow-up of external audit

Ghana's external audit is governed by the Constitution and the Audit Service Act, 2000. This Act establishes the authority and basis for the operation of the Ghana Audit Service (GAS). The role of the Auditor General is enshrined in the Constitution, 1992. The GAS has responsibility for auditing the public accounts of Ghana including the central government, the local authorities, the courts, the public corporations and all bodies established by an Act of Parliament. The GAS employs approximately 750 field staff.

The audits broadly adhere to appropriate auditing standards (INTOSAI). The office of the Auditor General has some important elements of independence although the President maintains effective control over the hiring and setting of the salary of the Auditor General. Article 187 of the Constitution and Article 18 of the Audit Service Act, 2000 address the independence of the Auditor-General. It gives him or her independence to frame work plans by stating that he shall not be subject to the direction or control of any person or authority. The Constitution addresses the financial independence of the Auditor General by specifying salary and allowances to be set as a direct charge to the Consolidated Fund and cannot be varied to his or her disadvantage during his or her tenure of office.

The tenure of the Auditor General is fixed and is determined by the President for a period not exceeding two years, who can extend it for up to five years. The Auditor General is appointed by the President, in consultation with the Council of State (Article 10, Audit Services Act, 2000). Article 187 of the Constitution protects the Auditor General from arbitrary removal granting the same rights and protections as Superior Court Judicial Officers. Removal requires action of the Chief Justice supported by a resolution voted on by at least two thirds of all members of the Judicial Council and is limited to by reason of stated misbehaviour, incompetence or inability to carry out responsibilities resulting from infirmity of body or mind.

The Auditor General has the authority to decide on the appointment of the entire staff of the Ghana Audit Service and to publish and disseminate audit reports and an annual activity report. According to these norms, the Auditor-General shall submit his report to Parliament within six months after the end of the immediately preceding financial year. He shall draw attention to any irregularities in the accounts audited and to any other matter which in his opinion ought to be brought to the notice of Parliament.

The Constitution (Article 187) empowers the Auditor General to have access to all books, records, returns and documents relevant to the public accounts. The FAR, 2004 leaves it to the Departmental Accounting Instructions to specify the retention periods for financial and accounting records (FAR, 2004 Article 267). The accounting manual specifies a period of seven years for accounting and expenditure documentation.

The audit report on the Consolidated Fund broadly adheres to international audit standards and highlights significant issues. The audits cover revenue, expenditure, assets and liabilities. In particular the debt portfolio is audited each year. In the case of the finical reports submitted directly by MDAs, it includes 19 ministries covering more than 90 % of total revenues and expenditures. The MDA reports, in contrast to the Consolidated Fund audits, do not contain an audit of assets and liabilities.

The audit reports provide summaries of error rates and quantify volumes at risk. They further disclose individual irregularities. There audit methodology covers a full range of financial audits with a focus on high risks areas and significant systemic issues. The Auditor General examines the public and other government accounts to ascertain that the accounts have been properly kept; all public monies have been fully accounted for, and rules and procedures applicable are sufficient to ensure an effective check on the assessment, collection and proper allocation of the revenue; monies have been expended for the purposes for which they were appropriated and the expenditures have been made as authorized; essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property; and programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness in relation to the resources utilized and results achieved.

The Ghana Audit Service has begun to address some aspects of performance auditing [50] including the performance of such service delivery as the process of establishing a new business. It also carries out procurement audits and payroll audits. Under the terms of the Multi Donor Budget Support Framework Memorandum the Ghana Audit Service carries out performance audits and an audit of selected flows carried out to international standards.

At this time little use is made of the work of internal audit for reasons that internal audit is still largely focused on pre-audit. Also, few internal audit entities publish their findings in internal reports that could be shared with the Auditor General.

The audit reports on the financial statements on the Consolidated Fund are submitted to the Parliament within 3 months of the receipt of the draft Accounts from the CAGD, or 6 months after the close of the fiscal year. In the case of the audit reports on the MDAs, these are submitted within 6 months of the close of the fiscal year for two of the years reviewed and 9 months after the close of the fiscal year in one year. The audit reports are made public at the time of submission to the Parliament. Table 3.16 shows the schedule of dates on which the audit reports were submitted to Parliament.

Table 3.16 Dates Audit Reports were submitted to Parliament

Report on the Public Accounts of Ghana	Fiscal year	Submitted to Parliament
Consolidated Fund (CF)	2006	28 June 2007
	2007	30 June 2008
	2008	30 June 2009[51]
Ministries, Departments and Other Agencies (MDA)	2006	24 September 2007

[50] The Ghana Audit Service won a performance audit award in April 2009. The Swedish National Audit Office organised the competition among the 23 members of AFROSAI E to promote development of performance audit in the AFROSAI E region.

[51] The audit report on the Consolidated Fund as well as the audit report on the MDAs was submitted by 30 June in the form of an advance copy before making the printing arrangements to disseminate the report in booklets.

Report on the Public Accounts of Ghana	Fiscal year	Submitted to Parliament
	2007 2008	30 June 2008 30 June 2009

Part of the audit methodology of each audit is the check whether previous recommendations have been followed up. The GAS perceives that a substantial part (35 %) of the recommendations is effectively being followed up. Such follow up on recommendations is driven by close cooperation between the GAS audit staff and the entities and hierarchical and political pressure exerted by the Audit Report Implementation Committees (ARIC) and the Public Accounts Committee (PAC) provide. Furthermore, press publications contribute to effective follow up. However, no direct written evidence was provided.

The audit report on the Public Accounts Consolidated Funds contains formal management responses with occasional information on follow up. The audit reports though do not contain information on the managements' response and the follow up on previous year audit recommendations. Official state that recommendations of previous audits that are not restated have been effectively implemented so that the lack of repeated recommendations is a measure as to how much management follow up there has been. However, no evidence to substantiate this claim is made public.

No.	External scrutiny and audit	Score	Justification
PI-26	Scope, nature and follow-up of external audit	C+	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	B	Over 90% of central government expenditure is audited annually. The audit reports cover revenue, expenditure, assets and liabilities. A wide range of financial audits that broadly adhere to the INTOSAI audit standards and identify significant and systemic issues. However, the MDA audits predominantly comprise of transaction testing. Specific procurement, payroll and performance audits are still carried out.
(ii)	Timeliness of submission of audit reports to the legislature	B	The audit reports on the financial statements on the Consolidated Fund are submitted to the Parliament within 3 months of their receipt by the Audit Service and within 6 months of the close of the fiscal year. The audit reports on the MDA are submitted between 6 and 9 months.
(iii)	Evidence of follow-up on audit recommendations	C	The reports on the Consolidated Fund do contain the formal managements' response on audit recommendations. However, information on follow up is rather piecemeal. Other audit reports do not contain information on management's response.

3.6.2 PI-27 Legislative scrutiny of the annual budget law

The powers of the Parliament to approve the budget are contained in the Constitution (Section 179) and the procedures are set out in the Constitution (Articles 100, 101, 102, 103 and 104) Parliament's Standing Orders (part 19). The President is required to submit the budget proposal, in the form of detailed estimates of expenditure and revenues, to Parliament at least one month before the close of fiscal year.

Parliament is involved at the end of the budget cycle. It is not consulted at the beginning of the budget cycle at the time when policy is set. The Parliament is not engaged in the review of the Medium Term Expenditure Framework (MTEF) at the beginning of the budget cycle nor is it actively informed about cabinet discussions on the budget preparation. Parliament's role begins with the submission of the Budget Statement and the Medium Term Expenditure Framework and the Annual Estimates. This usually takes place in the middle of November.

The Parliament has clear organisation and set of procedural rules that are enshrined in the Standing Orders. The Parliament functions on the basis of a number of committees. The parliamentary rules are comprehensive, detailed and publicly available. The legislative review covers some aspects of fiscal policy but principally focuses on the details of revenue and expenditure estimates. The members of Parliament have one week to study the budget documents after which the documents are debated in the full House. This debate tends to focus on the fiscal policy and the macroeconomic framework underpinning the budget estimates, but does not cover the medium term fiscal framework. This initial debate in response to the Minister's Budget Speech takes no more than a week. Although the estimates are presented in a 5 year profile including 3 year estimates and previous and current year outturns, in practice, Parliament makes use only of the current and next years' figures.[52] In the review of the budget estimates, Parliament is not provided technical supported by a Budget Office.

After this initial review, the documents are referred to twenty one separate Select Committees covering the various sectors of government expenditure in which the details of the estimates per MDA are discussed. Officials state that there is no specific overview or scrutiny of the domestic debt management performance. The scrutiny of the budget estimates in the Select Committees is allocated about 2 weeks and results in reports containing specific proposals to modify the estimates.

The Constitution does not allow amendments for increases of the aggregate estimates of each MDA. Also, expenditures in Item 1 can not be amended; so any proposals for adjustment are restricted to Items 2, 3 and 4 per MDA. The reports of the Select Committee recommendations are sent to the full House for a final debate. Due to time pressure, this debate extends no more than a week so that the final budget in the form of the Appropriation Bill can be approved before the end of December. It should be noted that this focus on passing the Appropriations Bill prior to the start of the new fiscal year, while gaining in one aspect of PFM performance has led to a dilution of such performance as to the extent of parliamentary scrutiny of the budget. The Bill is

[52] This profile is only presented for the economic categories and not for activities.

submitted to the President for signature before it is published in the Government Gazette and becomes the Appropriation Act.

The combined time available to the Parliament for the review of the budgetary documents referred to above is approximately 5 to 6 weeks and has been adhered to for the budgets of the years 2006, 2007 and 2008.[53]

There are clear rules for in-year budget amendments that set out strict limits. These include rules on expenditure in advance of appropriation, expenditure out of the contingency allocation, virement, the use of supplementary budgets for expenditure beyond approved estimates; and the use of revote warrants. Expenditure above approved budget ceilings requires the approval of a supplementary budget. As per the Loans Act, 1970 the executive domestic debt may be incurred provided it does not exceed the approved budget domestic borrowing levels. The detailed rules for in-year amendments to the budget are set out in the Financial Administration Act, 2003. In the case of virements, MoFEP does not need to seek prior approval of the Parliament. In practice, MoFEP makes extensive use of virements. Supplementary budgets were submitted for 2006 and 2007. In 2008 expenditure substantially exceeded approved budget estimates and borrowings were far in excess of the approved budget even though no supplementary budget was submitted. For a number of years the domestic borrowing limits have not been respected. Further in all three years reviewed the Executive did not adhere to the approved budget for the statutory funds transfers.

No.	External scrutiny and audit	Score	Justification
PI-27	Legislative Scrutiny of the Annual Budget Law	D+	
(i)	Scope of the legislature's scrutiny	C	The review of Parliament covers fiscal policy and details of expenditures and revenues. However, the Parliament gets involved only from mid-November onward after the detailed proposals have been finalised.
(ii)	Extent to which the legislature's procedures are well-established and respected	B	The procedure for budgetary review involves three steps including debate on the macro-fiscal framework, detailed discussions in Select Committees and final plenary debate.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	B	In recent years, the budget proposal has been presented to the Parliament by the Minister of Finance around mid November which is in line with the legal deadline (one moth prior to the end of the financial year). As the appropriation bill has been approved before the years' end, around 5 to 6 weeks have been left for contemplation by Parliament. (Please note there is an anomaly in the PEFA Manual for this indicator; it repeats the same criterion for a C score)

53 For the budget 2009, a different procedure was followed due to the upcoming elections in 2009. In 2008, it was not voted for an appropriation bill, but only a vote on the accounts took place which allowed government expenditures until March 2009. The appropriation bill for 2009 was voted for in April 2009 aft er the new government was formed.

No.	External scrutiny and audit	Score	Justification
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature.	D	Clear rules regarding in-year budget amendments exist but have been usually not been respected with respect to excess over approved estimates for domestic borrowing and in 2008 for expenditure. The rules for transfers to the statutory funds have also not been respected (see PI-1)

3.6.3 PI-28 Legislative scrutiny of external audit reports

The Auditor General's reports are submitted to Parliament within six months after the close of the fiscal year, where they are reviewed by the Public Accounts Committee (PAC). The review procedures are outlined in the Standing Orders of the Parliament of Ghana. The PAC consists of 25 members and is chaired by a member of the opposition.

The PAC did not review any audit reports in 2007 and 2008. The reason was a dispute between Parliament and the Auditor General on the legitimacy of the tenure of the Auditor General. The Chairman of the Public Accounts Committee of Parliament demanded the resignation of the Auditor-General. The demand referred to Article 10-4 of the Audit Service Act that the Auditor-General shall retire on attaining the age of sixty years (in 2006, the Auditor-General had turned 60).[54] A member of the opposition party took legal action. The Speaker of the House placed a freeze on the review of audit reports. There are currently no clear legal prescriptions regarding the authority of alternate officers of the Office of the Auditor General to submit and audit reports in periods of transition, or where court proceedings are being undertaken addressing the removal of the Auditor General. The audit reports were not accepted by the PAC until March of 2009. The AG Reports on the Consolidated Fund for the fiscal years 2006 and 2007 were tabled for scrutiny in the PAC only in May and June 2009 respectively.[55]

During the period under review, PAC reports were only available for the PAC report on the Consolidated Fund 2005 and reports of the PAC on reports of the Auditor General that were issued prior to 2007. The PAC carried out in-depth hearings in its reviews of the Auditor-General's reports. For the review of the report on the Consolidated Fund, the hearings will typically involve the Accountant General and Governor of the Central Bank. For the hearings on the MDA reports, the PAC focuses on the most severe irregularities. In 2007, public hearings were held which received extensive television coverage. However, due to the lawsuit against the Auditor General, public hearings have not continued on a regular basis.

[54] The same stipulation allows the Auditor General to remain engaged for not more than two years after the retirement age of 60. Moreover, Art 145 (2) Constitution might be applied for the Auditor-General stipulating that a Justice of the Supreme Court shall vacate his office on attaining the age of seventy years. One could argue that if the regulations on the removal of a Justice of the Supreme Court (as done in Art 10 (8) Audit Service Act, Art 146 Constitution) are applied, the provisions on the age of retiring could also be applied. Following the argumentation, the Auditor-General might stay in office until he attains the age of seventy.

[55] The Auditor General has been on leave since May 4, 2009. The deputy Auditor General is now acting until a new Auditor General will be appointed.

After scrutiny of the Audit Reports, the PAC draws up a report which is tabled for the full Parliament. Once the reports have been approved, the recommendations are transmitted to the ARICs (Audit Recommendation Implementation Committees) in the MDAs. However, although formally installed in each MDA, the ARICs are not yet fully effective in its functioning in each MDA (see PI 21). As the chair of the ARICs can be called to the PAC to report on the implementation, it can be expected that the effectiveness of the system will further increase.

No.	External scrutiny and audit	Score	Justification
PI-28	Legislative scrutiny of external audit reports (M1)	D+	
(i)	Timeliness of examination of audit reports by legislature (for reports received with the last three years)	D	The timeliness of scrutiny of the audit reports that were issued in 2006, 2007 and 2008 was negatively impacted by the disputed legitimacy of the tenure of the Auditor General. The lawsuit gave rise to the PAC to freeze scrutiny of the AG-reports. As a consequence, the audit reports on the consolidated funds of 2006 and 2007 were tabled in 2009.
(ii)	Extent of hearings on key findings undertaken by legislature	C	Hearings are a common part of the review by the PAC of AG reports. Typically, they include the main stakeholders and, in addition, they cover the most severe irregularities. Since 2007, the PAC has started with public hearings. Due to the mentioned delay with the PAC review of reports, such public hearings have not continued to be carried out and so cannot be described as routine.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	The PAC finalises its review of AG reports by tabling a report including recommendations to the Parliament. After Parliamentary approval, the recommendations are forwarded to the ARIC in each entity. The effectiveness of the ARIC still needs to be improved, but the PAC keeps track on the follow up to the recommendations and possesses other evidence that some recommendations have been implemented.

3.7 Donor practices

3.7.1 D-1 Predictability of Direct Budget Support

In 2008, there were 23 multilateral organizations operating in Ghana with the IDA, ADF and the EU being the largest Development Partners; and there were 20 bilateral Development Partners the Unites States, China and the Netherlands being the largest. The aid modalities employed include budget support (approximately 30%) and programme and project aid (approximately 70%). Strong donor harmonization has positively impacted upon aid delivery effectiveness. The Paris Declaration and the Accra Agenda for Action have contributed positively to an awareness of the benefits of harmonized support. Policy initiatives include the Multi Donor Budget Support (MDBS) framework, the Ghana Harmonization Action Plan (GHAP) and the Ghana Joint Assistance Strategy (GJAS). The conditionalities and modalities of the aid are outlined in the MDBS framework and in specific donor-government Financing Agreements which spell out the mechanisms for disbursement.

Budget support is provided through general budget support and sector budget support. Most of the budget support resources are provided through general budget support under the MDBS to support the GPRSII. An MDBS Framework Memorandum was signed in 2008 which replaced an earlier one signed in 2003. The MDBS currently includes the African Development Bank, Canada, Denmark, the European Commission, France, Germany, Japan, the Netherlands, Switzerland, United Kingdom, and the World Bank. The stated aims of the MDBS framework include: to provide additional and more predictable budgetary resources; to increase aid effectiveness by harmonising DPs' policies and procedures; to enhance the performance and accountability of the GoG's public financial management (PFM) systems; to promote an accelerated implementation of policy reforms and enhance performance in service delivery; and to foster domestic accountability and transparency.

The disbursement of the sector budget support is guided by the Financing Agreements which specify the conditions for disbursement. In DFID and the EC were the main Development Partners adopting sector budget support. The indicative budget support funding is provided in advance of the fiscal year and prior to the finalization of the submission of the budget proposal. Under the framework memorandum disbursements the base and performance components are expected to be made in two tranches annually: a base payment in the first quarter subject to satisfactory macro-economic performance and a performance payment in the third quarter upon the satisfactory assessment of achievements specified triggers agreed annually between the DPs and the GOG based on the goals of the GPRSII.

The annual deviation in the actual budget support from the estimates provided remained above 95% in all three years under review and exceeded estimates by 12% in one year. Under the budget support modality, in-year timeliness of donor disbursements was very good as measured by compliance with aggregate quarterly estimates agreed with prior to the fiscal year. The weighted disbursement delay was calculated as the percentage of funds delayed multiplied by the number of quarters delayed. The results are presented below in Table 3.17.

Table 3.17 General Budget Support Performance for the Period 2006 to 2008 (Amounts in USD)

	2006		2007		2008	
	Forecast	Disbursed	Forecast	Disbursed	Forecast	Disbursed
MDBS	324.03	312.34	268.01	318.95	373.13	345.92
Annual Deviation (amount)	-11.69		50.94		-27.2109	
Annual Deviation (%)	-3.6%		19.0%		-7.3%	
Weighted Disbursement Delay	10.4%		9%		11%	
Sector Budget Support	40.28	36.24	70.56	60.51	149.14	159.79
Annual Deviation (amount)	(4.04)		(10.05)		10.65	
Annual Deviation (%)	-10%		-14%		7%	
Weighted Delay	10.0%		10%		15%	
Total	**364.31**	**348.58**	**338.57**	**379.46**	**522.27**	**505.71**
Annual Deviation (amount)	(15.73)		40.90		(16.56)	
Annual Deviation (%)	**-4.3%**		**12.1%**		**-3.2%**	
Weighted Delay	**10.4%**		**9.4%**		**12.2%**	

Source: Aid and Debt Management Division, MoFEP; Consultative Group for Ghana Annual Partnership Meeting, June 2008;Half Year External Aid Financing Performing Report, August 2008; DFID and EC

Note: There were data discrepancies from the different sources but the data selected presents the worst case scenario with respect to PEFA scoring. For example, with respect to the MDBS Forecast in 2008; $346.18 Million provided by ADMD compared with the MDBS 2008 Budget Projection of $373.13 Million reported in Half Year External Aid Financing Performing Report, August 2008. This though does not impact upon the ascribed score.

No.	Donor practices	Score	Justification
D-1	Predictability of direct budget support (BS)	A	
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	A	In none of the years reviewed did the estimate fall short of the outturns by more than 5%. The annual deviations for budget support were -4.3%, 12.1% and -3.2% respectively.
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	A	The calculated "weighted disbursement delays" did not exceed 25% in any of the three years considered. The calculated weighted disbursement delays were 10%, 9% and 11%. We note an anomaly in the PEFA manual for this indicator for which the measurement benchmark is repeated for both the A and B scores.

3.7.2 D-2 Financial information provided by donors for budgeting and reporting on project and program aid'

There are a variety of banking modalities that are available for the management of donor funds. However, the FAR, 2004, Article 41 requires that government bank accounts have prior authorisation by the Controller and Accountant General. For donor funds managed directly by the government, including budget support, these are placed in bank accounts held in the Bank of Ghana. There are in addition a number of bank accounts operated directly by Development Partners held in Commercial Banks. The Donor Support is not part of the Revenue Fund and therefore it is considered extra-budgetary. However, it still requires full budgeting, fiscal disclosure and financial reporting. The Consolidated Fund

Accounting Reports, report on only general budget support receipts (MDBS) and provide an incomplete schedule of project grants which at this time excludes flows from Italy, the Saudi Fund, China and India

The largest Development Partners operating in Ghana are the World Bank, United States, China, Netherlands and the African Development Fund. All of the Development Partners manage their aid flows with full discussion and disclosure on commitments and projected disbursements within a framework of strategic plans and financing agreements. The Aid and Debt management Division (ADMD) requests and obtains inputs on disbursements from all of the Development Partners active in Ghana and publishes semi-annually on the status of disbursements. Some donor submissions though are inconsistent by way of fiscal period and accounting standards adopted. On the basis of interpolated estimates representative figures on actual disbursements can be provided.

The provision of annual budget estimates for disbursement of project aid at stages consistent with the budget is a separate matter. The government of Ghana does not provide Development Partners clear requirements and guidelines as to budget estimate submissions done as part of the budget preparation process. The up-shot of this is that budget estimates are not always provided at stages consistent with budget preparation cycle or strictly consistent with the budget classification. However, the ADMD requests and receives disbursement information from Development Partners. The information is published in budget documentation by budget classification. The budgetary documentation segregates estimated project disbursements by budget classification (Item-3, Item-4); however a number of Development Partners indicate that they do not provide their estimated project flows with considerations of the Ghana budget classification. These include the United States, Japan, Netherlands, France, the EC, Germany and DANIDA. Many state though that their submissions should be readily convertible.

The budget estimates are consolidated into global budgetary estimate aggregates that are included in budgetary documentation and the Appropriations Act. Some of the budget estimates provided by Development Partners do not distinguish between pledges, multi year versus single year commitments, versus available funding. In many cases estimates do not represent expenditure estimates that take into account absorptive capacity of the implementing agency and pro-form expenditure profiles informed by procurement plans. For example UNDP, Denmark, Netherlands and CIDA submit pledges. Japan, USAID, the EC and France submit commitments. In addition, in some cases Development Partners base their projections on their own fiscal year rather than specifically taking into consideration the Ghana fiscal year.

The financial reporting on project activity is generally made quarterly and included in the MDA quarterly financial reports. These are issued within two months of the close of the period. The reports do not segregate expenditure on donor financed projects segregated by budget classification. The financial reports issued by the Controller and Accountant general do not provide a full disclosure of expenditure on donor funded projects. The financial reporting provided by the Development Partners on those accounts they directly manage are not consistent with Ghana's financial reports by way of accounting standards employed. For example, in contrast to the modified cash accounting standards adopted by Ghana, the United States, Denmark, Canada, Netherlands, France, Germany and the UK use accrual accounting standards. In such cases the submission of cash flow statements would be more closely consistent with Ghana's accounting standards.

Donor funds channelled through NGOs for projects not implemented on behalf of departments are not and should not be included in the budget documents. However, some Development Partners including the Unites States indicate that no such distinctions are made and so submitted figures may include funds for which the Government of Ghana is not the beneficiary.

No.	Donor practices	Score	Justification
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C+	
(i)	Completeness and timeliness of budget estimates by donors for project support	B	All Development Partners provide budget estimates to the ADMD at a stage consistent with the government's budget calendar. While some of the five largest Development Partners state that they do not submit budget estimates that segregate disbursements by Ghana's budget classification, the government has been able to prepare donor budget estimates allocated between Item-3 and Item 4 based upon information requests issued by ADMD.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	C	Development Partners provide financial reports to the MDAs that are reported on a quarterly basis within two months of the close of the period. These reports are not provided with a break-down consistent with the government budget classification. A number of Development Partners state that their financial reports are not consistent with the Government's budget classification.

3.7.3 D-3 Proportion of aid that is managed by use of national procedures

Budget support follows the national procedures. Approximately 30 percent of the total donor funds were funnelled through budget support modalities. Development Partners adopt differing procedures to manage their aid flows. Table 3.18 shows the proportion of funds using government systems. The proportion is based upon the average of the proportion of donor funds that uses national systems for each of procurement, payment/accounting, financial reporting and audit.

The results indicate increased amounts of aid under the budget support modality over the period. Less than 50% of aid flows to the central government are managed through national procedures. The figures in Table 3.18 were developed based upon data reported in the Consultative Group for Ghana Annual Partnership Meeting Report, June 2008; the 2008 OECD/DAC Survey on Monitoring the Paris Declaration based on 2007 data; and data submissions provided by a number of Development Partners. We note that the figures are not based upon exhaustive data. There are two elements that are omitted. These are (1) Development Partners under the others category for whom there was no data available on their use of country systems (effect is to understate the ratio), and (2) a number of Non DAC Development Partners, responsible for up to as much as 10% of project aid, who were not included in the analysis (effect is to overstate the ratio). The combined impact on the data of these omissions would be to understate the average of the proportion of donor funds that uses national systems for each of procurement, payment/accounting, financial reporting and audit by a maximum of no more than 2% to 4% in each of the years. Even with such adjustments made, the data presented in the table scores a D.

The 2008 OECD/DAC study concluded that the use of national systems was 52% in 2007. However, the analysis in this study relied upon a smaller sample which omitted the Non DAC Development Partners. This would suggest that the measure of utilization of national procedures is overstated. With appropriate adjustments made, the calculated proportion is made consistent with the number determined for 2007 in Table 3.18

The data for 2008 and is based upon projected values issued in the Consultative Group for Ghana Annual Partnership Meeting Report, June 2008 amended to reflect actual figures provided by Development Partners where these were available. The 2008 data therefore remains based upon provisional figures, albeit incorporating elements that are actual data.

No.	Donor practices	Score	Justification
D-3	Proportion of aid that is managed by use of national procedures	D	
(i)	Overall proportion of aid funds to central government that are managed through national procedures	D	In at least three of the years reviewed, the use of national procedures were less than 50%.

Table 3.18 Donor Funds and the Use of National Procedures (GHS, million)

		Use of National Systems										
Donor	Amount	Procurement		Accounting/Payments		Financial Reporting		Audit		Total Utilized		Contrib.
		Y/N	Weighting	Y/N	Weighting	Y/N	Weighting	Y/N	Weighting	Amount	%	%
2006												
MDBS	312.34	Y	0.25	Y	0.25	Y	0.25	Y	0.25	312.34	100%	28%
Programmes/Projects	796.36											
EC	72.45	Y	0.08	Y	0.08	Y	0.08	Y	0.08	24.384	34%	2%
USA	58.95	N	0	N	0.00	N	-	Y	0	0	0%	0%
Canada	41.60	Y	0.19	Y	0.14	Y	0.14	Y	0.17	26.5849	64%	2%
Netherlands												0%
UK	56.27	Y	0.25	Y	0.25	Y	0.25	Y	0.25	56.2685	100%	5%
World Bank	141.91	N	0	Y	0.00	Y	0.002	Y	0.002	0.97725	1%	0.1%
Global Fund	25.57		0.15		0.25		0.25		-	16.5933	65%	1%
Japan	25.71	Y	0.02	N	0.00	N	0	N	0	0.51426	2%	0.0%
Denmark	45.68	Y	0.25	Y	0.15	Y	0.08	Y	0.08	25.1271	55%	2%
Germany	34.39	Y	0.25	Y	0.25	Y	0.25	N	0	25.7937	75%	2%
Switzerland	2.23	N	0	N	0.00	N	0	N	0	0	0%	0%
France	8.95	N	0	N	0.00	N	0	N	0	0	0%	0%
UN	50.64	Y	0.02	Y	0.00	Y	0.02	Y	0.02	3.31571	7%	0.3%
AfDB	70.67	N	0	N	0.00	N	0	N	0	0	0%	0.0%
Other	161.33											0%
Total	**1108.7**									**491.899**		**44%**
2007												
MDBS	318.95	Y	0.25	Y	0.25	Y	0.25	Y	0.25	318.95	100%	26%
Programmes/Projects	916.99											
EC	81.06	Y	0.08	Y	0.08	Y	0.08	Y	0.08	26.03	32%	2%
USA	116.45	N	-	Y	0.11	Y	0.11	Y	0.11	37.50	32%	3%
Canada	39.27	Y	0.21	Y	0.04	Y	0.17	Y	0.17	23.05	59%	2%
Netherlands	92.03	Y	0.25	Y	0.25	Y	-	Y	-	46.02	50%	4%
UK	46.90	Y	0.25	Y	0.25	Y	0.25	Y	0.25	46.90	100%	4%
World Bank	108.91	N	-	Y	0.002	Y	0.00	Y	0.002	0.75	1%	0.1%
Global Fund	47.00	Y	0.15	Y	0.25	Y	0.25	N	-	30.50	65%	2%
Japan	55.96	Y	-	Y	-	Y	-	N	-	-	0%	0%
Denmark	51.78	Y	0.24	Y	0.14	Y	0.05	Y	0.05	24.85	48%	2%
Germany	25.58	Y	0.25	Y	0.25	Y	0.23	Y	0.02	19.18	75%	2%
Switzerland	1.00	N	-	N	-	N	-	N	-	-	0%	0%
France	36.74	N	-	N	-	N	-	N	-	-	0%	0.0%
UN	42.00	Y	0.02	Y	-	Y	0.02	Y	0.02	2.75	7%	0.2%
AfDB	66.87	N	-	N	-	N	-	N	-	-	0%	0.0%
Other	105.44											0%
Total	**1,235.94**									**576.474**		**47%**
2008												
MDBS	345.92	Y	0.25	Y	0.25	Y	0.25	Y	0.25	345.92	100%	26%
Programmes/Projects	964.37											0%
EC	100.89	Y	0.07	Y	0.07	Y	0.07	Y	0.07	27.51	27%	2%
USA	21.89	N	0.0	Y	0.004	Y	0.004	Y	0.25	5.66	26%	0.4%
Canada	37.96	Y	0.19	Y	0.13	Y	0.13	Y	0.18	23.88	63%	2%
Netherlands	99.79	Y	0.25	Y	0.25	Y	0	Y	0	49.90	50%	4%
UK	28.72	Y	0.25	Y	0.25	Y	0.25	Y	0.25	28.72	100%	2%
World Bank	83.73	Y	0	Y	0	Y	0	Y	0	-	0%	0%
Global Fund	31.25	Y	0.15	Y	0.25	Y	0.25	N	0	20.28	65%	2%
Japan	37.86	Y	-	Y	-	Y	-	N	-	-	0%	0%
Denmark	53.88	Y	0.24	Y	0.16	Y	0.10	Y	0.10	32.44	60%	2%
Germany	34.64	Y	0.25	Y	0.25	Y	0.25	N	0	25.98	75%	2%
Switzerland	5.82	N	-	N	-	N	-	N	-	-	0%	0%
France	43.46	N	0	N	0	N	0	N	0	-	0%	0%
UN	74.86	Y	0.02	N	-	Y	0.02	Y	0.02	4.90	7%	0.4%
AfDB	205.61	N	-	N	-	N	-	N	0	-	0%	0.0%
Other	104.02											0%
Total	**1,310.29**									**565.187**		**43%**

Source: the Consultative Group for Ghana Annual Partnership Meeting Report, June 2008; the 2008 OECD/DAC Survey on Monitoring the Paris Declaration based on 2007 data; and data submissions provided by a number of Development Partners.

3.8 Oil Revenues

The legal authority to regulate and collect oil revenues is embodied in the Petroleum Exploration and Production Law, 1984 (P.N.D.C.L 84); the Ghana National Petroleum Corporation Law, 1983; and the Ghana Model Petroleum Agreement, 2000. The Ghana National Petroleum Company (GNPC) is responsible for regulation of the oil and gas sector, and is also involved in oil exploration and production. Ghana is not expected to receive substantial oil revenues until 2010 and so many elements of the PEFA assessment are not yet applicable; however there are a few relevant elements pertaining to the legal framework and institutional arrangements. These include the issue of discretionary powers, revenue estimates, the planning and monitoring of tax audit programs and the effectiveness of penalties for non compliance with tax declaration. At this time no clear mechanisms for oil revenue estimates have been developed. Article 10 of the Ghana Model Petroleum Agreement sets the royalty rate at 12.5% of the Gross Production of Crude Oil. There are no specific guidelines on production share allocations and that remains discretionary. Article 18 of the Ghana Model Petroleum Agreement requires the GNPC to review and approve the financial statements of the Contractor. It has the authority to audit the Contractor using an independent international audit firm. No specific penalty schedules are specified in the Ghana Model Petroleum Agreement for any under payments identified through such review or audit.

4 Government reform process

4.1 Description of recent and on-going reforms

Ghana has been involved in an on-going program of PFM reform for well over a decade. The results of these reform efforts have been mixed. There has been some success demonstrated in the areas of revenue administration, debt management, internal and external audit, and procurement. This contrasts with other areas for which there have been much less encouraging progress such as the implementation of an effective Medium Term Expenditure Framework (MTEF), an effective commitment control, an effective establishment control and the implementation of an integrated financial management information system (BPEMS[56]).

The series of PFM reforms it has engaged in over the years may be characterized as comprehensive and ambitious. They however have not had clearly defined broad areas of reform focus or a specification of platforms whereby an appropriate and sustainable package of measures is designed to achieve increasing levels of PFM competence over a longer-term timeframe. Further it would appear that not enough care was always taken with regards to the appropriate sequencing of PFM reform activities, or the coordinating of such reform activities. Further, the sequencing did not appear to fully consider the country's capacity constraints, incentive structures and the reform circumstances with respect to the current macroeconomic and political context. Finally, there has not been a strong focus on reform roll out schedules or considerations of the inter-linkages between PFM activities.

Through out the PFM reform period, there has been championship at the highest levels of government. The reforms have generally built on the Public Financial Management Reform Programme (PUFMARP) which was a five year integrated programme initiated in 1996 and supported by the World Bank, DFID, the EC and CIDA. PUFMARP covered eleven main areas: Budget Preparation, Budget Implementation, Accounting and Reporting, Cash Management, Aid and Debt Management, Revenue Reform including the introduction of a Taxpayer Identification Numbering System, Fiscal Decentralisation, Audit Reform, Procurement Reform, the reform of the Legal and Regulatory Framework and the introduction of an Integrated Personnel and Payroll Database. Success in these main areas has been mixed. PUFMARP did not adopt a comprehensive approach centred on a single integrated strategy, with emphasis on sequencing and coordination.

[56] BPEMS is an acronym for an integrated financial management information system. It stands for Budgeting and Public Expenditure Management System.

The Three Year Strategic Plan, Short and Medium Term Action Plan issued by the Government in 2006, identified four main reasons for problems encountered under PUFMARP. These were listed as: lack of government ownership; poor project design, a lack of donor harmonisation, and capacity constraints.
With respect to the strengthening of the legal and regulatory framework for public finance management and fiscal decentralization, substantial progress has been made. In particular the Government issued the Audit Service Act in 2000, the Financial Administration Act in 2003, the related Financial Administration Regulations in 2004, the Public Procurement Act in 2003, the Internal Audit Act in 2003, and the Accounting Manual adopting IPSAS standards in 2009. With respect to fiscal decentralization achievements have included the District Assemblies Common Fund Act in 2006 and the Local Government Service Act in 2003, the Chieftaincy Act in 2003, and the Local Government Service Regulations in 2008.
Other areas that have demonstrated some progress or show promise for improvement have been in the areas of budget preparation (PI-11), accounting and reporting (PI-22, PI-23, and PI-25), aid and debt management (PI-17, D1), revenue administration (PI-3, PI-13, and PI-15), audit reform (PI-21 and PI-26), procurement reform (PI-19), and the implementation of an integrated personnel and payroll management system (PI-18).

In contrast other areas have shown much more disappointing results. These include the implementation of MTEF (see PI-5, PI-6 and PI-12), the implementation of BPEMS (PI-20), the implementation of a commitment control system (PI-4, and PI-20), the implementation of effective establishment controls (PI-1, PI-2, PI-18), cash and budget release management (PI-4 and PI-16) and fiscal decentralization (PI-8).

When these two sets of outcomes are considered, a pattern emerges that suggests that a price has been paid for not placing enough emphasis on sequencing and reform roll out scheduling. Success has for the most part been constrained to elements of fiscal discipline which would typical fall into the first platform of PFM reform; and areas with limited roll out scheduling required due to their relatively centralised implementation. Much greater challenges have been faced in attempting to address issues of strategic allocation of resources, that sequencing arguments would place in a later reform platform, and highly de-concentrated implementation (at the level of cost centres or MMDAs) where careful attention to a roll out scheduling strategy is necessary.

At the beginning of 2006, MoFEP adopted its three-year strategic plan and its short and medium-term Action Plan, covering the period 2006-2009. While this plan does not outline a complete sequencing and roll out strategy it identifies "*quick wins*" and medium term reform efforts. The selection of reform activities was informed by the outcome of the PEFA Assessment carried out in 2006. Most of the proposed "*quick wins*" have been addressed. The "*quick wins*" included:

- Improving the completeness of budget presentation through including the previous and current year revised estimates for MDAs, alongside the proposed budget figures. While this has been addressed at the most aggregate levels of budget reporting it is not yet applied at the level of MDAs.
- Including planned disbursements of external resources in the Budget Statement. This has been addressed.

- Ensuring greater communication and accessibility of budget information to the public, including by publishing CAGD monthly reports and financial statements in the Ghana Gazette (or posting them on MoFEP's website) within one month of their completion. This has been addressed.
- Carrying out Public Expenditure Tracking Surveys (PETS) to analyze if there are leakages of resources before they reach the service delivery level. A PETS was carried out in 2008.
- Reducing the amount of tax arrears and ensuring that data is generated and published periodically. This has been addressed.
- Publishing the proposed monthly procurement bulletin and implementing the already developed procurement monitoring tool. This has been addressed.
- Continue to improve coverage of external grants in fiscal reports. There have been considerable improvements made in the reporting on external grants.

The focus of the Strategic Action Plan (SAP) 2006-2009 was the implementation of the Budgeting and Public Expenditure Management System (BPEMS**),** the implementation of an upgraded Integrated Personnel and Payroll Management Database, (IPPD2)**,** integrating the MTEF into the IFMIS, and instituting greater Treasury Realignment. It also focused on consolidating the successes achieved by the Internal Audit Agency and the Public Procurement Board. The SAP did not adopt a comprehensive approach centred on a single integrated strategy, with emphasis on sequencing and roll out scheduling.

In May 2009, the MoFEP presented at a workshop an outline of the new administration's PFM reform focus and approach. The approach, which may be characterized as emphasizing the basics, seeks to adopt the institution of a Secretariat with a full time project lead and project team; and to coordinate the PFM reforms more closely with the broader public sector reforms. The intended reform focus is cash management including the setting up of a treasury single account and improving reconciliation procedures between MoFEP, CAGD and the Bank of Ghana, the upgrading or replacement of BPEMS; the continuing improvements in revenue administration and the establishment of clear cash and accrual basis of accounting. The workshop highlighted the importance of political will at the highest levels of government as a pre-requisite to the success of PFM reforms.

The Supplementary Budget issued in August 2009 identifies three areas of reform focus: (i) the introduction of a Treasury Single Account (TSA) that will permit a daily compilation of the overall cash position of the Consolidated Fund; (2) a Cash Management System involving the monthly forecast of cash inflows and outflows with its required financing; and (iii) the establishment of a National Revenue Authority**.** The reform is intended to incorporate some aspects of the E-Government/E-Ghana project that seeks to computerize domestic tax administration procedures.

4.2 Institutional factors supporting reform planning and implementation

The commitment to continuing improvements in PFM in Ghana has political championship at the very highest levels through the Minister and Deputy Minister for Finance. There is an ambitious agenda to reform the public sector. However, significant institutional challenges remain. At the present time there is no cabinet approved PFM reform strategy. The MoFEPs Short and Medium Term Action Plan does not contain a fully sequenced set of reform activities with a carefully developed roll out schedule. The heads of divisions and departments are responsible for reforming activities within their purview. However, there are no clearly specified institutional arrangements to address coordination between inter-linked PFM activities, or between the central agencies and the MDAs and MMDAs. There is no redundancy built in to the institutional arrangements to ensure continuity. The strategy is not fully costed, and there is no a clear single coordinated funding arrangement outlined. Finally, there is no clear monitoring and evaluation scheme to effectively oversee and manage implementation.

Capacity constraints remain another important challenge to the PFM reform efforts. MoFEP reports that the efficient and effective use of resources and weaknesses in technical capacities in the area of financial management are two important challenges. Higher salaries in the private sector attract financial management professionals with marketable financial skills. In response, the Government has developed a capacity plan as part of the Public Sector Reform Programme to address these skill shortages.

The centrality of sound PFM to Public Sector Reform emanates from its fundamental role in facilitating the business of Government across all of its core functions. The achievement of sound PFM serves as the enabler, the necessary condition if you will, for a well functioning public sector. Effective PFM reform requires a holistic and comprehensive perspective. There are many specific functions of public finance management that are inter-linked so that a carefully managed sequencing of reform steps, fully cognizant of the inter-linkages, serves as a pre-requisite for effective PFM reform. Consequently, any reform programme that does not address PFM reform in a holistic and comprehensive way, but just encompasses a few uncoordinated elements of public finance management is unlikely to live up to its full promise.

While there are a number of important cross-cutting PFM reform objectives embarked upon within the Strategic Action Plan (SAP) 2006-2009, there is no strategic framework that specifically targets and prioritises the achievement of all three main objectives of sound Public Finance Management (PFM) i.e. fiscal discipline, strategic allocation of resources and efficient service delivery. However, it may be necessary to embark on each of these objectives one at a time, looking to consolidate a particular “platform” before fully embarking on the next. The PEFA Assessment suggests that budget credibility and predictability and control in budget execution remain challenges to Ghana’s PFM. There remain significant difficulties with cash management and budget releases, with establishment control and difficulties with expenditure over primary estimates. These areas may require first priority, before focusing on a more outcome based approach to budgeting, or on efficiency improvements.

At this time there is no single coordinated funding framework supporting a comprehensive and consolidated set of work plans and fully costed estimates developed within a multi-year reform programme expenditure framework. There are no specified institutional arrangements that well facilitate the close coordination of reform activity implementation. There is no monitoring through a consolidated programme monitoring and evaluation framework made up of both verifiable milestones and PFM outcomes which would allow closer alignment of implementation with the Government’s strategy’s approach. A cabinet approved strategy with all of these elements would more readily facilitate a "*strengthened approach*" to development partner support of the PFM reforms based upon development partner harmonization working with a single pool of reform information.

Annexes

Annex 1: Terms of Reference: Ghana PFM Assessment based on the PEFA Methodology

TERMS OF REFERENCE

GHANA

Public Expenditure and Financial Accountability (PEFA) Assessment 2009

1. Introduction

In the context of its continuing program of Public Financial Management (PFM) reforms, and its encouragement of external aid partners to more filly utilize country systems, the Government of Ghana (GoG) and the Development Partners (DPs) intend to jointly undertake a second Public Expenditure and Financial Accountability (PEFA) Assessment. The last assessment was carried out in 2006 and its results are available on the PEFA secretariat website (www.pefa.org).

The following Terms of References (ToR) shall guide the PEFA assessment mission; the ToR relate to the PEFA Concept Note in which background, objective, scope, justification, organization (governance structure), and dissemination of the PEFA assessment are laid out. The PEFA Steering Group, as specified in the Concept Note and comprising GoG, WB and the DP PFM Sector Group Lead, would like to retain the services of a team of experts to undertake a second PEFA exercise for Ghana. The Steering Group will appoint a focal person (or assessment manager) who undertakes day-to-day management of the entire process and – in consultation with the Steering Group – shall act as the focal person for the PEFA assessment mission.

2. Objective

The objective of the PEFA assessment is twofold:

1) to prepare an assessment of the status of PFM using the full PEFA Framework;[1]

2) to track progress in PFM since the 2006 assessment.

3. Scope

Consistent with the PEFA Guidelines, the PFM-PR assessment will cover the operations of both, central government institutions (including autonomous agencies and statutory funds) as well as those of a representative sample of sub-national (SN) government institutions. Taking the sub-national level into account must be seen against the backdrop of the new government's preparedness to make decentralization a priority. Therefore, the main purpose of looking at sub-national government – over and beyond the PEFA assessment at central government level – is to inform or facilitate a SN reform and provide a general SN assessment. This would help to identify and resolve the loopholes in the structure of the sub-national level. In order to keep the assessment manageable, the scope of SN assessment should be

[1] The full PEFA Framework refers to the 31 indicators and the structure of the PFM-PR as described in the Framework document.

limited. The PEFA assessment team will be asked to select a representative sample based on organizational structure. In this regard, SN government institutions at the regional level, municipal level, and the district level would be considered

As suggested in the guidelines for application of the PEFA PMF at sub national government level, the following six PFM dimensions reflect those mentioned above: .

1) Budget Credibility: The original approved budget should be the total budget approved by the SN legislature.
2) Budget comprehensiveness and transparency: The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
3) Policy based budgeting: Budget policy from the national level should be interpreted in the context of the particular sub-national level
4) Predictability and control in budget execution: The budget of the SN should be implemented in an orderly and predictable manner and checks and balances should be putin place to enhance stewardship.
5) Accounting, recording, and reporting: Adequate, records and information are produced, maintained, and disseminated to meet decision-making control, management and reporting at the sub-national level.
6) External Audit and Scrutiny: A high quality external audit should be established to scrutinize the finances at the Sub-national level

4. Tasks of the PEFA assessment mission

The assessment mission will carry out the following tasks:

- *Documentation:* Before the mission to Ghana the experts will consult on the PEFA website (www.pefa.org) and collect all basic documentation that they deem necessary for the mission's work in-country. They will also let the Government know, through the Steering Group, about the need for additional information. The experts will specify the time-span they deem necessary between the date of reception of this basic documentation and the actual start of the mission in-country. The PFM group will particularly follow up this issue with the national authorities so as to minimize the risk of disrupting the mission which could be entailed by an important delay in providing this basic documentation.

- *Information gathering and analysis*: The Experts will spend about three and a half weeks in Ghana collecting and analyzing the required information, holding a training workshop, holding meetings with key Government and non-Government stakeholders, and preparing an aide-mémoire containing initial findings, including the preliminary ratings of indicators, and issues which will be presented to key stakeholders at the end of the field mission.

- *Regular Consultation:* The Team Leader of the PEFA mission would report periodically (e.g. once a week) to the focal person of the Steering Group; this provides the opportunity to discuss problems that may have arisen.

- *Training/information workshop:* The mission in-country will start with a 2-day full training workshop using the standard PEFA Secretariat course gathering all the Government and non-Government stakeholders to enable them to understand the challenges, the modalities and the requirements of the evidence-based PEFA assessment and how it relates with PFM. This workshop will be run by the external experts and its organization and financing will be taken care of by one of the PFM Sector Group DPs working in close consultation with the MoFEP. The training material used by the experts will be that worked out by the PEFA Secretariat and posted on its website. This workshop is expected to comprise: (i) a general session with all the stakeholders (GoG, DPs, selected representatives of Civil Society Organizations) aiming at providing a general understanding of what PFM and a PEFA assessment is about; (ii) a technical session with the national authorities (government and external control bodies), representatives of DPs and representatives of the CSOs to explain the indicators, and (iii) a technical session with the national authorities (government and external control bodies), representatives of DPs and representatives of the CSOs to discuss data requirements.

- At the end of the assignment, after considering the comments from the Government and other stakeholders, the Team Leader of the external experts will also organize a 1-2 day dissemination workshop in Ghana where the PEFA PFM PR Report will be presented to the Government of Ghana and other non-Government stakeholders (Parliament, CSOs, DPs). This dissemination workshop will review the PEFA assessment findings. The workshop will include an information session on PFM reform. The Team Leader will produce a summary of the workshop's findings and recommendations, which will be forwarded to the Steering Group. The organization and financing of this workshop will be taken care of by one of the PFM Sector Group DPs working in close consultation with the MoFEP.

- *Work-plan:* The mission is expected to liaise with the focal person three weeks prior to the arrival in Ghana to indicate the list of interlocutors to meet. One week before arrival the experts will submit to the Steering Group a work-plan describing the main steps of the mission, including the list of the interlocutors to meet, the tentatively scheduled meetings and the list of required information not yet collected and to be provided in-country. The work-plan will also need to identify the key Government officials who the team will need to meet to conduct the PEFA assessment (see below). This work-plan may foresee a mid-term meeting gathering all the stakeholders so as to report on the work's progress and possible difficulties faced. The mission will conclude with a presentation to the Government and the PFM Sector Group of an aide-mémoire reporting the progress of the mission and the main findings.

- *Stakeholder involvement (I)*: The mission is expected to meet relevant government institutions. MoFEP will specify the modalities for the involvement of other state entities with an interest in the PEFA assessment before the mission starts. These include but are not limited to the Office of the Auditor-General, the Internal Audit Agency, the Bank of Ghana, the Controller and Accountant-General Department, the Public Accounts Committee of the Parliament, the Revenue Agencies Governing Board, the Statutory Funds, selected MDAs, the State Enterprises Commission, and the Public Procurement Authority (PPA).

- *Stakeholder involvement (II)*: Both the Government and the DPs are committed to actively involve Civil Society Organizations (CSOs) in the PEFA workshops (training and dissemination). To this end, active participation in the exercise will be sought from institutions like the Ghana Commission for Human Rights and Administrative Justice (CHRAJ), ISODEC, Ghana Integrity Initiative, IDEG, and Send Foundation as well as professional associations and other public policy groups.

- *Capacity building:* Two officials appointed from the Government will work closely with the mission in order to build capacity in the Government for PFM assessment and reporting.
- *Quality Assurance:* In order to ensure the credibility of the PEFA assessment, a quality assurance (QA) process will be in place. The PEFA assessment mission is required to consider recommendations by the QA team in close consultation with the Steering Group.

5. Methodology

- *Reference documents*: The experts, in close coordination with government services involved, will undertake the required analysis while rigorously following the structure, the methodology and the guidelines of the document adopted by the International PEFA Steering Committee and entitled "Public Financial Management – Performance Measurement Framework," the related amendments and clarifications subsequently adopted, as well as the document entitled "Guidance on evidence and sources of information to support the scoring of the indicators." These documents can be found on the website www.pefa.org.
- *PFM progress monitoring against the 2006 PEFA results*: The PEFA mission is expected to provide sufficient evidence for the scoring and their progress assessment and, if deemed necessary, provide explanatory remarks.
- *Interpretation*: Any question on the interpretation of the guidelines, which the experts cannot resolve with the available documentation, should be addressed to the PEFA Secretariat and discussed with the Steering Group.

Supporting information: In the report the experts will justify the scoring and describe, in an annex, for each indicator the analytical work which has been carried out, mentioning the sources of information and documentation used. Furthermore, for each indicator, the experts will mention any possible difficulties encountered during the assessment, the approach used to overcome these difficulties, and, as appropriate, the additional investigative work judged necessary to complete the analysis carried out.

6. Reporting

Reporting requirements are set out below:

- Following incorporation of comments arising from the QA process, as well as comments from the Steering Group provided at the end-of-fieldwork debriefing, the experts will provide the Steering Group an electronic version of an aide mémoire (10 pages maximum, excluding annexes), indicating the main findings and reflections which will be developed in the draft PFM PR report. This aide mémoire will be accompanied by an annex providing the preliminary ratings of the 31 PFM-PR indicators and a short narrative explanation.

- Within 2 weeks after the end of the mission in-country, the Team Leader will send to the Steering Group a draft full PFM-Performance Report, based on Annexes 1 and 2 of the above-mentioned PEFA document "Public Financial Management – Performance Measurement Framework".
- The Steering Group and other stakeholders will then have 3 weeks to consider the draft PFM PR report and send their comments to the Team Leader.
- Within 2 weeks after the receipt of the comments, the Team Leader will revise, if deemed necessary, the report taking into account the comments received. The Report will then be discussed during the 1-2 days dissemination workshop and the Team Leader will make a final revision if deemed necessary, taking into account feedback from the workshop. The latter version will be sent in electronic version to the Steering Group. It will contain, in an annex, the observations of the government if the latter disagrees with the findings of the experts.
- The report will be written in English.
- The final report will be published on the MoFEP website, the PEFA secretariat website (www.pefa.org) and possibly at websites of DPs involved.

7. Calendar

The mission should take place in Ghana between 8 June and 10 July 2009 provided the suitability of arrival dates to the Government. The mission will work 5 days per week. However, Wednesday July 1st being a public holyday, the mission will be asked to work on Saturday June 27th.

It is envisaged that time allocation will be as follows, over a period of about 3 months:

	Working Days
Team Leader	35
Deputy Team Leader	25
4 Experts (days/expert)	20

The allocation of time for both Team Leader (TL) and Deputy Team Leader (DTL), in working days excluding weekends, is planned as follows:

	Time Allocated (in working days)

Launch:	TL	DTL
Study of country material	2	2
Briefing by the PFM Sector Group and the teams' initial meeting with MoFEP	1	1
PEFA workshop	2	2
Assessment of PFM Performance:	TL	DTL
Assessment and Preparation and Presentation of draft end of mission aide-memoire	15	15
Reporting:	TL	DTL
Preparation and Submission of Draft PEFA PFM PR report.	10	4
Completion and Submission of the Final PEFA PFM PR report	3	1
Presentation of Final PEFA PFM PR Report by Team Leader	2	

8. Composition and Professional Profile of the PEFA Evaluation Team

The PEFA assessment team will be composed of external experts, as follows:

- The team leader, international expert, will have at least 10 years of experience in public finance management, with recognized strengths in the areas of assessing developing country PFM systems, and familiarity with the type of budget and PFM systems found in countries like Ghana.
- The deputy team leader, international expert, will have at least 10 years of experience in public finance management, with recognized strengths in the areas of assessing developing country PFM systems at the decentralized level, and familiarity with the type of budget and PFM systems found in countries like Ghana
- The team leader and deputy team leader should be thoroughly versed in the PEFA methodology, have received training in PEFA through the standard course conducted by the PEFA Secretariat and have extensive experience in conducting PEFA assessments.
- The 4 associate experts will each have at least 10 years of experience in the area of PFM. The expertise of the experts is complementary with one being specialized in the area of revenue, and one being specialized in expenditure issues. The associate experts' familiarity with PEFA assessments and training in PEFA through the

standard course conducted by the PEFA Secretariat will be considered an additional asset.

- Team leader or Deputy team leader should be an accredited trainer trained by the PEFA Secretariat and be responsible to conduct the training workshop.
- The combined experience of the experts should ensure that the team is able to cover the analysis of all the different areas of the PFM-Performance Report.
- At least one of the team members should have a good knowledge as well as professional experience in Ghana in the field of PFM.
- University degree in economics, financial management or related field is required.
- The team must possess good organizational, communication and relational skills. An excellent command of English is essential.

Annex 2: PFM Performance Measurement Framework Indicators Summary

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
A.	**PFM-OUT-TURNS: Credibility of the budget**		
PI-1	Aggregate expenditure out-turn compared to original approved budget	C	Actual primary expenditure deviated from expenditure estimates by over 15% for one of the years considered. Deviations were 9.5%, 9.4% and 34.2% respectively. These results almost certainly overstate actual performance given the practice of under funding the GOG financed central government statutory funds, which arithmetically compensated for the overspend in discretionary MDA expenditure.
PI-2	Composition of expenditure out-turn compared to original approved budget	C	Adopting the PEFA methodology to measure the performance of the composition of expenditure outturn compared to original approved budget variance in primary expenditure composition exceeded overall expenditure deviation by no more than 10% in only one of the years considered. Variance in expenditure composition exceeded overall deviation primary expenditure by 10.3%, 6.2% and 4.6% respectively. Suggesting an improving trend over the period. However, the results are spurious and are merely a consequence of a flaw in the method adopted by PEFA to score the indicator. See Appendix 6 for a full discussion.
PI-3	Aggregate revenue out-turn compared to original approved budget	B	Domestic revenue collection was 94.1% in 2007 (below 97%) of budgeted domestic revenue estimates [as per published financial statements]. Revenue collection was 96% in 2006 and 117% in 2008.
PI-4	Stock and monitoring of expenditure payment arrears	<NS>	
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	<NS>	It is not possible to determine the stock of the arrears based upon present expenditure arrears monitoring and reporting systems.
(ii)	Availability of data for monitoring the stock payment arrears	D	Data on the stock of expenditure arrears is generated annually but is not complete. Expenditure arrears data on Item 4 is grossly under reported.
B.	**KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency**		

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
PI-5	Classification of the budget	C	The budget formulation and execution is based on economic and administrative classifications that can produce consistent documentation according to GFS/COFOG standards at the functional level. The chart of accounts is derived from the GFS 2001 standard.
PI-6	Comprehensiveness of information included in budget documentation	B	Budget documentation fulfils 5 out of the 9 benchmarks.
PI-7	Extent of unreported government operations	A	
(i)	Level of unreported extra-budgetary expenditure	A	Every indication suggests that there is not a substantial level of unreported expenditure. Not all revenues generated directly by the MDAs are transferred to the Consolidated Fund. The MDA financial statements do however provide expenditure reports on the retained IGF. Consequently there is no consolidated view on these expenditures. Sources of extra budgetary expenditure include the practice of entering into short term bridging loan arrangements with commercial banks, and not reporting fully on PPP activity. At this stage these elements remain small but are becoming more important.
(ii)	Income/expenditure information on donor-funded projects	A	ADMD reports on aid flows from all of the bilateral and multilateral donor agencies for all the different aid support modalities. As well, it reports on non-DAC country activities including China which is currently the third largest bilateral donor. These reports certainly represent more than 90% if not all disbursements flows received from Development Partners.
PI-8	Transparency of inter-governmental fiscal relations	D+	
(i)	Transparent and objectivity in the horizontal allocation among SN government	C	The transfers to sub national government are made from a variety of sources including the DACF, HIPC, Personnel Emolument and Administrative Charge payments, Minerals Development Fund, and counterpart funds. Over 10% but less than 50% of the transfers are determined by transparent and rules based approaches.
(ii)	Timeliness of reliable information to SN government on their allocations	D	The MMDAs do not receive information on the allocations to be transferred to them till well into the fiscal year and in some cases not at all. At this time the 3-year MTEFs submitted by the MDAs for budgetary approval are not reliable enough in the outlying years to allow MMDAs to derive indicative estimates before the start of their detailed budgeting processes.
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	D	The MMDAs prepare annual financial accounts that are audited but these are not consolidated. The DACF prepares a consolidated report of expenditure against DACF transfers. This represents approximately 80% of total expenditure, but at this time is not presented in a format consistent with the central government fiscal reporting.
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	D+	

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(i)	Extent of central government monitoring of AGAs/PEs	C	A consolidated view of fiscal risk is not provided in any reports; however, most major autonomous government agencies and public enterprise prepare annual audited financial statements.
(ii)	Extent of central government monitoring of SN governments' fiscal position	D	In a District Development Fund study carried out by the CAGD in 2009, the status of financial reporting by MMDAs was shown to be incomplete, inaccurate and much in arrears. Consequently, it has not been possible to monitor the SNG fiscal position.
PI-10	Public access to key fiscal information	A	Five of the six listed elements of information are made available to the public access via the web and other means. The exception is the information on resources available to primary service units.
C.	**BUDGET CYCLE**		
C(i)	**Policy-Based Budgeting**		
PI-11	Orderliness and participation in the annual budget process	A	
(i)	Existence of and adherence to a fixed budget calendar	A	A clear annual budget calendar exists that is generally adhered to and the calendar allows eight weeks for MDAs to meaningfully complete their detailed estimates of revenue and expenditure.
(ii)	Guidance on the Preparation of budget submissions.	A	A Budget Circular is issued by MoFEP in July to the MDAs based upon policy guidelines issued by the Cabinet that reflects the broad allocations to the three pillars – private sector competitiveness, human resource development and good governance and civic responsibility.
(iii)	Timely budget approval by the legislature	B	In the three years reviewed, the Parliament approved the budget prior to the start of the fiscal year in two of the years and approved it two weeks after the start of the fiscal year for the 2008 budget.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	
(i)	Multi-year fiscal forecast and functional allocations	D	Forecasts of fiscal aggregates are prepared for three years, including the budget year. However, given the severe limitations in achieving reliable forecasts, it has not yet been possible to achieve a rolling basis to the forecasts.
(ii)	Scope and frequency of debt sustainability Analysis	A	DSA for external and domestic debt is carried out every year by the ADMD.
(iii)	Existence of costed sector strategies	B	Sector strategies exist for all the major MDAs. These are aligned with the GPRSII. For approximately 60% of primary expenditure, sector strategies are developed with broadly consistent fiscal aggregate forecasts and are fully costed including forward linked recurrent cost implications.
(iv)	Linkages between investment budgets and forward expenditure estimates	C	Links, though weak, exist between the budget and the sector strategies. The recurrent cost implications even when considered in forward estimates are undermined by massive reconciliation cuts. Further, almost no recurrent cost implications are considered in the case of donor financed investments.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
C(ii)	**Predictability and Control in Budget Execution**		
PI-13	Transparency of taxpayer obligations and liabilities	C+	
(i)	Clarity and comprehensiveness of tax liabilities	D	Legislation is clear in all major taxes i.e. Customs Excise and Preventive Services, Value Added Tax and Income Tax in terms of obligations and rights. It is also clear with respect to mineral royalties and cocoa export duties. However, discretionary powers in terms of waivers, penalties and the setting of tax rates vary widely from Mineral royalties with strictly limited discretionary dimensions, to VATS where there are fairly limited discretionary powers, through CEPS that have substantial discretionary powers to IRS and COCOBOD where there are important elements of discretion in assessing tax liabilities.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	A	All the Revenue Agencies have extensive taxpayer education programs spanning seminars through radio, television, print media and trade fairs as well as publication of brochures and leaflets. The leaflets and brochures are fairly simple to understand. Also, the Minerals Commission and COCOBOD maintain active education and awareness programs.
(iii)	Existence and functioning of a tax appeals mechanism	C	A tax appeals system of administrative procedures has been established in VAT Service which has some independent representation in the Tax Appeals Committee set up. Results suggest that these mechanisms are effective. IRS and CEPS also have administrative tax appeal mechanism but function without independent representation. No data was provided to establish their effectiveness. IRS addresses appeals with respect to mineral and mining royalties which are collected by the IRS. While COCBOD receives appeals from farmers and LBCs no specific institutional arrangements have been set up to address these nor are their dispute resolutions systematically monitored.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	
(i)	Controls in taxpayer registration system	C	Taxpayers are registered in databases systems for income tax, VAT and CEPS but not directly linked to each other nor other Government institutions or financial entities. IRS operates a manual registration system which is supplemented by mechanisms requiring tax clearance certificates to carry out a number of important economic transactions that have direct links with each other and with the Registrar of Companies and through the inclusion of bank accounts with the Financial Sector. The Customs database is linked to the Income Tax through VAT.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(ii)	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	Penalties and interest for all major taxes are set sufficiently high to act as deterrent to non-compliance. However, substantial improvements to the consistency of their application will be required to ensure a real impact on compliance enough to deter against non compliance with registration and filing. In addition SARS is empowered to bond the businesses revenues and bank accounts to cover any unpaid tax liabilities.
(iii)	(iii) Planning and monitoring of tax audit and fraud investigation programs	C	Tax audits are carried out based upon annual audit work plans with quarterly reporting. They are managed based on risk assessment procedures in the case of CEPS. However, such clear risk selection criteria are not employed by VATS or IRS.
PI-15	Effectiveness in collection of tax payments	C+	
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	B	The aggregate tax arrears is significant at 6%. The aggregate collection ratio could only be determined for 2008. However, an analysis demonstrates that the average of the two most recent years must be at least 82% and so assures a minimum score of B.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	A	The tax revenues are transferred to the Treasury on a daily basis. The funds in transit period do not exceed 3 days, but these delays are not to be included in the time period.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	Although CEPS an VATS have a built in facility to reconcile tax assessments, collections, arrears and transfers, only CEPS does so on a regular basis. However, all revenue agencies perform complete account reconciliation between tax assessments, collections, arrears and receipts by the CAGD annually within three months of the close of the fiscal year.
PI-16	Predictability in the availability of funds for commitment of expenditures	D+	
(i)	Extent to which cash flows are forecast and monitored	C	Pro-forma cash flows are submitted to MoFEP annually by MDAs but these are rarely updated.
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	D	Departments are provided General and Specific Warrants that typically provide reliable information on commitment ceilings less than one month in advance. In the case of the General Warrant, although a monthly issued instrument, the MDAs are provided reliable information on commitment ceilings less than a month in advance. In practice, given the very long delays, under the Special Warrant mechanism MDAs are often not receiving advance information on commitment ceilings.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	D	As a consequence of the lack of an effective establishment control (see PI-18) and an effective commitment control (PI-16), in practice there has been expenditure carried out in excess of approved budgets de facto by default, rather through a transparent predictable process. .

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
PI-17	Recording and management of cash balances, debt and guarantees	C+	
(i)	Quality of debt data recording and reporting	B	Domestic and foreign debt records are complete and reconciled each month for both external and domestic debt. Reconciliation is done monthly and the debt transactions audited annually by the GAS. he ADMD puts out an annual statistical reports as part of the Budget Statement . The Bank of Ghana issues comprehensive quarterly statistics reports. However, no comprehensive management that include operations are issued.
(ii)	Extent of consolidation of the Government's cash balances	C	Calculation of government balances held in the Consolidated Fund is carried out weekly; while balances held in the Sub-Consolidated Fund accounts are calculated monthly. Balances in the retained IGF accounts are calculated annually. There are balances also maintained in Donor managed project and programme bank accounts that remain outside of the cash management (reconciliation and reporting) arrangements
(iii)	Systems for contracting loans and issuance of guarantees	C	The Constitution, 1992 and the Loans Act, 1970 empowers the Minister of Finance solely to contract loans, subject to approval by the Parliament and to issue guarantees. In practice the contracting of domestic debt and the issuance guarantees are not made within clear limits for total debt and total guarantees.
PI-18	Effectiveness of payroll controls	C+	
(i)	Degree of integration and reconciliation between personnel records and payroll data	A	The software application used in Ghana, IPPD2, allows for a direct link between the personnel and the payroll databases.
(ii)	Timeliness of changes to personnel records and the payroll	C	Payrolls are controlled monthly and changes are effected on average within a month pay period. However, retroactive changes are not rare and may extend more than 12 months. Such retroactive changes concern both new hires as well as staff that have left the public service.
(iii)	Internal controls of changes to personnel records and the payroll	B	The authority and basis for changes to the personnel records are clear and access to the system is restricted and it provides an audit trail. The absence of a directly linked functioning establishment control to the personnel and payroll database has made ineffective the use of clear authorities, restricted access and audit trail.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	B	The CAGD carries out on an on-going basis a sampling of head counts. In conjunction with GAS and GSS it carried out a comprehensive head count focusing on the identification of 'ghosts' in 2007 which was finalised by the CAGD (in 2008). In addition, the internal audit division of the CAGD has issued a report in 2007 focusing on systematic issues. Both internal audit units of the MDA's and the Audit Service conduct annual audits on a sample basis. CAGD, GAS and GSS carried out a head count for the Ministry of Education in 2008 and is currently doing one for the Ministry of Health
PI-19	Competition, value for money and controls in procurement	B+	
(i)	Evidence of the use of open competition for award of contracts that exceed the nationally established threshold for small purchases	B	The data show that 97.5 % of the procurement in high spending entities is conducted by appropriate procurement methods. This suggests that more than 75% of the contracts above the threshold are awarded on the basis of open competition. However, the data are collected on the basis of data sheets that are filled by procuring entities themselves and according to an independent external assessment may not be accurate. Given the qualification on the reported results a B is assigned.
(ii)	Extent of justification for use of less competitive procurement methods	B	Around ten per cent of procurement was based on sole sourcing and restrictive tendering for which approval of the PPA has been granted. Such approval is based on monthly Board decisions with reference to the requirements spelled out in the Public Procurement Act, Articles 38 and 40. Decisions are made public in PPA's annual reports.
(iii)	Existence and operation of a procurement complaints mechanism	A	The procurement complaint system as defined by Act 663 is operative and includes the possibility to refer resolution of the complaint to the PPA as an external body. The PPA publishes data on the resolution of complaints on its website and in its Annual Report.
PI-20	Effectiveness of internal controls for non-salary expenditure	D+	
(i)	Effectiveness of expenditure commitment controls	D	In practice then effective commitment controls for non-salary expenditure are routinely violated.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	B	Other internal controls are well covered in the FAA, 2003, FAR 2004 and the accounting manual. The expenditure management rules and procedures are clear and accessible through manuals and circulars. Interviews with a wide variety of officials left an impression that there was familiarity with the rules and procedures.
(iii)	Degree of compliance with rules for processing and recording transactions	C	Although compliance to rules is generally complied to in the majority of cases according to the Auditor General's report there are important concerns about cash irregularities.
PI-21	Effectiveness of internal audit	D+	

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(i)	Coverage and quality of the internal audit function	C	The Internal Audit Function and its supervision by Audit Report Implementation Committees cover most MDAs. The Internal Audit Units apply the Internal Audit Agency Standards which are consistent with IIA standards. The Internal audit units prepare annual works plans that include process/full expenditure chain and procurement audits, payroll, compliance and financial audits, and systems audits. A sampling of audit work plans and interviews with officials suggests that only a limited amount of the audit time (approximately 20%) is deemed spent on systemic issues.
(ii)	Frequency and distribution of reports	B	Quarterly and Annual Reports are issued regularly for most audited entities. Annual Reports are disseminated to the Office of the President for onward submission to the Parliament; the Ministry of Finance and Economic Planning; and the Ghana Audit Service.
(iii)	Extent of management response to internal audit findings	D p	At this time most of the follow up recommendations in Internal Audit reports are ignored; however since 2007 the number of recommendations that have been followed up on has increased two fold and suggest that as the number of ARICS increase there can be expected to be significant improvement in the follow up of internal audit findings.
C(iii)	**Accounting, Recording and Reporting**		
PI-22	Timeliness and regularity of accounts reconciliation	C	
(i)	Regularity of Bank reconciliations	C	All treasury managed bank accounts are reconciled to the cash book on a monthly basis within 4 to 6 weeks the close of the month. There are other government accounts not managed by the treasury – these are specifically retained IGF accounts and donor funded project accounts which operate outside the treasury reconciliation process.
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	C	The reconciliation and clearance of suspense accounts and advances is carried out at least annually usually within two months of the close of the fiscal year. Some accounts which remain un-cleared are reported on.
PI-23	Availability of information on resources received by service delivery units	B	A PETS was carried out for 2007 that demonstrates the level of resources received both in kind and in cash at the facilities level – i.e. the primary schools and primary health care centres.
PI-24	Quality and timeliness of in-year budget reports	C+	
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	Comparison to the main budget is possible at the level of the vote and the main economic classifications. Information includes all items of expenditure at the payment level but not at the commitment level. However, the expenditure reported on is partial and excludes retained IGF expenditure.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(ii)	Timeliness of the issue of reports	B	Reports are prepared monthly by Departments and submitted to the CAGD. Typically the CAGD issues them in the gazette within 4 weeks but there has been slippage to six weeks.
(iii)	Quality of information	C	The aggregate reconciliation model employed is not comprehensive and so there remain some concerns about the accuracy of the information however this does not undermine their basic usefulness.
PI-25	Quality and timeliness of annual financial statements	C+	
(i)	Completeness of the financial statements	C	A consolidated government statement Is prepared annually. It excludes revenues arrears, and retained IGF expenditures, expenditure arrears and donor financed projects and programmes.
(ii)	Timeliness of submission of the financial statements	A	For each of the three years under review the Report and Financial Statements on the Public Accounts of Ghana (Consolidated Fund) were submitted three months after the close of the fiscal year.
(iii)	Accounting standards used	C p	The CAGD has recently adopted national standards consistent with IPSAS. These standards are currently being implemented.
C(iv)	**External Scrutiny and Audit**		
PI-26	Scope, nature and follow-up of external audit	C+	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	B	Over 90% of central government expenditure is audited annually. The audit reports cover revenue, expenditure, assets and liabilities. A wide range of financial audits that broadly adhere to the INTOSAI audit standards and identify significant and systemic issues. However, the MDA audits predominantly comprise of transaction testing. Specific procurement, payroll and performance audits are still carried out.
(ii)	Timeliness of submission of audit reports to the legislature	B	The audit reports on the financial statements on the Consolidated Fund are submitted to the Parliament 3 months of their receipt by the Audit Service and within 6 months of the close of the fiscal year. The audit reports on the MDA are submitted between 6 and 9 months.
(iii)	Evidence of follow-up on audit recommendations	C	The reports on the Consolidated Fund do contain the formal managements' response on audit recommendations. However, information on follow up is rather piecemeal. Other audit reports do not contain information on management's response.
PI-27	Legislative scrutiny of the annual budget law	D+	
(i)	Scope of the legislature's scrutiny	C	The review of Parliament covers fiscal policy and details of expenditures and revenues. However, the Parliament gets involved only from mid-November onward after the detailed proposals have been finalised.
(ii)	Extent to which the legislature's procedures are well-established and respected	B	The procedure for budgetary review involves three steps including debate on the macro-fiscal framework, detailed discussions in Select Committees and final plenary debate.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	B	In recent years, the budget proposal has been presented to the Parliament by the Minister of Finance around mid November which is in line with the legal deadline (one moth prior to the end of the financial year). As the appropriation bill has been approved before the years' end, around 5 to 6 weeks have been left for contemplation by Parliament. (Please note there is an anomaly in the PEFA Manual for this indicator; it repeats the same criterion for a C score)
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	D	Clear rules regarding in-year budget amendments exist but have been usually not been respected with respect to excess over approved estimates for domestic borrowing and in 2008 for expenditure. The rules for transfers to the statutory funds have also not been respected (see PI-1)
PI-28	Legislative scrutiny of external audit reports	D+	
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	D	The timeliness of scrutiny of the audit reports that were issued in 2006, 2007 and 2008 was negatively impacted by the disputed legitimacy of the tenure of the Auditor General. The lawsuit gave rise to the PAC to freeze scrutiny of the AG-reports. As a consequence, the audit reports on the consolidated funds of 2006 and 2007 were tabled in 2009.
(ii)	Extent of hearings on key findings undertaken by legislature	C	Hearings are a common part of the review by the PAC of AG reports. Typically, they include the main stakeholders and, in addition, they cover the most severe irregularities. Since 2007, the PAC has started with public hearings. Due to the mentioned delay with the PAC review of reports, such public hearings have not continued to be carried out and so cannot be described as routine.
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	The PAC finalises its review of AG reports by tabling a report including recommendations to the Parliament. After Parliamentary approval, the recommendations are forwarded to the ARIC in each entity. The effectiveness of the ARIC still needs to be improved, but the PAC keeps track on the follow up to the recommendations and possesses other evidence that some recommendations have been implemented.
D.	**DONOR PRACTICES**		
D-1	Predictability of Direct Budget Support	A	
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	A	In none of the years reviewed did the estimate fall short of the outturns by more than 5%. The annual deviations for budget support were -4.3%, 12.1% and -3.2% respectively.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	A	The calculated "weighted disbursement delays" did not exceed 25% in any of the three years considered. The calculated weighted disbursement delays were 10%, 9% and 11%. We note an anomaly in the PEFA manual for this indicator for which the measurement benchmark is repeated for both the A and B scores.
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C+	
(i)	Completeness and timeliness of budget estimates by donors for project support	B	All Development Partners provide budget estimates to the ADMD at a stage consistent with the government's budget calendar. While some of the five largest Development Partners state that they do not submit budget estimates that segregate disbursements by Ghana's budget classification, the government has been able to prepare donor budget estimates allocated between Item-3 and Item 4 based upon information requests issued by ADMD.
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	C	Development Partners provide financial reports to the MDAs that are reported on a quarterly basis within two months of the close of the period. These reports are not provided with a break-down consistent with the government budget classification. A number of Development Partners state that their financial reports are not consistent with the Government's budget classification.
D-3	Overall proportion of aid funds to central government that are managed through national procedures	D	Donor funds channelled through the RDP Fund amounted to approximately 1 billion Rand in 2007/08 which according to verified estimates represent about 25% of the total estimated donor funds. So, 75% of the funds did not use national systems.

Annex 3: List of Stakeholders Interviewed

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Annex 4: List of Documents Consulted

List of Documents Consulted

Legislation, Regulations, Agreements

- Internal Revenue Act, 2000 (Act 592) and Amendments 2002, (Act 622), 2003 (Act 644), 2004 (Act 669), 2004 (Act 669), 2006, (Act 700, Act 710), 2007 (Act 731)
- Internal Revenue (Registration of Business) Act, 2005 (Act 684) and Amendment 2008 (Act 777)
- Value Added Tax Act, 1998 (Act 546) and Amendments 2000 (Act 579), 2001 (Act 595), 2002 (Act 629), 2003 (Act 639), 2004 (Act 670, Act 671), 2006 (Act 703), 2007 (Act 734), 2008 (Act 752, Act 765)
- Minerals and Mining Act, 2006 (Act 703)
- Ministries, Departments and Agencies (Retention of Funds) Act 2007 (Act 735)
- Appropriations Acts, 2006,2008, 2009
- Appropriation Bills, 2006, 2007
- Audit Service Act, 2000 (Act 584)
- CEPS (Management) Law, 1993, PNDC Law 330
- Chieftaincy Act, 2008 (Act 759)
- Cocoa Duty Act 1974 (NRCD 265)
- Cocoa Industry (Regulation) Act 1968 (NRCD 278)
- 1992 Constitution of Ghana and Amendment , 1996
- Communications Service Tax Act, 2008 (Act 754)
- District Assemblies Common Fund Act, 1993 (Act 455)
- Financial Administration Act, 2003 (Act 654) and Amendment, 2008 (Act 760)
- Financial Administration Regulations, 2004 (L.I. 1802)
- Ghana COCOBOD Act, 1984 (PNDC Law 81) Amended
- Internal Audit Agency Act, 2003 (Act 658)
- Loans Act, 1970 (Act 335)
- Local Government Act, 1993 (Act 462)
- Local Government Service Act, 2003 (Act 656)
- Public Procurement Act, 2003 (Act 663)
- Revenue Agencies (Governing) Board Act 1998 (Act 558)
- Office of the Administrator of Stool Lands Act, 1994 (Act 481)
- GETFund Act, 2000 (Act 581)
- Ghana Model Petroleum Agreement
- Ghana National Petroleum Corporation Law, 1983
- Petroleum Exploration and Production Law
- Petroleum Income Tax Law, 1987.

Budget documents

- Budget Statement 2006, 2007, 2008, 2009

- Guidelines for Budget Preparation 2007 to 2009, 2008 to 2010, 2009 to 2011
- Ghana Consultative Group Meeting - Annual Partnership Meeting
- Ghana Consultative Group Meeting – Report on proceedings

MoFEP and CAGD

- Ghana New Financing and Debt Strategy, 2006
- Public Debt - 2000 to 2009
- Accounting Manual, 2009
- Draft Ghana Public Accounts (Consolidated Fund) 2008
- Half Year External Aid Financing Performance Report August 2008
- Bank and Cash Balances - Controller and Accountant General
- Log of Expenditure and Report Returns - Controller and Accountant General
- Exceptional Report - Salary Above Rage - Controller and Accountant General
- Deletion Report - Controller and Accountant General
- Change of Grade Report - Controller and Accountant General
- New Entrants Report - Controller and Accountant General
- Payroll Audit Report - Controller and Accountant General
- Third Party Deductions Report - Controller and Accountant General
- Payroll Accounting Manual - Controller and Accountant General
- 3-Year Strategic Plan, Short and Medium Action Plan

Parliament

- Parliamentary Debate - Supplementary - 2006
- Parliamentary Debate – 2006, 2007, 2008
- Standing Orders of Parliament, Revised Version

Revenue Agencies

Customs Excise and Preventive Service

- Harmonized System and Customs Tariff - 2007
- CD ROM - Harmonized System and Customs Tariff - 2007
- CEPS Post-clearance audit plan for 2009
- CEPS/BoG Revenue Reconciliation - Year 2008 summary
- CEPS Revenue Collection Performance
- CEPS Monthly collections from penalties
- CEPS Post-clearance audit programme
- CEPS Revenue Audit Programme
- CEPS Public Relations Report for 2008
- CEPS Bank Reconciliation - Jan to December 2008

Internal Revenue Service

- IRS Bank Reconciliation Statement for April 2009, December 2008
- Internal Revenue Service Performance 1997 to 2008
- Internal Revenue Service Tax Arrears 2007
- Internal Revenue Service Data for IMF
- Internal Revenue Service - Internal Audit Report - Phase 2
- Internal Revenue Service Work Plan
- Internal Revenue Service IRS 07 - Your Tax Office Brochure
- Internal Revenue Service IRS 26 - A guide to tax stamp
- Internal Revenue Service IRS 06 - A guide to income tax in Ghana

- Internal Revenue Service IRS 04 - Hand book
- Internal Revenue Service Notice of Offences and Penalties
- Internal Revenue Service Notice on With-holding taxes - Advert in the Ghanaian Times
- Internal Revenue Service Notice on Revenue Week Celebration
- Internal Revenue Service - 1st quarter report on education and enforcement of Vehicle Income Tax – 2009
- Internal Revenue Service - 3rd quarter report on education and enforcement of Vehicle Income Tax - 2008
- Internal Revenue Service Audit Programme
- IRS Tax Audit Division - 2008 Performance Report and Audit Strategies for 2009
- Internal Revenue Service Revenue Collections for 2005, 2006, 2007 and 2008
- Internal Revenue Service - guidelines for granting 5% with-holding tax exemption
- Revenue Agencies Governing Board – Revenue performance 2000 to 2008

Value Added Tax Service

- Communications Service Tax Brochure
- VAT Flat Rate Scheme
- VAT Brochure on the 'ins and outs' of VAT/NHIL - PN5
- VAT Brochure - The New Chapter
- VAT Flat Rate Scheme and the Retailer
- VAT and NHIL General Guide - PN3
- VAT and NHIL Guide to Filing Returns - PN6
- VAT Service Annual Audit Plan for 2008
- VAT Service 4th quarter report for 2006, 2007
- VAT Service 2nd quarter report 2008
- VAT Service Appellate System for Dealing with Petitions and Objections
- VAT Service Assessment cases pending before court
- VAT Service/BoG Revenue reconciliation 2006
- VAT Service/BoG Revenue reconciliation 2007
- VAT Service/BoG Revenue reconciliation 2008
- VAT Service - details of taxpayer audits
- VAT Service - Offences and Penalties Under VAT Act 1998, Act 546
- VAT Service - Objections and Petitions Processed by Appellate Committees
- VAT Service - Debt Stock Movement 2006, 2007, 2008
- VAT Service radio programme
- VAT Service television programme
- VAT Service public affairs strategy for 2006

Donor Partners

- Use of Country PFM Systems in Bank Financed Operations, World Bank
- Ghana Assessment of Use of Country Systems for Project Financial Management Draft Report Volumes I and II, World Bank
- CIDA Report on Budget Support - 2003 to 2009
- Copies of emails from CIDA to MOFEP on Report on Budget Support
- CIDA Report on Budget Support - Bilateral Funds - 1999 to 2008
- CIDA Report on Global Support to Ghana's Economy - GoG and Private
- Donor Partner Budget Disbursement - USAID - 2006 to 2008
- USAID Report on D3 - 2006 to 2008

- Donor Partner Budget – Netherlands - 2009 to 2011
- Donor Partner Budget Disbursement – Netherlands – 2006, 2007, 2008 and 2009
- Letter of Approval from Netherlands Embassy - 3rd quarter report 2007
- Framework Memorandum Between the Government of Ghana and Development Partners: Multi Donor Budgetary Support Programme 2008

Other publications
- Ghana PEFA 2006
- Government Debt Management Performance Report, 2008
- Public Expenditure Tracking Survey, 2008
- Staff Report for the 2009 Article IV Consultation
- Outstanding Claims – Item-1, Item 2, Item 3, Item 4
- Office of the Administrator of Stool Land - Requirements for Collection and Disbursement of Stool Land Revenue
- Ghana COCOBOD Financial Statements
- Ministry of Health - Final Accounts – 2006, 2007
- Office of the Administrator of Stool Lands Act, 1994 (Act 481)
- Mineral Royalties for 2006, 2007, 2008
- Procurement Plan – Works
- Procurement Digest Issue 1 Volume 1
- Appeals & Complaints Process Under Public Procurement Act, 2003
- Road Fund Arrears - Department of Feeder Roads
- Status Report for Development Project as April 2009
- Road Arrears - Ghana Highway Authority
- Ghana Road Fund - Audited Financial Report – 2006, 2007
- Educational Strategy Plan - Volume 1 - 2003 to 2015
- Annual Educational Sector Operational Plan 2007 to 2009 Volume IIIE
- Educational Strategy Plan - Volume 2 - 2003 to 2015
- Executive Instrument - External Debt Committee Instrument, 1972 - E.I. 57
- Saboba District Assembly Annual Internal Audit Work Plan
- DACF Accounts 2007
- Memo to Parliament on the Proposed Formula for sharing DACF 2008
- Annual Report District Assemblies Common Fund, 2005, 2007
- Guidelines for the Utilization of DACF
- GETFund - Proposed Formula for Distribution
- GETFund - Approved Formula for Distribution
- GETFund - Financial Statements 2006 and 2007
- GETFund Brochure
- Consolidated Report on Financial Reporting on the MMDAs
- Procurement Audit Report, MoH 2007
- External Review of Public Finance Management 2006, 2007 and 2009

Auditor-General

- Paper on Auditor-General – legality to stay in office after age 60
- Report on the Special Audit of Selected Flows in the Government of Ghana Accounts, 2005
- Report of the Auditor-General on the Public Accounts of Ghana (Consolidated Fund) 2006, 2007
- Report of the Auditor-General on the Public Accounts of Ghana – Public Boards, Corporations and Other Statutory Institutions, 2004, 2005, 2006 and 2007

Annex 5: Tracking Progress over Time

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	C	There are appears to be slippage in the performance of PI-1 especially for the year 2008
PI-2	Composition of expenditure out-turn compared to original approved budget	D	C	There appears to have been a decline in performance. However, as outlined in Annex 6, the methodology does capture appropriately progress over time.
PI-3	Aggregate revenue out-turn compared to original approved budget	A	B	There has been some slippage in the scoring. However, the annual results were close; that is 2003 - 97.8%, 2004 - 106.3%, 2005 - 94.0%, compared with 2006 -96.4%, 2007 – 94.1%, and 2008 – 116.8%.
PI-4	Stock and monitoring of expenditure payment arrears	B+	<NS>	Recalibrated (see below)
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	A	<NS>	The previous assessment only focused on Investment expenditure arrears. Further it interpreted the arrears figures in the financial statements to represent the stock of arrears rather than the set aside to be applied to reducing the stock of arrears.
(ii)	Availability of data for monitoring the stock payment arrears	B	D	The previous assessment Focused solely on Investment expenditure arrears
PI-5	Classification of the budget	B	C	The previous assessment justified the score on the basis of budget documentation. PEFA Manual requires a justification on formulation and execution.
PI-6	Comprehensiveness of information included in budget documentation	C	B	There was improvement demonstrated in the inclusion of impacts on major revenue policy changes in the Budget Statement in 2008.

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
PI-7	Extent of unreported government operations	A	A	No change in scores
(i)	Level of unreported extra-budgetary expenditure	A	A	While there are some unreported elements noted (bridge financing transactions and PPPs) these are not yet significant enough to alter the score.
(ii)	Income/expenditure information on donor-funded projects	A	A	Performance has remained the same.
PI-8	Transparency of inter-governmental fiscal relations	C	D+	The previous assessment only considered the horizontal allocation of the DACF. There are a number of other intergovernmental transfers that were considered in the current assessment.
(i)	Transparent and objectivity in the horizontal allocation among SN government	A	C	The previous assessment only considered the horizontal allocation of the DACF. There are a number of other intergovernmental transfers that were considered in the current assessment.
(ii)	Timeliness of reliable information to SN government on their allocations	D	D	Performance has remained the same
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	D	D	Performance has remained the same
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	C	D+	Recalibrated (see below)
(i)	Extent of central government monitoring of AGAs/PEs	C	C	No changes in performance.
(ii)	Extent of central government monitoring of SN governments' fiscal position	C	D	The CAGD report on Financial Reporting on the MMDAs issued in 2009 shows a backlog since 1999 indicating that financial monitoring of MMDAs is significantly incomplete. This report was not available in 2006.
PI-10	Public access to key fiscal information	B	A	There have been improvements made in the publication of contract awards and in-year budget execution reports.
PI-11	Orderliness and participation in the annual budget process	B	A	There have been improvements in performance
(i)	Existence of and adherence to a fixed budget calendar	A	A	No changes in performance

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
(ii)	Guidance on the Preparation of budget submissions.	B	A	There have been improvements made in the guidance on the preparation budget submissions
(iii)	Timely budget approval by the legislature	D p	B	The budget approval by the legislature is significantly more timely.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C	C+	Overall improvement in performance
(i)	Multi-year fiscal forecast and functional allocations	C	D	An analysis of the relationship between subsequent budget ceilings demonstrates that these are not prepared on a rolling basis.
(ii)	Scope and frequency of debt sustainability Analysis	C	A	There have been improvements made in the carrying out of DSAs.
(iii)	Existence of costed sector strategies	C	B	There has been improvement in the number of sectors that have sector strategies that are fully costed and broadly consistent with fiscal forecasts
(iv)	Linkages between investment budgets and forward expenditure estimates	C	C	No change in performance
PI-13	Transparency of taxpayer obligations and liabilities	B	C+	
(i)	Clarity and comprehensiveness of tax liabilities	B	D	The previous assessment did not consider discretionary exemptions, discretion in setting g the effective Export Duty rates, or the Commissioners role in setting provisional and final tax assessments.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	C	A	There has been improvement in taxpayer access to information.
(iii)	Existence and functioning of a tax appeals mechanism	B	C	The previous assessment justified the score on judicial appeals. The PEFA manual requires a justification based upon administrative appeal mechanisms.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	C	C	No changes in score
(i)	Controls in taxpayer registration system	C	C	No changes in score
(ii)	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	No changes in score

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
(iii)	(iii) Planning and monitoring of tax audit and fraud investigation programs	C	C	No changes in score
PI-15	Effectiveness in collection of tax payments	C	C+	Previous assessment scored using M2 method. M1 method is required for PI-15.
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	B	The previous PEFA established that gross tax arrears were more than 2% of total annual collections but that doe not precludes scores from A to D. There was not sufficient evidence provided to justify a D.
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	A	There have been improvements in tax transfers.
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	C	No change in score
PI-16	Predictability in the availability of funds for commitment of expenditures	C	D+	Recalibrated (see below)
(i)	Extent to which cash flows are forecast and monitored	C	C	No change
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	C	D	While General warrants are monthly, actual horizon is less than 1 month. It appears that Specific Warrants (often issued retroactively) were not considered.
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	C	D	There appears to have been slippage in performance.
PI-17	Recording and management of cash balances, debt and guarantees	B	C+	Recalibrated (see below)
(i)	Quality of debt data recording and reporting	B	B	Improvements have been made but not enough to register an improvement in the score
(ii)	Extent of consolidation of the Government's cash balances	B	C	The Sub Consolidated Fund accounts were not considered in the previous PEFA.
(iii)	Systems for contracting loans and issuance of guarantees	B	C	Mechanisms for domestic debt were not considered in the previous assessment.

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
PI-18	Effectiveness of payroll controls	C+	C+	Improvements made but no change in overall score
(i)	Degree of integration and reconciliation between personnel records and payroll data	C	A	Improvements made in the degree of integration and reconciliation between personnel records and payroll data
(ii)	Timeliness of changes to personnel records and the payroll	C	C	No change
(iii)	Internal controls of changes to personnel records and the payroll	C	B	Improvements made
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	B	B	No change
PI-19	Competition, value for money and controls in procurement	NS	B+	Improvements made overall
(i)	Evidence of the use of open competition for award of contracts that exceed the nationally established threshold for small purchases	C	B	Improvements made
(ii)	Extent of justification for use of less competitive procurement methods	NS	B	Improvements made
(iii)	Existence and operation of a procurement complaints mechanism	NS	A	Improvements made
PI-20	Effectiveness of internal controls for non-salary expenditure	C	D+	Recalibrated (see below)
(i)	Effectiveness of expenditure commitment controls	C	D	Given the high previous core on expenditure arrears there was no evidence considered in the previous assessment pertaining to the routine violation of commitment controls.
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	B	There may be some improvement even though this may just be a consequence of the differences in the officials interviewed
(iii)	Degree of compliance with rules for processing and recording transactions	C	C	There appears to be no significant change
PI-21	Effectiveness of internal audit	D+	D+	No change in overall score even though there have been some improvements.

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
(i)	Coverage and quality of the internal audit function	D	C	The coverage has improved incrementally
(ii)	Frequency and distribution of reports	C	B	The distribution of reports is now made to OAG and MoFEP
(iii)	Extent of management response to internal audit findings	D	D p	Improving but not yet significantly to register an improved score.
PI-22	Timeliness and regularity of accounts reconciliation	C	C	No change
(i)	Regularity of Bank reconciliations	C	C	No change
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	C	C	No change
PI-23	Availability of information on resources received by service delivery units	D	B	A PETS was recently carried out.
PI-24	Quality and timeliness of in-year budget reports	C+	C+	No change
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	No change
(ii)	Timeliness of the issue of reports	B	B	No change
(iii)	Quality of information	C	C	No change
PI-25	Quality and timeliness of annual financial statements	C+	C+	No change
(i)	Completeness of the financial statements	C	C	No change
(ii)	Timeliness of submission of the financial statements	A	A	No change
(iii)	Accounting standards used	C	C p	There has been a new Accounting manual issued that is aligned with the IPSAS standards.
PI-26	Scope, nature and follow-up of external audit	C+	C+	
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	B	B	There has been some improvement but not enough to register an improved score

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
(ii)	Timeliness of submission of audit reports to the legislature	C p	B	There have been improvements in the timeliness of the submission of audit reports.
(iii)	Evidence of follow-up on audit recommendations	C	C	No change
PI-27	Legislative scrutiny of the annual budget law	C+	D+	There has been overall slippage due to not respecting rules for in-year amendments to the budget
(i)	Scope of the legislature's scrutiny	C	C	No change
(ii)	Extent to which the legislature's procedures are well-established and respected	A	B	The budget review remains simple and is not fully comprehensive. It still excludes the review of domestic debt for example.
(iii)	Adequacy of time for the legislature to provide a response to budget proposals (time allowed in practice for all stages combined)	B	B	No change
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	D	There has been slippage
PI-28	Legislative scrutiny of external audit reports	C+	D+	
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	C	D	The law case against the Auditor General impacted negatively on this score
(ii)	Extent of hearings on key findings undertaken by legislature	B	C	The law case against the Auditor General impacted negatively on this score
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	B	No change
D-1	Predictability of Direct Budget Support	C+	A	Overall improvement
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	A	A	No change
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	C	A	Improved performance

No.	Indicator	2006	2009	Remarks on Changes in PEFA Scores
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	C	C+	Improved overall performance
(i)	Completeness and timeliness of budget estimates by donors for project support	C	B	Improved performance
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	C	C	No change
D-3	Overall proportion of aid funds to central government that are managed through national procedures	D	D	No change

Annex 6: Note on PEFA Methodology for Scoring PI-2

Under the PEFA Methodology for scoring PI-2 the calculation is applied to the 20 largest budget heads, with the rest being aggregated into a single budget head to model a total of 21 budget heads. A detailed description of the calculation is provided on page 14 of the PEFA Manual.

(1) The aggregate deviation is determined as $AD = (1/E_i)\sum_{i=1}^{21} (O_i - E_i)$

(2) Where $E_t = \sum_{i=1}^{21} E_i$

Once this is done, VD, the Excess of Variance in Expenditure Composition Over the Deviation in Primary Expenditure is calculated as:

(3) $VD = (1/E_i)\left(\sum_{i=1}^{21} (O_i - E_i) - \sum_{i=1}^{21} |(O_i - E_i)|\right)$, where O_i is the outturn of the i^{th} budget head, and E_i is the budget estimate of the i^{th} budget head, and

(4) If we let $n = \left(\sum_{j=1}^{21} (O_j - E_j)\right)$, such that $(O_j - E_j)$ is < 0,

(5) and $p = \left(\sum_{k=1}^{21} (O_k - E_k)\right)$, such that $(O_k - E_k)$ is ≥ 0;

(6) Then from (3), we have $VD = (1/E_t)\left((|p|-|n|) - (|p|+|n|) \right)$

(7) From which it follows that $VD = -2|n|/E_t$

Equation (7) is readily verified by applying it to Table 3.3 or similar tables from other PEFA Assessments. Clearly all that is measured then is twice the ratio of deviations of outturns for budget heads which result in a negative deviation divided by the aggregate estimate (with a negative sign).

We explore what results are predicted by equation (7).

Case I: n= 0

In the case where n = 0, as might be the case where AD is very large, i.e. the aggregate actual expenditure deviates from aggregate budget estimates by a large amount (and so PI-1 score $\rightarrow$ D), VD =0 and so the score is calculated as an A, irrespective of the degree of variance.

Case II: AD is large (so PI-1 score ® D);

If |p| is large, then |n| must be small and VD is small (so PI-2 score → A)
If |p| is small, then |n| must be large and VD is large (so PI-2 score → D)

Case III: AD is small (so PI-1 score ® A);

If |p| is large, then given that AD 1/Et (|p|-|n|), |n| must approximate |p| and so also large to make VD large (so PI-2 score → D)
If |p| is small, then |n| must be small and VD is large (so PI-2 score → A)

From these considerations we may draw the following conclusions:

1. The PEFA methodology used to score composition of expenditure outturn compared to original approved budget does not provide a consistent measure;
2. As in Case II where AD is large and where |p| is large (as in Ghana) then as AD gets larger, the methodology scores VD higher (as is the case in Ghana; see Table 3.2)
3. It would not be meaningful to compare PFM performance over time using the PI-2 assessment methodology.

Annex 7: Comments and Responses on the Draft Report on the PEFA Assessment

Overall impression

Government of Ghana

Comment 1.1

Overall, the Ministry is highly pleased with the quality of job executed by ECORYS and would like to congratulate both the consultants and our development partners who funded the exercise. MoFEP is generally satisfied with the ratings and while acknowledging the successes achieved so far, it also means that there is a lot for us to do together with regards to PFM reforms and implementation.

Response 1.1

The PEFA assessment can serve as a useful guide for prioritising and sequencing the government´s PFM reforms.

PEFA Secretariat

Comment 1.2

A detailed report, well researched, organized and presented with a structure following the standard outline of a PFM-PR. A few pieces of background information still needs to be added and some indicators would benefit from further clarification or additional evidence. The report presents a substantial body of evidence and tracks progress since 2006 although this could be more explicit for each indicator where a change has been recorded. The sub-section of the *Summary assessment on Tracking Progress* over time is a very valuable part of the report, but a summary analysis for each indicator would have been very useful to understand in details what happened in-between for each element of the PFM system. This will be very useful for policy makers. Policy makers will also need an executive summary of no more than 5 pages, as the current 20-page summary assessment is far too long to serve that purpose.

General observations

The report is very close to the PFM-PR outline and includes a Section 3.8 with information on country-specific issues (oil revenues), summary table of scores and tracking performance over time (including remarks). Sources of information are well specified and information gaps identified. Information was also obtained from the private sector which permits the triangulation of information.

However, the length of the report makes extracting the necessary information a demanding task. The report would benefit from being abridged (e.g. some indicators include very detailed information - in some cases up to seven pages e.g. PI-13 - that could be sent to the annexes, some paragraphs from section 4 are repeated in the Prospects for reform planning in the Summary Assessment, etc). In particular, the Summary assessment should be condensed, from the current 20 pages.

We would also suggest that the methodological discussion of indicator PI-2 (ref. Annex 6) be removed as it does not belong in this kind of report; see further under indicator PI-2 below.

Some editing is still necessary in the tables: e.g. table 2.4 and table 3.2 show fiscal years as 2005/06, 2006/07, 2007/08 which do not agree with Ghana's fiscal year (the latter corresponding to the calendar year).

Response 1.2

There are a great many important messages that are key to policy makers fully understanding the current status of PFM in Ghana. Given the very important linkages between the different PFM functions; one has to be very careful not to be too simplistic and focus only achieving a four page summary assessment; Indeed there is much precedence for longer summary assessments (as opposed to executive summaries) such as the South Africa PEFA 2008, the Namibia PEFA 2008 and a host of others. Policy officials were consulted to ascertain if the Summary Assessment was a useful resource and if its length was an obstacle to its usefulness. The responses suggested that the Summary Assessment as presented in the draft was indeed useful. That said there have been further efforts made to shorten the narrative where possible without altering the message.

Appendix 6 is crucially important to the results of the assessment since the measurement framework introduces significant distortions that could have important consequences with respect to dialogue on PFM reform. The analysis presented provides two important insights it provides evidence to show that the rating overstates the current status of performance with respect to the PI-2 indicator; and secondly it clearly demonstrates that it would be meaningless to attempt to place any interpretation on the change in scores of PI-2 between 2006 and 2009. It is fully appreciated that the analysis does not directly fit into the main body of the PEFA report, but remains fully consistent with the PEFA report format by being placed in an appendix.

Editing has been carried out to address typographical errors.

It was decided after much deliberation to present the progress in PFM performance over time in a separate section. The main reason for deciding on the presentation was the large number of the PEFA 2006 indicators that required recalibration to allow a consistent assessment of progress over time. When addressed separately for each indicator the result was rather confusing and required too much focus on the recalibration procedure. Apart from *Summary assessment on Tracking Progress* Appendix 5 details the progress in PFM performance achieved over time.

Development Partners PFM Sector Group

Comment 1.3

The overall quality of the report is very good. It is detailed, comprehensive and well presented. The structure of the Performance Measurement Framework is closely followed. The scoring of the performance indicators under Section 3 is generally well-supported by evidence, the sources of which are generally well-identified. The Summary Assessment is well prepared, though, at 21pages, it is considerably longer than the 3-4 pages recommended in the Framework document.

Response 1.3

Please see response 2.1

Summary Assessment

Government of Ghana

Comment 2.1

On the substance of the assessment, the Government is generally satisfied with the document subject to the necessary adjustments as per the attached comments and the outcome of the forthcoming workshop.

Response 2.1

Response 2.1

The comments have been considered and the necessary corrections made.

PEFA Secretariat

Comment 2.2

The main strengths/weaknesses are well identified under the six critical PFM dimensions. There is a useful section where the implications for each of the three budgetary outcomes are explained. Government reform challenges are highlighted.

The sub-section of the *Summary assessment on Tracking Progress* over time is a very valuable part of the report. Nevertheless, given that the PEFA Ghana is a repeat assessment, a summary analysis for each indicator (after each one of them comparing the 2009 evaluation with the 2006 one) would have been very useful to understand in details what happened in-between for each PFM system (and sub-system). To the extent possible, the information provided in the mentioned sub-section should be developed for each single indicator. This will be very useful for policy makers.

The summary assessment section should be condensed from the current 20 pages, or alternatively a separate executive summary – of 3-5 pages – will be needed for decision makers.

Response 2.2

The information for changes in each sub-indicator has been provided in detail in Annex5 and should be useful to supporting dialogue on PFM reform and assessing the effectiveness of the reform activities that have been undertaken.

See Response 1.1 for a response on the length of the Summary Assessment.

Development Partners PFM Sector Group

Comment 2.3

The summary assessment is of good quality, though it would benefit from being shortened. On p. 26, the report could have been more critical in its analysis of the "Assessment of the impact of PFM strengths and weaknesses" **(CIDA, GTZ)**
These issues include:

- The lack of effective integration into the mix of strategic budgeting and control of Items 1 and 2 (personnel emoluments and administration) which comprise close to two-thirds of the budget, but get 10% of the attention.

- Investment (capital) expenditure far in excess of budget after years of underspending on the capital account, indicating a lack of control.

- Revenue estimates which became increasingly overly optimistic, being based primarily on unsustainable trends, and including, in actual or budgeted amounts, some timing issues of revenues from Cocobod. This may become a bigger issue as the oil revenues start to flow, if proper procedures are not put in place.

- Expansion of decentralization, including decentralization of personnel decisions, without an adequate plan and adequate controls at that level.

- The budgeting system does not result in strategic budgets and MTEFs which match the Departmental and Sector strategies (this point does get adequate attention in the report).

Response 2.3

These issues are addressed at length within the report. The control of Item 1 is addressed at length in PI-18. The challenges of the revenue estimates especially as oil revenues become substantial is discussed in detail in PI-3. Budgeting links to the sector strategies is discussed under PI-12. The discussion on expansion of decentralization is an expenditure policy issue which as stated in Chapter 1 PEFA intentionally does not address. These issues are again highlighted in the Summary Assessment under the discussion of the 6 critical dimension.

Section 1 – Introduction

PEFA Secretariat

Comment 3.1

The purpose, stakeholder involvement, process preparation and methodology for the assessment are well described. However, information on the structure of the public sector in general - and an overview of the AGAs and PEs in particular - is lacking.

Response 3.1

There is not a summary of financial statements for AGAs, PEs or SNGS available to reliably construct the full scope of public expenditure. So while desirable it was not possible to construct a breakdown of the public sector in terms of types of entities and their percentage of public expenditure.

Development Partners PFM Sector Group

Comment 3.2

The introduction is well-prepared. Questions are however raised from page 41 (paragraph 2) as to why it was impossible to determine a breakdown of Ghana's public sector from available reports

Response 3.2

Many of the SNGs do not provide any financial statements and so there is no way to determine what the total expenditure of the SNGs – one component of public sector expenditure.

Section 2 – Country Background Information

Government of Ghana

Comment 4.1

Agricultural share of GDP is about 35% rather than 40%. The provisional growth rate of 6.2% originally announced in the 2009 budget has been revised to 7.3%. There is a mix up in the tax revenue as a percentage of GDP. The data should be as follows: The Total Revenue and Grants increased from 27.3% of GDP in 2006 to 28.8% of GDP in 2007. Tax Revenue increased from 19.9% of GDP in 2006 to 20.1% of GDP in 2007.

Considering that the ADMD concentrates on debt management, we do think that an inclusion of ERM(° and ERM(M) will be important to the write up.

Table 2.2 could be adjusted slightly for clarity.

Minor adjustments to Table 1.5 are required.

Response 4.1

All of the suggested adjustments and corrections have been made.

PEFA Secretariat

Comment 4.2

Country background covers the economic situation, overall government reform program and rationale for PFM reform, as per the model for PFM-PR. The report presents a good description of the arrangements between legislature, executive, SAI and judiciary, an overview of the executive and the central agencies involved in PFM and their respective roles, a description of the main legislation including revenue, procurement and audit legislation and a matrix with institutional responsibilities for PFM functions by MOF, line ministries, other offices and Parliament.

Response 4.2
Comment noted.

Development Partners PFM Sector Group
Comment 4.3
This section covers the economic situation, overall government reform program and rationale for PFM reform, as per the model for PFM-PR. Table 2.1 does not provide information on Ghana's population in 2006. **(GTZ)**

Response 4.3
Comment noted.

Section 3 – Performance of systems, processes and institutions

PEFA Secretariat
Comment 5.1
This section follows the structure contained in the Framework document. 31 standard indicators are used but one (PI-4) was not scored. The methodology is, in general, well understood and applied.

Evidence is provided for most of the indicators. Nevertheless, we have specific observations on the need for additional evidence to support the scoring as well as on the correspondence between evidence provided and score given for several of the indicators, as highlighted in the table below.

Response 5.1
Specific responses are provided in the table below.

Development Partners PFM Sector Group
Comment 5.2

This section follows the structure contained in the Framework document. 31 standard indicators are used. There is however the need to include additional evidence to support the scoring. There should also be a consistency between evidence provided and the score given for a few of the indicators. These observations by the development partners are summarized in the table below.

Response 5.2
Specific responses are provided in the table below.

	Comments on the rating	Response
PI-1	**PEFA Secretariat:** Data does not agree with data on actual expenditure in section 2.2. Data provided for the calculations is not sufficiently disaggregated and does not represent adequate evidence for the assigned score. It would be useful to provide information on the amounts of excluded debt service and donor funded projects. Further clarification is necessary. **World Bank AFD:** The scoring should be explained in more details. The remark relating to the challenges raised by the difficulties posed in predicting wage negotiation, concerns only the year 2008. Thus it is not a structural element which influences the budget credibility. It must also be noted that in the absence of using consolidated figures that include all original budgets and actual expenditures, the results could be slightly misleading.	It is inappropriate to compare Table 2.2 with the data shown for PI-1. Table 2.2 refers to total expenditure including donor funded expenditure. By the requirements of the PEFA methodology only primary expenditure is considered in the case of PI-1 and this was correctly determined and applied. Table 3.1 clearly disaggregates expenditure (exclusive of debt service and donor funded expenditure) It is incorrect that the challenges pertaining to the timing of wage negotiations with the union was unique to 2008. It is a systemic challenge which was discussed by the government at some length at the final workshop.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-2	**PEFA Secretariat:** It is unclear what the basis for the calculation is. The percentage of total primary expenditure deviation in table 3.2 does not match with table 3.1. Table 3.3 only presents Estimates & Actual by Budget heads (no calculation of deviation and composition variance). Further clarification is necessary. The PEFA program is aware that the current design of indicator PI-2 only provides a partial picture of compositional variation of expenditure outturn and that any interpretation of its results needs to be done in conjunction with indicator PI-1 to give an appropriate indication of performance. The PEFA program is currently reviewing the indicator and will issue an amendment if/when a more appropriate design is identified. In the meantime, we suggest that the annex 6 be removed as the report is not suited as a conduit for methodological discussions, and that the interpretation of the PI-2 in	The numbers in Table 3.1 and Table 3.2 match. It requires that the appropriate figures be compared. The total of MDA original primary expenditure includes GoG MDA expenditure, IGF expenditure and four statutory fund expenditures. There is not available summary information on actual IGF expenditure and so that is left out of Table 3.2. Therefore, as appropriate, if the statutory fund totals are added to the GoG totals one obtains the totals shown in Table 3.2. The issue here is not whether the PEFA program is aware or not, the importance of this point is to make certain that the reported C is not interpreted to mean that there are not serious problems pertaining to budget credibility as measured in PI-2 and further that the reported increase in scoring from 2006 to 2009 not be considered to be reflective of actual improvement. This appreciation has important consequences with respect to dialogue on Ghana´s PFM reform. The weakness in the PEFA method in

	Comments on the rating	Response
	conjunction with PI-1 be the focus in the report. Table 3.2 columns show years as 2005/06, 2006/07, 2007/08 which is likely a slip since Ghana fiscal year runs with *calendar year. Below the table, in “Source” it should read Table 3.3 (instead of Table 3).* **World Bank AFD:** The derivation of the primary expenditure compositional variance and deviation does not seem clear. Perhaps, instead of providing the mathematical derivation principle as defined in Annex 6, the actual computation of the compositional variance, as per the Framework, could be provided. The scoring (C) doesn’t seem consistent with the assessment developed in the report. On p.59, 2nd paragraph: “The average score of C hardly suggests that Ghana’s PFM systems have achieved remarkable budgetary discipline, and have the expenditure management systems in place to assure that outcomes are in line with budgetary intent”.	this respect not transparently addressed has very serious detrimental consequences with respect to reform considerations and for this reason it would be most inappropriate to remove Annex 6. The slip in the Table 3.2 heading has been corrected and so also the source reference. As is acknowledged in the PEFA Secretariat comment the measurement method for PI-2 is wrong. Annex 6 is the evidence that it is not just wrong, but inappropriate to measure performance of PI-2 and that no weight whatsoever should be placed on the apparent improvement from 2006 to 2009. This is a very important point and should be taken into account in any dialogue on Ghana’s PFM reform. There is nothing inconsistent with the statement. The expression “hardly suggests” is idiomatic language that means that the score indicates that Ghana has not achieved budgetary discipline, and have the expenditure management systems in place to assure that outcomes are in line with budgetary intent
	Changes made to the narrative and / or scoring: Changes made to the Table heading and source reference; no changes made to the scoring.	
PI-3	**PEFA Secretariat:** A B score appears correctly rated on the basis of adequate evidence. **AFD, GTZ** The reference on p.62 to an amount of GHS 182.4 Million for National Health Insurance which has not been collected should be more detailed considering its impact on the scoring. The Duke Monthly Receipts Model does use the CPI only implicitly by using nominal GDP for calculations. Furthermore, as of now it doesn’t include any collection efficiency ratio. A parameter for efficiency gains is just used in the in-	 Comment noted. According to officials there were delays in setting up the programme. Comment noted. This is consistent with what is described in the narrative.

	Comments on the rating	Response
	house revenue forecasting models of the agencies.	
	Changes made to the narrative and / or scoring: No changes have been made to the narrative; no changes made to the scoring.	
PI-4	**PEFA Secretariat:** Dim (i) NS (not scored due to lack of information on the stock of arrears). An explanation was provided. The indicator is NS (section 3, justification box) and correct. Meanwhile, tables of scores show a score D (table 1, 2, Annex 2 and Annex 5). This should be rectified.	The overall rating has been changed to a No Score.
	World Bank : Where any one of the two dimensions of the indicator cannot be scored, the overall score should be a 'No Score' as correctly indicated against this indicator. Therefore, the indicator ratings in Tables 01.and 0.2. should be accordingly amended for consistency as a 'D' score is provided in those Overall Summary Tables. Rating for indicator in Annex 5 also needs revision for consistency.	See response above.
	Changes made to the narrative and / or scoring: No changes made to the narrative; changes made to the roll up of the scoring.	
PI-5	**PEFA Secretariat:** A C score appears correctly rated on the basis of adequate evidence	Comment noted.
	World Bank : A bridging table is normally produced for reporting on the budget rather than classifying the budget during the budget process/compilation. It does not reverse the fact that the classification system is defective. In as much as the classification system was derived from the GFSM2001 standard, the fact that functional classifications (instead of only economic classifications) are not provided as part of the budget documentation, it could be debated as to whether this indicator should be rated a 'D' rather than a 'C'.	Nothing in the narrative or the PEFA manual suggests that the bridging table is used or should be used for the preparation or execution of the budget. The C is justified on the basis that the budget classification system in Ghana can and does produce documentation consistent with the GFS/COFOG standard.
	Changes made to the narrative and / or scoring: No changes made to the score; no changes made to the narrative.	

	Comments on the rating	Response
PI-6	**PEFA Secretariat:** A B score appears correctly rated on the basis of adequate evidence **Development Partner PFM Sector Group :** No Comment.	No changes made. Comment noted.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	

PI-7	**PEFA Secretariat:**
	For (i) quantitative evidence would be needed to show that extra-budgetary funds although insignificant represent less than 1% of total expenditures. It appears this is the case. This should be mentioned to justify an A.
	For (ii) donor finance projects and programs are NOT included in annual financial statements. The information provided for this indicator should be consistent with what is indicated in PI-25.
	Also the evaluation of PI-7 should compare with the one in 2006 and review the latter.
		Comment noted.
		
		The PEFA Manual is clear and unambiguous in its description of the requirements for scoring an A in PI-7(ii). It certainly does not require that the donor financed projects be reported in the annual financial statements. To quote, it states "*Complete income/expenditure information for 90% (value) of donor-funded projects is included in fiscal reports, except inputs provided in kind OR donor funded project expenditure is insignificant (below 1% of expenditure)".* As clearly stated in the narrative the ADMD issues comprehensive biannual fiscal reports on donor funded projects. Consequently, it is erroneous to suggest that this indicator be consistent with PI-25. A country can choose to report donor funded projects in a separate fiscal report and in that way qualify for an A rating even as it omits to report such in its annual financial statements. The 2006 PEFA report correctly interprets the requirements of PI-7(ii) and it does not require any review of that particular score. Annex 5 shows a comparison of progress over time for this sub indicator and all other sub indicators.

	World Bank, AFD The commentary that there is no consolidated view of the fiscal reports may need to be underlined as a key limiting factor impacting the consolidated overview of the overall fiscal situation. Is this result coherent with the one of the scoring PI-6 which indicated that prior	Comment noted. MDA annual financial statements include donor funded project and

	Comments on the rating	Response
	year's budget out-turn is not submitted to the Parliament? Do sectoral ministers really report on aid flows from donors?	programme expenditure. No analysis was performed to establish whether such reporting is fully comprehensive or accurate.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-8	**PEFA Secretariat:** Dim (i). The HIPC funds allocations seem to be specified in the budget documentation but the paragraph is not very clear on the issues of horizontal allocations. The same happens with Personal Emoluments and Administrative Expenditure transfers. It is unclear why they are considered non transparent and non rules based. The three types of transfers accounted for 40% of the total transfers in 2008. Needs clarification. Dim (ii) and (iii) appears correctly scored on the basis of adequate information. **Development Partner PFM Sector Group :** No Comment.	Due to a typographical error the word horizontal referring to allocations as used twice when the word vertical was intended. This has been corrected and clarifies the narrative with respect to HIPC Funds. Comment noted. Comment noted.
	Changes made to the narrative and / or scoring: Change made to the narrative; no changes made to the scoring.	
PI-9	**PEFA Secretariat:** Dim (ii) "*Remarks on Changes*" (Annex 5) mentions "insignificantly complete". Meanwhile, the narrative and justification explain that, according to theCAGD 2009 study, the financial reporting from MMDAs is incomplete, inaccurate and much in arrears. It would be useful to elaborate a little more on the main findings of the CAGC study. **Development Partner PFM Sector Group :** No Comment.	The wording intended was "significantly incomplete". This has been changed to clarify the explanation in Annex 5. Comment noted.
	Changes made to the narrative and / or scoring: Changes made to the narrative, but no changes made to the scorings.	
PI-10	**Government of Ghana** It was stated inter alia that "no overall list of contracts awarded". The meaning is vague. However, does this comment require a chronological list.	The passage has been rewritten for further clarify.

	Comments on the rating	Response
	PEFA Secretariat: Appears correctly scored on the basis of adequate information The narrative states that *two factors impede the achievement of fully transparency* though it explains three. Please rectify **Development Partner PFM Sector Group :** No Comment.	The typographical error has been rectified. Comment noted.
	Changes made to the narrative and / or scoring: Changes made to the narrative. No changes have been made to the scoring.	
PI-11	**PEFA Secretariat:** Appears correctly scored on the basis of adequate information **AFD** A remark relating to the budget circulars on p.77, states that: "the budget circulars include budget ceilings but [they don't] serve as an effective instrument of annual budgetary discipline since it does not necessarily reflect the eventual estimates submitted to Parliament." The consultants could thus detail the consequences on the rest of the process of the budget preparation.	No changes made. If budget ceilings stated in budget circulars are not reflective of budgetary ceilings submitted to parliament, then this undermines the credibility of the budget process and can have impacts with respect to fiscal discipline, technical efficiency and allocative efficiency.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-12	**PEFA Secretariat:** Dim (i) More comparative analysis would be needed for this important area to explain why there was no improvement (and even deterioration from C to D) between 2006 and 2009. Dim (ii) it is not clear if a DSA was carried out in 2008. The narrative mentions a DSA in 2006 and 2007. For an A, a DSA should be undertaken annually (last	While forecasts of fiscal aggregates were prepared on a three year basis, the 2006 PEFA Assessment did not specifically assess whether forecasts were prepared on a rolling annual basis so it was not possible to determine whether the D score represents a true deterioration or whether the previous C score in the 2006 PEFA would have more appropriately been a D score. The ToR did not envisage a re-assessment of any of the previously assessed indicators and so it has not been possible to conclude unambiguously on whether there was any deterioration over time. The narrative states "*The ADMD prepares an annual debt sustainability*

	Comments on the rating	Response
	3 years before assessment: 2006, 2007 and 2008). Dim (iii) correctly evidenced **Development Partner PFM Sector Group :** No Comment.	*analysis (DSA) covering both external and domestic deb*t" which meets the requirement of an A. The narrative differentiates between the approaches undertaken in 2006 versus what has been done since 2007. The narrative has been rewritten to ensure that it is not interpreted to suggest that DSAs were carried out only in 2006 and 2007. Comment noted. Comment noted.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-13	**PEFA Secretariat:** Dim (i) a D implies that legislation is not comprehensive and unclear for large areas of taxation and there are important elements of discretion. Information provided suggests that the legislative framework for major taxes is comprehensive and clear though important discretionary powers remain (from none to significant). Need clarification on the extent to which powers were exercised and how it affects individuals' taxpayers in the knowledge of their liabilities. Dim (iii) a C score implies that the appeals mechanism needs substantial redesign. The text explains the variety of appeals mechanisms in use (from effective to no specific arrangements) but doesn't highlight the need to redesign the system. Moreover, the appeals system doesn't exclude judicial appeals (neither the PEFA methodology). A C doesn't seem correct.	The narrative carefully describes the clarity of legislation and the degree of discretionary powers. It shows clearly that in the case of income tax and revenues derived from Cocoa exports (Export Tax) there are areas of substantial discretion. A D is assigned according to the PEFA manual, when legislation and procedures "*involve important elements of administrative discretion in assessing tax liabilities*". There are important elements of administrative discretion in the case of income tax and export tax. The scoring could not be any clearer than that. Notably, the head of the GRA stated at the final workshop that this assessment hit the nail on the head and was a major focus of the revenue administration reform. It is important to note that such discretionary powers does not only affect individual taxpayers in the knowledge of their liabilities, it also introduces opportunities for rent seeking – which of course is a major threat to overall PFM performance. As is carefully stated in the Introduction, the PEFA method is not supposed to be prescriptive. To suggest that there needs to be a redesign would be prescriptive and should not have any place in a PEFA report. The PEFA Manual is very clear that it pertains to a tax appeals system specific to

	Comments on the rating	Response
	The text would benefit from being shortened from the actual 7 pages. Information on tax administration agencies and mains sources of revenue could be summarized and details send to an annex. **World Bank, AFD** The justification for a 'D' rating for dimension (i) and hence the overall rating, using the M2 methodology, would need to be revisited. Based on the write-up provided, the rating for dimension (i) appears to be at least a 'C'. There is some difficulty in comprehending the expenditure system in Ghana with the contextual elements presented at the beginning of the report. Comments made by the consultants relating to this indicator were not too clear.	"*transparent administrative procedures*". While of course it does not exclude judicial appeals that point is moot. What is scored (among other things) is the transparency, completeness and fairness of the administrative procedures. As a consequence the C is appropriate. The misinterpretation of the evidence provided to support eh scorings, demonstrates a requirement to lengthen the narrative, certainly not shorten it. These are not merely details but provide the evidence to support the scoring. The D rating is appropriate because income taxes (IRS) and export taxes (COCOBOD) have important elements of administrative discretion in assessing tax liabilities. This has important consequences with respect to rent seeking and hence significant impacts on overall PFM performance. See response above.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring..	
PI-14	**PEFA Secretariat:** Appears correctly scored on the basis of adequate information. **World Bank, AFD** If risk assessment procedures in the case of CEPS are clear, and CEPS constitutes, about the bulk of tax collections, the rating provided to indicator dimension (iii) may need to be revisited (and the justification updated).	No changes made. The narrative notes the difficulties with audit in both the VATS service and IRS. CEPS revenues do not surpass the combined level of these two services and it seems inappropriate to define a score by the best single large component rather than an average or even the worst performing element.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-15	**PEFA Secretariat:** Dim (i) The calculation that lead to the average debt collection ratio of 82%	The narrative states that the calculation is arrived at if we assume a 0%

	Comments on the rating	Response
	should be presented. Dim (ii) and (iii) correctly evidenced **World Bank, AFD** The justification for rating dimension (iii) as a 'C' does appear inadequate based on the text write up which states that reconciliations etc. are conducted daily, or monthly. Consultants could also try to give an explanation to the debt collection ratio of 223% in 2008 (table 3.12 p. 89)	collection rate for 2006 and 2007 for VATS since it is not available for those years. If one substitutes the number 0 and calculates the weighted average, it results in a value of 82%. Comment noted. In accordance with the PEFA manual it is not enough to just do reconciliations monthly, but to do so completely for tax assessments, collections, arrears and transfers. CEPS is the only agency that does it for all four elements on a monthly basis. As per the PEFA Manuals the debt collection ratio for each year was calculated as the percentage tax arrears at the beginning of the fiscal year collected in that fiscal year and averaged over the fiscal years 2007 and 2008. Because VAT did not have any numbers reported for 2007 a worst case scenario was assumed of 0% debt collection ratio and on that basis an aggregate debt collection ratio calculated. See response above.
	Changes made to the narrative and / or scoring: No changes made to the narrative; changes made to the scoring.	
PI-16	**PEFA Secretariat:** Dim (i) and (ii) correctly evidenced For dim (iii) what does "…in excess…" exactly mean (10%, 20%...? %)? We need quantitative evidence to score a D **AFD** To be more comprehensible, it would be useful to give explanation concerning the cash flows prepared by MDAs (Is there an overview of receipts/expenditures?).	 No changes made. The level of excess is completely irrelevant to the scoring of this indicator which scores the D due to the frequency and lack of transparency in the significant adjustment of budgets above the level of management of MDAs. Given the extent of expenditure over budget indicated in PI-2 and the short advance notices indicated in P-16 it is clear that the criteria are met to score a D. As stated in the narrative monthly pro forma cash flows are almost never prepared by MDAs.
	Changes made to the narrative and / or scoring:	

	Comments on the rating	Response
	No changes made to the narrative; no changes made to the scoring.	
PI-17	**PEFA Secretariat:** Appear correctly scored on the basis of adequate information. In dim (i) there's a word missing, *reports*, in the justification box, sentence *no comprehensive management that include operations are issued*. **Development Partner PFM Sector Group :** No Comment.	The typographical omission has been rectified. Comment noted.
	Changes made to the narrative and / or scoring: Changes made to the narrative; no changes made to the scoring.	
PI-18	**PEFA Secretariat:** Dim (ii) text seems to imply that changes are done monthly for most categories and up to 3 month delays do occur on occasion which would correspond to a higher score. Need clarification. Dim (iii) Justification paragraph, first sentence: this sentence is a combination of a justification for a B (first part) and for an A (second part). The remaining paragraph implies a B. Please clarify. **World Bank** The sub-indicator/dimension (i) appears to be over-favorably rated as 'A': (1) the integration of the personnel data and payroll does not appear seamless according to the explanatory write-up; (2) the actual time taken to admit new staff in the payroll would not ordinarily be creating expenditure arrears if the integration process is active and working; and (3) retroactive adjustments are said to more or less arise due to validation process timings for new entrants in particular. A rating of 'B' could be a more plausible one.	Most changes are done within 3 months except for new hires. This category of change is often retroactive well beyond t 3months and has very significant impacts on the payroll. The establishment control may be considered external to the payroll system. While these controls are embedded in the payroll system. As stated in the narrative these are made ineffective by the absence of a direct link between an establishment database and the payroll system. The PEFA manual is clear and unambiguous about the assignment of an A score. The A score is justified in the narrative. It is not the personnel database which provides for effective control of new hires it would be a separate establishment or otherwise termed posts control database. The B is assigned in dimension (iii) precisely for this reason and would not be applicable to dimension (i) as is suggested by the comment.
	Changes made to the narrative and / or scoring: The scoring and the text remain unchanged.	
PI-19	**Government of Ghana** It states "... data sheets are filled directly by the procurement entities". This is not correct as it was explained that data on contract are collected by consultants using file assessors.	Narrative has been corrected to reflect the role of the consultants.

	Comments on the rating	Response
	<u>PEFA Secretariat:</u> Dim (i) The report should mention to which extent the assessment considered the data accurate. Dim (ii) According to what is presented in the text less competitive methods when used are justified with clear regulatory requirements. This calls for an A Dim (iii) correctly evidenced **<u>World Bank, AFD</u>** This sets the trend towards pursuit of use of country systems – linking to the outcome of a further more detailed assessment using the OECD-DAC Baseline Indicator Systems for Procurement Assessments. It would however be useful not to mention only % of contracts but also % of the amount of contracts.	The report does not make an assessment as the degree to which it considered the data accurate but mentions that there are concerns with the accuracy of the data and that is what is reported in the narrative. The data is based upon a sample and so does not permit a firm conclusion to fully justify an A. Comment noted.
	<u>Changes made to the narrative and / or scoring:</u> No changes made to the narrative; no changes made to the scoring.	
PI-20	**<u>PEFA Secretariat:</u>** Appears correctly scored on the basis of adequate information. Dim (i) Remarks in Annex 5 : *given the high previous score on expenditure arrears* is not correct as PI-4 was NS due to lack of information. **<u>World Bank</u>** An effective and well rolled-out IFMIS, with in-built internal controls, work-flow based, and premised on approved business processes could be an answer to this recurring problem across jurisdictions even outside Ghana. Internal audit functions (serving largely pre-audit functions and forming part of the expenditure processes) within MDAs cannot, anecdotally, support the effective functioning of internal control processes.	As stated in the narrative the high score is for the previous PEFA (2006) score and has nothing to do with the score of the present PEFA. The statement as in the narrative is correct. Comment noted.
	<u>Changes made to the narrative and / or scoring:</u> No changes made to the narrative; no changes made to the scoring.	
PI-21	**<u>PEFA Secretariat:</u>**	

	Comments on the rating	Response
	Appears correctly scored on the basis of adequate information **World Bank, AFD** Dimension (i), which scores a 'C' rating provides justifications that clearly call for a rating higher than 'C'. Where it is stated that the IA applies the IIA standards, then the expectation is that the rating, in terms of the quality of the function, should be better than 'C'. But because the function dilutes the standards through being part of the expenditure processing process (pre-audits), it undermines its intended purpose and clearly goes outside the remit of an IA within the IIA standards. While the rating is not disputed, the justification may need revisiting. Further information would be needed about the internal audit service eg. Number of persons, the sphere covered, the types of audit implemented etc	Comment noted. The PEFA manual is clear and ambiguous about teh criteria for scoring a C on PI-21(i). If less than half but more than 20% of the staff time is spent on systems audit then the score is C. This is the case applicable for the Ghana´s Internal Audit systems and procedures at this time.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-22	**PEFA Secretariat:** Appears correctly scored on the basis of adequate information. **World Bank, AFD** No special comment. However, traditionally, the need for reconciliation occurs in about 5 key fronts: (1) between the spending agency level and the Treasury, (2) between the spending agency and the Bank, (c) between the Central and Sub-national governments, (4) on account of suspense accounts at each spending agency level, at each sub-national level, and at the central level, and (5) between the central and sub-national levels. There is a fiscal content in each of this as well as a monetary content. The balances accruing between the budget execution reports and those reported by the National (Central) Bank often resulted to significant distortions in the available fiscal balances carried forward from year to year due to reconciliation deficiencies. As a commentary, the generic status of each of these reconciliation weaknesses may be provided in the write-up, where possible.	 No change made. Comment noted.

	Comments on the rating	Response
	The report also raises issues of accounts which are not managed by the treasury. Further comments should be made on this.	
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-23	**PEFA Secretariat:** Appears correctly scored on the basis of adequate information. **AFD** Information about this indicator was given by a special survey (PETS) which would then lead to the scoring C if we refer to PEFA methodology. The consultants should thus justify the score given.	Comment noted The PEFA Manual is requires a B score if a PETS has been carried out in the previous 3 years that demonstrates resources in cash and in kind received by primary schools and primary health clinics. This criterion was met and so a B score is appropriate.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-24	**PEFA Secretariat:** Appears correctly scored on the basis of adequate information. In the first paragraph, 4th sentence, the mention to "*classified by current expenditure*" is unclear. **Development Partner PFM Sector Group :** No Comment.	Current expenditure is an alternate term used for recurrent expenditure.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-25	**PEFA Secretariat:** Note for (i): Overall development partner funds make up approximately 30% of the total budget. On the other side donor financed projects and programs are not reported in the financial statements. Can't we say that: "*essential information is missing from these statements*"? This calls for a D. This should also be compared with the 2006 PI-25 assessment where it is said that "some revenue and expenditures are excluded from the statement such as external project resources". Based on the comparison of the 2 PEFAs, the situation appears to have deteriorated.	If the argument that the absence of development partner funds requires an interpretation that essential information is missing from the financial statements, there has certainly been no deterioration since 2006 since these were not included in the financial statements from 2003 to 2005 covered by the 2006 PEFA when donor funds accounted for some 39% of expenditure. As to whether the financial statements should be described as missing essential information is not clear and should probably not be. The annual financial statements do not reflect donor funded expenditure, but

	Comments on the rating	Response
	(ii) and (iii) correctly evidenced **World Bank** Since consolidation excludes donor funded programs (about 30% of budget) and retained IGF, as well as expenditure and revenue arrears, it could be inferred that the omissions are significant. However, the assessment, in compliance with the PEFA framework, could only rightly rate dimension (i) at a 'C' as performance exceeds a 'D' but does not perfectly match a 'C' although it is closer to a 'C' than a 'D'. A 'C' rating presupposes that the omissions are not significant although a consolidated statement is prepared annually, while a 'D' denotes that consolidated statements are not prepared annually. It should be noted that for assessment of this indicator (PI-25), only the latest year – not the 3 latest years – should be assessed. Also, consistency with the national standards with IPSAS has to be absolute; it needs to be defined whether the consistency is on cash or accrual basis. Modified cash or modified accrual are not international standards themselves and are not IPSAS compliant.	other fiscal reports do including the individual MDA financial statements and also fiscal summaries put out by ADMD. The Financial statements, if they only excluded donor funded expenditure, would still meet the requirements to fully report on appropriated funds to parliament, which serves as their primary role. Under such circumstances, while desirable in the annual financial statements, the omission of donor funded expenditure is not an essential omission, provided of course such expenditure is addressed in other fiscal reports. Such is the case in Ghana. Comment noted.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-26	**PEFA Secretariat:** Appears correctly scored on the basis of adequate information **World Bank** The PEFA Framework does not dissect between Consolidated Fund audits and	Comment noted Comment noted.

	Comments on the rating	Response
	MDA audits (dimension (ii)). Taken together, the rating for different performances on the two sets of audits could, in principle, be given a 'B'. But this masks the fact that the Consolidated Fund audits would have scored an 'A' as they are completed and submitted to Parliament in less than 4 months of receipt of the accounts by the auditors, while the MDAs' submission date – for the latest year 2008 – was less than 8 months (a 'B' rating) after receipt of the accounts by the auditors. Again, it may be noted that the Framework does not seek to assess beyond the latest audit year – i.e. a 3 year review is not asked for.	
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	
PI-27	**PEFA Secretariat:** Dim (ii) measures the extent to which legislature procedures are well established and respected. The narrative suggests a clear organization and set of comprehensive, detailed and publicly available procedural rules. The parliament functions on the basis of a number of committees (16), whom after the initial review the documents, are referred to for discussion. They are not "simple procedures". The lack of review of e.g. domestic debt is a question of scope of scrutiny. This calls for an A like the 2006 PEFA. Has the situation deteriorated since 2006? That does not appear to be the case. Dim (i), (iii) and (iv) correctly evidenced	An A would require internal organizational arrangements such as specialised review committees. Though there are a high number of committees (21) these are set up to merely divvy up the different MDAs rather than reflect a specialized review. The number does not in any way suggest greater complexity with respect to the review process. The debt management is not just an issue of scope but impacts importantly on any discussion of fiscal policy. The assessment concurs with the parliamentary officials own description of the legislature´s review procedures as being simple.
	World Bank While the overall rating is agreed, the justification comments against dimension (i) should be reconciled with the write up in the penultimate paragraph on page 111 – that starts with "the combines time available to Parliament …"	Comment noted. The two statements refer to different things. There is a description of different dimensions within the review that take a week or more. However, altogether i.e. the combined time for parliamentary review is five to six weeks.
	Changes made to the narrative and / or scoring: Changes made in the narrative and change made to the scoring.	

	Comments on the rating	Response
PI-28	**<u>PEFA Secretariat:</u>** The absence in the last two years of the examination of audit reports, hearings on the key findings and issuance of recommendations points to a D score for each of the three dimensions. **<u>Development Partner PFM Sector Group :</u>** No Comment.	To score a D would be in direct contravention of the PEFA Methodology. Page 12 of the PEFA Manual clearly states "*The relevant period on which a dimension should be assessed, and therefore for which evidence should be sought , is specified in the guidance or calibration for many indicators/dimensions. Where it is not specified, it should be assessed on the basis of the current situation, or in the case of periodic events, on the basis of the events during the most recent budget cycle*". Now, in PI-28, PI-28(i) specifies 3 years, but there is no specification for PI-28(ii) and P-28-(iii). Consequently it is the current status that must be used and was used to score PI-28(ii) and PI-28(iii).
	<u>Changes made to the narrative and / or scoring:</u> The omitted element in the table has been reinserted. This makes the overall score a C+	
D-1	**<u>PEFA Secretariat:</u>** Appears correctly scored on the basis of adequate information Justification box: Reference to "*anomaly in the PEFA manual for this indicator for which the measurement benchmark is repeated for both the A and B scores"*. An answer to this question may be found in the PEFA document "Clarifications to the PFM Framework", page 28: When the same calibration applies to two scores of a dimension, it means that the overall indicator score is determined by the score of the other dimension(s) of the indicator. If indicator D-1 dimension (ii) fulfills the requirements for scores A/B, then the indicator will score an A if dimension (i) scores A, and it will score B if dimension (ii) scores B. **<u>Development Partner PFM Sector Group :</u>** No Comment.	Comment noted. Comment noted.
	<u>Changes made to the narrative and / or scoring:</u> No changes made to the scoring. No changes made to the narrative.	
D-2	**<u>PEFA Secretariat:</u>**	

	Comments on the rating	Response
	Appears correctly scored on the basis of adequate information **Development Partner PFM Sector Group :** No Comment.	Comment noted. Comment noted.
	Changes made to the narrative and / or scoring: Reference to appropriation accounts has been omitted; no changes made to the scoring.	
D-3	**PEFA Secretariat:** Appears correctly scored on the basis of adequate information **Development Partner PFM Sector Group :** No Comment.	 Comment noted. Comment noted.
	Changes made to the narrative and / or scoring: No changes made to the narrative; no changes made to the scoring.	

Section 4 – Reform Efforts

PEFA Secretariat

Comment 6.1

Past/current reforms are well summarized and institutional factors supporting reform are discussed. Some paragraphs are repeated verbatim in the Summary Assessment. Some consolidation of these parts would be desirable to keep the report short and concise. Section 4.2 describes the government leadership and ownership and identifies main constraints to the reform process.

Response 6.1

The section on reform in the Summary Assessment has been edited to vary the language from the paragraphs in Section 4 that address the same points.

Development Partners PFM Sector Group

Comment 6.2

This section is generally well-done, as far as it goes. As part of the reform process, there should have been the mention of the government's Integrated FMIS Project Charter of August 2009 that seeks to consolidate on achievements in service delivery effectiveness and the application of modern best practices in financial accounting, reporting and audit oversight. This will certainly gross up gains towards overall PFM improvement through an accountable process and better business processes. Commitment control across the whole of government will also be a key area of focus during implementation of this proposed government reform – a weak area that could support the prospects for improved allocative efficiency, service delivery measurement and accountability, and fiscal discipline through application of hard-budget constraint principles.

Response 6.2

As indicated in the Introduction the field part of the mission was completed at the end of July prior to the official release of the government's Integrated FMIS Project Charter of August 2009. However, the comment is noted.