UNIVERSITY OF CAPE COAST

COLLEGE OF DISTANCE EDUCATION

COURSE TITLE:

PUBLIC SECTOR ACCOUNTING

CODE PUBLICATIONS, 2019

ABOUT THIS BOOK

This Course Book **"Public Sector Accounting"** has been exclusively written by experts in the discipline to up-date your general knowledge of Business in order to equip you with the basic tool you will require for your professional training as a teacher and an administrator.

This three-credit course book of thirty-six (36) sessions has been structured to reflect the weekly three-hour lecture for this course in the University. Thus, each session is equivalent to a one-hour lecture on campus. As a distance learner, however, you are expected to spend a minimum of three hours and a maximum of five hours on each session.

To help you do this effectively, a Study Guide has been particularly designed to show you how this book can be used. In this study guide, your weekly schedules are clearly spelt out as well as dates for quizzes, assignments and examinations.

Also included in this book is a list of all symbols and their meanings. They are meant to draw your attention to vital issues of concern and activities you are expected to perform.

Blank sheets have been also inserted for your comments on topics that you may find difficult. Remember to bring these to the attention of your course tutor during your face-to-face meetings.

We wish you a happy and successful study.

Dr. Samuel Kwaku Agyei
Prof. Edward Marfo-Yiadom
Mr. Emmanuel Yaw Arhin

ACKNOWLEDGEMENT

It has become a tradition in academic circles to acknowledge the assistance one received from colleagues in the writing of an academic document. Those who contributed in diverse ways toward the production of this particular course book merit more than mere acknowledgement for two main reasons. First, they worked beyond their normal limits in writing, editing and providing constant support and encouragement without which the likelihood of giving up the task was very high. Second, the time span for the writing and editing of this particular course book was so short that their exceptional commitment and dedication were the major factors that contributed to its accomplishment.

It is in the foregoing context that the names of **Dr. Samuel Kwaku Agyei**, **Prof. Edward Marfo-Yiadom** and **Mr. Emmanuel Yaw Arhin**, University of Cape Coast, who wrote and edited the content of this course book for CoDEUCC, will ever remain in the annals of the College. This special remembrance also applies to those who assisted me in the final editing of the document.

I wish to thank the Vice-Chancellor, Prof. Joseph Ghartey-Ampiah and the Pro-Vice-Chancellor, Prof. Dora Edu-Buandoh and all the staff of the University's Administration without whose diverse support this course book would not have been completed.

Finally, I am greatly indebted to the entire staff of CoDEUCC, especially Mrs. Christina Hesse and Mrs. Khadijah A. M. Nurudeen for formatting the scripts.

Any limitations in this course book, however, are exclusively mine. But the good comments must be shared among those named above.

Prof. Isaac Galyuon
(Provost)

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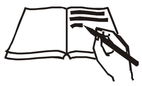

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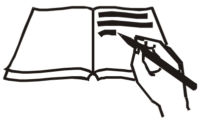
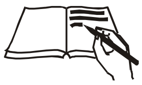

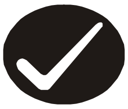
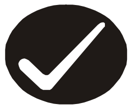


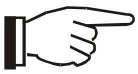


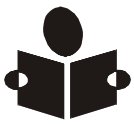
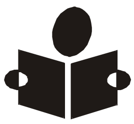


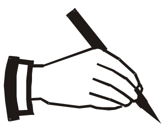
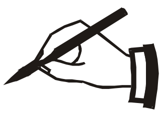

UNIT 1: OVERVIEW AND REGULATORY FRAMEWORK OF PUBLIC SECTOR ACCOUNTING

Unit Outline

Session 1: Meaning, scope and objectives of public sector institutions.
Session 2: Differences/Similarities of private and public institutions and their accounting systems.
Session 3: Conceptual Framework of Financial Reporting in the Public Sector: Objectives and Users of General Purpose Financial Statements of Public Sector Entities
Session 4: Conceptual Framework of Financial Reporting in the Public Sector: Qualitative Characteristics of Public Financial Statements
Session 5: Conceptual framework: Elements of Public Sector Financial Statements and their Measurement Reporting Entity
Session 6: Overview of the Regulatory Framework of public sector accounting in Ghana.

Hello Dear learner! You are welcome to Unit 1. This is the first Unit that introduces you to Public Sector Accounting course. Every economic systems is made up of both the public and private sectors while the private sector is owned and managed by individuals and corporate entities not under the control of the state, the public sector is owned and managed by the state. The state manages the public sector by giving responsibilities, authority and resources to qualified individuals to act on the states' behalf. Based on the stewardship principle, periodically, those entrusted with the management the public sector need to render accounts of their stewardship by providing relevant financial information for accountability and decision making. The process of rendering state accounts is what public sector accounting is all about. In this unit, we first want to acquaint ourselves with the meaning and scope of public sector entities, how it is similar and differs from private sector entities, users of public sector accounting information and an overview of the relevant laws that govern the preparation of public sector accounts. We believe that you would enjoy this unit. You may now read on...

Unit Objectives

At the end of this unit, you shall be able to:

- Identify and explain public sector entities and their importance;
- Explain the differences and similarities between public sector and private sector;
- Discuss the accounting bases and concepts for preparation of public sector accounts;
- Explain the content of the conceptual framework for preparation of public sector accounts;

- Identify and explain the relevant laws that govern public sector accountability in Ghana.

SESSION 1: MEANING, SCOPE AND OBJECTIVES OF PUBLIC SECTOR INSTITUTIONS

Hello, Dear Learner. You are welcome to session 1. Every economic system has both private and public sectors, irrespective of the level of development of that economy. This is because public sectors perform unique functions that cannot be left in the hands of the private sector. In this session, we shall be learning about the definition and meaning of public sector, its constituents and the objectives for establishing them.

Objectives

At the end of this session, you shall be able to:

a) Identify and explain the meaning of public sector.
b) Discuss the objectives for establishing public sector institutions.

Now, you can read on…

Definition and Meaning of Public Sector Institutions

Generally, public sector is considered to be the section of an economic system (means by which countries and governments distribute resources and trade in goods and services) controlled by national, state or provincial, and local governments. In other words, it refers to national governments, regional (e.g. state, provincial, territorial) government, local (e.g. city and town) governments and related entities (e.g. agencies, boards, commissions and enterprises). These sections could be fully funded by the state to provide non-profit services to the entire economy or partially funded by the state to provide services for profits.

In Ghana, the public sector includes the central government, ministries, departments and agencies (MDAs); the local government units like the metropolitan (population of over 250,000), municipal (population of over 95,000) and district (population of 75000 and over) assemblies (MMDAs); public educational institutions and quasi government institutions like public boards and corporations. List of ministries in Ghana, as at 2017, were finance, trade and industry, defense, interior, office of the attorney general and ministry of justice, energy and petroleum, foreign affairs, food and agriculture, education, health, monitoring and evaluation, regional reorganization and development, lands and natural resources, sanitation and water resources, railway development, employment and labour relations, transport, tourism, culture and creative arts, special development initiatives, environment science and technology, national security, youth and sports, local government and rural development, works and housing, communication, information, roads and highways, gender children and social welfare, planning, fisheries and aquaculture, chieftaincy and religious affairs, inner cities and zongo development, business development and aviation. Departments and agencies in

Ghana fall under specific ministries. For instance, one department under the Ministry of Finance is the Controller and Accountant-General's department whilst agencies in the same ministry include Securities and Exchange Commission and Institute of Accountancy Training and Bank of Ghana, which is an agency that the ministry has oversight responsibility. Currently, there are 216 district assemblies (metropolitan, municipal and district)

Government Business Entities

The public sector also includes government business enterprises (GBEs). Generally, GBEs are profit making entities with some minor community service obligations. These enterprises are entities that have all the following characteristics: it

- has the power to contract in its own name;
- has been assigned the financial and operational authority to carry on a business;
- sells goods and services, in the normal course of it business, to other entities at a profit or full cost recovery;
- is not reliant on continuing government funding to be going concern (other than purchase of outputs at arm's length); and
- is controlled by a public sector entity.

Examples of GBEs in Ghana include Ghana Water Company (GWC), Electricity Company of Ghana (ECG), Ghana Commercial Bank and National Investment Bank.

Even though recent developments in the global economy make it difficult for certain products and services to be solely assigned to the public sector, the sector is common in certain areas. The public sector provides goods and services in the area of water, power, education, health, security, environmental protection, law and order, etc. Privatization of state-owned enterprises can change nature of a service from public to private. Also, even though it is uncommon, the state sometimes takes over certain services (especially in the area of education and health) provided by the private sector. Again, the state may also decide to outsource the provision of certain services like sanitation. Thus, the nature of the public sector is dynamic.

Objectives of the Public Sector (PS)

The reasons for setting up public sector organisations are varied. They include the following

1. Facilitate proper administration of state business. Governance of a nation is complex. In order for the government to discharge its responsibilities well there should be an appropriate state structure that would facilitate the government's delivery of its mandate. The public sector provides this needed support through the central government and the local government.
2. Provide vital services to the state. Some important products and services cannot be left in the hands of private sector entities. This is partly because they are key

to the survival of citizens and it is risky to provide such services on profit-motive basis since some citizens may not afford. These include provision of water, electricity, health, education etc.

3. Provide affordable services. The state sometimes intervenes in the provision of some services basically as a social intervention to provide an affordable alternative to the less endowed. The Metro Mass Transit Ltd may be considered as one. It was introduced to help cushion the citizens from high transport cost.
4. Ensure the provision of security for the state. Provision of internal and external security for a country is sensitive for a private entity to handle so the state, through the police and the military takes over such functions
5. Provide employment to the citizenry. Unemployment has serious negative consequences for every nation. Key among them is reduction in economic and empowerment of the citizens which have implications for the social welfare of the state. The public sector is key source of employment for the citizens of every nation, especially developing economies. In Ghana, the public sector is the major employer for the state.
6. Bridge inequalities. Driven by profit motive, the private sector may not be interested in serving communities that would not benefit them financially. These communities would then be deprived of some fundamental products and services. If the private sector were to be in charge of provision of water, electricity, etc, it is possible that some many communities would be cut off from the supply of these basic necessities of life. Eventually, the developmental gap between the rich and the poor would widen. The public sector addresses such inequalities in the state.
7. maintain law and order

SUMMARY

Self-Assessment Questions

Exercise 1.1

This is blank sheet for your short note on:

- Issues that are not clear: and
- Difficult topics if any

SESSION 2: DIFFERENCES/SIMILARITIES OF PRIVATE AND PUBLIC INSTITUTIONS AND THEIR ACCOUNTING SYSTEMS

Dear Leaner, You are welcome to session 2. We hope by now, you are familiar with the meaning, scope and objectives of public sector and you can identify and explain them. In this session, we will be extending our knowledge of the public sector by concentrating on how it is similar to the private sector and the key differences between these sectors. The similarities and differences between the public sector and private sector partly explain the similarities and differences in their accounting systems. So we will also extend our discussion to their accounting systems. We hope you will enjoy this session too.

Objectives

By the end of this session, you shall be able to identify and explain the:

a) similarities between private sector and public sector.
b) differences between public sector and private sector institutions.
c) similarities in public sector and private sector accounting.
d) differences in public sector and private sector accounting.

Now, you can read on…

Introduction

In session 1, we discussed that the part of the economic system is made of both the private and the public sectors. These sectors facilitate the socio-economic development of every nation. The private sector is controlled and managed by private citizens for achieving private objectives while the public sector is owned and managed by the state for the common good of all the citizens. Based on these basic definitions it could be deduced that both the private sector and public sector have identified owners, they are resourced, they have governance structures, they provide accountability for their stewardship and they are set up for specific objectives. These notwithstanding, they differ, at least, on the motives for their establishment. This difference creates differences in the way private and public sectors are structured, how they are funded and their accountability. Also, while some private sector entities are subjected to tax, public sector entities are not taxable. Oduro (2014) offers a discussion of how public sectors are similar to private sectors and the differences between them.

Similarities between Public and Private Sectors

Even though the public and the private sectors are different, these sectors have a number of things in common. In fact their similarities facilitate their peaceful coexistence for the socio economic development of the economy. The public and private sectors are similar in the following areas:

1. Governance: The governance structures of both public and private sectors are largely the same. They all have boards of similar bodies with oversight responsibilities on the work of management or responsible bodies. They all stress on proper stewardship and accountability.
2. Objectives: Each of them has a unique objective for which it was established and has the general public or a section of it as the beneficiaries of their services.
3. Provision of Employment: The public and private sectors of every economy are partners in the provision of employment for the citizenry. Even though in most developing economies like Ghana, the public sector is considered as the main employer, the private sector mostly provides significant employment opportunities and in some cases better employment in terms of salaries and conditions of services.
4. Records keeping and reporting: all sectors whether public or private, keep records of which financial records is a key component. These records are not only supposed to document past events (confirmative ability) but also facilitate future decisions through their predictive ability. It is expected of these sectors that appropriate reports would be prepared and presented, periodically for users.

Differences between Public and Private Sectors

In spite of the similarities, the following factors distinguish the public sector and its entities form that of the private sector.

- Ownership: public sector is owned by the state or the state has majority ownership but the private sector is owned by private individuals or organisations.
- Control: While public sector entities are controlled by government and related agencies, private sector entities are controlled by individuals and other non-public institutions but sometimes have minimal government interference.
- Motive for their establishment: the general motive for establishing private organisations is for profit. Even though GBEs have similar motives, generally, most public enterprises operate to basically serve the public at breakeven charge or no direct cost.
- Means of funding: Public enterprises are generally funded from the state coffers with monies from taxes and donor agencies as the main sources. But private organisations are funded by the private citizens who established them or share in the ideology of those who established them. Private enterprises are funded through issue of shares and debentures.
- Competition: Some public sector organisations face little or no completion while most private organisations operate in highly competitive environment.
- Survival: Survival is mostly based on political will and the importance of service provided in the public sector but survival in the private sector is based on financial success.

- Basis of Promotion of Employees: The public sector is predominantly based on seniority while that of the private sector is based on output.
- Competition in work environment: the work environment of the private sector is more competitive than that of the public sector.

Public Sector Accounting (PSA)

Accounting can be explained as the process of collecting, analysing, recording, summarizing and interpreting financial information for informed decisions by users of financial information. PSA is a system of accounting used by government officials to systematically collect, analyse, record, summarize and interpret public sector financial information for users. It ensures that public funds are properly accounted for. This involves properly recording government revenue expenditure, assets and liabilities in an acceptable form for proper audit. Also, it is a system that puts in place adequate internal controls for government resources in order to safeguard them. Public Sector accounting, also known as government accounting, is the application of accounting principles to the preparation and presentation of financial records for the government and related institutions for users of public sector accounting information.

In Ghana, public sector reporting is regulated by a number of laws and the International Public Sector Accounting Standards. These regulations define the books of accounts to be kept by the public sector, how they are to be kept, audited, reported to users and in some cases the penalties for non-compliance.

Need for Public Sector Accounting

- Report on managers' stewardship
- Assessment of the performance of public institutions
- Facilitate auditing of financial statements and projects.
- For useful decisions like undertaking public investment projects
- For economic policy formulation and review
- As a means of sourcing for support from international development agencies

Similarities of Public Sector Accounting and Private Sector Accounting

- Both keep financial records in order to account for their stewardship to their users.
- Both the public and private sector accounting are based on the double entry principle.
- Both forms of accounting stress the need for organisations to have an appropriate system for controlling expenditure through preparation of budgets and budgetary control.
- When government business entities are operated by the state, their regulations are not different from that of private entities. In other words, they are all

required to prepare their accounts following International Financial Reporting Standards (IFRSs)/ International Accounting Standards (IASs).

- Quality of Accounting Information: Similar qualities of information are required of both public sector accounting and private sector accounting.
- Good Social Citizens: All of these entities are expected to be socially responsible so that their activities would not harm the environment in which they operate. Thus, they are required to report on their corporate social responsibility activities in what is termed as social reporting.

Differences between Public Sector and Private Sector Accounting

- Meaning: It is an accounting system designed for government and related institutions while the private sector accounting or commercial accounting is an accounting system kept by all other organisations that are not government and have the intention of operating for profit or engaging in commercial activities.
- Objective: public sector accounting is designed to serve as a basis for determining the position of funds, while private sector accounting is meant to determine the profit and loss and the financial position of the entity.
- Basis of Accounting: Public sector accounting is predominantly based on the cash basis of accounting even though the International Public Sector Accounting Standards (IPSASs) gives them the option to adopt either the cash and or accrual basis. On the other hand commercial accounting is predominantly based on the accrual basis even though some statements are based on the cash basis.
- Approach to Accounting: the fund system of accounting is common in the public sector but in the private sector, the entity or proprietorship approach is predominantly used.
- Capital and Revenue Expenditures: The public sector accounting does not distinguish between capital expenditure and revenue expenditure neither do they capitalize capital expenditure. This implies that all capital expenditure are written off in the year in which they are incurred and no depreciation is charged. On the contrary, private sector accounting capitalizes capital expenditure and only writes off current expenditure. It, therefore, provides for depreciation.
- Regulation: Public sector accounting is regulated by the financial administration act, regulations, public procurement act, other related public sector accounting laws, and IPSASs. On the contrary, private sector accounting is regulated largely by the International Financial Reporting Standards (IFRSs), International Accounting Standards (IASs), Company’s Code, Partnership Act and other relevant laws.

SUMMARY

Self-Assessment Questions

Exercise 1.2

This is blank sheet for your short note on:

- Issues that are not clear: and
- Difficult topics if any

SESSION 3: OBJECTIVES AND USERS OF GENERAL PURPOSE FINANCIAL STATEMENTS OF PUBLIC SECTOR ENTITIES

Welcome to Session 3. In this session and the subsequent two sessions (sessions 4 and 5) we shall be looking at sections of the conceptual framework for public sector financial reporting. Ghana announced the adoption of the accrual basis of the International public Sector Accounting Standards (IPSASs) as the standards for the preparation of financial statements for all public sectors in October 2014. The decision and subsequent announcement was made by the Institute of Chartered Accountants in consultation with the Controller and Accountant General and Auditor General of the Republic of Ghana. The Minister of Finance indicated in the 2015 national annual budget statement that the implementation of IPSAS would be a gradual process spanning a period of 5-years and beginning from the 2016 financial year. In view of this, the importance of knowledge of the conceptual framework for public sector accounting as well as relevant sections of IPSAS by accountants and accounting students cannot be belittled.

Objectives

By the end of this session, you should be able to:

a) demonstrate an understanding of the meaning of conceptual framework for general purpose financial reporting of public entities.
b) Explain the objectives of general purpose public sector financial reports
c) Identify and explain the information needs of users of general purpose financial reports for the public sector.

Now, you can read on…

Conceptual Framework for General Purpose Financial Reporting of Public Sector Entities

Concepts generally are broad or generic ideas, plans or abstracts that support an activity. Framework is the basic structure that supports or underlies an idea, concept or system. Conceptual framework could be defined as the theoretical structure of broad ideas that provide the overview or outline which underlie the preparation and presentation of general purpose financial reports of public entities. It is a theory of public sector accounting prepared by the International Public Sector Accounting Standards Board (IPSASB) against which practical public sector accounting problems can be tested objectively. The role of the framework is to establish the concepts that underpin general purpose financial reporting by public entities that adopt accrual basis of accounting. The framework, therefore, establishes the concepts that can be applied to developing International Public Sector Accounting Standards (IPSAS) and recommended practice guidelines (RPGs) that are applicable to the preparation and presentation of general purpose financial reports (GPFRs) of public sector entities (PSEs). GPFRs are financial reports intended to meet the information needs of users who are unable to acquire the preparation of financial reports tailored to meet their specific information needs.

Considerations for Developing the Conceptual Framework
In the development of the conceptual framework for GPFRs of PSEs, the International Public Sector Accounting Standards Board (IPSASB) considered: 1) the volume and significance of non-exchange transactions of PSEs; 2)the importance of the approved budget; 3)the nature of public sector programmes and longevity of the public sector; 4)the nature and purpose of assets and liabilities; 5)regulatory role of PSEs; and 6)relationship with statistical reporting.

Objectives of General Purpose Financial Reports

The overriding objective of financial reporting to user of GPFRs is to facilitate accountability and decision making.

Accountability
Even though the entire citizens of a state can be considered as having stakes in the running of public sector entities, it would be impossible for everyone to be involved in every single decision that a public sector entity has to make. So the management of public sector entities are entrusted to a few qualified people. These persons are given state resources to facilitate the discharge of their responsibilities. Thus, periodically, managers of state resources must give account of their responsibility. Accountability is the process of showing how responsibilities assigned to those in charge of management and governance have been discharged within the period of their mandate. It is a justification for actions taken in order to discharge ones legitimate responsibility. General purpose financial reports facilitates accountability since it helps to report on the performance of an entity in monetary as well as the net worth of an entity at any point in time. These reports give evidence of progress or retrogression as well as the efficient and effective use of financial resources. Accountability facilitates decision making.

Decision Making
Users of general purpose financial reports need financial information for useful decisions. Resource providers, for instance need information on how well their resources are being committed to use in the achievement of objectives. Donors want to assess there should be continuity for funding of certain state programmes and projects or they should be curtailed. Taxpayers want to assess whether taxes are collected are put to judicious use or not and whether they should renew the mandate of politicians or not.

Politicians need the information to decide on: how to fund current and future projects; sectoral resource allocation; and how well public sector workers are discharging their mandate towards the achievement of the national objective.

Users' Bases for Assessing Public Sector Entities

Information provided by GPFRs to users are basically for accountability and decision-making within the framework of the objective for establishing public sector entities, which is more of public service oriented rather than profit seeking motive. Thus users assess PSEs by

i. considering whether the PSE provided its services to constituents in a cost efficient and effective manner;
ii. ascertaining the resources currently available to meet future expenditures and the extent of restrictions and conditions attached to their use;
iii. ascertaining the extent to which the burden of future-year taxpayers of paying for current services has changed;
iv. considering whether the entity's ability to provide services has improved or deteriorated.

Users of General Purpose Financial Reporting

One of the basic objectives of preparing accounts for the public sector is to enable users of such information to make informed decisions. These users are those whose actions and inactions either affect the public sector organisations or have the potential to affect public sector organisations. On the other hand, actions or inactions either affect these users or have the potential to affect them. Since public sector organisations serve the public, all interested groups of the public are deemed to be users.Consequently the users include but not limited to the following:

i. Resource Providers: Those who provide the resources used by PSEs such as voluntary providers (donors, lenders, creditors, etc) and largely involuntary providers (taxpayers).
ii. Service recipients: People and institutions that depend on PSEs for services.
iii. Representatives of the service recipients such as the Legislature including members of parliament.
iv. Other Parties including government statistician, analyst, media, financial advisors, public interest and lobby groups, etc.
v. Regulatory and oversight bodies like subcommittees of parliament, auditors etc
vi. Entity management
vii. Rating agencies

Service recipients and their representatives as well as service providers and their representatives are considered to be primary users of GPFRs because they provide resources and receive services from government and other PSEs.

Information needs of Service Recipients and Resource Providers

The information needed by service recipients and resource providers for accountability and decision making purposes include:

i. Performance of PSE during the reporting period in terms of meeting its service delivery and operating and financial objectives as well as managing the resources under its responsibility and complying with relevant regulations on resources acquisition and use;
ii. The liquidity (ability to meet current obligations) and solvency (ability to meet obligations in the long-term) of the PSE;
iii. The sustainability (financial and operating capacity) of the PSE's service delivery and other operations over the long term.
iv. The capacity of the entity to adapt to changing circumstances (such as demographics, national and global economic conditions) that may affect its service delivery.

Specific information requirements of service recipients may include the following:

i. The entity is using resources economically, efficiently and effectively and as intended and whether its use is in their best interest.
ii. The range, volume and cost of services provided during the reporting period are appropriate and amounts and sources of their cost recoveries.
iii. Current levels of taxes and other sources of revenue are sufficient to maintain the volume and quality of services currently provided.

Specific information requirements of resource providers may include the following:

i. Is achieving the objectives established as the justification for the resources raised during the reporting period.
ii. Is the entity funding current operations from funds raised in the current period from taxpayers, lenders and other sources.
iii. Is the entity likely to need additional (or less) resources in the future and the likely sources of those resources.

Information Provided by General Purpose Financial Reports

i. Financial Position; resources and claims of the PSE
ii. Financial Performance: whether the entity has acquired resources economically used them efficiently and effectively to achieve its service delivery objective.
iii. Cash flow: how the entity raised and used cash to show its liquidity and solvency position.
iv. Non-financial information such as compliance with approved budgets, service delivery activities and achievements and expectations of service delivery and activities in future periods. Non-financial information are supposed to enhance, compliment and supplement information provided in the financial statements.

This information are either included in the Notes or separate reports attached to the financial statement.

v. Budget and Compliance with legislation and other Authorities Governing the raising and use of Resources.

vi. Service Delivery Achievements: Financial performance of government and other PSEs are not normally reflected in financial results but in the achievement of their primary objective of providing services to their constituents. Thus, reporting should include information on well planned service delivery targets were met.

vii. Prospective Financial and Non-financial Information: Most government programmes and projects take a long time to complete or its effects felt by the constituents. Due to this the financial consequences of certain decisions may not reflect in the current financial statements but may reflect fully in future periods. It is pertinent for GPFRs to reflect the forecasted financial and non-financial effects of current government decisions with longevity effects.

viii. Explanatory Information: Information about the major factors underlying the financial and service delivery performance of the entity.

Bases of Accounting for the Public Sector

IPSASB allows for the use of both cash basis (in the short term) and accrual basis (ultimately) form of financial reporting. It is recommended that the adoption of accrual-based financial reporting be ideally the goal for all public financial reporting. Following form this IPSASB has developed standards specifically for countries that continue to use the cash basis of financial reporting but encourages the voluntary disclosure of accrual based information. The IPSASB is also considering linkages with budgeting (which in many jurisdictions remains on a cash basis) and statistical reporting standards, such as the International Monetary Fund's *Government Finance Statistics*.

Accrual basis

Accrual basis of accounting is done with the assumption that transactions are recognised when they occur and not when they are paid for. Thus expenses are booked when they are incurred while revenues are recorded when they are earned not when monies are received for them. This concept matches revenue to expense in the period in which they are earned and incurred and not when there are actual movement of cash for them.

Cash basis

Contrary to the accrual basis, the cash basis of accounting holds the view that only the cash effect of transactions is recorded. In other words, revenue is recorded when cash is received and expenditures find their way into the accounts only when cash is paid. Acquisition of capital assets are recorded as cash outflow when cash is paid and no depreciation is charged on such assets. This position implies that credit transactions would have a delayed effect on the accounts. Even though this basis of accounts is not recorded by IPSASB, it is allowed in the short term.

Illustration 1

BADistrict Assembly is in the business of buying and selling broilers during festivities to support their internally generated funds. During the last Christmas (31st December, 2017), the District sold 1000broilers for GHS25000 (in total) out of the 1500 broilers he had purchased @ GHS20 each. All transactions were for cash. Show how the income statement of BADistric Assembly would look like, under both the accrual basis and cash basis.

Solution to illustration 1

BADistrict Assembly

Income Statement for the year ended 31st December 2017

		Accrual Basis	Cash Basis
	GHS	GHS	GHS
Sales		25,000.00	25,000.00
Purchases (1,500 x GHS20)	30,000		(30,000.00)
Closing Stock (500 x GHS20)	(10,000)	20,000.00	....
Profit / (Loss)		5,000.00	(5000.00)

sUMMARy

Self-Assessment Questions

Exercise 1.3

SESSION 4: QUALITATIVE CHARACTERISTICS OF PUBLIC FINANCIAL STATEMENTS

Welcome to session 4. In this session we will be looking at the qualities that financial information that are relevant to decision making should possess. Qualitative characteristics of the financial and non-financial information included in the GPFRs are the attributes that make GPFRs useful (fulfilling the accountability and decision-making functions) to users of financial information and support the achievement of the objectives of financial reporting. Relevance, faithful presentation, understandability, timeliness, comparability and verifiability are the qualitative characteristics enshrined in the conceptual framework.

Objectives

By the end of this session, you should be able to:

a) Identify and discuss the qualitative characteristics of useful financial information
b) Explain the constraints on information included in GPFRs

Now, you can read on…

The Qualitative Characteristics of Public Sector Financial Information

Relevance: Implies that the financial and non-financial information is capable of making a difference in achieving the objectives of financial reporting. The information is relevant when it has the ability of affecting the decisions to be made. The inclusion or exclusion of such information will affect the value of the decisions to be made by users. Such information must have confirmatory and predictive value. Confirmatory value means that the financial information confirms or changes past (or present) expectations. For instance, the financial and non-financial information (current and prospective) should help validate financial statement items and their valuation. Predictive value implies that the financial information is capable of assisting users to forecast future economic condition of the PSE for accountability and decision-making purposes. Predictions could be made by using trend analysis. Confirmatory and predictive roles are interrelated.

Faithful Representation: Implies that financial and nonfinancial information portray exactly the financial condition of the PSE it purports to represent. Faithful representation is deemed to have been achieved when the information is complete, neutral and free from material errors. Faithfully represented information does not contain significant omissions, is not biased neither is it inaccurate. Even though, in practice, it is difficult to achieve a perfect level of faithful representation, GPFRs should be as complete, neutral, and free from material errors as possible.

Understandability: it is the quality of financial information that enables users to comprehend its meaning. The financial and non-financial information should not be ambiguous and excessively technical beyond the comprehension of users who cannot afford tailor-made financial statements. Financial, non-financial, commentary on service delivery and other achievements for the reporting period become more understandable when it is classified, characterized, summarized and presented clearly and concisely. Basic knowledge of the entity and its environment should be enough to facilitate users comprehension. However, promoting understandability does not mean that completeness should be sacrificed because of complexity.

Timeliness: Means making information available to users before it loses its value for accountability and decision-making. The importance of historical data for trend analysis and forecasting implies that some items of information remain useful long after they have been presented.

Comparability: Is the quality of information that enables users to identify similarities in and differences among two sets of phenomena. Even though consistency of usage of accounting principles and policies enhances intra-company (comparison over time for a single entity) and inter-company (comparison of two entities over time) comparison, the two concepts are not the same. Consistency refers to using the same accounting policy over a long period of time and only changing when a new standard demands so or a new policy offers a better way of presenting a transaction. Uniformity also enhances comparability but overemphasizing on uniformity could weaken the comparability quality because of the tendency to force dissimilar things to look similar.

Verifiability: it is the quality of accounting information that helps users to confirm or validate the authenticity of transactions that have taken place in a PSE or are purported to have taken plan. When transactions are proven to be authentic they would be reliable and faithfully presented. In order to ensure verifiability, transactions should be supported by sufficient and appropriate documents. Thus, verifiability implies supportability and eventually ensures that knowledgeable people with the requisite training and skill could reach similar conclusions when the basic records underlying GPFRs are scrutinized, summarized and final accounts extracted from them.

Constraints on Information included in GPFRs

Materiality: Information is material if its omission or misstatement could influence the discharge of accountability by the entity or the decisions that users make on the basis of the entity's GPFRs prepared for that reporting period. On the basis of the fact that benefits from PSE's programmes and projects could go beyond one reporting period and could cover several reporting periods, fixing materiality thresholds for them is impossible. Thus, materiality assessment should be influenced by the legislative, institutional and operating environment, prospective financial and non-financial information as well as the preparer's knowledge and expectations about the future. Materiality is considered as a constraint to the quality of financial statements because in developing IPSAS and RPGs by IPSASB and considering their application by entities, the materiality of the transaction's effect is considered.

Cost-Benefit: the preparation of financial and non-financial GPFRs involves cost that must be justified by its associated benefits of accountability and decision making. The cost of generating GPFRs may not commensurate the expected benefit in terms of expected quality of the GPFRs. When developing IPSAS, the IPSAB considers the benefits to be derived from the standard and its disclosures as against the cost associated with its development.

SUMMARY

Self-Assessment Questions
Exercise 1.4

This is blank sheet for your short note on:

- Issues that are not clear: and
- Difficult topics if any

SESSION 5: ELEMENTS OF PUBLIC SECTOR FINANCIAL STATEMENTS AND THEIR MEASUREMENT

Welcome to Session 5. We hope you can recall the qualitative characteristics of general purpose financial information. If you will recall completeness of financial information contributes to its usefulness in decision making. As a result, the conceptual framework identifies key elements that should be included in the public sector financial statements and their measurement in order to improve on its usefulness. In this session, well spend some time to gain understanding on what should be included in public sector financial statements and how to determine the values to be placed on them.

Objectives

By the end of this session, you should be able to:

a) Identify and explain the elements of public sector financial statements
b) Explain the measurement bases for elements of public sector financial statements.

Now, you can read on…

Reporting Entity

A public sector reporting entity is a government or other public sector organization, program or identifiable area of activity that prepares GPFRS. A group reporting entity is a government or other reporting entity that 1) has the authority and capacity to direct the activities of one or more PSEs so as to benefit from the activities of those entities and b) be exposed to a financial burden or loss that may arise as a result of those activities. To satisfy the objectives of financial reporting, the GPFRs of a group reporting a entity prepared in respect of a government or other public entity shall include that government and the entities whose activities that government has authority to direct, when the results of such direction can generate a) financial or other benefits for the government or b) expose it to financial burden or loss.

Key Characteristics of Public Sector Reporting Entity

- It is an entity that raises resources from or on behalf of constituents and/or uses resources to undertake activities for the benefit of, or on behalf of those constituents; and
- There are service recipients or resource providers dependent on GPRS of the entity for information for accountability and decision-making purposes

Elements of Financial Statements
Elements if financial statements are the broad classes of the effects of financial transactions and other events that share common economic characteristics. Elements are the building blocks from which financial statements are constructed. The elements form the basis of analyzing and summarizing financial information for useful decisions of accountability and decision making. The elements are as follows:

Assets: they are resources presently controlled by the entity as a result of past event. Any item with service potential or the ability to generate future economic benefits is considered as resource. Recreational, heritage, community, defense and other assets held by government for third-party benefits are examples of resources with service potential.

Liabilities: A liability is a present obligation of the entity for an outflow of resources that results from a past event. The present obligation could be legal or constructive. In a public sector obligations may arise through making a political promise such as an electoral pledge, announcement of a policy, introduction (and approval) of the budget which may be two distinct points and the budget becoming effective. Normally, the early stages may not give rise to a present obligation as the later stages.

Net Financial Position: it is the difference between assets and liabilities after adding other resources and deducting other obligations recognized.
Revenue: It is increase in net financial position of an entity, other than increases arising from ownership contributions.

Expense: It is decrease in net financial position of an entity, other than decreases arising from ownership distributions. Revenue and expense arise from exchange and non-exchange transactions as well as other events

Surplus or Deficit: the entity's surplus or deficit is the difference between revenue and expense reported in the statement of financial performance.

Ownership contributions: These are inflows of resources to an entity contributed by external parties in their capacity as owners, which establish or increase an interest in the net financial position of the entity.

Ownership distribution: Outflows of resources from the entity distributed to external parties in their capacity as owners, which return or reduce an interest in the net financial position of the entity.

Recognition Criteria and their Relationship to Disclosures

These are the conditions to be satisfied for an element to be incorporated (initially recognized) and included in the amount displayed on the face of an appropriate financial statement. The recognition criteria are that:

- An item satisfies the definition of an element. In some circumstances, a resource or obligation may be allowed by an IPSAS to be recognized even though it does not meet the definition of an element provided it can be measured in a way that achieves the qualitative characteristics and constraints; and
- Can be measured in a way that achieves the qualitative characteristics and takes account of constraints on information in GPFRs. Where there is uncertainty in the measurement of an element, judgment could be applied in estimating the value of the item to be included in the element if it can lead to the provision of relevant and faithful GPFRs. The economic and other basis for applying the judgment should then be disclosed. Where the level of uncertainty in the point estimate is large such that the relevance and faithful representation of the element is so questionable, the item should not be recognized even if it is possible to disclose it.

Disclosures and Recognition

Disclosures cannot be used as a remedy for failure to recognize a transaction that meets the definition of an element. But disclosures can be used to offer explanation for a transaction that meets a significant but not all of the definition of an element of financial statement but can be measured reliably. Also, disclosures are relevant in circumstances where judgment is necessary in valuing an element because of the presence of uncertainty but the uncertainty will not affect the relevance and faithful presentation of GPFRs. Disclosure is appropriate where additional information about an item is necessary to facilitate evaluation of net financial position of a PSE.

Derecognition

Derecgnition is the process of evaluating whether changes have occurred since the previous reporting date that warrant removing an element that has been previously recognized from the financial statements and removing the item if such changes have occurred. In evaluating uncertainty about the existence of an element, the same criteria are used for derecognition as at initial recognition.

Measurement of Assets and Liabilities in Financial Statements

The objective of measurement of the elements of financial statement is to select those measurement bases that most fairly reflect the cost of services, operational capacity and financial capacity of the entity in a manner that is useful in holding the entity to account and for decision-making purposes. The measurement basis selected facilitates the achievement of the PSE objectives by enabling uses to assess

- The cost of services provided in the period in historical or current terms;

- Operational capacity – the capacity of the entity to support the provision of services in the future periods through physical and other resources; and
- Financial capacity - the capacity of the entity to fund its activities.

Measurement bases and their selection

Entry and Exit Values

Entry values are the values at which the asset is initially recognized in the books of account while exit values are the values at which the assets are derecognized from the books of accounts. The framework identifies these values with respect to assets and liabilities.

ASSETS: Entry values of assets reflect historical or replacement cost of asset while the exit values reflect the economic benefits from disposing of the asset or the amount that would be derived from using the asset.

LIABILITIES: Entry values of liabilities relate to the transaction under which an obligation is received or the amount that an entity would accept for assuming a liability. Exit values reflect the amount required fulfilling an obligation or the amount required to release the entity of an obligation.

Observable and Unobservable

Observable means the valuation methods are likely to be more understandable and verifiable or may be more faithfully representative of the phenomena than unobservable.

Entity-Specific and Non-Entity Specific

Entity- Specific values reflect the economic and current policy constraints of that affect the possible uses of the assets and the settlement of a liability by the entity while non-entity-specific reflect general market opportunities and risks.

Measurement Bases of Assets

Historical cost, market value, replacement cost, net selling price and value in use are the measurement bases identified for assets.

Historical: the consideration given to acquire or develop an asset, which is the cash or cash equivalent or other consideration given, at the time of its acquisition or development.

Current Value Measurements

Reflect the economic environment prevailing at the reporting date. These measurement bases include market value, replacement cost, net selling price and value in use.

Market Value: an amount for which an asset could be exchanged within knowledgeable, willing parties in an arm's length transaction.
Replacement Cost: The most economic cost required for the entity to replace the service potential of an asset (including the amount that the entity will receive from its disposal at the end of its useful life) at the reporting date. Replacement cost differs from market value because:

- In a public sector context, it is explicitly an entry value that reflects the cost of replacing the service potential of an asset;
- It includes all the cost that would necessarily be incurred in the replacement of the service potential of an asset; and
- It is entity-specific and therefore reflects the economic position of the entity rather than the position prevailing in a hypothetical market.

Net Selling Price: the amount that the entity can obtain from sale of the asset after deducting the cost of sale. Net selling price differs from market value because it does not require an open active and orderly market or the estimation of the price prevailing in such market and that it includes the entity's cost of sale. Thus, it reflects constraints to sale and it is entity specific.

Value in Use: It is the present value to the entity of the asset's remaining service potential or ability to generate economic benefits if it continues to be used and of the net amount that the entity will receive from its disposal at the end of its useful life.

Now, you can refer to Table 1.1 for the summary of measurement bases for assets

Table 1.1: Summary of Measurement Bases for Assets

Measurement Basis	**Entry or Exit**	**Observable/ or Unobservable in the Market**	**Entity or Non-Entity Specific**
Historical	Entry	Generally Observable	Entity-specific
Market Value in Open activity and orderly Market	Entry and Exit	Observable	Non-entity specific
Market Value in inactivity Market	Exit	Dependent on Valuation Technique	Dependent on Valuation Technique
Replacement Cost	Entry	Observable	Entity-Specific
Net Selling Price	Exit	Observable	Entity-Specific
Value in Use	Exit (for non-cash generating assets,	Unobservable	Entity-Specific

	the calculation of value in use may require the use of market values as surrogates).	

Source: IPSASB (2015) Conceptual Framework for General Purpose Financial Reporting of Public Sector Entities

Measurement Bases for Liabilities

These bases include historical cost, Cost of fulfillment, Market Value, Cost of release and Assumption cost.

Historical Cost: the consideration received, which is in the nature of cash and cash equivalent, or the value of the other consideration received at the time the liability is incurred.

Cost of Fulfillment: this is the cost that the entity will incur in fulfilling the obligations represented by the liability, assuming that it does so in the least costly manner.

Market Value: is the amount for which a liability could be settled between knowledgeable and willing parties in an arm's length transaction.

Cost of Release: Is the term used in the context of liabilities to refer to the same concept as 'net selling price' in the context of assets. It refers to the amount of an immediate exit from the obligation. It is the amount that the creditor will accept in settlement of its claim (sometimes through specific cancellation clause in the contract) or a third party would charge to accept the transfer of the liability from the obligor. Cost of release, just as net selling price, should be used when it offers the most resource-efficient course available.

Assumption Price: is the term used in the context of liabilities to refer to the same concept as replacement cost of assets. It is the amount that the entity would rationally be willing to accept in exchange for assuming an existing liability. At the time a liability is first incurred in an exchange transaction, assumption price represents the amount that was accepted by the entity for assuming the liability. Even though there are limited circumstances where assumption price would be useful, insurance and financial guarantees make it useful for faithful representation.

Now, you can refer to Table 1.2 for the summary of the measurement bases for liabilities

Table 1.2: Summary of Measurement Bases for Liabilities

Measurement Basis	**Entry or Exit**	**Observable/ or Unobservable in the Market**	**Entity or Non-Entity Specific**
Historical	Entry	Generally Observable	Entity-specific
Cost fulfillment	Exit	Unobservable	Entity-specific
Market Value in open activity and orderly Market	Entry and Exit	Observable	Non-Entity specific
Market value in inactive market	Entry	Dependent on valuation technique	Dependent on valuation technique
Cost of release	Exit	Observable	Entity-Specific
Assumption Price	Entry	Observable	Entity-Specific

Source: IPSASB (2015) Conceptual Framework for General Purpose Financial Reporting of Public Sector Entities

SUMMARY

Self-Assessment Questions
Exercise 1.5

This is blank sheet for your short note on:

- Issues that are not clear: and
- Difficult topics if any

SESSION 6: OVERVIEW OF THE REGULATORY FRAMEWORK OF PUBLIC SECTOR ACCOUNTING IN GHANA

Dear Learner, you are welcome to session 6 which is the last session of the first unit of this course. In this last session, we shall be looking at some of the laws that govern the preparation of accounts and financial control of public sector entities in Ghana. Knowledge of these relevant laws would enable you to operate in the public sector within the confines of the regulations. We hope that you will enjoy this session, just like the previous sessions.

Objectives

By the end of this session, students should be able to:

a) explain relevant provisions of the 1992 constitution that relate to public finance
b) explain relevant provisions of the Public Financial Management Act 2016 (Act 921).
c) describe the content of Local Government Act 2016 (Act 936)
d) describe the content of Internal Audit Agency Act, 2003 (Act 658)
e) describe the content of the Audit Service Act, 2000 (Act 584)
f) describe the content of The Public Procurement (Amendment) Act, 2016 (Act 914)
g) describe the content of the International Public Sector Accounting Standards

Now, you can read on…

Introduction

The accountancy discipline, just like other disciplines, has regulatory frameworks designed to ensure maintenance of standards and conformity to generally accepted accounting standards. Regulatory framework of accounting could be explained to mean the rules, norms and acceptable ways of behavior prescribed by international standards and national laws on the treatment of transactions and behavior of accountants. In Ghana, a number of laws regulate the control of government funds, keeping of financial records and preparation of financial statements for the government. These include the 1992 Constitution of the Republic of Ghana, Public Financial Management Act 2016 (Act 921), The Financial Administration Regulations 2004, LI 1802, Local Government Act 2016 (Act 936), Internal Audit Agency Act, 2003 (Act 658), Audit Service Act, 2000 (Act 584), The Public Procurement (Amendment) Act, 2016 (Act 914), Local Government Financial Memoranda. The country has also adopted the International Public Sector Accounting Standards (IPSAS) and is therefore bound by its provisions. It is expected that relevant provisions in these regulations would be followed by government accountants when treating related transactions.

Relevant Provisions of the 1992 Constitution of the Republic of Ghana

Chapter 13 of the Constitution of the Republic of Ghana deals with the finances of the state. Particularly, Articles 174 to 189 of the highest law of the land outline general provisions on how government funds are to be raised, kept, controlled, and spent and the offices entrusted with these responsibilities. Specifically, these Articles cover public funds and their accounting, responsibilities of the Bank of Ghana and the Governor of the Bank, the Auditor General and his responsibilities and the audit service.

Public Funds

Taxation: In Article 174 taxes can only be imposed on the citizenry under an Act of Parliament. Prior approval from Parliament should be sought when an appropriate authority wants to waive the payment of taxes by an individual. But parliament may waive this right by a resolution supported by two-thirds majority vote.

Article 175 identifies public funds to include the Consolidated Fund, Contingency Fund and any other such public funds as may be established by or under the authority of an Act of Parliament. Consolidated fund is used to describe the main or most important government bank account. It is used to receive all government revenue (for example from income tax, Value Added Tax, National Health Insurance Levy, etc) including any other monies raised or received in trust for the Government but excluding funds established for a specific purpose or used to defray the expenses of the government department that raised or collected it. It is also used to pay for all government expenses (Like construction of roads, dams, bridges, payment of public sector workers wages, welfare schemes, etc). The central bank maintains this account. All payments out of the consolidated funds must be approved by parliament. Thus, these payments are backed by budgets prepared and laid before parliament on behalf of the president by the Finance Minister and duly approved. In effect, payments from the consolidated fund shall be supported by an Appropriation Act, Parliament approved supplementary estimate, rules and regulations of parliament in respect of trust monies.

On the other hand, the contingency fund is a fund into which funds have been voted (set aside) by Parliament to pay for unexpected events (which no other provision exists) for which the nation must respond to restore normalcy. For instance, Ghana had to respond to the May 9 Stadium Disaster and the June 3 Accra (Circle) Flooding and Fire disaster. These monies would normally come from the contingency fund. Even though payments from the contingency fund requires only the approval of the finance committee of parliament, the fund needs to be reimbursed from the consolidated fund for monies spent from the contingency fund and such reimbursements need parliamentary approval.

An appropriation bill should accompany the main estimates as well as supplementary estimates of revenue and expenses which is to be prepared and laid before parliament by the president. The main estimates should be laid before parliament at least one month before the beginning of the year in which it relates. The appropriation bill, when passed by parliament, becomes the appropriation act authorizing payments from the consolidated fund. Thus, *the Appropriation Act* is an act of parliament which allows withdrawals to be made out of the consolidated fund for government to meet its financial obligations. In December 2015, the parliament of Ghana approved an amount of GHS50, 109, 851, 734.00 from the consolidated fund for government business in 2016. But in July 2016, The Finance Minister requested Parliament to approve an amount of GHS1,888, 203, 387 as supplementary estimates for the 2016 financial year. In 2017, an amount of GHS67, 279, 955, 085 was approved for the year 2018 (details have been included in Table 1.3). Where the passage of the Appropriation Bill delays, the president by a resolution approved by parliament authorize withdrawal from the consolidated fund for a period not exceeding three months into the actual financial year or the date of passage of the appropriation Act if that comes first.

Table 1.3: 2018 Appropriation Bill (1st Schedule –Section 1)

Item			Budget Allocation
		GHS	**GHS**
Total Source of Funding			**67,279,955,085**
Compensation of Employees			**19,595,126,198**
	Wages and salaries	16,762,297,860	
	Pensions	1,005,737,872	
	Gratuities	385,532,851	
	Social Security	1,441,557,616	
Use of Goods and Services			**3,548,137,121**
o/w ABFA –Use of Goods and Services			463,179,589
Interest Payments			**14,909,848,896**
	Domestic	12,165,240,329	
	External	2,744,608,567	
Subsidies			**171,980,514**
	Subs. on Petroleum Prod.	171,980,514	
Grants to other gov't units			**12,030,373,884**
	National Health Fund	1,814,537,436	
	GET Fund	928,041,133	
	Road Fund	884,501,241	
	Petroleum Related Fund	20,869,895	
	DACF	1,812,144,435	
	Retention of IGF	3,761,240,072	

Transfer to GNPC	1,001,516,165	
Other Earmark Funds		**1,807,523,508**
GRA Retention	974,806,710	
Youth Employment Agency	202,565,261	
Student Loan Trust	2,532,066	
Export Dev't Levy	205,565,261	
Ghana Airport Authority	314,997,553	
Mineral Dev't levy & Stool Land	96,060,428	
Plastic Waste Recycling Fund	10,842,318	
Social Benefits		**257,486,654**
Lifeline consumers of electricity	89,116,853	
Transfers for Social protection	168,369,800	
Other Expenditure		**2,104,476,410**
ESLA Transfers	2,104,476,410	
Capital expenditure		**6,896,301,891**
Domestic Financed	3,339,114,808	
o/w ABFA – Domestic Financed	1,080,752,375	
Foreign Financed	3,557,187,083	
Non Road Arrears		**858,457,472**
Tax Refund Vote		**1,638,079,036**
Amortization		**5,269,687,009**

Source: Appropriation Act, 2017 (Act 951)

The Bank of Ghana (Article 183)

The following functions have been handed down to the Bank of Ghana (BoG). It shall:

a) be the central Bank of Ghana and only authority to issue the currency of Ghana;
b) promote and maintain the stability of the currency of Ghana;
c) be the sole custodian of State funds both in and outside Ghana but may delegate this function appropriately;
d) Encourage and promote economic development and the efficient utilization of the resources of Ghana;

The Governor of Bank of Ghana shall not allow any transaction or transfer of foreign exchange which is against the law. The finance Committee of Parliament shall monitor the foreign exchange transactions of BoG. Meanwhile, the Auditor-General shall audit the foreign exchange receipts and payments or transfers of BOG and submit its report to Parliament.

The Auditor-General (Article 187)

Section 1 of Article 187 mandates the establishment of the Auditor-General's office as a public office. The office is mandated under subsection 2 to audit and report on all public accounts of Ghana and of all public offices, including the courts, central and local governments administrations, Universities and public institutions of like nature, of any public corporation or other body or organization established by an Act of Parliament. The Constitution allows the Auditor-General to either perform this function or through a qualified person. In either case, the Auditor-General or her representative shall have unrestricted access to all books, records, returns and other relevant documents to the accounts. All administrative costs of the Auditor-General's office in respect of discharging her duties shall be charged to the Consolidated Fund. Before assuming office, the Auditor-General shall take and subscribe to the Oath of the Auditor-General set out in the Second Schedule of the 1992 Constitution.

Responsibilities of the Auditor-General

1. Audit all public accounts of Ghana.
2. Appoint a competent person to assist in the auditing of public accounts.
3. Approve of the appropriate form of presenting public accounts
4. Submit the auditor's report to Parliament within six (6) months after the end of the immediately preceding financial year to which audited public accounts relates. The report shall detail any irregularities in the accounts audited and any other matter which he deems fit to be brought to the attention of Parliament.
5. Perform any special audit engagements of the President.

Rights and Powers of the Auditor-General

1. Right of access to all books, records, accounts and documents necessary for public accounts audit.
2. Right to be treated the same way as a Justice of a Superior Court of Judicature when being removed from office, as enshrined in article 146 of the 1992 Constitution.
3. The right to have her salary and allowances including her rights in respect of leave of absence, retiring award, retiring age not to be varied to her disadvantage during her tenure of office.
4. Power not to be subjected to the direction or control of any other person or authority.
5. Power to disallow any item of expenditure which is contrary to law and surcharge the amount on the appropriate person. Any person affected by this decision by the by Auditor-General may appeal to the High Court.

Audit of Accounts of the Auditor-General
The Auditor-General's accounts shall be audited by an auditor appointed by Parliament. Articles 188 and 189 of the Constitution deal with the establishment of the audit service, composition of its board and removal of members of the board.

Relevant Provisions of the Public Financial Management Act 2016 (Act 921)

PFM refers to the set of laws, rules, systems and processes used by sovereign nations (and sub-national governments), to mobilise revenue, allocate public funds, undertake public spending, account for funds and audit results. It encompasses a broader set of functions than financial management and is commonly conceived as a cycle of six phases; policy design, budget formulation, budget approval, budget execution, accounting and external audit and evaluation. A large number of actors engage in this "PFM cycle" to ensure it operates effectively and transparently, whilst preserving accountability.

The main purpose of the Act is to regulate the financial management of the public sector within a macroeconomic and fiscal framework. Provisions in the Public Financial Management (PFM) Act 2016 (Act 921) outline: the roles of key officers entrusted with the responsibility of managing public funds; design of macroeconomic and fiscal policies; procedures for budget preparation, approval and management; management of the contingency fund, cash, asset and public debt; public accounts and audit and related matters. This section will be limited to roles of key officers and design of macroeconomic and fiscal policies. The rest of the issues captured in the PFM Act will be discussed during discussion of the broad areas they cover, later in the course.

Responsibilities of the Minister of Finance
The minister is responsible for technical matters relating to the efficient operation of the public financial management system of the country subject to the policy guidance from cabinet. The discharge of the following duties shall assist the Minister to perform the main task. The Minister shall

1. Prepare the annual and supplementary budget estimates and reports for submission to parliament;
2. Monitor and assess the implementation of the annual budget and ensure the implementation of the fiscal policy of Government;
3. Manage Government property, financial assets, Government debts, government guarantees and other contingent financial liabilities specified under this Act;
4. Account for public funds through the consolidated public account;
5. Lay the annual report of the Auditor-General before Parliament;
6. Supervise the financial operations of a covered entity; and

Covered entities mean the Executive, Legislative and Judiciary; constitutional bodies; Ministries, Departments and Agencies; the public service; autonomous agencies; public funds; state-owned enterprises.

The public service in Ghana includes the civil service, judicial service, audit service, education service, prisons service, parliamentary service, health service, statistical service, national fire service, Ghana revenue authority, police service, immigration service, legal service, public corporations other than those set up as commercial venture, public service established by the constitution, and public service established by an Act of Parliament.

The term ***civil service*** *can refer to either a branch of governmental service in which individuals are employed (hired) on the basis of professional merit as proven by competitive examinations; or the body of employees in any government agency apart from the military, which is a separate extension of any national government.*

7. Perform any other functions assigned to the Minister under this Act. These include but not limited to
    - ensuring that salary negotiations in respect of the public sector for the ensuing financial year are completed not later than the 30th April of the preceding year and the Fiscal Strategy Document required under section 14 reflects the negotiated aggregate sector salaries for the ensuing year. (see section 20). Where the 30th April deadline is not met the expected negotiated aggregate public sector salaries shall be included.

Powers of the Minister of Finance

In order to discharge the above functions creditable, the Minister may:

1. Request a report or any information from any covered entity or any other person receiving grants, advances, loans, guarantees or indemnities from the Government;
2. In consultation with the Public Services Commission and with the approval of cabinet establish structures or units within the Ministry necessary to enable the Minister discharge responsibilities under this Act;
3. Enter into and execute an agreement on behalf of the Government in relation to matters of financial nature; and
4. Give directives and instructions necessary for the implementation of the provisions of this Act.
5. Delegate any of the responsibilities to the Chief Director or a senior public officer, even though the ultimate responsibility shall rest with the Minister.

6. The Minister, subject to relevant provisions in any procurement laws, may engage the services of professionals, consultants and experts to assist him/her in the effective discharge of his/her responsibilities under this Act.

Responsibilities of the Chief Director

Include the duties enshrined in section 20 of the Civil Service Act, 1993 (PNDCL, 327) and responsibilities specified under this Act relating to a Principal Spending Officer. The Chief Director shall:

1. Advise the Minister on economic, budgetary and financial matters and on matters related to the implementation of this Act;
2. Coordinate the preparation of the Fiscal Strategy Document, budget estimates and the Appropriation Bill;
3. Promote and enforce the transparent, efficient and effective management of public revenue, public expenditure and the assets and liabilities of a covered entity;
4. Monitor the performance of the financial management systems of the public sector
5. Manage public funds;
6. Mobilise resources including financial assistance from development partners and integrate the resources into the planning, budgeting, reporting and accountability processes provided under this Act.
7. Monitor the financial and related performance of a covered entity;
8. Provide the framework for conducting banking and the management of cash for a covered entity;
9. Prepare a report within one month after the end of each quarter on the implementation of the annual budget by the Government and submit the report to the Minister; and
10. Supervise the functions of the Controller and Accountant –General's Department.

Powers of the Chief Director

As part of performing the functions outlined above, the Chief Director:

1. Shall have access, during working hours, to
    - The accounting records or information of a covered entity,
    - The place where public accounting services are carried out, and
    - The place where public accounting records are kept;
2. May issue directives and instructions necessary for the effective implementation of this Act to the head of a covered entity, a Principal Account Holder and Principal Spending Officer of a covered entity; and

    Principal Account Holder means the sector Minister of a covered entity.

Principal Spending Officer, in relation to a covered entity, means the Chief Director, Chief Executive or the most senior administrative Head responsible for producing outputs.

3. May inspect, during working hours, the offices of a covered entity and access any information relating to public finance that the Chief Director may request. The Chief Director can authorize a senior officer to inspect the offices.
4. The Chief Director can delegate, through writing, all the above functions but the ultimate responsibility rests on him/her.

Controller and Accountant General (Section 8)
The Controller and Accountant General is appointed by the President, following Article 195 of the Constitution. The terms and conditions of service of the Controller shall be enshrined in the letter of appointment. The law states that the Controller and Accountant-General shall be responsible to the Minister of Finance for the custody, safety and integrity of public funds. This implies that the basic function of the Controller is that public funds are properly kept and safeguarded or protected through the development of appropriate and sufficient internal controls and ensuring that all Government funds are in the ownership of Government. Specifically, the Controller and Accountant-General shall

1. Compile and manage the accounts prepared in relation to public funds;
2. Issue general instructions to a Principal Spending Officer in accordance with this Act and the Regulations;
3. Keep, render and publish statements on public accounts under this Act;
4. Advise the Minister on accountancy matters;
5. Develop efficient accounting systems for a covered entity;
6. Receive, disburse and provide secure custody for public funds;
7. On the instructions of the Minister of Finance, open an account with the Bank of Ghana and its agents necessary for the deposit of public funds subject to compliance with the Treasury Single Account system established under section 38.

   Treasury Single Account means a consolidated bank account system where all deposit and payments transactions are processed for central government;

   Virement means the reallocation of funds within the budget of a covered entity, from one budget line to another budget line.

   Warrant means the authority to commit government.

8. Authorize the opening of an account for a covered entity; and

9. In consultation with the Auditor-General, specify for a covered entity, the accounting standards, policies and classification system to be applied in public accounting to ensure that a proper system of accounting operates.

Deputy Controller and Accountant-General (section 9)
In accordance with article 195 of the Constitution, the President shall appoint deputy Controllers and Accountant-Generals whose conditions of service shall be specified in their appointment letters and who shall perform functions assigned to them by the Controller and Accountant-General. Thus, even though the President has the right to appoint deputy Controllers and Accountant-Generals, the Controller and Accountant-General shall specify their duties. The deputy Controller and Accountant-Generals are responsible to the Controller and are expected to assist the Controller and Accountant-General to perform his or her responsibilities creditably.

Local Government Act 2016 (Act 936)
The Act gives a backing to the decentralisation of the central governance system of Ghana.
It supports the creation and running of the Metropolitans, Municipalities and District Assemblies

Internal Audit Agency Act, 2003 (Act 658)
The Act mandates government institutions to have internal auditors to improve on the governance of such institutions.

Audit Service Act, 2000 (Act 584)
Supports the external audit of government organisations. It is headed by the Auditor-General of Ghana.
Due to the size of government business, the auditor General may appoint private auditors to assist in the external audit of public sector entities.
The Auditor-General's Department produces the annual Auditor-General's report.

The Public Procurement (Amendment) Act, 2016 (Act 914)
Section 14 states that Act 914 applies to
(a) the procurement of goods, works and services, financed in whole or in part from public funds;
(b) functions that pertain to the procurement of goods, works and services including the description of requirements and sources of supply, selection and award of contracts and the phases of contract administration;
(c) the disposal of public stores, vehicles and equipment; and
(d) procurement with public funds including loans procured by government, grants, foreign aid funds and internally generated funds except as exempted under section 96.

International Public Sector Accounting Standards (IPSASs)
Background

It is meant to improve on transparency and accountability of public sector entities.
The International Public Sector Accounting Standards Board (IPSASB), formerly the IFAC Public Sector Committee, supported by International Federation of Accountants (IFAC) issues IPSAS, guidance, and other resources for use by the public sector around the world since 1997.
The Minister of Finance, in 2015, gave a 5-year window (starting from 2016) for the gradual implementation of IPSASs in Ghana.

IPSASs in Ghana

Ghana is at the adoption stage. Preparations are being made to migrate public sector accounts fully to IPSASs.

- Changing of accounting systems through gap analysis
- Training of public sector accountants

IPSASs and IFRSs

As a general rule, the IPSAS maintain the accounting treatment and original text of the IFRS, unless there is a significant public sector issue that warrants a departure.
IPSASs cover reporting issues that are either not addressed by adapting an IFRS or for which no IFRS has been developed.

- Both have conceptual framework and the standards.
- Both deal with general purpose financial statements

Table 1.4 contains the content of the International Public Sector Accounting Standards

Table 1.4: The Content of the International Public Sector Accounting Standards

IPSAS	Pronouncement	Based on
IPSAS 1	Presentation of Financial Statements	IAS 1
IPSAS 2	Cash Flow Statements	IAS 7
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	IAS 21
IPSAS 5	Borrowing Costs	IAS 23
IPSAS 6	Consolidated and Separate Financial Statements	IAS 27
IPSAS 7	Investments in Associates	IAS 28

IPSAS 8	Interests in Joint Ventures	IAS 31
IPSAS 9	Revenue from Exchange Transactions	IAS 18
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29
IPSAS 11	Construction Contracts	IAS 11
IPSAS 12	Inventories	IAS 2
IPSAS 13	Leases	IAS 17
IPSAS 14	Events After the Reporting Date	IAS 10
IPSAS 15	Financial Instruments: Disclosure and Presentation — superseded by IPSAS 28 and IPSAS 30	
IPSAS 16	Investment Property	IAS 40
IPSAS 17	Property, Plant and Equipment	IAS 16
IPSAS 18	Segment Reporting	IAS 14
IPSAS 19	Provisions, Contingent Liabilities and Contingent Assets	IAS 37
IPSAS 20	Related Party Disclosures	IAS 24
IPSAS 21	Impairment of Non-Cash-Generating Assets	IAS 36
IPSAS 22	Disclosure of Financial Information About the General Government Sector	N/A
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	N/A
IPSAS 24	Presentation of Budget Information in Financial Statements	N/A
IPSAS 25	Employee Benefits — superseded by IPSAS 39	
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36
IPSAS 27	Agriculture	IAS 41
IPSAS 28	Financial Instruments: Presentation	IAS 32

IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39
IPSAS 30	Financial Instruments: Disclosures	IFRS 7
IPSAS 31	Intangible Assets	IAS 38
IPSAS 32	Service Concession Arrangements: Grantor	IFRIC 12
IPSAS 33	First-time Adoption of Accrual Basis IPSASs	N/A
IPSAS 34	Separate Financial Statements	IAS 27
IPSAS 35	Consolidated Financial Statements	IFRS 10
IPSAS 36	Investments in Associates and Joint Ventures	IAS 28
IPSAS 37	Joint Arrangements	IFRS 11
IPSAS 38	Disclosure of Interests in Other Entities	IFRS 12
IPSAS 39	Employee Benefits	IAS 19
IPSAS 40	Public Sector Combinations	IFRS 3
RPG 1	Reporting on the Long-Term Sustainability of an Entity’s Finances	N/A
RPG 2	Financial Statement Discussion and Analysis	N/A
RPG 3	Reporting Service Performance Information	N/A
The Conceptual Framework for General Purpose Financial Reporting by Public Sector Entities		N/A
Financial Reporting under the Cash-Basis of Accounting		N/A

Source: Deloitte (2017) IPSAS in your Pocket

SUMMARY

Self-Assessment Questions

Exercise 1.5

UNIT 2: PUBLIC SECTOR BUDGETING

Unit Outline

Session 1: Meaning and objectives of budgeting in the Public Sector (PS)
Session 2: Budget cycle and approaches to budgeting in the public sector
Session 3: Regulatory framework of Budgeting in Ghana. For instance, IPSASs 24.
Session 4: The Content of a National budget.
Session 5: Budgeting in the Central Government.
Session 6: Budgeting in the Local Government.

OVERVIEW

Dear Learner, you are welcome to Unit 2. In this unit, we share be looking at public sector budgeting. One of the tools for control in any organisation is budgeting which is a financial projection of the organisation's future activities. The public sector also uses budget for financial control and their budgeting process is similar in many respects to that of the private sector. So in this unit, we shall be concentrating of the budgeting process of the public sector. You may now read on…

Unit Objectives

At the end of this unit, you should be able to:

1. Explain public sector budgeting and its importance.
2. Identify and explain the various approaches to public sector budgeting.
3. Identify and explain the relevant regulations that govern public sector budgeting
4. Discuss the public sector budgeting process for local and central governments in Ghana

This is blank sheet for your short note on:

- Issues that are not clear: and
- Difficult topics if any

SESSION 1: MEANING AND IMPORTANCE OF BUDGETING IN THE PUBLIC SECTOR (PS)

In this session, we begin our discussion on public sector budgeting with a look at the meaning and objectives for the preparation of such budgets. As indicated earlier, budgeting is the same irrespective of the sector of the economy engaged in it. So your knowledge in budgeting principles for the private sector would be very much needed. You may have to revise them if you have forgotten them. Now, you can read on….

Objectives

At the end of this session, you should be able to:

a) Define and explain public sector budgeting
b) Identify and discuss the importance of preparing public sector budgets.

Now, you can read on…

Definition and Meaning of Public Sector Budgeting

Public sectors have missions which define the reason for their existence. Based on these missions, the public sectors develop goals and specific objectives, which when achieved would lead to the achievement of the mission of the sector. Achievement of the objectives for any period requires the commitment of resources that are properly managed. Meanwhile, resources are not in abundant supply. A budget is a control tool that can enable managers of organisations to allocate scarce resources and ensure its judicious application. While a budget is the outcome of the budgetary process, budgeting generally is a translation of the plans of an organization into financial projections that facilitate planning, resource allocation, and controlling of activities. In order to secure the desirable outcome from budgets, they should have the qualities being specific, measurable, motivating, and support of all members that would be involved in their development, implementation and evaluation.

Budgeting is difficult in the public sector because of the difficulty in defining quantifiable budget objectives and outputs. Public sector budgeting is the process by which the public sector goes through in the preparation of financial plans that facilitate the implementation of strategies for achieving the objectives of an entity in a specified period. Public sector budgeting could therefore be taken as the process of developing financial plans for central government, MDAs and MMDAs. The budget generally would cover the various sources and application of state funds. It would include all the taxes that the state plans to collect, total amount of grants envisaged to be received, loans that would be contracted for a period, compensation for all public sector workers, goods and services to be acquired, assets to be bought, etc. So even though budgeting in the public sector is similar to that of the private sector, it is a complex activity for the public sector given its size relative to the private sector.

The preparation of the public sector budget is the responsibility of the Minister of Finance. The Minister is assisted by the Director of Budget who is responsible for the central budget agency (CBA) of the Ministry. The responsibility of these state officers and agency with respect to the preparation of budgets for the state would be discussed in the subsequent sessions.

Now, we want to turn our attention to the features of public sector budgets

Features of Public Sector Budgets

The following are the disguising characteristics of public sector budgets

Budget Objective: the purpose for which the budget is being prepared must be clearly identified and should inform the preparation of the budget. Public sector budget objectives are driven by national interest rather than profit motive. The general objective should be to ensure socio-economic development of the state. It should reflect the medium-term (3 to 5 years) developmental agenda of the state.

Budget Period: Budgets can be prepared for any period (days, weeks, months, a year). Generally, public sector budgets are read for one fiscal year. The introduction of the medium term expenditure framework (MTEF) means that each year's budget must be supported with three-year rolling plan outlining the general expenditure framework for the ministry, department or agency of the government.

Budget Presentation: Public sector budgets may be prepared based on sectors within the public sectors which are then consolidated into the main budget. Sometimes, each sector is supposed to organize the budgets according to the programmes that the sector plans to undertake for the ensuing period. For instance in Ghana, the budgets may be oraganised according to the MDAs or MMDAs that the budget relates and at the same time each MDA or MMDA is required to organize its budget according to the programmes that would lead to the budget. The commission on human rights and administrative justice (CHRAJ) has management and administration, promote and protect fundamental human rights, administrative justice and anti-corruption as their key programmes for the 2018 fiscal year.

Supplementary/review budgets: Public sector budgets are subjected to a review in the course of the year. Where necessary a supplementary budget may be presented to revise the initial budget to factor in adjustments in revenue targets, revision in macroeconomic assumptions and adjustments to expenditure budgets.

Public Involvement: Public sector budgets involve the views of the public in its preparation through the use of a bottom-up approach, the administration of public expenditure survey and budget hearing (A meeting often open to the public, where individuals can comment or ask questions about a proposed budget).

Budget regulations: Budgeting in the public sector is highly regulated. In Ghana, the constitution, public financial management Act and IPSAS 24 regulates the preparation of public sector budgets. These laws cover all public sector institutions in Ghana. Private sector budgets are firm specific. Also, as at 2018, there is no existing international standard that regulate private sector budgeting.

Benefits of Public Sector Budgeting

Communication of government policies and programmes: the managers of the state inform the public and all stakeholders through the budget prepared. For instance the 2017 budget of Ghana made it clear that the state was going to roll out the free Senior High School Policy of government as well as other programmes.

Planning for government policies and programmes: Public sector budget instills the culture of medium-term planning in the public sector through the medium-term expenditure framework. All annual budgets must be accompanied by at least a three-year broad expenditure framework.

Allocation of scarce resource: the nation's scarce resources will be properly allocated through a public sector budget. Given the size of the public sector, budgeting contributes greatly to making sure that resources are fairly and equitably distributed to the various MDAs and MMDAs.

Accountability and Transparency: Ensuring accountability and transparency in the appropriation of government funds is achieved through budgeting for the public sector. The public sector budgets are widely distributed and discussed. Several versions of it including the citizen's budgets in some major local dialects open up the public financial system for public scrutiny. Based on the budget, the public is able to assess whether manages of state funds plan to use state resources judiciously and assess at the end of the period whether the funds were actually used for its purpose.

Controlling cost: Public sector budgets are used as basis for controlling expenditures within budgets. The various levels of authorization for public budgets and public spending as well as the establishment of cost constraints facilitate public sector cost control.

Basis for performance measurement: Budgets are bases for assessing how well managers of state resources have been able to operate within the confines of plans or how they have achieved state objectives with the allocated resources.

Motivation: Budgets motivate public sector workers and the private sector to contribute their best towards the achievement of state objectives. Well communicated state objectives should energise the populace to contribute their best towards the development of the nation.

Fulfilling relevant regulations: Public sector budgeting enables the managers of the state to fulfill their regulatory requirements. It shows proof that the required laws on budgeting have been followed by the managers of state resources.

SUMMARY

Self-Assessment Questions

Exercise 2.1

SESSION 2: APPROACHES TO BUDGETING IN THE PUBLIC SECTOR

Welcome Dear Learner. We believe you have refreshed your minds on the basics of budgeting as well as the importance of budgeting with particular reference to the public sector. Remember that there are several ways of preparing a budget. Some budgets are prepared from the scratch while others are built on previous budgets. Furthermore, there are others that are organised according to activities and programmes. These will be our concentration in this session.

Objectives

By the end of this session, you should be able to:

a) Explain the various stages of budgeting cycle for the public sector.
b) Discuss the various approaches to preparing public sector budgets.

Now, you can read on…

Budget format and Budget Approaches

Budget formats may be line item budgeting or programme based budgeting while budget approaches may be incremental, zero based , performance based and activity based.

Line item Budgets

A budget prepared by grouping individual financial statement items by cost centres or departments. In the process of its preparation, the organization identifies the various sources of revenue to fund the various expenditure sources for the organization without clustering these revenue sources and expenditures according to activities or programmes. Once these revenue and expenditure sources are identified, they used consistently. So line item budgets are mostly prepared on incremental bases, i.e. by adjusting existing line expenditures by the expected increases in the budget period. Needless to say, the first line budget for an organisation would be prepared using zero based budgeting approach.

Let us consider an example of a line item budget

In the budget the government agency considers its expenditure lines to include compensation for employees, goods and services and assets. The budgets are prepared based on these expenditure lines. Table 2.1 presents an example of a line item budget.

Table 2.1: Hypothetical Example of Line Item Budget for KKBA District Assembly

			GHS
Compensation			50,000
Goods and Services			
	Travelling and Transport	10,000	
	Utility Services	5,000	
	Telephone Services	2,500	
	Stationery	580	
	Maintenance of Vehicles	1,200	
	Maintenance of Capital Assets	760	
	Staff Training and Development	1,050	21,090
Assets			
	Land and Building		34,500
			105,590

Advantages of Line Budgets

1. Relatively easy to prepare. Since the process involves consolidating the itemized revenue and expenditure sources of each unit within and organization, preparation of line item budget is relatively easy for units as well as the entire organization
2. Easy to justify budgets. Because it is mostly based on previous years transactions
3. Identification of revenue and expenditure sources: Line item budgets identify the various sources of revenue and expenditure that an organization earns or incurs without linking them to any projects or programmes. This enables the organization to identify their key funding and expenditure sources, the amounts involved in them and how to manage these sources
4. Control over income and expenditure: since revenue and expenditure sources and amounts can be easily identified, assessment of the sufficiency of revenue for expenditure can be done relatively easily for control purposes.

Disadvantages

1. it is difficult to assess budget performance: Line item budgets matches revenue with expenditure without classifying the expenditures and revenues according to programmes/projects to assess the performance of the budget in achieving the outputs of those programmes/ projects. For instance, an increase in expenditure may be justified because of a compensating increase in revenue or improvement in other performance indicators. Performance-based and zero-based budgeting could be useful in addressing these defects in line budgets

2. Possible inefficiencies when prepared on incremental basis. Because incremental budgets adjust previous year's budget, when line item budgets are incremental in nature they allow inefficiencies in previous years to be rolled over to subsequent periods. Zero based budgeting could help the organization to overcome this defect.
3. Sub-optimal spending. Managers may spend amounts in budgets when they could have been saved for fear of having their budgets reduced for subsequent years if current approved budgets levels are not spent. This normally happens getting to the end of the fiscal year.

Activity Based Budgeting (ABB)

CIMA (2003) official terminology describes activity-based budgeting as a method of budgeting based on activity framework, using cost driver data in the budget setting and variance feedback processes. It is a Budgeting technique where individual activities within the organisation are assessed in terms of their contribution to the achievement of the organisation's objectives.
In this form of budgeting, the revenues generated by an activity undertaken by a unit in an organization are assigned directly to that unit while expenditures incurred are analyzed to identify the activities that lead to that cost so that the assignment of costs would be based on those cost drivers. An organization that uses an ABB needs to: identify the various activities that lead to cost; accumulate costs into cost pools (put together similar cost); find out the events that lead cost to either increase or decrease (cost driver) and assign cost on the; calculate the cost per cost driver and assign cost on the basis of the cost drivers.

Advantages

1. It enables control to be exercised at the exact unit that actually incurred the cost. Activities and their associated are placed directly under the responsibility of the unit that incurred it so control can be easily and effectively administered to achieve the budget goals.
2. ABB ensures efficiency because justification should be offered for incurring certain activities and in certain magnitudes and not on previous levels of certain functions.
3. It is useful to organisations that want to use low cost leadership strategy to achieve competitive advantage. Since costs are anaylised into activities, it is easier to eliminate non-value adding activities and bottlenecks which then help the organization to perform better than others, in terms of low cost.

Disadvantages

1. It is expensive to prepare activity based budgets because it consumes a lot of time and requires resources to analyse costs into activities.

2. It is a complex budget which makes preparation and administration cumbersome.

Programme based budgeting (PBB)

The budgets are prepared from the point of view of specific programmes that the organization or its units plans to undertake in a specific period and not on the various expenditure lines (not grouped into programmes). Each programme would contain specific line items that it purports to generate revenue from and/or spend on. When the budgets are eventually approved, appropriation is made to specific line-items in the programmes. In Ghana, the programme based budgeting (PBB) was introduced in 2014 after it was successfully piloted the previous year. The PBB replaced the activity based budgeting approach which had been in force since 1998. A well-functioning MTEF was thought to be better associated with a performance based budgeting approach such as PBB even though MTEF could work with any budgeting approach such as activity based or programme based. PBB identifies a series of programmes and the associated activities within the organisation and formulate the budget in terms of the programmes and then links the budget expenditure to clearly defined programme results. An example would be where the Ministry of Health (MOH) may have preventive health programme which is broken down into malaria control/ prevention, cancer prevention, etc. Programme based budget is a form of performance-based budgets.

Performance based budgeting is the practice of developing budgets based on the relationship between programme funding levels and expected results from that programme. Funds are allocated based on results from programmes that contributed to the achievement of the overall objectives of the organization. Thus, evidence and data are used as bases for allocation of scarce resources to achieve goals of the broader society It emphasizes on progress towards measurable goals as basis for allocating funds and this should not be misconstrued as a reward or punishment bases. It is also referred to as outcome-based, results based or priority based budgeting

Example of a Programme Based Budget

Shown below is the 2018 programme based estimates for the Commission on Human Rights and Administrative Justice' programme based estimates for the year 2018. The document first identifies the policy objectives, mission, core functions, policy outcome indicators and targets, expenditure trends for the medium-term and summary of key achievements in 2017. The programmes of CHRAJ for 2018 were identified as management and administration, human rights, administrative Justus and anti-corruption. These formed the bases for the programme budgets presented below. Refer to Table 2.2 for an example of a programme based budget.

Table 2.2: 2018 Programme Based Budget for CHRAJ

2.6.1 Budget by Chart of Accounts
6.1 – Programme, Sub-Programme and Natural Account Summary
Entity: 035 – Commission on Human Rights and Administrative Justice (CHRAJ)
Funding: All Source of Funding
Year: 2018/ Currency: GH Cedi
Version 1

	Budget
Programmes - Commission on Human Rights and Administrative Justice	32,565,421
03501 - Management and Administration	**30,609,580**
03501001 - General Administration	30,609,580
21 - Compensation of employees	17,618,470
22 - Use of goods and services	2,433,549
31 - Non financial assets	10,557,561
03502 - Promote and Protect Fundamental Human Rights	**630,000**
03502000 - Promote and Protect Fundamental Human Rights	630,000
22 - Use of goods and services	630,000
03503 - Administrative Justice	**170,000**
03503000 - Administrative Justice	170,000
22 - Use of goods and services	170,000
03504 - Anti-Corruption	**1,155,841**
03504000 - Anti-Corruption	1,155,841
22 - Use of goods and services	1,155,841

Source: Ministry of Finance and Economic Planning (2018)

Advantages

1. Since the budgets are presented based on programmes, it is easy to prioritise programmes and concentrate on the programmes that are found to be viable or helps the organisation to achieve its objectives.
2. It enables the organisation to link budget inputs with outputs. In other words the MDA that prepared the budget can assess whether the achievements (proposed or actual) from the budgets are worth the cost associated with them.
3. Easy identification of budget cost control targets. Since the budgets are grouped into programmes, it is relatively easy to identify each programmes contribution to the entire organisation's cost build up. Subsequently, appropriate cost control measures could be developed for the targeted programme or programme cost.
4. PBB facilitates the management of future service delivery. When an organisation prepares a budget based on programmes, it facilitates the planning for each programme, proper allocation of resources and enhances the benefit of division of labour and accountability.

Disadvantages of PBB

1. It takes time and effort to develop and administer a programme based budget. Each programme budget virtually goes through a complete budget cycle. There is also difficulty in fixing budget outcomes for the public sector which deals predominantly in qualitative budget outcomes.
2. Incorrect programme based budgets lead to appropriate budget decisions such as wrongful allocation of scarce resources.

Zero-Based Budgeting (ZBB)

Traditional form of budget is prepared on incremental basis but zero based budgeting is budgeting from the scratch without reference to previous budgets. This means that all activities are assessed to offer a justification for their inclusion before they are included in the current year's budget. As the name implies the base for preparing the budget is zero so any unit or function would have to analyze its needs and costs so that the budget is prepared on that bases. Thus the budget does not build on any base-year budget as it's done in the case of incremental budgeting. On this basis, every line item finds its way into the budget because it would be earned as revenue or incurred as expenditure in the current budget period.

Advantages of ZBB

1. It leads to budget accuracy and efficiency since it eliminates redundant activities of previous years as well as deals with previous budgets inefficiency. Also, budgets are likely to be achieved since it is based on current activities that the organization plans to undertake.
2. It facilitates goal congruence through coordination and communication among various units of the organization.
3. Variances are likely not to be too wide since current year's budget does not have previous year's inefficiencies and are based on expectations for the current years.
4. Budget preparers and implementers are better motivated because their decisions create the budget.
5. ZBB enables organisations to constantly assess how well their budgets support the achievement of their objectives and mission

Disadvantages of ZBB

1. ZBB is expensive in terms of time, effort and cost that must go into its preparation and execution.
2. It requires adequate manpower with the required skill and ability to anlayse activities in detail as well as assess the cost implications of these activities.

Incremental budgeting

In incremental budgeting**,** previous period's (base year's) budget informs the preparation of current year's budget by adjusting the base year by an expected variable in the current year. The preparation of the budget is based on the premise that previous year's activities would repeat in the current year and the magnitude of the increase is based on the size of the previous year's. The size of the current year's increase is influenced largely by inflation and changes in activity levels. So, specific income and expenditure lines are adjusted by the change magnitude.

For instance, if we assume that the information in the line item budget (Table 2.1) above would increase by 5%, for simplicity, the current year's budget would look as follows:

Table 2.3: Hypothetical Example of an Incremental Budget

		Last Year	**Budget for This Year**	
		GHC		**GHC**
Compensation		50,000		52500
Goods and Services				
Travelling and Transport	10,000		10500	
Utility Services	5,000		5250	
Telephone Services	2,500		2,625	
Stationery	580		609	
Maintenance of Vehicles	1,200		1,260	
Maintenance of Capital Assets	760		798	
Staff Training and Development	1,050	21,090	1,102.5	22,144.5
Assets				
Land and Building		34,500		36,225
		105,590		**110,869.5**

Advantages of Incremental Budgeting

1. It is simple and less expensive to prepare because it is based on current actuals or recent budget.
2. It improves on the transparency of the since budget figures can easily be verified by applying the expected change on the base.
3. It ensures consistency in operating activity which facilities comparability.
4. Funding for medium-term and long-term programmes could be secured and easily monitored.

Disadvantages of Incremental Budgeting

1. Previous year's inefficiencies are automatically carried to subsequent years.
2. It is less motivating since there are minimal inputs from budget preparers and implementers.
3. It is easy to build budgetary slack into the budgets. Managers are likely to underestimate revenue and overestimate expenses by assuming a small percentage increase in revenue and a bigger increase in expenditure for the budgets to be easily achieved.
4. It can encourage overspending since previous year's activities that may not be needed in the current year are automatically rolled into the current year.
5. Incremental budgeting approach may discourage innovation and risk taking since it encourages adjusting previous levels which indirectly leads to maintaining the status quo.

SUMMARY

Self-Assessment Questions

Exercise 2.2

SESSION 3: REGULATORY FRAMEWORK OF BUDGETING IN GHANA

Dear Learner, Welcome to Session three of Unit two. We hope that by now you are familiar with the various approaches to budgeting in the public sector, as well as their pros and cons. In Session 6 of Unit 1 you were taken through an overview of the regulatory framework that governs public sector budgeting in Ghana. You were also promised that specific regulations that relate to specific topic we would be discussing would be considered in subsequent sessions and units. In this unit we shall be looking at some specific regulations in Ghana that govern the preparation of budgets in Ghana. In this session we shall be looking at specific directives from the constitution of Ghana, the Public Financial Management Act 2016 (Act 921) and IPSAS 24.

Objectives

At the end of this session, you should be able to:

a) Identify and explain the constitutional requirements on budgeting in Ghana.
b) Identify and explain the roles of key officers in Ghana in respect of budgeting.
c) Explain fiscal policies implication for budgeting in Ghana.
d) Identify the content of fiscal policy strategy documents.
e) Demonstrate understanding of knowledge of the content of IPSAS 24

Now you can read on…

Provisions on Budgeting in the 1992 Constitution of the Republic of Ghana

The 1992 Constitution (Article 179 (1)) requires the President to present the budget to Parliament at least a month before the end of the financial year. The Constitution recognises the importance of planning for the financial receipts and expenditures of the country. Based on the Constitution, timing of national budgets should be of essence to national economic managers as it is mandatory for budgets to be ready at least one month before the end of the year. This notwithstanding, in election years, budgets for the ensuing year could be prepared in those years because of the uncertainty in the continuity of the sitting government. But even in those years, the sitting government is expected to prepare a three-month projection for the ensuing year for parliamentary approval in order not to bring government machinery to a halt. This three-month projection must however cover the basic revenue and cost items that would keep government machinery running and not cover new projects or programmes of government.

It worth noting that even though the Constitution states that the President must present the budget to Parliament, generally, The Finance Minister presents the budget to Parliament on behalf of the President.

Provisions on Budgeting in the Public Financial Management Act 2016 (Act 921)

Director of Budget (section 10)

The Director of Budget shall be responsible for

1. The preparation of the annual estimates and Medium-Term Expenditure Framework within the constraints specified in the Government's Fiscal Strategy Document;

   Medium Term means a period of not less than three years but not more than five years.

   Medium-Term Fiscal Framework means an annual rolling three year period over which the Government plans fiscal policy and likely budget parameters to macroeconomics performance with fiscal results at an aggregate level.

   Medium Term Expenditure Framework means an annual, rolling three-year expenditure planning that sets out the medium term expenditure priorities and hard budget constraints against which sector plans may be developed and refined to match available resources.

2. The preparation of the mid-year review and quarterly budget execution reports under sections 29 and 34;
3. Advising the Minister through the Chief Director on all matters related to the annual budget, supplementary budget and the Medium Term Expenditure Framework;
4. Advising the Chief Director on matters related to the classification of the budget and systems required to prepare the budget; and
5. Perform any other function assigned by the Chief Director.

Fiscal Policy Principles (section 13)

Monetary and fiscal policies play key roles in the socio economic development of every country. Monetary policies are broad decision guidelines instituted by the Central Bank and Minister of Finance that are meant to regulate the supply of money in an economic system. On the other hand, fiscal policies are broad decision guidelines to regulate the generation of national income and control over government expenditure. Section 12 of the Financial Administration Act, is designed to proffer certain basic principles to be followed by managers of state resources on the formulation and administration of state resources. They are meant for the effective implementation of the Act.

1. The Principal Account Holder and Principal Spending Officer of a covered entity shall be accountable to Parliament for the performance of their functions with respect to the implementation of fiscal policies;
2. Fiscal policy shall be developed in a manner that takes into account the impact on the welfare of the current population and future generations;
3. The Fiscal Policy shall be conducted in a manner that avoids abrupt changes in the evolution of macroeconomic and fiscal indicators; and
4. The management of public funds, assets and liabilities, including natural resources and fiscal risks in the country shall be conducted in a prudent way, with a view to maintaining fiscal sustainability.
   Public funds means the Consolidated Fund, Contingency Fund and other Fund established by or under an Act of Parliament.

   Public money means moneys in the public funds.

Principles on formulation and implementation of Fiscal Policy objectives

Fiscal policy objectives may be defined as the targets set for the implementation of fiscal policies. They are the reasons for which broad decision guidelines for raising government revenue and controlling government expenditures are developed. According to section 13 of the Act the prime Fiscal Policy objective of Government is to ensure macroeconomic stability of the country within the macroeconomic and fiscal framework. It is the prerogative of government to determine any other fiscal policy objective consistent with acceptable principles outlined in section 13. For instance, the theme for the 2017 budget was given as “Sowing Seeds for Growth and Jobs”. In order to facilitate the achievement of fiscal policy objectives the Act has prescribed the following principles to guide the setting of the objectives.

1. Sufficient revenue mobilization to finance Government programmes;
2. Maintenance of prudent and sustainable levels of public debt;
3. Ensuring that fiscal balance when calculated without petroleum revenues is maintained at a sustainable level over the medium term;
4. Management of fiscal risks in a prudent manner; and
5. Achieving efficiency, effectiveness and value for money in expenditure.

Fiscal Strategy Document (Sections 14 - 18)

This is a document designed by Government that gives the broad road map for adjusting government expenditure and revenue generation in order to facilitate the economy’s socio-economic development. The Act requires that the Minister shall, not later than end of April of each financial year, prepare and submit to Cabinet for approval, a Fiscal Strategy Document. The Minister shall, on behalf of the President and not later than the 30th of May of each financial year, submit a Fiscal Strategy Document to Parliament for approval according to parliament’s determined procedure. The Document shall specify:

1. The Medium-Term Fiscal Framework of the Government with measurable fiscal objectives and targets to guide short and medium term fiscal planning for the ensuing three to five year period, consistent with the fiscal principles and fiscal policy objectives of Government;
2. An updated and comprehensive medium-term macroeconomic and fiscal forecast covering current developments and multiple year projections;
3. The Medium-Term Expenditure Framework of the Government with a resource envelope and overall expenditure ceiling;
4. A statement of policy measures the Government shall implement in order to stay within the confines of the fiscal policy objectives;
5. A comprehensive and qualified financial risk statement of the public sector showing the impact of alternative macroeconomic assumptions on the forecast fiscal balances and quantified risks of guarantees , contingent liabilities and public private partnerships;
6. A debt sustainability analysis including sensitivity analysis of macro-fiscal risk scenarios; and
7. A progress report on the implementation of the Fiscal Strategy Document for the previous financial year which shall include
    - An update on the macroeconomic forecasts and fiscal outturns;
    - The implementation of the fiscal policy and progress against the fiscal principles and rules, including targets where feasible;
    - An explanation of deviations from the fiscal principles, rules and targets for the short and medium term objectives ; and
    - An explanation of the measures taken to respond to deviations.

The Fiscal Strategy Document shall contain fiscal policy indicators which shall be adhered to but could be suspended or revised by the Minister when cabinet has given prior, written approval based on the Minister's memorandum explaining the rational for such suspension, period for suspension and the fiscal adjustment plan (not more than five years). The approved memorandum shall be laid before Parliament by the Minister, as a matter of information. The reasons for suspension of the fiscal rules or targets include the occurrence of a natural disaster, public health epidemic, or war in respect of which state of emergency has been declared by the President in accordance with Article 31 of the Constitution; an unanticipated severe economic shock, excluding oil price shocks and as a result the Minister is of the opinion that following the fiscal rules and targets would be unduly harmful to the fiscal and macroeconomic or financial stability of the country.

Overview of International public Sector Accounting Standards 24

Introduction

Since Ghana has signed unto IPSAS, the regulatory framework for budget preparation in Ghana is not limited to laws of Ghana but also includes IPSASs 24. In this session, we will devote our attention to an overview of the content of IPSAS 24, Presentation of Budget Information in Financial Statements. Knowledge of the content of IPSAS 24 should be applied when preparing public sector budget.

Effective date

Annual periods beginning on or after January 1, 2009.

Objectivesof IPSAS 24

- This standard requires a comparison of budget amounts and the actual amounts arising from execution of the budget to be included in the financial statements of entities that are required to, or elect to, make publicly available their approved budget (s), and for which they are, therefore, held publicly accountable.

- This Standard also requires disclosures of an explanation of the reasons for material differences between the budget and actual amounts.

- Compliance with the requirements of this Standard will ensure that public sector entities discharge their accountability obligations and enhance the transparency of their financial statements by demonstrating (a) compliance with the approved budget (s) for which they are held publicly accountable and (b) where the budget (s) and the financial statements are prepared on the same basis, their financial performance in achieving the budgeted results.

Scope

- An entity that prepares and presents financial statements under the accrual basis of accounting shall apply this Standard.

- This Standard applies to public sector entities, other than Government Business Enterprises, which are required to elect to make their approved budgets publicly available.

Definitions

- Original budget is the initial approved budget for the budget period.
- Approved budget means the expenditure authority derived from laws, appropriation bills, government ordinances, and other decisions related to the anticipated revenue or receipts for the budgetary period.

- Final budget is the original budget adjusted for all reserves, carry over amounts, transfers, allocations, supplemental appropriations, and other authorized legislative, or similar authority, changes applicable to the budget period.

Summary

- An entity shall present a comparison of budget and actual amounts as additional budget columns in the primary financial statements only where the financial statements and the budget are prepared on a comparable basis.
- An entity shall present a comparison of the budget amounts either as a separate additional financial statement or as additional budget columns in the financial statements currently presented in accordance with IPSAS. The comparison of budget and actual amounts shall present separately for each level of legislative oversight: – The original and final budget amounts
  - The actual amounts on a comparable basis
  - By way of note disclosure, an explanation of material differences between the budget and actual amounts, unless such explanation is included in other public documents issued in conjunction with the financial statements and a cross reference to those documents is made in the notes

- An entity shall present an explanation of whether changes between the original and final budget are a consequence of reallocations within the budget, or of other factors: – By way of note disclosure in the financial statements
  - In a report issued before, at the same time as, or in conjunction with the financial statements, and shall include a cross reference to the report in the notes to the financial statements

- All comparisons of budget and actual amounts shall be presented on a comparable basis to the budget.
- An entity shall explain in notes to the financial statements the budgetary basis and classification basis adopted in the approved budget, the period of the approved budget, and the entities included in the approved budget.
- An entity shall identify in notes to the financial statements the entities included in the approved budget.
- The actual amounts presented on a comparable basis to the budget shall, where the financial statements and the budget are not prepared on a comparable basis, be reconciled to the following actual amounts presented in the financial statements, identifying separately any basis, timing, and entity differences: – If the accrual basis is adopted for the budget, total revenues, total expenses and net cash flows from operating activities, investing activities, and financing activities

- If a basis other than the accrual basis is adopted for the budget, net cash flows from operating activities, investing activities, and financing activities

- The reconciliation shall be disclosed on the face of the statement of comparison of budget and actual amounts or in the notes to the financial statements.

SUMMARY

Self-Assessment Questions
Exercise 2.3

This is blank sheet for your short note on:

- Issues that are not clear: and
- Difficult topics if any

SESSION 4: THE CONTENT OF A NATIONAL BUDGET

Welcome to Session 4. After going through the regulatory framework for a budgeting in Ghana, we want to concentrate on the meaning of a national budget and what is contained in a national budget. This is meant to enable you to be familiar with the State of Ghana's budget and to enhance understandability of the budget.

Objectives

By the end of this session, you should be able to:

a) Explain a national budget
b) Discuss the main content of a national budget.

Now you can read on…

National Budget

National Budget is the budget for the state. It is a consolidation of the budget for the central government and budget for the local government. Budget prepared for the state could be a balanced budget (where the total revenue and total expenses expected to be received add up to be equal to each other), deficit budget (where the budgeted total expenditure exceeds the budgeted total income) or a surplus budget (where the budgeted total income is more than the budgeted to expenses). The national budget of Ghana would typically include budgets of all MDAs and MMDAs and covers the period of one-year starting from 1^{st}January to 31^{st} December the same year.

Content of National Budget

A cursory look at the various budgets of the state over the past two years reveals that these budgets exhibit some common features. These features include a theme for the budget, introduction to the budget, assumptions underlying the current year's budget, shows how government would raise and spend money generated, macroeconomic performance for the previous year and outlook for the ensuing year, and policy initiatives which detail what government plans to do. We will now consider the components of the content in detail.

Budget Theme

The budget theme covers the objective of the budget for the ensuing year which sums up the main goal of the state for the period. It also reflects the objective of the state, which is the target that the budget for the year seeks to achieve at the end of the period. The Constitution of Ghana gives a framework for setting the theme of the budget and this is indicated in Article 36 of Chapter 6.

The State shall take all necessary action to ensure that the national economy is managed in such a manner as to maximize the rate of ***economic development*** *and to secure the maximum* ***welfare***, ***freedom and happiness*** *of every person in Ghana and to provide adequate* ***means of livelihood and suitable employment*** *and* ***public assistance to the needy***. Constitution of Ghana (Chapter 6, Article 36).

Following from this general framework, past and present governments have pursued goals that would lead to the achievement of the constitutional objective. Some of the budget themes for previous years and the current year are as follows.

The objectives of the state from 2012 to 2016
2012 - Infrastructural Development for Accelerated Growth and Job Creation
2013 - Sustaining confidence in the Ghanaian Economy.
2014 - Rising to the Challenge: Re-aligning the Budget to meet Key National Priorities.
2015 - Transformational Agenda: Securing the bright medium term prospects of the Economy
2016 - Consolidating Progress towards a Brighter Medium Term.

The above budget objectives were based on the medium term goal of 'Ghana Shared Growth and Development Agenda'.

The Objectives of the State: 2017 to date
2017 - Sowing the Seeds for Growth and Jobs
2018 - Putting Ghana Back to Work
2019 - ?

At your various group discussions, analyse how the above objectives contribute to achieving the expectations enshrined in the Article 36 of the Constitution of the Republic of Ghana.

Introduction to the budget
This is the second component of the national budget. In the introduction, the finance minister explains the meaning of a national budget, discusses the global framework for preparing the national budget (which is mostly based on the 17 Sustainable Development Goals – SDGs - of the United Nations and the 15 specific objectives attached which are expected to be achieved by 2030), explains the budget process.

Budget Assumptions
Budget assumptions could be explained as the expected macroeconomic framework that defines the bases for the budget estimates. In other words, they are the targets that the budget expect to achieve at the end of the fiscal year. The 2018 budget has the following budget assumptions as the macroeconomic framework for the period.

- Overall GDP growth rate of 6.8 percent;
- Non-oil GDP growth rate of 5.4 percent;
- End period inflation rate of 8.9 percent;
- Average inflation rate of 9.8 percent;
- Fiscal deficit of 4.5 percent GDP;
- Primary balance (surplus) of 1.6 percent of GDP; and
- Gross Foreign Assets to cover at least 3.5 months of imports of goods and services

Fiscal Policy Measures

Fiscal Policies are broad decision guidelines to regulate government revenue generation and expenditure in order to facilitate economic development. It covers taxes and their effect on the economy as well as effects of changes in government expenditure.

The budget of the state outlines revenue generation measures. These are the broad strategies put in place to ensure that enough revenue is generated to support the budget.

To enhance revenue generation activities in 2018, government of Ghana indicated that it will among other measures;

- make concrete changes in the tax policy framework, especially in tax exemptions
- review the Suspense regimes to improve tax compliance;
- implement the Excise Tax Stamp policy;
- extend the requirement of producing Tax Clearance Certificates to large private sector contracts;
- improve Property Rate collection; and
- partially monetization of Ghana’s Gold Royalties

The fiscal policy measures also cover expenditure management measures. This covers how government plans to manage its expenses in order to ensure that costs are kept within levels that the state can contain. To limit budget overruns, the government indicated in the 2018 budget that the following measures will be implemented.

- comprehensive review of pay systems;
- rationalization and standardization of the remuneration of Chief Executive Officers (CEOs) and Boards of State Owned Enterprises (SOEs);
- general policy measures on payroll;
- rationalization of administrative cost of public institutions;
- leasing of Office Equipment and Motor Vehicles; and
- rationalize Government Travels by introducing the use of corporate travel tool to consolidate official travel

Macroeconomic performance for the previous year and outlook for the ensuing year

THE CONTENT OF A NATIONAL BUDGET

In this section, the national budget discusses the sectorial achievements for the current year and outlines the targets for the general economy as well as the various sectors of the economy. The main sectors that are covered include energy, transport, sanitation and water resources, education health, agriculture, trade and industry, lands and natural resources, works and housing, roads and highways, employment, and social protection.

Policy initiatives which detail what government plans to do
Policies are broad decision guidelines that should ensure consistency in the treatment of recurring transactions Policies ensure that budget targets are achieved with the budget constraints.

In an effort to transform the economy and to create wealth and jobs, a number of policy measures were introduced in 2017. The following were implemented in 2017:

- abolished some taxes including the following:
  one percent Special Import Levy imposed on imported raw materials and machinery;
  - ✓ excise duty on petroleum;
  - ✓ import duty on specified vehicle spare parts;
    - o percent VAT/NHIL on Real Estate sales;
  - ✓ 17.5 percent VAT/NHIL on selected imported medicines not produced locally; and
  - ✓ levies imposed on ‘kayayei’ by local authorities;
  - ✓ replacement of 17.5 percent standard VAT rate with a 3 percent flat VAT/NHIL rate for supplies by retailers and wholesalers.
- Parliament passed the Law establishing the Zongo Development Fund;
- One District, One Factory policy was launched by H.E. the President on 25th August, 2017 and Government completed technical, financial and commercial viability analysis of 462 proposals out of which 191 covering 102 Districts were selected for implementation. This is envisaged to generate about 250,000 direct and indirect jobs.

In 2018, Government promised to implement the following measures, among others, to improve the standard of living of Ghanaians:

- reduce electricity tariff in 2018 in an effort geared towards “keeping the lights on” at affordable rates to consumers.
- improve revenue from lotteries although VAT on stakes and withholding tax on lotto winnings will be removed;
- embark on an MDA Solar Rooftop Programme dubbed “**Government goes Solar”** to reduce Government’s expenditure on utilities;

- develop postal codes to feed into the National Identification System. About 4,000 National Service Personnel will be engaged to emboss digital addresses on all landed properties nationwide;
- work with GET FUND to set up an Education Fund to enable Ghanaians make voluntary contributions to support education;
- adopt leasing as the main vehicle for financing the acquisition and use of government assets as part of efforts to reduce cost in the public sector;
- establish the Nation Builders Corps (NBC) to create jobs;

sUMMARy

Self-Assessment Questions

Exercise 2.4

SESSION 5: BUDGETING IN THE CENTRAL GOVERNMENT

Welcome to Session 5. In this session we shall be looking at the budgetary process followed by the central government in the preparation of annual budget. Recall that the central government includes the seat of government, Ministries, Departments and Agencies of the state. Thus, the public sector budgeting processes discussed in this session are basically applied to seat of government and MDAs.

Objectives

By the end of this session, you should be able to outline and discuss the various stages followed in preparing budgets for the central government.

Now you can read on…

Budget Cycle

The budget cycle refers to the various stages that a public sector budget goes through in its life. The public sector budget life is divided into four main stages: preparation, approval, execution and monitoring, audit and evaluation.

The preparation stage covers the processes that the public sector go through in order to generate a budget for the state while the approval stage describes the stages that the prepared budget is taken through for it to receive the backing of the appropriate authorities before the budget is approved. At the execution stage the budget is implemented by collecting the approved revenue from tax sources, non-tax sources, grants, etc and spending on the approved programmes and expenditure lines such as compensation for employees, goods and services, assets, etc. The monitoring, audit and evaluation stage pf the budget is meant to ensure that monies that were purported to be generated for the state were actually generated for the state and expenditures paid for on behalf of the state were actually borne by the state. It ensures that the state got value for money in its spending.

The actual process of budgeting for the public sector of Ghana would be discussed in detail in sessions four and five during the discussions on central government and local government budgeting process.

Now, we turn our attention to the central government budgeting process

BUDGETING IN THE CENTRAL GOVERNMENT

Central Government Budgeting process

Central government budgeting process follows the general budget cycle. It begins with budget preparation and submission, approval, implementation/execution and monitoring, audit and evaluation. The discussions in this section follow similar discussions by Oduro (2014)

Preparation/ Budget Formulation

This is the stage at which the budget is created. It begins with the public expenditure survey.

Public Expenditure Survey (PES): undertaken to assess the effect of government expenditure on government resources and future plans

Objectives of PES

- Plan government programmes within available resources.
- Ensure efficient and effective rationalisation of resources.
- Coordination of various sectors and their expenditure
- Determine the level of expenditure to be allocated to various sectors

Budget Committee: Head of Department (Chairperson), Head of Budget Management Centre, Budget Officer

Responsibilities of the Budget Committee

- Review and formulation of strategic plan
- Review of revenue collecting activities
- Allocation of resources based on objectives
- Coordination and consolidation of budget
- Monitor and evaluate budget performance
- Reporting

Step 1: Issue of policy Paper or Budget Framework Paper.

- Developed by Central Budget Agency (CBA) under MoF not later than 8 months before the end of each year.
- Contains draft preliminary constraints, revenue and expenditure projections for the next year budget.
- It should reflect the nation's development plan and PES
- Submitted to Cabinet for discussion

Step 2: Cabinet Provisional Discussion

- Major content such as expenditure, new taxes
- Cabinet communicates its position to the CBA

Step 3: Issue of Budget Circular by CBA

- Guidelines for spending organisations to follow in making their spending plan and request
- Not later than 6 months before the end of each year.

Content of budget circular

- Timetable for preparation and submission of governments macroeconomic policy statement and budget estimates
- Commentary on past economic conditions
- Projected growth rate for sectors and the country as a whole
- Some macroeconomic variables highlights
- Specification of sectorial and ministerial constraints.

Step 4: Issue of Budget Instructions

- Minister of Finance then issues additional guidelines and directives to MDAs (HoDs) on how to carry out the budget preparation.
- **Content of the Budget Instructions:** form of budgetary documents and statement; classification of budgetary transaction; information to be submitted in support of budgetary proposal; costing of activities; procedure to be followed by budget committee in preparing, submitting and implementing the budget

Step 5: Preparation and submission of budget proposal

- Revenue Budget (Consolidated Fund Revenue): Tax revenue, Non-tax revenue, Grants, Loans
- Expenditure Budget (Consolidated Fund Expenditure).
  - Consider macroeconomic framework, government resources, ceiling approved by cabinet, strategic plan, etc
  - Perform **internal budget hearing** for sections within the MDAs.

Authorisation and Approval Stage of the Central Budget Process

- Authorisation generally occurs at the departmental and ministerial levels whereas approval occurs at cabinet and parliament.

Procedures for Approving Government Budget

- Step 6: Examination of Budget Proposals – happens at the CBA. Budget examiners check for agreement or query based on budget ceiling in the circular.
- Step 7: Budget Hearing (External Budget Hearing)
  - CBA conducts by comparing estimates with strategic plans. Adjustments may be suggested.
  - Spending officers can appeal to Cabinet on disagreements.
- Step 8: Cabinet Approval (Budget officer to Finance Minister and to Cabinet)
- Step 9: Preparation of Finance and Appropriation Bills.
- Step 10: Revenue Collection. Passage of Finance Bill under Certificate of Urgency for revenue collection to begin the first day.
- Step 11: Examination and Approval of expenditure estimates.
  - Relevant sub-committees of parliament do the budget examination
  - Parliament sits as appropriation Committee and approves budget

Implementation and Executory Stage

- Step 12: Provisional Appropriation Act
  - Provisional Warrant to authorise spending.
- Step 13: Release of funds to meet expenditure.
  - MoF issues general warrant for compensation and specific warrant for goods, services and investment activities to the Controller and Accountant General (CAG)
  - CAG issues spending unit warrant to Heads of spending organisations.
  - Heads lodge spending unit warrant with their Treasuries

A warrant is an order drawn authorising payment to a designated payee

Audit and Evaluation Stage

This is the stage where the budget implementation is subjected to constant review in order to ensure that spending is covered by the budget and amount spent on does not go beyond what has been budgeted. Internal and external audit functions play critical role in the audit and evaluation state of the audit.

SUMMARY

Self-Assessment Questions

Exercise 2.5

SESSION 6: BUDGETING IN THE LOCAL GOVERNMENT

Dear Learner, you are welcome to the last session of Unit 2. After going through the budgetary process for central government, we know by now you will be wondering whether the same process is applied to District Assemblies. So, we end Unit 2 with a discussion of the budgeting process in the local government setting. In other words, we try to answer the question: how is budgeting done in the Metropolitans, Municipalities, and District Assemblies?

Objectives

By the end of this session, you should be able to outline and discuss the various stages followed in preparing budgets for the local government.

Now you can read on…

Introduction

The budgeting process of the District Assemblies is captured under sections 122 to 124 of the Local Government Act 2016 (Act 936). But we shall begin by briefly looking at the administration of the District Assembly.

Functions of District Assembly

12. (1) A District Assembly shall

(a) exercise political and administrative authority in the district;

(b) promote local economic development; and

(c) provide guidance, give direction to and supervise other administrative authorities in the district as may be prescribed by law.

(2) A District Assembly shall exercise deliberative, legislative and executive functions.

(3) Without limiting subsections (1) and (2), a District Assembly shall

(a) be responsible for the overall development of the district;

(b) formulate and execute plans, programmes and strategies for the effective mobilisation of the resources necessary for the overall development of the district;

(c) promote and support productive activity and social development in the district and remove any obstacles to initiative and development;

(d) sponsor the education of students from the district to fill particular manpower needs of the district especially in the social sectors of education and health, making sure that the sponsorship is fairly and equitably balanced between male and female students;

(e) initiate programmes for the development of basic infrastructure and provide municipal works and services in the district;

(f) be responsible for the development, improvement and management of human settlements and the environment in the district;

(g) in co-operation with the appropriate national and local security agencies, be responsible for the maintenance of security and public safety in the district;

(h) ensure ready access to courts in the district for the promotion of justice;
(i) act to preserve and promote the cultural heritage within the district;
(j) initiate, sponsor or carry out studies that may be necessary
for the discharge of any of the duties conferred by this Act or any other enactment; and
(k) perform any other functions that may be provided under another enactment.

(4) A District Assembly shall take the steps and measures that are necessary and expedient to
(a) execute approved development plans for the district;
(b) guide, encourage and support sub-district local structures, public agencies and local communities to perform their functions in the execution of approved development plans;
(c) initiate and encourage joint participation with other persons or bodies to execute approved development plans;
(d) promote or encourage other persons or bodies to undertake projects under approved development plans; and
(e) monitor the execution of projects under approved development plans and assess and evaluate their impact on the development of the district and national economy in accordance with government policy.

(5) A District Assembly shall co-ordinate, integrate and harmonise the execution of programmes and projects under approved development plans for the district and other development programmes promoted or carried out by Ministries, Departments, public corporations and other statutory bodies and non-governmental organisations in the district.
(6) A District Assembly in the discharge of its duties shall
(a) be subject to the general guidance and direction of the President on matters of national policy; and
(b) act in co-operation with the appropriate public corporation, statutory body or non-governmental organisation.
(7) Public corporations, statutory bodies and non-governmental organisations shall co-operate with a District Assembly in the performance of their functions.
(8) In the event of a conflict between a District Assembly and an agency of the central Government, public corporation, statutory body, non-governmental organisation or individual over the application of subsection (5), (6) or (7), the matter shall be referred by either or both parties to the Regional Co-ordinating Council for resolution.
(9) The Instrument that establishes a particular District Assembly or any other Instrument, may confer additional functions on the District Assembly.

Executive Committee of District Assembly

19. (1) There shall be established an Executive Committee of a District Assembly to be responsible for the performance of the executive functions of the District Assembly.
(2) An Executive Committee shall consist of

(a) the District Chief Executive as chairperson;
(b) the chairpersons of the following Sub-Committees of the Executive Committee
(i) Development Planning,
(ii) Social Services,
(iii) Works,
(iv) Justice and Security, and
(v) Finance and Administration;
(c) the chairperson of one ad hoc Sub-Committee of the Executive Committee elected by the District Assembly, and
(d) any two other members elected by members of the District Assembly, at least one of whom is a woman.

(3) The Secretary of the District Assembly shall be the Secretary of the Executive Committee.

District budget

122. The budget for a District Assembly shall comprise

(a) the aggregate revenue and expenditure of the Office of the District Assembly, the Departments of the District Assembly; and
(b) the budget for the annual development plans and programmes of the Departments of the District Assembly.

Submission of budget estimates

123. (1) Each District Assembly is responsible for the preparation, administration and control of the budgetary allocation of the Office of the District Assembly and the Departments of the District Assembly.
(2) Each District Assembly shall before the end of each financial year, submit to the Regional Co-ordinating Councils, the detailed budget for the respective district that states the estimated revenue and expenditure of the District Assembly for the ensuing year.
(3) The Regional Co-ordinating Council shall collate and coordinate the budgets for the districts in the region and shall submit same to the Minister responsible for Finance.

Revenue of District Assemblies

124. (1) The revenues of a District Assembly comprise

(a) decentralised transfers;
(b) internally generated funds; and
(c) donations and grants.

(2) Decentralised transfers comprise funds from the following revenue sources:

(a) the District Assemblies Common Fund;

(b) grants-in-aid from the central government; and

(c) any other revenue transferred from the central Government to the District Assembly.

(3) Internally generated funds comprise funds from the following sources:

(a) licences;

(b) fees and miscellaneous charges;

(c) taxes;

(d) investment income; and

(e) rates

(4) A District Assembly shall open and maintain a bank account for revenues and other moneys raised or received by it.

(5) A District Assembly may borrow to finance projects in accordance with relevant laws.

(6) For the purposes of this section “grants” means donations being funds paid directly to a District Assembly by a development partner.

SUMMARY

Self-Assessment Questions

Exercise 2.6

UNIT 3: FINANCIAL REPORTING IN CENTRAL GOVERNMENT

Unit Outline

Session 1: Central Government and Central Government Financial System of Ghana
Session 2: IPSAS 9 Revenue from Exchange Transaction; and IPSAS 23 Revenue from Non-Exchange Transaction
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OVERVIEW

One of the pillars of a good financial management system is financial reporting. Financial reporting enhances transparency and accountability when it comes to the use of financial resources in the central government. The central government comprises the national government (the legislative, the executive and the judicial branches), and all other entities or institutions controlled by the government.

Unit Objectives

On completion of this unit, you should be able to:

1. Explain the central government financial system of Ghana.
2. Outline some of the functions of the key finance officers and institutions of the Central government.
3. Explain the various sources of government revenue and the main classes of government expenditure.
4. Prepare consolidated financial statements for the central government
5. Prepare financial statements for Ministries, Departments and Agencies.

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 1: CENTRAL GOVERNMENT AND CENTRAL GOVERNMENT FINANCIAL SYSTEM OF GHANA

Welcome to session one of unit three. Let us look at the central government financial systems in Ghana.

Objectives

At the end of this session, you should be able to:

a. Explain the components of the Central Government Public Fund.
b. Identify and explain the central government financial system of Ghana.

Now read on…

1.1 Introduction

Central government means units of government that exercise authority over the economy of the country. The central government funds is mainly controlled and managed by the Ministry of Finance, Bank of Ghana, Controller and Accountant General, Auditor General, Internal Audit Service and the Public Account Committee under the Parliament.

These institutions form the major financial control institutions of the Central Government Financial System. For the purpose of our study, we will concentrate on the Ministry of Finance and the Controller and Accountant General since the play significant role in the central government's financial reporting by managing and controlling the public fund.

1.2 Public Fund

Public fund is the fund into which all revenue raised and received by, for or on behalf of the Government, are paid into. It includes all revenue (tax and non-tax), grants, loans, bonds, debentures and any other securities received by, or on account of, or payable to, or deposited with the government or any ministry by any officer of government in his capacity as such or any person on behalf of the Government. Article 175 of the 1992 Constitution provides that the public funds of Ghana shall consist of:

i. Consolidated Fund,
ii. Contingency Fund,
iii. Other funds as may be established by or under the authority of Act of Parliament.

1.3 Consolidated Fund

This fund has its existence from the 1992 Constitution (Article 175, 176 and 178). It is a general fund of government into which all receipts are paid into and out of which all withdrawals, except those that are charged on other funds, are made from in accordance with the Constitution.

Thus there shall be paid into the consolidated fund (Article 176):

i. All revenues or other moneys raised or received for the purposes of, or on behalf of, the Government; and
ii. Any other moneys raised or received in trust for, or on behalf of, the Government

The revenues or other moneys that shall be paid into the consolidated fund do not include:

i. revenues or other moneys that are directed by an Act of Parliament to be paid into some other fund established for specific purposes; and
ii. revenues retained by a government department that received them for the purposes of defraying the expense of that department.

1.3.1 Withdrawal (expenditure) from the consolidated fund

There is a strict restriction on withdrawal from the consolidated fund. According to Article 178 of the 1992 Constitution, there are only two conditions for withdrawal from the consolidated fund.

i. Where the withdrawal is made to meet expenditure that is charged on the fund by the constitution or by an act of parliament (statutory expenditure).
ii. Where withdrawal of those moneys has been authorized (discretional expenses).

1.3.2 Means of authorizing withdrawal from the consolidated fund

i. By an Appropriation Act passed by parliament to approve budget estimates of government.
ii. By a supplementary estimate approved by resolution of Parliament passed for that purpose
iii. By a provisional appropriation or vote on account which allows for spending prior to the approval of the budget, (under Article 179 & 180)
iv. By rules or regulation made by parliament in respect of trust monies paid into the consolidated fund

No moneys shall be withdrawn from any public fund, other than the consolidated fund and the contingency fund, unless the issue of those moneys has been authorized by or under the authority of an Act of Parliament.

1.4 Contingency Fund

This is a fund established to account for urgent or unforeseen need for which no other provision exists to meet the need. The unforeseen circumstances may include social disorder, natural disaster and other similar events. Advances made from the fund should be replaced as soon as possible by presenting a supplementary estimate to parliament to that effect.

The contingency fund is resourced from the moneys voted by parliament for that purpose. For withdrawals to be made from this fund, the President must make a request through the public finance committee of parliament.

1.5 Other Public Funds

The other funds established by or under an Act of Parliament include:

1. District Assembly Common fund
2. Road Fund
3. Ghana Education Trust Fund
4. Venture Capital Trust Fund
5. Petroleum related Funds
6. Ghana Infrastructure Fund

1.5.1 District Assembly Common Fund (DACF)

It was established by the District Assembly Common Fund Act 1993, (Act 455) under Article 242. The purpose of this fund is to provide resources to support the developmental activities of the local government. It is a fund created to channel resources from the central government to the local governments for development. It is administered by the DACF Administrator appointed by the president.

Sources of money for the fund

i. Quarterly transfer of a minimum of 5% of Total tax revenue into the fund
ii. Income from investment of the fund
iii. Donations and grants

Expenditure charged on the DACF

i. Disbursement to MMDAs/MPs
ii. Disbursement to RCCs
iii. Administrative expenses

1.5.2 Road Fund

This fund is established by the Road Fund Act 1997, Act 536. The objective of this Fund is to finance routine, periodic maintenance and rehabilitation of public roads in the country and to assist the MMDAs in the performance of their functions relevant to public roads under any enactment.

Sources of money for the fund

i. proportion of government levy on petrol, diesel and refined fuel oil
ii. bridge, ferry and road tolls collected by the Authority;
iii. vehicle Licence and inspection fees;
iv. international transit fees, collected from foreign vehicles entering the country; and
v. such monies as the Minister responsible for Finance may determine in consultation with the Minister of road and transport with the approval of Parliament

Expenditure charged on the Road Fund

i. routine and periodic maintenance of road and related facilities;
ii. upgrading and rehabilitation of roads;
iii. road safety activities;
iv. selected road safety projects; and
v. other relevant matters as may be determined by the Board.

1.5.3 Ghana Education Trust Fund (GET Fund)

This fund was established by Ghana Education Trust Fund Act, 2000 (Act 581) to provide finance to supplement the provision of education at all levels by the Government. It provides funds for the development and maintenance of essential academic facilities and infrastructure in public educational institutions.

Sources of money for the fund

i. 2.5% of VAT transferred from the consolidated fund monthly
ii. moneys allocated by parliament
iii. Donations, grants and gifts
iv. Income from investment

Expenditure charged on the GET Fund

i. Educational infrastructure in public educational institutions
ii. Scholarships to students
iii. Student loans scheme

iv. Faculty development and research
v. Allowances of the board members
vi. Other educational activities as approved by the minister of education.

1.5.4 Venture Capital Trust Fund (VCTF)

It is established by the VCTF Act 2004, Act 680.The objective of the Trust Fund is to provide financial resources for the development and promotion of venture capital financing for Small and Medium Enterprises (SMEs) in some sectors of the economy as shall be specified from time to time

Sources of money for the fund

i. equivalent of twenty five per cent of the proceeds of the National Reconstruction Levy with effect from the 2003 financial year (defunct);
ii. fees and other monies earned by the Fund in pursuance of its functions under this Act;
iii. Investment income from investment made by the Board;
iv. grants, donations, gifts, and other voluntary contributions to the Fund;
v. other moneys or property that may in any manner become lawfully payable and vested in the Board for the Fund; and
vi. such other monies as the Minister with the approval of Parliament may determine.

Expenditure charged on VCTF

i. the provision of credit and equity financing to eligible venture capital financing companies to support SMEs which qualify for equity and quasi equity financing;
ii. the provision of monies to support other activities and programs for the promotion of venture capital financing, as the Board may determine, in consultation with the Minister.

1.5.5 Petroleum Related Funds

Under the Petroleum revenue management Act 2011 (Act 815) three funds are created:

a) Petroleum Holding Fund: established to receive and disburse petroleum revenues due to the state
b) Stabilisation fund: established to cushion the impact of public expenditure capacity during period of unanticipated petroleum revenue shortfall.

c) Heritage Fund: established to provide an endowment to support the development for the future generations when the petroleum resources have been depleted.

1.5.6 Ghana Infrastructure fund

The objective of the fund is to mobilise and provide financial resources to manage, coordinate and invest in a diversified portfolio of infrastructure projects in Ghana for national development.

SUMMARY

Self-Assessment Questions

Exercise 3.1

1. Differentiate between Consolidated fund and Contingency Fund.
2. According to Article 178 of the 1992 Constitution, state the two conditions for withdrawal from the consolidated fund.
3. List three sources of money for the District Assembly Common Fund.
4. Explain three means of authorizing withdrawal from the consolidated fund.

SESSION 2: IPSAS 9 AND IPSAS 23

In this session, two International Public Sector Accounting Standards will be reviewed. The first one, IPSAS 9: *Revenue from Exchange Transactions*, prescribes the accounting treatment of revenue arising from exchange transactions and events. IPSAS 23: *Revenue from Non-Exchange Transactions* deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions, including the identification of contributions from owners.

Objectives

By the end of this session, you should be able to:

a) explain the accounting treatment of revenue arising from exchange transactions and events
b) recognize and measure revenue from non-exchange transactions.

Now you can read on…

2.1 IPSAS 9: Revenue from Exchange Transactions – Objective and Scope

The objective of this Standard is to prescribe the accounting treatment of revenue arising from exchange transactions and events. The main issue in accounting for revenue is determining when to recognize revenue. Revenue is recognized when it is probable that future economic benefits or service potential will flow to the entity, and these benefits can be measured reliably. IPSAS 9 identifies the circumstances in which these criteria will be met and, therefore, revenue will be recognized.

2.1.1 Scope

a) An entity which prepares and presents financial statements under the accrual basis of accounting should apply this Standard in accounting for revenue arising from the following exchange transactions and events**:**
   i. The rendering of services;
   ii. The sale of goods; and
   iii. The use by others of entity assets yielding interest, royalties and dividends.
b) This Standard applies to all public sector entities other than Government Business
   Enterprises.

c) This Standard does not deal with revenue arising from non-exchange transactions.

d) Public sector entities may derive revenues from exchange or non-exchange transactions. (An exchange transaction is one in which the entity receives assets or services, or has liabilities extinguished, and directly gives equal value to the other party in exchange.) Example of exchange transactions include the purchase or sale of goods and services; or the lease of property, plant and equipment at market rates

e) Substance over form: in distinguishing between exchange and non-exchange revenues, substance rather than the form of the transaction should be considered.

f) The rendering of services typically involves the performance by the entity of an agreed task over an agreed period of time. The services may be rendered within a single period, or over more than one period. Examples of services rendered by public sector entities for which revenue is typically received in exchange may include the provision of housing, management of water facilities, management of toll roads and management of transfer payments.

g) Goods includes goods produced by the entity for the purpose of sale, such as publications, and goods purchased for resale such as merchandise or land and other property held for resale.

h) The use of others of entity assets gives rise to revenue in the form of:
    i. interest – charges for the use of cash or cash equivalents, or amounts due to the entity;
    ii. royalties – charges for the use of long-term assets of the entity, for example patents, trademarks, copyrights and computer software; and
    iii. dividends – distributions of surpluses to holders of equity investment in proportion to their holdings

i) This standard does not deal with revenues arising from:
    i. Lease agreements (IPSAS 13 *Leases*)
    ii. Dividends or similar distributions arising from investments that are accounted for under the equity method (IPSAS 36, *Investment in Associates and Joint Ventures)*
    iii. Gains from sale of Property, Plant and Equipment (IPSAS 17, *Property, Plant and Equipment)*
    iv. Insurance Contracts
    v. Changes in the fair value of financial assets and financial liabilities or their disposal (IPSAS 29, *Financial Instruments: Recognition and Measurement);*
    vi. Changes in the value of other current assets
    vii. Agricultural activity (IPSAS 27 *Agriculture)*
    viii. The extraction of mineral ores

2.1.2 Definitions

The following terms are used in this standard

a) ***Exchange Transactions***: These are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (in the form of cash, goods, services or use of assets) to another entity in exchange.
b) *Fair Value*: It is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.
c) ***Non-Exchange transactions*:** These are transactions that are not exchange transactions.
d) ***Revenue*:**Revenue includes only the gross inflows of economic benefits or service potential received and receivable by the entity on its own account. Amounts collected as agent of the government or another government organization or on behalf of other third parties, for example the collection of telephone and electricity payments by the post office on behalf of entities providing such services, are not economic benefits or service potential which flow to the entity and do not result in increases in assets or decreases in liabilities. Therefore, they are excluded from revenue. Similarly, in a custodial or agency relationship, the gross inflows of economic benefits or service potential include amounts collected on behalf of the principal and which do not result in increases in net assets/equity for the entity.

2.2 Measurement of Revenue

Revenue should be measured at the fair value of the consideration received or receivable.
The amount of revenue arising on a transaction is usually determined by agreement between the entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the entity.

When goods or services are exchanged or swapped for goods or services that are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or series are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue.

Revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

2.2.1 Identification of the Transaction

The recognition criteria are usually applied separately to each transaction. However, in certain circumstances, it is necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. For example, when the price of a product includes an identifiable amount for subsequent servicing, that amount is deferred and recognized as revenue over the period during which the service is performed.

Conversely, the recognition criteria are applied to two or more transactions together when they are linked in such a way that the effect cannot be understood without reference to the series of transactions as a whole. For example, an entity may sell goods and, at the same time, enter into a separate agreement to repurchase the goods at a later date, thus negating the substantive effect of the transaction; in such a case, the two transactions are dealt with together

2.2.2 Rendering of Services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction should be recognized by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

a) The amount of revenue can be measured reliably;
b) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity;
c) The stage of completion of the transaction at the reporting date can be measured reliably; and
d) The costs incurred for the transaction and the costs to complete the transaction can be measured reliably

Revenue is recognized only when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

An entity is generally able to make reliable estimates after it has agreed to the following with the other parties to the transaction:

a) Each party’s enforceable rights regarding the service to be provided and received by the parties;
b) The consideration to be exchanged; and
c) The manner and terms of settlement.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue should be recognized only to the extent of the expenses recognized that are recoverable. During the early stages of a transaction, it is often the case that the outcome of the transaction cannot be estimated reliably. Nevertheless, it may be probable that the entity will recover the transaction costs incurred.

Therefore, revenue is recognized only to the extent of costs incurred that are expected to be recoverable. As the outcome of the transaction cannot be estimated reliably, no surplus is recognized.

When the outcome of a transaction cannot be estimated reliably and it is not probable that the costs incurred will be recovered, revenue is not recognized and the costs incurred are recognized as an expense. When the uncertainties that prevented the outcome of the contract being estimated reliably no longer exist, revenue is recognized.

2.2.3 Sale of Goods

Revenue from the sale of goods should be recognized when all the following conditions have been satisfied:

a) The entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
b) The entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
c) The amount of revenue can be measured reliably**;**
d) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

In most cases, the transfer of the risks and rewards of ownership coincides with the transfer of the legal title or the passing of possession to the purchaser. This is the case for most sales. However, in certain other cases, the transfer of risks and rewards of ownership occurs at a different time from the transfer of legal title or the passing of possession.

If the entity retains significant risks of ownership, the transaction is not a sale and revenue is not recognized. An entity may retain a significant risk of ownership in a number of ways. Examples of situations in which the entity may retain the significant risks and rewards of ownership are:

a) When the entity retains an obligation for unsatisfactory performance not covered by normal warranty provisions;
b) When the receipt of the revenue from a particular sale is contingent on the derivation of revenue by the purchaser from its sale of the goods (for example,

where a government publishing operation distributes educational material to schools on a sale or return basis);

c) When the goods are shipped subject to installation and the installation is a significant part of the contract which has not yet been completed by the entity; and
d) When the purchaser has the right to rescind the purchase for a reason specified in the sales contract and the entity is uncertain about the probability of return.

If an entity retains only an insignificant risk of ownership, the transaction is a sale and revenue is recognized. For example, a seller may retain the legal title to the goods solely to protect the collectability of the amount due.

2.2.4 Interest, Royalties and Dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends should be recognized when:

a) It is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
b) The amount of the revenue can be measured reliably.

Revenue should be recognized using the following accounting treatments:

a) Interest should be recognized on a time proportion basis that takes into account the effective yield on the asset;
b) Royalties should be recognized as they are earned in accordance with the substance of the relevant agreement; and
c) Dividends or their equivalents should be recognized when the shareholder's or the entity's right to receive payment is established.

2.2.5 Disclosure

An entity should disclose:

a) The accounting policies adopted for the recognition of revenue including the methods adopted to determine the stage of completion of transactions involving the rendering of services;
b) The amount of each significant category of revenue recognized during the period including revenue arising from:
   i. The rendering of services;
   ii. The sale of goods;
   iii. Interest;
   iv. Royalties; and
   v. Dividends or their equivalents; and
c) The amount of revenue arising from exchanges of goods or services included in each significant category of revenue

2.3 Recognition of Revenue

Recognition of revenue under this standard is grouped into Rendering of services; Sale of goods; and Interest, Royalties and Dividends.

2.3.1 Rendering of Services

a) ***Housing :***Rental income from the provision of housing is recognized as the income is earned in accordance with the terms of the tenancy agreement.

b) ***School transport:*** Revenue from fares charged to passengers for the provision of school transport is recognized as the transport is provided.

c) ***Management of toll roads:*** Revenue from the management of toll roads is recognized as it is earned based on the usage of the roads.

d) ***Processing of court cases:*** Revenue from the processing of court cases can be recognized either by reference to the stage of completion of the processing, or based on the periods during which the courts are in session.

e) ***Management of facilities, assets or services:*** Revenue from the management of facilities, assets or services is recognized over the term of the contract as the management services are provided.

f) ***Science and technology research:*** Revenue received from clients from contracts for undertaking science and technology research is recognized by reference to the stage of completion on individual projects.

g) ***Installation fees:*** Installation fees are recognized as revenue by reference to the stage of completion of the installation, unless they are incidental to the sale of a product in which case they are recognized when the goods are sold.

h) ***Servicing fees included in the price of the product:*** When the selling price of a product includes an identifiable amount for subsequent servicing (for example, after sales support and product enhancement on the sale of software), that amount is deferred and recognized as revenue over the period during which the service is performed. The amount deferred is that which will cover the expected costs of the services under the agreement, together with a reasonable return on those services.

i) ***Insurance agency commissions:*** Insurance agency commissions received or receivable which do not require the agent to render further service are recognized as revenue by the agent on the effective commencement or renewal dates of the related policies. However, when it is probable that the agent will be required to render further services during the life of the policy, the commission, or part thereof, is deferred and recognized as revenue over the period during which the policy is in force.

j) ***Financial service fees:*** The recognition of revenue for financial service fees depends on the purposes for which the fees are assessed and the basis of accounting for any associated financial instrument. The description of fees for financial services may not be indicative of the nature and substance of the services provided.

Therefore, it is necessary to distinguish between fees which are an integral part of the effective yield of a financial instrument, fees which are earned as services are provided, and fees which are earned on the execution of a significant act.

k) ***Admission fees:*** Revenue from artistic performances, banquets and other special events is recognized when the event takes place. When a subscription to a number of events is sold, the fee is allocated to each event on a basis which reflects the extent to which services are performed at each event.

l) ***Tuition fees:*** Revenue is recognized over the period of instruction.

m) ***Initiation, entrance and membership fees:*** Revenue recognition depends on the nature of the services provided. If the fee permits only membership, and all other services or products are paid for separately, or if there is a separate annual subscription, the fee is recognized as revenue when no significant uncertainty as to its collectability exists. If the fee entitles the member to services or publications to be provided during the membership period or to purchase goods or services at prices lower than those charged to non-members, it is recognized on a basis that reflects the timing, nature and value of the benefits provided.

n) ***Franchise or concession fees:*** Franchise or concession fees may cover the supply of initial and subsequent services, equipment and other tangible assets, and know-how. Accordingly, franchise or concession fees are recognized as revenue on a basis that reflects the purpose for which the fees were charged.

o) ***Fees from the development of customized software:*** Fees from the development of customized software are recognized as revenue by reference to the stage of completion of the development, including completion of services provided for post delivery service support.

2.3.2 Sale of Goods

a) "Bill and hold" sales, in which delivery is delayed at the purchaser's request but the purchaser takes title and accepts billing Revenue is recognized when the purchaser takes title, provided:
   i. It is probable that delivery will be made;
   ii. The item is on hand, identified and ready for delivery to the purchaser at the time the sale is recognized;
   iii. The purchaser specifically acknowledges the deferred delivery instructions; and
   iv. The usual payment terms apply.

Revenue is not recognized when there is simply an intention to acquire or manufacture the goods in time for delivery.

b) *Goods shipped subject to conditions:*
   i. Installation and inspection: Revenue is normally recognized when the purchaser accepts delivery, and installation and inspection are complete. However, revenue is recognized immediately upon the purchaser's acceptance of delivery when:
      a. The installation process is simple in nature; or
      b. The inspection is performed only for purposes of final determination of contract prices.
   ii. On approval when the purchaser has negotiated a limited right of return: If there is uncertainty about the possibility of return, revenue is recognized when the shipment has been formally accepted by the purchaser or the goods have been delivered and the time period for rejection has elapsed.
   iii. Consignment sales under which the recipient (purchaser) undertakes to sell the goods on behalf of the shipper (seller): Revenue is recognized by the shipper when the goods are sold by the recipient to a third party.
   iv. Cash on delivery sales: Revenue is recognized when delivery is made and cash is received by the seller or its agent.

c) *Lay away sales under which the goods are delivered only when the purchaser makes the final payment in a series of instalments:* Revenue from such sales is recognized when the goods are delivered. However, when experience indicates that most such sales are consummated, revenue may be recognized when a significant deposit is received provided the goods are on hand, identified and ready for delivery to the purchaser.

d) *Orders when payment (or partial payment) is received in advance of delivery for goods not presently held in inventory, for example, the goods are still to be manufactured or will be delivered directly to the customer from a third party:* Revenue is recognized when the goods are delivered to the purchaser.

e) *Sale and repurchase agreements (other than swap transactions) under which the seller concurrently agrees to repurchase the same goods at a later date, or when the seller has a call option to repurchase, or the purchaser has a put option to require the repurchase, by the seller, of the goods:* The terms of the agreement need to be analyzed to ascertain whether, in substance, the seller has transferred the risks and rewards of ownership to the purchaser and hence revenue is recognized. When the seller has retained the risks and rewards of ownership, even though legal title has been transferred, the transaction is a financing arrangement and does not give rise to revenue.

f) *Sales to intermediate parties, such as distributors, dealers or others for resale:* Revenue from such sales is generally recognized when the risks and rewards of ownership have passed. However, when the purchaser is acting, in substance, as an agent, the sale is treated as a consignment sale.

g) *Subscriptions to publications and similar items:* When the items involved are of similar value in each time period, revenue is recognized on a straight line basis over the period in which the items are dispatched. When the items vary in value from period to period, revenue is recognized on the basis of the sales value of the item dispatched in relation to the total estimated sales value of all items covered by the subscription.

h) *Instalment sales, under which the consideration is receivable in instalments:* Revenue attributable to the sales price, exclusive of interest, is recognized at the date of sale. The sale price is the present value of the consideration, determined by discounting the instalments receivable at the imputed rate of interest. The interest element is recognized as revenue as it is earned, on a time proportion basis that takes into account the imputed rate of interest.

i) *Real estate sales:* Revenue is normally recognized when legal title passes to the purchaser. However, in some jurisdictions the equitable interest in a property may vest in the purchaser before legal title passes and therefore the risks and rewards of ownership have been transferred at that stage. In such cases, provided that the seller has no further substantial acts to complete under the contract, it may be appropriate to recognize revenue. In either case, if the seller is obliged to perform any significant acts after the transfer of the equitable and/or legal title, revenue is recognized as the acts are performed. An example is a building or other facility on which construction has not been completed.

2.3.3 Interest, Royalties and Dividends

Fees and royalties paid for the use of an entity's assets (such as trademarks, patents, software, music copyright, record masters and motion picture films) are normally recognized in accordance with the substance of the agreement.

As a practical matter, this may be on a straight line basis over the life of the agreement, for example, when a licensee has the right to use certain technology for a specified period of time.
An assignment of rights for a fixed fee or non refundable guarantee under a non cancellable contract which permits the licensee to exploit those rights freely and the licensor has no remaining obligations to perform is, in substance, a sale.

An example is a licensing agreement for the use of software when the licensor has no obligations subsequent to delivery. Another example is the granting of rights to exhibit a motion picture film in markets where the licensor has no control over the distributor and expects to receive no further revenues from the box office receipts. In such cases, revenue is recognized at the time of sale.

2.4 IPSAS 23: Revenue from Non-Exchange Transactions (Taxes and Transfers)

The objective of this Standard is to prescribe requirements for the financial reporting of revenue arising from non-exchange transactions, other than non exchange transactions that give rise to an entity combination. The Standard deals with issues that need to be considered in recognizing and measuring revenue from non-exchange transactions including the identification of contributions from owners.

Scope

An entity which prepares and presents financial statements under the accrual basis of accounting shall apply this Standard in accounting for revenue from non-exchange transactions. This Standard does not apply to an entity combination that is a non-exchange transaction.

2.4.1 Definitions

a) ***Conditions on transferred assets*****:** These are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

b) ***Control of an asset****:* Control of an asset arises when the entity can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit. Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

c) ***Expenses paid through the tax system:*** are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

d) ***Fines*** are economic benefits or service potential received or receivable by public sector entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

e) ***Non-exchange transactions*** are transactions that are not exchange transactions. In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

f) ***Restrictions on transferred assets*** are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

g) ***Stipulations on transferred assets*** are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting entity.

h) ***Tax expenditures*** are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

i) ***The taxable event*** is the event that the government, legislature or other authority has determined will be subject to taxation.

j) ***Taxes*** are economic benefits or service potential compulsorily paid or payable to public sector entities, in accordance with laws and or regulations, established to provide revenue to the government. Taxes do not include fines or other penalties imposed for breaches of the law.

k) ***Transfers*** are inflows of future economic benefits or service potential from no exchange transactions, other than taxes. Non-Exchange Transactions

2.4.2 Non-Exchange Transactions

In these transactions an entity will receive resources and provide no or nominal consideration directly in return. These are clearly non-exchange transactions. For example, taxpayers pay taxes because the tax law mandates the payment of those taxes. Whilst the taxing government will provide a variety of public services to taxpayers, it does not do so in consideration for the payment of taxes.

There is a further group of non-exchange transactions where the entity may provide some consideration directly in return for the resources received, but that consideration does not approximate the fair value of the resources received. In these cases the entity determines whether there is a combination of exchange and non-exchange transactions, each component of which are cognized separately.

There are also additional transactions where it is not immediately clear whether they are exchange or non-exchange transactions. In these cases an examination of the substance of the transaction will determine if they are exchange or non-exchange transactions. For example, the sale of goods is normally classified as an exchange transaction. If, however, the transaction is conducted at a subsidized price, that is, a price that is not approximately equal to the fair value of the goods sold, that transaction falls within the definition of a non-exchange transaction.

In determining whether the substance of a transaction is that of a non-exchange or an exchange transaction, professional judgment is exercised. In addition, entities may receive trade discounts, quantity discounts, or other reductions in the quoted price of assets for a variety of reasons. These reductions in price do not necessarily mean that the transaction is a non-exchange transaction

2.4.3 Revenue

Revenue comprises gross inflows of economic benefits or service potential received and receivable by the reporting entity, which represents an increase in net assets/equity, other than increases relating to contributions from owners. Amounts collected as an agent of the government or another government organization or other third parties will not give rise to an increase in net assets or revenue of the agent. This is because the agent entity cannot control the use of, or otherwise benefit from, the collected assets in the pursuit of its objectives.

Where an entity incurs some cost in relation to revenue arising from a non-exchange transaction, the revenue is the gross inflow of future economic benefits or service potential, and any outflow of resources is recognized as a cost of the transaction. For example, if a reporting entity is required to pay delivery and installation costs in relation to the transfer of an item of plant to it from another entity, those costs are recognized separately from revenue arising from the transfer of the item of plant. Delivery and installation costs are included in the amount recognized as an asset, in accordance with IPSAS 17, “Property, Plant and Equipment.

2.4.4 Stipulations

Assets may be transferred with the expectation and or understanding that they will be used in a particular way and, therefore, that the recipient entity will act or perform in a particular way. Where laws, regulations or binding arrangements with external parties impose terms on the use of transferred assets by the recipient, these terms are stipulations as defined in this IPSAS. A key feature of stipulations, as defined in this Standard, is that an entity cannot impose a stipulation on itself, whether directly or through an entity that it controls.

Stipulations relating to a transferred asset may be either conditions or restrictions. While conditions and restrictions may require an entity to use or consume the future economic benefits or service potential embodied in an asset for a particular purpose (performance obligation) on initial recognition, only conditions require that future economic benefits or service potential be returned to the transferor in the event that the stipulation is breached (return obligation). Stipulations are enforceable through legal or administrative processes.

If a term in laws or regulations or other binding arrangements is unenforceable, it is not a stipulation as defined by this Standard. Constructive obligations do not arise from stipulations. IPSAS 19, “Provisions, Contingent Liabilities and Contingent

2.4.5 Conditions on Transferred Assets

Conditions on transferred assets (hereafter referred to as conditions) require that the entity either consume the future economic benefits or service potential of the asset as specified or return future economic benefits or service potential to the transferor in the event that the conditions are breached.

Therefore, the recipient incurs a present obligation to transfer future economic benefits or service potential to third parties when it initially gains control of an asset subject to a condition. This is because the recipient is unable to avoid the outflow of resources as it is required to consume the future economic benefits or service potential embodied in the transferred asset in the delivery of particular goods or services to third parties or else to return to the transferor future economic benefits or service potential. Therefore, when a recipient initially recognizes an asset that is subject to a condition, the recipient also incurs a liability.

As an administrative convenience, a transferred asset, or other future economic benefits or service potential, may be effectively returned by deducting the amount to be returned from other assets due to be transferred for other purposes. The reporting entity’s financial statements will still recognize the gross amounts in its financial statements, that is, the entity will recognize a reduction in assets and liabilities for the return of the asset under the terms of the breached condition, and will reflect the recognition of assets, liabilities and or revenue for the new transfer.

2.4.6 Restrictions on Transferred Assets

Restrictions on transferred assets (hereafter referred to as restrictions) do not include a requirement that the transferred asset, or other future economic benefits or service potential is to be returned to the transferor if the asset is not deployed as specified. Therefore, gaining control of an asset subject to a restriction does not impose on the recipient a present obligation to transfer future economic benefits or service potential to third parties when control of the asset is initially gained.

Where a recipient is in breach of a restriction, the transferor, or another party, may have the option of seeking a penalty against the recipient, by, for example, taking the matter to a court or other tribunal, or through an administrative process such as a directive from a government minister or other authority, or otherwise. Such actions may result in the entity being directed to fulfil the restriction or face a civil or criminal penalty for defying the court, other tribunal or authority. Such a penalty is not incurred as a result of acquiring the asset, but as a result of breaching the restriction.

2.4.7 Substance over Form

In determining whether a stipulation is a condition or a restriction it is necessary to consider the substance of the terms of the stipulation and not merely its form. The mere specification that, for example, a transferred asset is required to be consumed in providing goods and services to third parties or be returned to the transferor is, in itself, not sufficient to give rise to a liability when the entity gains control of the asset.

In determining whether a stipulation is a condition or restriction, the entity considers whether a requirement to return the asset or other future economic benefits or service potential is enforceable and would be enforced by the transferor. If the transferor could not enforce a requirement to return the asset or other future economic benefits or service potential, the stipulation fails to meet the definition of a condition and will be considered a restriction. If past experience with the transferor indicates that the transferor never enforces the requirement to return the transferred asset or other future economic benefits or service potential when breaches have occurred, then the recipient entity may conclude that the stipulation has the form but not the substance of a condition, and is, therefore, a restriction.

2.4.8 Taxes

Taxes are the major source of revenue for many governments and other public sector entities. Taxes are defined as economic benefits compulsorily paid or payable to public sector entities, in accordance with laws or regulation, established to provide revenue to the government, excluding fines or other penalties imposed for breaches of laws or regulation.

Non-compulsory transfers to the government or public sector entities such as donations and the payment of fees are not taxes, although they may be the result of non-exchange transactions. A government levies taxation on individuals and other entities, known as taxpayers, within its jurisdiction by use of its sovereign powers.

Tax laws and regulations can vary significantly from jurisdiction to jurisdiction, but they have a number of common characteristics. Tax laws and regulations establish a government's right to collect the tax, identify the basis on which the tax is calculated, and establish procedures to administer the tax, that is, procedures to calculate the tax receivable and ensure payment is received. Tax laws and regulations often require taxpayers to file periodic returns to the government agency that administers a particular tax.

The taxpayer generally provides details and evidence of the level of activity subject to tax, and the amount of tax receivable by the government is calculated. Arrangements for receipt of taxes vary widely but are normally designed to ensure that the government receives payments on a regular basis without resorting to legal action. Tax laws are usually rigorously enforced and often impose severe penalties on individuals or other entities breaching the law.

Advance receipts, being amounts received in advance of the taxable event, may also arise in respect of taxes.

2.4.9 Initial Analysis of the Inflow of Resources from Non-Exchange Transactions

An entity will recognize an asset arising from a non-exchange transaction when it gains control of resources that meet the definition of an asset and satisfy the recognition criteria. In certain circumstances, such as when a creditor forgives a liability, a decrease in the carrying amount of a previously recognized liability may arise.

In these cases, instead of recognizing an asset, the entity decreases the carrying amount of the liability. In some cases, gaining control of the asset may also carry with it obligations that the entity will recognize as a liability. Contributions from owners do not give rise to revenue, so each type of transaction is analyzed and any contributions from owners are accounted for separately. Consistent with the approach set out in this

Standard, entities will analyze non-exchange transactions to determine which elements of general purpose financial statements will be recognized as a result of the transactions.

2.4.10 Recognition of Assets

Assets are defined in IPSAS 1, "Presentation of Financial Statements" as resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

An inflow of resources from a non-exchange transaction, other than services in kind, that meets the definition of an asset shall be recognized as an asset when, and only when:

a) It is probable that the future economic benefits or service potential associated with the asset will flow to the entity; and
b) The fair value of the asset can be measured reliably.

Control of an Asset

The ability to exclude or regulate the access of others to the benefits of an asset is an essential element of control that distinguishes an entity's assets from those public goods that all entities have access to and benefit from. In the public sector, governments exercise a regulatory role over certain activities, for example financial institutions or pension funds. This regulatory role does not necessarily mean that such regulated items meet the definition of an asset of the government, or satisfy the criteria for recognition as an asset in the general purpose financial statements of the government that regulates those assets.

An announcement of an intention to transfer resources to a public sector entity is not of itself sufficient to identify resources as controlled by a recipient. For example, if a public school was destroyed by a forest fire and a government announced its intention to transfer funds to rebuild the school; the school would not recognize an inflow of resources (resources receivable) at the time of the announcement.

In circumstances where a transfer agreement is required before resources can be transferred, a recipient entity will not identify resources as controlled until such time as the agreement is binding because the recipient entity cannot exclude or regulate the access of the transferor to the resources. In many instances, the entity will need to establish enforceability of its control of resources before it can recognize an asset. If an entity does not have an enforceable claim to resources, it cannot exclude or regulate the transferor's access to those resources

Past Event

Public sector entities normally obtain assets from governments, other entities including taxpayers, or by purchasing or producing them. Therefore the past event which gives rise to control of an asset may be a purchase, a taxable event, or a transfer. Transactions or events expected to occur in the future do not in themselves give rise to assets – hence for example, an intention to levy taxation is not a past event that gives rise to an asset in the form of a claim against a taxpayer

Probable Inflow of Resources

An inflow of resources is "probable" when the inflow is more likely than not to occur. The entity bases this determination on its past experience with similar types of flows of resources and its expectations regarding the taxpayer or transferor. For example, where a government agrees to transfer funds to a public sector entity (reporting entity), the agreement is binding and the government has a history of transferring agreed resources, it is probable that the inflow will occur, notwithstanding that the funds have not been transferred at the reporting date.

Contingent Assets

An item that possesses the essential characteristics of an asset, but fails to satisfy the criteria for recognition may warrant disclosure in the notes as a contingent asset.

2.4.11 Exchange and Non-Exchange Components of a Transaction

Where an asset is acquired by means of a transaction that has an exchange component and a non-exchange component, the entity recognizes the exchange component according to the principles and requirements of other IPSASs. The non-exchange component is recognized according to the principles and requirements of this Standard.

In determining whether a transaction has identifiable exchange and non-exchange components, professional judgment is exercised. Where it is not possible to distinguish separate exchange and non-exchange components, the transaction is treated as a non-exchange transaction.

2.4.12 Recognition and Measurement of Revenue from Non-Exchange Transactions

An inflow of resources from a non-exchange transaction recognized as an asset shall be recognized as revenue, except to the extent that a liability is also recognized in respect of the same inflow.

As an entity satisfies a present obligation recognized as a liability in respect of an inflow of resources from a non-exchange transaction recognized as an asset, it shall reduce the carrying amount of the liability recognized and recognize an amount of revenue equal to that reduction.

Revenue from non-exchange transactions shall be measured at the amount of the increase in net assets recognized by the entity.

A present obligation arising from a non-exchange transaction that meets the definition of a liability shall be recognized as a liability when and only when:

a) It is probable that an outflow of resources embodying future economic benefits or service potential will be required to settle the obligation; and
b) A reliable estimate can be made of the amount of the obligation.

2.4.13 Present Obligation

A present obligation is a duty to act or perform in a certain way and may give rise to a liability in respect of any non-exchange transaction. Present obligations may be imposed by stipulations in laws or regulations or binding arrangements establishing the basis of transfers. They may also arise from the normal operating environment, such as the recognition of advance receipts.

In many instances, taxes are levied and assets are transferred to public sector entities in non-exchange transactions pursuant to laws, regulation or other binding arrangements that impose stipulations that they be used for particular purposes.

2.4.14 Measurement of Liabilities on Initial Recognition

The amount recognized as a liability shall be the best estimate of the amount required to settle the present obligation at the reporting date. The estimate takes account of the risks and uncertainties that surround the events causing the liability to be recognized. Where the time value of money is material, the liability will be measured at the present value of the amount expected to be required to settle the obligation.

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Self-Assessment Questions
Exercise 3.2

1. State the main sources of government revenue.
2. Explain the differences between revenue and receipts in the public sector.
3. Explain the recognition of revenue from Non-exchange transactions.
4. Write short notes on the following according to IPSAS 9 and 23:
    a. Exchange transactions
    b. Non-exchange transactions
    c. Stipulations
    d. Substance over form
5. Discuss the initial Analysis of the Inflow of Resources from Non-Exchange Transactions

SESSION 3: REVENUE AND EXPENDITURE RECOGNITION IN THE PUBLIC SECTOR

In session two, the key finance officers and institutions in Government were identified and discussed along with their financial responsibilities and functions. In this session, the various sources of Government revenue and expenditure will be identified. We will also discuss revenue and expenditure recognition in the public sector, referring to the relevant IPSASs.

Objectives

At the end of this session, you should be able to:

a) Identify the sources and classifications of Government revenue
b) Identify the sources and classifications of Government expenditure
c) Recognize revenue and expenditure in the public sector.

Now read on…

3.1 Government Revenues

The government has the constitutional responsibility to provide essential services to its citizenry and all these require huge amount of resources to discharge. The government needs money to provide public goods and services such as schools, roads, security; pay compensation to public sector employees; service debts; reduce poverty through social benefits; provide grants and subsidies for consumption among others.

In order to carry out its work, the government must have funds to finance them. This will be possible by ensuring that it has adequate and sufficient funds in the consolidated fund. To ensure the adequacy and sufficiency of funds, it has to have a good financial system to generate enough revenue. Government revenues are monies raised or received by the government or on its behalf arising from its principal business.

3.1.1 Sources of Central Government Revenues

Government revenue can be examined from different levels:

a) Central government (consolidated fund)
b) MDAs (to meet commitments)
c) Subvented Entities
d) MMDAs
e) State Owned Enterprises

For the purpose of our studies, we will concentrate on the central government sources of revenue paid into the consolidated fund.

The main sources of revenues to the central government (consolidated fund) include Tax Revenues, Non-Tax Revenues and Grant.

a) Tax Revenue

Taxes are compulsory levy imposed on the people of a country by a legitimate body or person. Tax revenue is basically the revenue the government raises through taxation. In Ghana, only Parliament can approve the imposition of taxes on the people of Ghana (Article 174 of the Constitution). Taxes can be grouped into Direct taxes or Indirect taxes

i. Direct Taxes

A direct tax is referred to as a tax levied on person' income and wealth paid directly to the government. The tax burden associated with these taxes fall on the tax payer. It is progressive in nature, that is, it increases with an increase in income or wealth. Examples of direct taxes include:

- Personal income tax (PAYE)
- Corporate taxes
- Rent tax
- Vehicle income tax (VIT)
- Capital gain tax
- Stamp taxes
- Dividend taxes

ii. Indirect Taxes

These are taxes imposed on goods and services. The burden of tax falls on the final consumer who consumes the goods and services. Examples of indirect taxes include:

- Excise duties (imposed on domestic goods such as beer, polythene bags, sachet water etc)
- Value Added Taxes (imposed on chargeable goods and services)
- Communication service taxes (paid on air time)
- Custom duties (export and import taxes)
- Petroleum taxes on petroleum products and operations.

b) Non-Tax Revenue

This refers to other sources of government revenue apart from taxation. Collection of non-tax revenue is the responsibility of the various agencies or institutions involved in such transactions or services. Non-tax revenues include:

- Receipt from sale of public assets
- User fees and charges for services such as passport fees, academic facility user fees, DVLA charges, etc

- Interest, dividend, royalties and profit from government direct investment.
- Royalties on natural resources (mining companies) etc
- Rent income
- Sale of goods such as gold, cocoa etc.

c) Grants

These are financial assistance received freely by a government from either bilateral or multilateral sources without any requirement of repayment to support its operations. Bilateral grants are those grants received from other governments whereas multilateral grants are received from international agencies such as International Monetary Fund (IMF), World Bank etc. Grants are usually in the form of money though some types of grants may offer access to resources, services, goods or other aid. Grants are often given to fund a specific project and require some level of compliance and reporting.

3.2 Government Expenditure

Government expenditure comprises all expenses incurred by the central government, the local government and other public sector entities for the delivery of public services. Government expenditure can be classified into statutory and discretional expenditure.

3.2.1 Statutory Expenditure

These are expenditures charged on the consolidated fund by the constitution or by an Act of Parliament. They are regarded as statutory obligations and therefore do not require prior approval of parliament. Examples of statutory expenses are debt servicing, pension payments, emoluments of certain public officers such as the Auditor General, transfers to statutory funds such as District Assembly common fund, Social security contribution (13%) etc.

3.2.2 Discretionary expenditure

These are expenditures that requires parliamentary approval before authorization is given. They are also known as non-statutory expenditure. The government has control over the decision to incur such expenditures.

Government of Ghana expenditure classification has been revolving over time. According to the **chart of accounts** (a created list of the accounts used by an organization to define each class of items for which money or the equivalent is spent or received) expenditure can be classified as follows:

a) Medium Term Expenditure Framework (MTEF) Classification (1999 – 2011):

Under the MTEF, discretional expenditure was classified into

i. ***Personal emolument*:** compensation to employees of government

ii. ***Administration cost*****:** cost of running government establishment to provide public services

iii. *Service cost:* cost incurred in providing general public services and/or improving the capacity of entities to deliver more efficient service

iv. ***Investment cost*****:** expenses on the construction or acquisition of capital assets

b) Ghana Integrated Financial Management Information System (GIFMIS) Classification (2012 to date): This is the current system of expenditure classification in Ghana with the prime objective to improve the effectiveness of service delivery and the allocation of scarce resources. Under GIFMIS expenditures are put into eight categories as follows:

i. ***Compensation for employees:*** this is made up personal emolument and all allowances payable to employees

ii. *Goods and services*: this is a combination of administration cost and service cost as outlined in MTEF item ii and iii.

iii. ***Consumption of fixed capital***: it measures the portion of non-financial assets consumed within an accounting period. Example is depreciation of non-current assets.

iv. ***Public interest*****:** this is made up of interest on domestic debts and external debt

v. ***Subsidies*****:** this refers to all subsidies to both private sector and public sector

vi. *Grants*: this refers to government assistance to other countries or the local government.

vii. ***Social benefits*****:** these are expenses on social security, such as national health insurance, school feeding etc.

viii. ***Other expenditures*****:** this includes contingent expenses and other expenses which do not fall under any of the 7 groups above.

Self-Assessment Questions

Exercise 3.3

1. List three (3) main sources of revenue to the central government.
2. Differentiate between Statutory and Discretionary Expenditure.
3. Explain five (5) of the expenditure categories under GIFMIS

SESSION 4: THE CONSOLIDATED FUND AND FINAL ACCOUNTS FOR THE CENTRAL GOVERNMENT

Welcome to Session 4 of unit 3. We have defined consolidated fund as one of the public funds of government into which all receipts are paid into and out of which all withdrawals are made, except those that are charged on other funds. In this session we will discuss the structure of the consolidated fund and how the final accounts for the central government are prepared.

Objectives

At the end of this session, you should be able to prepare:

1. statement of revenue and expenditure of the consolidated fund
2. statement of receipt and payment of the consolidated fund
3. statement of financial position of the consolidated fund
4. statement of cash flow of the consolidated fund

Now read on…

4.1 Assets of the Consolidated Fund (Public Asset)

Public assets refer to the resources that are controlled by a government or its entities as a result of past event from which future benefits are expected to flow to the government. Consolidated fund assets or public assets are classified as financial assets and non-financial assets.

4.1.1 Financial Assets

Financial assets are moneys paid from the consolidated fund for a public purpose that either requires repayment or confers ownership right on the government. They include cash and bank accounts, securities and investment accounts that can readily be converted into cash. Examples of financial assets are Cash and bank balances, advances, loans, revenues receivables, equity investment and investment in other securities.

4.1.2 Non-Financial Assets

These are assets that have physical substance with useful economic lives extending beyond one accounting period. They are held for use in the production or supply of goods and services, for administrative purposes, or for the development or maintenance of other tangible capital assets. Financial assets are to be used on a continuing basis and are not for sale in the ordinary course of operations. Examples include inventories, property plant and equipment (PPE), infrastructure, natural assets and military assets.

4.2 Liabilities of the Consolidated fund (Public Liabilities)

Liabilities refer to a present obligation of a government arising from past events, the settlement of which is expected to result in an outflow from public resources embodying economic benefits. They often represent claims on government resources. The liabilities of government may be grouped into three:

i. Sundry creditor or payables of goods, services, works and contracts
ii. Trust monies and deposits held by government in a trustee capacity
iii. Borrowing of funds (public debt)

4.3 Final Accounts for the Central Government

The final account of the government is known as Public Accounts (financial reporting). Public accounts are documents and records pertaining to public and trust moneys received into, held in and paid from the consolidated fund. The responsibility for financial reporting is on the Controller and the Accountant General and the Heads of Departments under the Public Financial Management Act.

It is the responsibility of the CAG for compiling public accounts of the consolidated fund and any other fund under his care. The CAG is also responsible for approving departmental accounting instructions, classifying of accounts (chart of accounts) and making accounting policies for the public sector. Financial reporting is done monthly and annually as required by the law.

4.3.1 Purpose of Financial Statements

Financial statements are a structured representation of the financial position and financial performance of an entity. The objectives of general purpose financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making and evaluating decisions about the allocation of resources. Specifically, the objectives of general purpose financial reporting in the public sector should be to:

- Fulfill legal and other requirements
- Provide information for decision making
- Provide information for planning and controlling
- Demonstrate accountability and stewardship of government for use of public assets
- Measure financial performance of entities or institutions.

4.3.2 Financial Reports (Public Accounts) prepared by CAG

- The Controller and Accountant General prepares financial reports on the consolidated fund monthly and annually.

- The annual financial reports are prepared in accordance with the generally accepted accounting principles and the financial laws.
- The monthly report is required to be transmitted to Ministry of Finance not later than fifteen (15) days after the end of each month.
- The annual report shall be submitted by the CAG within 3 months for auditing
- The Auditor general is required within 6 months to submit his audit report to parliament.

4.3.3 Annual Financial Statements of Public Accounts

A complete set of annual financial statements of the consolidated fund include:

i. Revenue Expenditure Statement
ii. Receipt and Payment statement in comparison with the budget estimates.
iii. Statement of Financial Position
iv. Cash flow statement
v. Statement of Public debt
vi. Statement of Public Investment
vii. Statement of Advances and loans etc.
viii. Notes forming part of the accounts.

4.4 Statement of Receipt and Payment

The Statement of Receipt and payment is prepared to show moneys actually received into and paid out of the consolidated fund. It excludes transactions that are non-cash in nature.

The following is a typical format for statement of receipt and payment

Statement of Receipt and Payment for the year ended ……	**GHc Actual**	**GHc Budget**
Receipts		
Direct tax	xx	xx
Indirect tax	xx	xx
Non-tax	xx	xx
Grants	xx	xx
Domestic borrowing (NTO)	xx	xx
External borrowing	xx	xx
Recoveries of loans and advances	xx	xx
TOTAL RECEIPT	xx	xx
Payments		
Compensation	xx	xx
Goods and services	xx	xx
Non-financial assets	xx	xx
Public debt interest	xx	xx
Subsidies	xx	xx
Grants	xx	xx
Social benefits	xx	xx
Other expenditure	xx	xx
Repayment of debt	xx	xx
Loan and advance granted	xx	xx
Investment acquired	xx	xx
TOTAL PAYMENT	xx	xx
Cash Surplus deficit	xx	xx
Cash balance at start	xx	
Cash balance at end	xx	

4.5 Statement of Revenue and Expenditure

The statement of revenue and expenditure is prepared to determine the surplus or deficit for the reporting period.

A typical format is as follows:

Statement of Revenue and Expenditure for the year ended........	**GHC Actual**	**GHC Budget**
Revenue		
Direct tax	xx	xx
Indirect tax	xx	xx
Non-tax	xx	xx
Grants	xx	xx
Total revenue	**xx**	**xx**
Expenditure		
Compensation	xx	xx
Goods and services	xx	xx
Consumption of fixed capital	xx	xx
Public debt interest	xx	xx
Subsidies	xx	xx
Grants	xx	xx
Social benefits	xx	xx
Other expenditure	xx	xx
Total expenditure	**xx**	**xx**
SURPLUS/DEFICIT	**xx**	**xx**

4.6 Statement of Financial Position

The statement of financial position shows the assets, liabilities and net financial position as at the balance date of the reporting period.

A typical format is as follows:

Statement of Financial Position as at	**GHC**
Assets	
Non-Financial Assets (PPE) (NBV)	xx
Non-Financial Assets (infrastructure) NBV	xx
Equity Investment	xx
Loan and Advances	xx
Gold holding and other reserves	xx
Bank and cash	xx
TOTAL ASSETS	xx
Liabilities and Funds	
Payables	xx
Deposits	xx
Domestic debt	xx
External Debt	xx
Total liabilities	xx
Trust funds	xx
Accumulated fund	xx
TOTAL LIABILITIES AND FUNDS	xx

SUMMARY

Self-Assessment Questions

Exercise 3.4

The following are the balances extracted from the Public Accounts on the Consolidated Fund from the year ended 31 December 2016.

GHS000	
Direct Tax	1,044,460
Compensation of employees	808,672
Goods and services	404,336
Non-Financial Assets	134,779
Indirect Tax	939,556
Grants	28,110
Interest Expenses	398,138
Social Benefits	238,882
Other Expenses	159,255
Other Revenue	50,928
National Health Insurance Levy	79,368
Depreciation and Amortization	20,524
Loan Repayments	3,056,000
Levies	27,184
Loans Received	4,245,150
Loan Recoveries	1,166
Other Payments	68,428
Cash and Bank Balances as at 1/1/2016	813,462

Required;

a. Prepare Receipts and Payments of the Consolidated Fund for the year ended 31st December 2016.

b. Statement of Cash and Bank balances at the beginning and end of year ended 31st December 2016.

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 5 : PREPARATION OF ACCOUNTS FOR MINISTRIES, DEPARTMENTS AND AGENCIES (MDAS)

Welcome to session 5 of Unit 3. In the previous session we learnt how to prepare final account for the central government. In this session we would concentrate on how Ministries, Departments and Agencies prepare their accounts.

Objectives

By the end of this session you should be able to:

a) Explain the process of preparing and approving the annual estimate of MDAs
b) Explain the process in which government pays the expenditure of MDAs
c) Explain the content and format of monthly statement of revenue and expenditure prepared by MDAs
d) Prepare the Annual financial reports of MDAs

Now you can read on…

5.1 Introduction

Ministries, Department and Agencies (MDAs) are the machineries through which the central government carries out its activities. A ministry is the highest organization for the respective sector and established by the president through an executive instrument or as provided for by any other enactment. A ministry is constituted of departments and divisions responsible for the respective sectors. Departments and agencies of the Government are created by or under the authority of the Civil Service Act.

5.2 Functions of MDAs

Functions of MDAs include

a) to initiate and formulate policies taking into account the needs and aspirations of the people
b) to undertake development planning in consultation with the National Development Planning Commission, and
c) to co-ordinate, monitor and evaluate the efficiency and effectiveness of the performance of the sector.

The MDAs are managed and headed by public officers known as the Heads of Department.

5.3 Duties of a Head of Department

A head of government department shall:

a) manage and operate the department's accounting systems, so as to ensure the accountability of all officers transacting such business and facilitate the efficient discharge of such business;
b) ensure that the department's accounting system has been approved by the Controller and Accountant-General in consultation with the Auditor- General;
c) secure the efficient and effective use of appropriations under departmental control within the ambit of government policy and in compliance with any enactment, regulations or instructions issued under the authority of any enactment;
d) secure the due and proper collection of government revenue collectable by the department within the terms of any enactment or of instructions issued or approved by the Controller and Accountant-General;
e) request, commit, order, receive and make payments for goods and services within the funds appropriated to the department and in accordance with these Regulations and any other enactment;
f) receive and order the disbursement of any trust moneys for which the head of department has been appointed as administering authority by or under any enactment or agreement;
g) manage and reconcile the bank accounts authorised for the department by the Controller and Accountant General;
h) preserve in good order and secure the economical use of all equipment and stores used by the department;
i) transact any other financial business for which the head of department is made responsible, by or under any enactment in accordance with the requirement of the enactment or instructions issued or approved by the Minister;
j) prepare monthly departmental accounts in a form prescribed by the Controller and Accountant-General Department, within the time period set by the Controller and Accountant General in the Accounting Manual and submit these to the Minister, the Auditor General and the Controller and Accountant-General Department;
k) prepare, sign and submit within three months after the end of the year, to the Minister, the Auditor General and the Controller and Accountant-General Department, annual departmental accounts in the form prescribed by the Controller and Accountant-General Department in consultation with the Auditor-General;
l) answer questions raised by the Auditor General in respect of the financial transactions and accounts of the Department;
m) appear before the Public Accounts Committee to give any explanations required by the Committee in respect of the annual departmental accounts; and

n) compile and maintain assets register of the department as determined by the Controller and Accountant-General.

5.4 Methods of financing the expenditure and commitments of MDAs

Revenue from the operations of MDAs may not be enough to meet their expenditure and commitment. The Central Government, therefore, finance the activities of the MDAs through various means. The following are some of the common methods:

a) ***Appropriations/Votes***: This is a method where annual estimate of MDAs are approved by Parliament to finance MDAs' programmes and activities. This is the main source of revenues to the MDAs.
b) *Subsidies*: this is where the government subsidizes the expenditure incurred by the MDAs.
c) ***Compensation Transfer*:** this is where the Government pays the compensation, social security contribution, the pension and gratuity of employees of the MDAs for their services.
d) ***Revenue Retention***: some of the MDAs are allowed by the government to keep a portion or whole of the revenue generated internally to finance their activities. This is known as Internally Generated Fund (IGF). IGF is Non-tax revenue that are generated through the activities of a departments
e) ***Grants and Donation*:** In most cases, government provides grants to its MDAs to finance their activities. Grants are mostly in the form of cash or in kind

5.5 Vote Accounting System

Vote refers to the amount of money approved by parliament to be appropriated to the spending organisation for financing their programmes and projects in order to accomplish their objectives. The process of accounting for the vote is known as Vote Accounting. Vote Accounting refers to the integration of budgeted amounts into the financial accounting system for the purposes of budgetary control and comparability of financial reports.

Under vote accounting, spending organisations are required to submit estimate of their expenditure and once approved, the spending organisation is entitled to make spending in accordance with the spending plans of the government. Budget figures are incorporated into the accounting system to facilitate generation of budget performance reports.

A vote book is a record of payments made and liabilities incurred under the votes or funds approved for each ministry, department or agency. A vote book is maintained for each Head of expenditure. A vote book is an integral part of budgetary control system. It is designed to ensure that expenditure incurred are not in excess of appropriation. Over–expenditure of departmental vote amounts to reckless use of public funds and is seriously frowned at by Government.

5.6 Appropriation and Annual Estimates

Appropriation means an authorisation made under an appropriation act permitting withdrawal out of the consolidated fund or any other public fund. That is the procedure through which funds are made available to spending organisations.

Before appropriation begins, annual estimates must be prepared. Annual estimates are statements indicating the expected revenue and expenditure to be made by the government organisation in coming year. They are prepared and submitted by each to the government to assist in the preparation of the Government Budget. The estimate comprise the estimates of revenue and expenditure.

Annual estimate may include income that the department receives outside the budget allocation. Such income is referred to as **Appropriation-in-Aid.** If refers to any income to an MDAs outside the budget allocation. Such incomes are set off against the budget allocation before disbursement is made. They include donor grants, retained Internally Generated fund and other receipts.

After approval of estimates of expenditure, **Appropriation Bill** is introduced, providing for the issue from the Consolidated Fund of the sums necessary to meet that expenditure and the appropriation of those sums, under separate votes for the several heads of expenditures approved, to the purposes specified in the Bill.

The estimates of the expenditure of all public offices and public corporations, other than those set up as commercial ventures shall be classified under programmes or activities which shall be included in a bill to be known as an **Appropriation Bill** and which shall be introduced into Parliament to provide for the issue from the Consolidated Fund or such other appropriate fund, of the sums of money necessary to meet that expenditure and the appropriation of those sums for the purposes specified in that bill; and

The appropriation bill is prepared annually and laid before parliament at least one month before the end of the financial year subsequent to which the votes relates. When an appropriation bill is approved by the parliament it becomes Appropriation Act. Appropriation Act is an act passed in accordance with article 179 of the constitution which authorises withdrawal out of the consolidated fund or any other public funds for a financial year.

5.7 Vote Management and Control

The Heads of departments have the primary responsibility of managing and controlling departmental vote. They are regarded as **vote controllers**.

5.7.1 Vote Controller

The vote controller is the head of department who manages, controls and account for the use of the departmental vote. They are also referred to as the Principal Account Holders. The vote controller or the Principal account holder shall, within the first quarter of the ensuring year after the Minister submits the annual budget to Parliament, submit to parliament, a performance report on budget implementation for the proceeding financial year. The vote controller has the following responsibilities:

a) To ensure that disbursements are within the amount approved by parliament.
b) To appoint the chairperson and members of an Audit Committee
c) To request for moneys by preparing a Financial Encumbrance (FE) – a document for expenditures of their organisations.
d) To ensure that votes are efficiently and effectively used for the purpose indicated in the approved estimates.
e) To account to parliament for the performance of their functions with respect to the implementation of fiscal policies.

5.7.2 Principal Spending Officer

The principal spending officer is the Chief Director or the most senior Administrative head of MDAs. The following are the duties of the principal spending officer:

a) A Principal Spending Officer of a covered entity shall
    i. ensure the regularity and proper use of money appropriated in that covered entity;
    ii. authorise commitments for the covered entity within a ceiling set by the Minister and
    iii. manage the resources received, held or disposed of by or on account of the covered entity.
b) A Principal Spending Officer shall, in the exercise of duties under this Act, establish an effective system of risk management, internal control and internal audit in respect of the resources and transactions of a covered entity.
c) Where a Principal Spending Officer receives a subvention on behalf of another entity, that Principal Spending Officer shall remit the subvention to that other entity in accordance with the approved cash flow plan for the subvention.
d) A Principal Spending Officer may delegate a function or responsibility to a public officer who is under the control of that Principal Spending Officer but shall not be relieved of the ultimate responsibility for the performance of the delegated function or responsibility.

e) Where a Principal Spending Officer delegates a function or responsibility, that Principal Spending Officer shall give the directives necessary for the proper exercise or performance of that function or responsibility.

5.8 Financial Encumbrance (FE)

Financial encumbrance is a document for expenditures of an organisation. It permits MDAs to request disbursement from the public fund. It is often prepared by the vote controller on the basis of the budget allocations. It must be noted that FEs are no more used (rarely used) for requesting funds from the Ministry of Finance.

5.9 Release of Funds to meet expenditure warrant

After Parliament has approved the Annual Estimates, authority to

a) commit funds is conveyed to departments by the issue of warrants signed by the Minister on behalf of Government and copied to the Controller and Accountant General;
b) disburse funds to meet expenditure is conveyed by the issue of cash release instructions signed by the Minister on behalf of Government to the Controller and Accountant-General.

Upon the issue of a Warrant, the authority conveyed by a Provisional Warrant shall lapse, and all expenditure made under the Provisional Warrant shall be deemed to have been made under the authority of the Warrant.

5.9.1 Provisional Warrant

Where the estimates are not approved before the first working day of the financial year, the President, by Provisional Warrant and with approval of Parliament, shall authorise the withdrawal from the Consolidated Fund of moneys of an amount not exceeding one-quarter of the amount included in the draft estimates.

Moneys withdrawn shall be for the purpose of meeting expenditure on Government programmes and activities in respect of the period expiring

a) three months from the beginning of the financial year; or
b) immediately before the approval of the Consolidated Fund Expenditure Estimates,

whichever is earlier.

5.10 Release of funds

a) Release of Funds to the departments shall be in accordance with warrants issued by the Minister or the Minister’s authorised representative with copies to the Controller and Accountant-General.
b) The Minister shall issue cash release instructions to the Controller and Accountant-General for the transfer of cash to the Operational Bank Accounts of departments.

c) Without prejudice to the above provision, where a revote has been approved, disbursements may be done in arrears.

5.11 Balance of Appropriation

a) A head of department shall submit statement of un-discharged commitments, ten working days after the end of the financial year to the Minister, with copies to the Controller and Accountant-General.
b) A head of department shall furnish the Minister with a schedule of un-discharged commitments which may be properly carried forward together with unexpected balances of the previous year's appropriation that are available to finance their discharge.
c) The Minister, upon receiving the schedule, may issue a warrant referred to as a **Revote Warrant** to the head of department with copies to the Controller and Accountant-General to provide for the discharge of the commitments.
d) A head of department shall include moneys specified in the Revote Warrant in the first supplementary estimates of the new financial year to be presented to Parliament for approval.

5.12 Accounts maintained under Vote Accounting System

The following accounts are maintained under a typical vote accounting system

a) Controller and Accountant General's Department Account: this account is used for the compensation paid by the CAGD on behalf of the MDAs
b) Parliamentary Grant Account: This account is kept to record approved estimate of spending organisation as compared with actual expenditure
c) Consolidated Fund Account: this is used to record funds received from the consolidated fund
d) Bank Account
e) Various Expenses Account

5.13 Appropriation Account

This is prepared at the end of every year, accounting for the monies voted by parliament. It is in a form of receipt and payment accounts showing expenditure analysed into budget heads comparing such expenditure items with the budgets estimates for a particular fiscal year. It is prepared for each vote and signed by the Principal Spending Officer. An appropriation account shows:

a) the services for which the moneys expended were voted,
b) the sums actually expended on each service, and
c) the state of each covered entity compared with the amount appropriated for that covered entity by Parliament;

A format of the Appropriation Account is as follows:

Appropriation Account for the Year Ended 31 December......

Expenditure Heads:	**Appropriation Estimate GHC**	**Actual Expenditre GHC**	**Under Expenditure GHC**	**Over Expenditure GHC**
Compensation of employees	XXX	XXX	XXX	
Goods and Services	XXX	XXX	XXX	
Assets	XXX	XXX		XXX
Total Expenditure	XXX	XXX	XXX	XXX
Less Appropriation in Aid	XX	XX		
Net Total Expenditure	XXX	XXX		
Total Grant	XXX	XXX		
Surrender to the Consolidated Fund	XXX	XXX		
Variance		XX		
	XXX	XXX		

5.14 Content and Format of Financial Report of MDAs

The head of department is required to prepare and submit financial report to the Controller and Accountant General on monthly and annual basis.

Monthly Statements

A head of department shall submit monthly statement of revenue and expenditure to the Controller and Accountant-General.

The form of a monthly statement shall be provided for in the Departmental Accounting Instructions and shall include a statement of

a) expenditure against warrants for the month;
b) Non-Tax Revenue collected and paid into the Consolidated Fund; and
c) revenue and expenditure of retained Internally Generated Fund.

Annual Statements of a Department

Within a period of three months, or such other period as Parliament may by resolution appoint, after the end of each financial year, the head of each department shall prepare and transmit to the Auditor-General, the Minister and the Controller and Accountant-General in respect of the financial year, accounts of the department which shall comprise

a) a Statement of Financial Position showing the assets and liabilities of the department as at the end of the year;

b) a statement of revenue and expenditure for the year;
c) a statement of receipts and payments for the year;
d) a cash flow statement of the department for the year; and
e) notes that form part of the accounts which shall include particulars of the extent to which the performance criteria specified in the estimate in relation to the provision of the department's output were satisfied.

A typical format of the financial statements are as follows:

Statement of Revenue and Expenditure for	**GHC**
Revenue	
Receipt from consolidated fund	xx
Grants and Donations	xx
Internally Generated Fund	xx
Total revenue	**xx**
Expenditure	
Compensation of employees	xx
Use of Goods and services	xx
Consumption of fixed capital	xx
Interest expense	xx
Grants	xx
Social benefits	xx
Other expenditure	xx
Total expenditure	**xx**
SURPLUS/DEFICIT	**xx**

Statement of Financial Position as at	GHC
Non-Financial Assets	
Building and Structures	xx
Machinery and Equipment	xx
Work in progress	xx
Other Non-Current Assets	xx
Inventory	xx
	xx
Financial Assets	
Investment	xx
Advances	xx
Bank and cash	xx
	xx
TOTAL ASSETS	xx
Liabilities and Funds	
Payables	xx
Deposits and trust monies	xx
Total liabilities	xx
Contributed by:	
Reserves	xx
Accumulated fund balance	xx
TOTAL LIABILITIES AND FUNDS	xx

Self-Assessment Questions

Exercise 3.5

1. Explain four (4) methods of financing the expenditure and commitments of MDAs
2. Explain the vote accounting system
3. Distinguish between Provisional Warrant and Revote Warrant.

SESSION 6: WORKED EXAMPLES ON CENTRAL GOVERNMENT FINAL ACCOUNTS

Welcome to the last session of Unit 3. In this session, Students would be required to solve the questions provided and compare their solutions to the suggested solutions provided in this session.

Objectives

Now you can read on…

Self-Assessment Questions

Exercise 3.6

UNIT 4: FINANCIAL REPORTING IN THE LOCAL GOVERNMENT

Unit Outline

Session 1: Decentralization in Ghana
Session 2: District Assemblies Common Fund
Session 3: Final Accounts of the Metropolitans, Municipals and District Assemblies
Session 4: IPSAS 14 Events after Reporting Date
Session 5: IPSAS 16 Investment Properties
Session 6: IPSAS 17 Property, Plant and Equipment

OVERVIEW

Local government is an aspect of the government administration that exercises control over the specific geographical region and cannot pass or enforce laws that will affect a wider area. That is it deals with issues which relates directly with members of a particular locality. It serves as the medium through which the inhabitants of a locality have their expectations and grievances attended to by the central government.

Local government is provided for by the Local Government Act 1993, and it is enshrined in the 1992 Constitution of Ghana, Article 240. It is delivered by Metropolitan, Municipal and District Assemblies. In each assembly area, there are elected councils and unit committees (elections are held every four years) onto which service delivery is devolved. The assemblies have revenue-raising powers, and they also receive transfers from national government including the District Assemblies' Common Fund, whereby at least 7.5% of GDP must be transferred to the assemblies each year.

Unit Objectives

On completion of this unit, you should be able to:

1. Explain the structure and levels of Governance of Local Government
2. Describe the financial relations between central and local government
3. Outline the functions of the District Assemblies Common Fund Administrator
4. Prepare the accounts of the common fund
5. Explain Metropolitan, Municipalities and District Assemblies' accounting and reporting system
6. Explain the accounting treatment of related IPSAS such as IPSAS 14, 16 and 17

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 1: DECENTRALIZATION IN GHANA

Welcome to session one of unit four. Let us look at Decentralization and the local government system in Ghana.

Objectives

At the end of this session, you should be able to:

a) explain the concept of decentralization in Ghana.
b) explain the structure of the local government system

Now read on…

1.1 Introduction

Article 240 of the Constitution provides for the establishment of system of local government and administration which should be decentralized. The local government Act 1993, Act 462 was promulgated to ensure that the functions, powers responsibilities and resources are all times transferred from the central government to the local governments in a coordinated manner. The local government concept is what is termed the district assembly system in Ghana.

1.2 Concept of Decentralization

Decentralization is a response to the challenges of centralized systems. Decentralization in government has been seen as a solution to problems like economic decline, government inability to fund services and their general decline in performance of overloaded services.

Decentralization is the process by which the activities of an organization, particularly those regarding planning and decision-making are distributed or delegated away from a central, authoritative location or group. Thus, it is the process of redistributing functions, powers, people or things away from a central location or authority. In government, decentralization refers to the transfer of power, responsibilities, functions and resources from the central government to the local people through the local authorities.

Decentralization, or decentralized governance, refers to the restructuring or reorganization of authority so that there is a system of co-responsibility between institutions of governance at the central, regional and local levels according to the principle of subsidiarity, thus increasing the overall quality and effectiveness of the system of governance, while increasing the authority and capacities of sub-national levels.

1.3 Forms of Decentralization

Decentralization can take many forms including, Political, administration, fiscal and economic. The following are brief description of the forms of decentralization.

Political decentralization- aims to give citizens or their elected representatives more power. It involves giving citizens more influence in the formulation and implementation of laws and policies. This process is accomplished by the institution of reforms that either delegate a certain degree of decision-making autonomy to the local authorities or grant citizens the right to elect lower-level officials, like local or regional representatives.

Administrative decentralization- involves giving the local people administrative powers to make decision without recourse to the central government. There are three forms of administrative decentralisation:

- *De-concentration*: This is the weakest form of decentralization. It shifts responsibility for decision-making, finance and implementation of certain public functions from officials of central governments to those in existing districts or, if necessary, new ones under direct control of the central government.
- *Delegation:* This form of administrative decentralisation passes down responsibility for decision-making, finance and implementation of certain public functions to semi-autonomous organizations not wholly controlled by the central government, but ultimately accountable to it.
- *Devolution:* Transfers all responsibility for decision-making, finance and implementation of certain public functions to the sub-national level, such as a regional, local, or state government.

Fiscal decentralization- means decentralizing revenue raising and or expenditure of moneys to a lower level of government while maintaining financial responsibility. Fiscal decentralization can be achieved through user fees, user participation through monetary or labour contributions, expansion of local property or sales taxes as well as intergovernmental transfers of central government tax revenue to local governments through transfer payments or grants, and authorization of municipal borrowing with national government loan guarantees.

Economic decentralization- is achieved through privatization of public owned functions and businesses. It is also achieved through the abolition of restrictions on businesses competing with government services, for example, postal services, schools, garbage collection.

1.4 Reasons for Decentralization

Decentralization as discussed above is a response to the problems of centralized systems. The following are some of the reasons of decentralizing decision-making and other relevant powers from the central government to the local government:

a) Decentralization ensures closer link with the people. Thus decentralization brings government closer to the people making government for the people by the people. This increase effectiveness of government policies at the local level.
b) Decentralization ensures local participation in government decision making and democracy. Thus there is the tendency of the people to get involved in the election process directly by electing their representatives and their chief executives.
c) Decentralization also improves efficiency and better services. Thus decentralization helps heighten accountability and transparency. This will lead to higher efficiency in service delivery resulting in better services at the local level
d) Decentralization also improves revenue mobilization. This is because perceived better service increases the willingness of the people to pay local taxes and levies towards those services.
e) It also leads to reduction in cost to central government. Increase in internally generated funds of the local governments will lead to reduction in intergovernmental transfers and grants to the local governments.

1.5 Barriers to Decentralisation

Some of the factors that affect decentralization are as follows;

a) Weak local administrative or technical capacity may result in inefficient or ineffective services
b) Inadequate financial resources may be made available to perform new local responsibilities, especially in the start-up phase when they are most needed.
c) Danger of complexity of national policy coordination
d) Inequitable distribution of resources may result.
e) Higher enforcement costs and conflicts for resources if there is no higher level of authority
f) High cost of decentralization
g) Possibility that corrupt local elites can capture regional or local power centers

1.6 Features of Local government in Ghana

In accordance with The 1992 constitution of Ghana, Article 240, the local government system in Ghana shall have the following features:

a) Parliament shall enact appropriate laws to ensure that functions, powers, responsibilities and resources are at all times transferred from the Central Government to local government units in a co-ordinated manner;

b) Parliament shall by law provide for the taking of such measures as are necessary to enhance the capacity of local government authorities to plan, initiate, co-ordinate, manage and execute policies in respect of all matters affecting the people within their areas, with a view to ultimately achieving localization of those activities;
c) there shall be established for each local government unit a sound financial base with adequate and reliable sources of revenue;
d) as far as practicable, persons in the service of local government shall be subject to the effective control of local authorities;
e) to ensure the accountability of local government authorities, people in particular local government areas shall, as far as practicable, be afforded the opportunity to participate effectively in their governance.

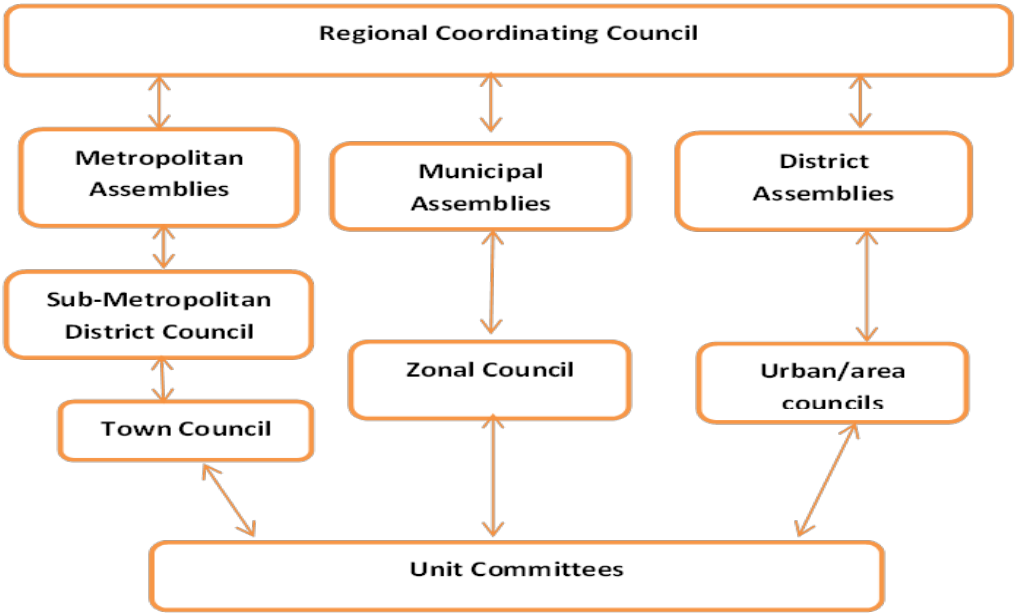
1.7 Functions of Local Government

A Local Government shall exercise political and administrative authority in the district, provide guidance, give direction to, and supervise the other administrative authorities within the district. For this purpose, the local government shall perform deliberative, legislative and executive functions. In accordance with section 10(3) of the Local Government Act 1993, Act 462, these functions are summarized as follows:

a) The Local Government shall ensure the overall development of the district.
b) Prepare and submit development plan and budget for approval and implementation.
c) Mobilize resources for development of the district
d) Ensure and Promote productive activity and social development and remove any obstacles to initiative and development
e) Maintenance of security and public safety in the district
f) Ensure ready access to the courts and public tribunals for the promotion of justice.
g) Ensure the development of basic infrastructure in the district.
h) Establishment, improvement and management of human settlements and the environment in the district.
i) It is the function of the local government to levy and collect all taxes, rates, duties and fees to the appropriate fund.

1.8 Structure of the Local Government

The local government system in Ghana is characterized by a four-tier structure which operate at the regional, district and sub-district levels. It consist of First Tier – Regional Coordinating Council; Second Tier – Metropolitan or Municipal or District Assemblies; Third Tier – Urban Town/Zonal/Area Councils and Fourth Tier – Unit Committees.



Source: Adapted Institute of Local Government (2008), Introduction to Ghana's Local Government System.
Figure 1: Sub-Structure of Local Government in Ghana

Regional Coordinating Council

The Regional Coordinating Council (RCC) is the apex organization on the local government structure. It performs administrative and coordinating functions such as monitoring and evaluating the performance of the District Assemblies, monitoring the budget performance and the use of all monies allocated to the District Assemblies and coordinating district development plans and programmes. Established in each of the 10 regions in Ghana, the RCC consists of the Regional Minister (chairman) and his deputies, the presiding member of the District Assembly and the District Chief Executive. It also consist of two chiefs from the regional house of chiefs and the head of decentralized ministries without voting rights.

District Assembly

A District Assembly is a body corporate with perpetual succession and a common seal and may sue and be sued in its own name. It has the power for the discharge of any of its functions to acquire and hold movable or immovable property, to dispose of such property and to enter into any contract or other transaction. It is next after the Regional Coordinating Council with empowerment to be the pivot of local governance.
Hello! Hope you are enjoying the lesson. Details of the district assembly will be discussed in our next session.

Sub District Structures

Tier 3 : Sub-district structure are subordinate bodies of the District Assemblies. They are made up of the sub-metropolitan district council and urban or town/zonal/area councils. The councils are to enumerate and keep records of all taxable persons and properties in the urban area, zone or town. They are also to recommend to the Assembly, the naming of all streets in its area of authority and all buildings to be numbered. They are also responsible for assisting any authorized person by the District Assembly to collect revenues, preventing and controlling fire outbreaks and preparing annual budgets of revenue and recurrent as well as development budget of the urban or town council for the approval by the assemblies.

Unit Committees

At the bottom of the Local Government Structure is the Unit Committees. It is established in a settlement with a population of between 500 to 1000 in the rural areas and 1500 for the urban areas. Their main responsibility rest on enforcement and mobilization issues since they are closer to the people. A unit committee is made up of not more than 15 persons; 10 of the members are elected from the residents in the unit and five other non-resident persons in the unit nominated by the district chief executive, acting on behalf of the president. Unit committees are required to supervise the staff of the district assembly, assist the assembly in revenue collection, organize communal labour and voluntary work, educate the members in their rights, privileges and responsibilities and also monitor the implementation of development projects. They are also to assist in enumerating and keeping records of all taxable persons and properties, make proposals to the Assembly regarding levying and collection of taxes and provide focal points for discussion of local matters with recommendations to the Assembly.

SUMMARY

In Conclusion, we have discussed decentralization and the local government system in Ghana. We looked at the concept, forms, reasons and barriers of decentralization. We have also discussed the features and functions of the local government as well as the structure.

Self-Assessment Questions

Exercise 4.1

1. Explain the concept of decentralization
2. State and explain Four forms of Decentralization.
3. Outline Four (4) functions of the Local Government
4. With the help of a diagram, explain the component of the Local Government Structure in Ghana.

SESSION 2: DISTRICT ASSEMBLIES COMMON FUND

In this session, we will discuss the functions and composition of the District Assembly, duties of members and administration and supervision of the District Assemblies Common Fund.

Objectives

By the end of this session, you should be able to:

a) identify a District Assembly
b) describe the District Assembly Common fund
c) describe the functions of the District Assembly Common Fund Administrator
d) prepare the accounts of the common fund

Now read on…

2.1 Introduction

A District Assembly is a body corporate with perpetual succession and a common seal and may sue and be sued in its own name. it has the power for the discharge of any of its functions to acquire and hold movable or immovable property, to dispose of such property and to enter into any contract or other transaction.

2.2 Functions of the District Assembly

A District Assembly exercises political and administrative authority in the district, provide guidance and supervise the other administrative authorities in the district. A District Assembly shall also perform the following functions.

a) Responsible for the overall development of the district and shall ensure the preparation and submission through the regional co-coordinating council of development plans of the district to the National Development Planning Commission for approval, and of the budget of the district related to the approved plans to the Minister responsible for Finance
b) Performing any other functions provided for under any other enactment
c) Initiating, sponsor or carry out studies that are necessary for the performance of a function conferred by the constitution or by any other enactment.
d) Responsible for the development, improvement and management of human settlements and the environment in the district
e) Responsible in co-operation with the appropriate national and local security agencies, for the maintenance of security and public safety in the district.
f) Initiating programs for the development for the development of basic infrastructure and provide municipal works and services in the district

2.3 Composition of the District Assembly

In accordance with article 242 of the Constitution, a district Assembly shall consist of

a) The District Chief Executive
b) One person from each electoral area within the District elected by universal adult suffrage in accordance with Regulations made for the purpose by the Electoral Commission
c) The member or members of parliament from the constituencies that fall within the areas of authority of the District Assembly, except that member or those members shall not have a voting right.

Any other persons not exceeding thirty per cent of the total membership of the Assembly appointed by the President in consultation with the traditional authorities and any other interest groups in the district

2.4 Duties of Members

A member of a District Assembly in accordance with the local government Act 1993 shall, as appropriate

a. Actively participate in the work of the sub-committees of the executive committee
b. Bring to bear on a discussion in the Assembly the benefit of the members shill, profession, experience or specialized knowledge.
c. Maintain frequent liaison with organized productive economic groupings and any other persons in the district and take part in communal and development activities in the district.
d. Present the views, opinions and proposals of the District Assembly
e. Draw attention in general debate to national policies which are relevant to the subject under discussion.

2.5 Presiding member

In accordance with article 244 of the Constitution, the presiding member of a District Assembly shall be elected by the Assembly from among its members. The District Chief Executive or a Member of Parliament is not qualified to be elected as the presiding member.

The presiding member shall be elected by at least two-thirds majority to the total number of the members of the Assembly. The presiding member shall hold office for a term of two years and is eligible for re-election.

The presiding member shall convene and preside over meetings of the Assembly and perform any other functions prescribed by law.

2.6 District Chief Executive

The District Chief Executive for each district shall be appointed by the President with the prior approval of not less than two thirds majority of the members of the District Assembly present and voting at the meeting.

a. The District Chief Executive shall be the chairman of the executive committee of the District Assembly. The District Chief Executive
b. Shall preside at meetings of the executive committee of the District Assembly and in the absence of the District Chief Executive a member of the Executive Committee elected by the members present from among themselves shall preside.
c. Be responsible for the day-to-day performance of the executive and administrative functions of the District Assembly
d. Be responsible for the supervision of the District Assembly
e. The District Chief Executive shall be the chief representative of the Central Government in the district.

2.7 Executive Committee

The executive committee shall consist of not more than one third of the total number of the members of the Assembly elected by the members from among themselves. The executive committee of a District Assembly shall perform the executive and co-coordinating functions of the District Assembly. An executive committee shall

a. Develop and execute approved plans of the units, area and towns and sub metropolitan districts within the area of authority of the District Assembly.
b. Coordinate plans and programs of the sub-committees and submit these as comprehensive plans of action to the District Assembly.
c. Oversee the administration of the district in collaboration with the office of the District Chief Executive.
d. Implement resolutions of the District Assembly

2.8 District Assembly Common Fund (DACF)

The District Assembly Common Fund is established by the District Assembly Common Fund Act 1993, (Act 455) under Article 242. The purpose of setting this fund is to provide resources to support the developmental activities of the local government. It is a fund created out of the consolidated fund to channel resources from the central government to the local governments for development.

The District Assemblies' Common Fund (DACF) is a pool of resources created under section 252 of the 1992 constitution of Ghana. It is a minimum of 5% of the national revenue set aside to be shared among all District Assemblies in Ghana with a formula approved by Parliament. It is a Development Fund which enables the use of the nation's wealth throughout Ghana to the benefit of all citizens.

2.8.1 Purpose of the DACF

a) The Fund is to ensure equitable distribution of the national resources for the development in every part of Ghana.
b) To Improve housing Schemes.
c) To support sanitation management
d) It is to strengthen decentralization, and to promote Sustainable self-help development communities.
e) To improve upon primary health care delivery in all part of Ghana
f) It is to improve the country's educational facilities, and to ensure quality education
g) The Fund support Community policing.

2.8.2 Sources of moneys into the fund

The District Assembly Common fund is financed from the following sources:

a) A minimum of 5% of Total tax revenue is transferred quarterly into the fund.
b) Income from investment of the fund
c) Donations and Grants

2.8.3 Expenditures Charged on the fund

a) Disbursement to MMDAs/MPs
b) Disbursement to RCCs
c) Direct expenditures on behalf of MMDAs (reserves)
d) Administrative expenses directly related to fund administration (audit fee, bank charges etc.)

2.8.4 Approved areas of spending the share of DACF by the MMDSs:

a) Economic Ventures(Energy, Markets, Agriculture, Services roads etc.
b) Social services(Education, health, Water, Sports and Recreation, Self-help projects ,Educational Activities etc.)
c) Administration (capacity building of DA staff and Assembly members, Accommodation, office Equipment etc.
d) Environment(Sanitation, Disaster management)
e) MPs common fund

2.8.5 Administration of the District Assembly Common Fund/ Functions of the Administrator

The fund is administered by the DACF Administrator appointed by the president. The DACF Administrator has the following mandatory functions:

a) Propose formula annually for the allocation and distribution of the common fund to the MMDAs

b) Allocate and distribute the common fund quarterly based on the approved formula to the various MMDAs
c) Report in writing to the MOF on how the fund was distributed and utilized by the various MMDAs; and
d) Perform any other functions required by the President of the Republic

2.8.6 Benefits of the DACF

a) The fund aims at creating jobs for all through programmes such as cottage industries.
b) It seeks to get more people gain access to improve shelter through housing.
c) Through the fund, health facilities are expanded and improved to make health delivery accessible to many people
d) Through the fund numerous school buildings and structures have been constructed for the increasing needs of the population.
e) The fund encourages and supports communities that make effort to initiate their own development projects (Community Initiated Programme).

2.8.7 Challenges of the Administration of the DACF

a) Delay in the release and disbursement of the fund to the MMDAs
b) Government interference in the allocation and disbursement of the fund
c) Inadequacy of funds
d) Misappropriation and financial malpractices at the MMDAs level
e) Over reliance on the fund by some district assemblies. Retarding innovative financing .

2.9 Financial Report by the DACF Administrator

The Administrator of the common fund is obliged to submit to parliament, an annual report on the activities undertaken during the preceding fiscal year. The report should include information on the manner in which the monies lodged in the common fund has been distributed and the report of the Auditor General on the accounts

The financial report of the common fund is basically made up of Income and Expenditure Account and then statement of financial position showing the financial state of the fund.

ILLUSTRATION

The following trial balance was extracted from the District Assembly Common Fund as at 31st December 2017

District Assemblies Common Fund
Trial Balance as at 31st December, 2017

		DR	CR
		GHS	GHS
Investment		27,000	
Bank		191,300	
Investment Income			1300
Common Fund			367500
Petty Cash		700	
Provision for Depreciation			2000
Depreciation Expense		2,000	
Utility		800	
Property, Plant and Equipment		20,000	
Disbursement to MMDA:			
Agona West DA	22000		
Dangme West DA	26000		
Biposo MA	17000		
Kibi DA	32000		
Gomoa Metro	20000	117,000	
Disbursement to RCC:			
Kumasi	3000		
Accra	3000		
Cape Coast	3000		
Takoradi	3000	12,000	
		370,800	370800

Additional Information:
The balance of the Common Fund as at 1st January 2017 was GHS 67500

Required

a. Prepare the statement of Financial Performance of the administrator for the year ended 31st December, 2017

b. Prepare the Statement of Financial Position of the administrator as at 31st December, 2017

Solution

District Assemblies Common Fund

Statement of Financial Performance for the year ended 31st December, 2017

	GHS	GHS
INCOME		
Investment Income		1300
Common Fund Received		300000
		301300
Expenditure:		
Depreciation	(2,000)	
Utility	(800)	
Disbursement to MMDA	(117,000)	
Disbursement to RCC	(12,000)	(131,800)
Excess Income Over Expenditure		169,500
Fund Balance b/f		67500
Fund Balance c/f		237000

District Assemblies Common Fund

Statement of Financial Position as at 31st December 2017

		GHS	GHS
Property Plant and Equipment (20000-2000)			18000
Investment			27000
			45000
Current Assets:			
	Bank balance	191300	
	Petty Cash	700	19200
			237000

Fund Balance	237000

SUMMARY

This session presented overview of the District Assemblies concept in terms of functions of District Assemblies, sources of revenue and associated problems with raising these revenues. The session further looked at sources of moneys into the common fund and expenditures charged on the fund, the functions of the DACF Administrator, benefits and challenges of the DACF.

Self-Assessment Questions

Exercise 4.2

1. State Three (3) ways by which the District Assemblies are financed.
2. What is a common fund? Describe four (4) functions performed by the District Assembly Common Fund Administrator.
3. State Four challenges facing the administration of the common fund and suggest four ways of dealing with such challenges

SESSION 3: FINAL ACCOUNTS OF THE METROPOLITANS, MUNICIPALS AND DISTRICT ASSEMBLIES

Welcome to Session three of unit four. In session two, we described the district assemblies' common fund. In this session the final accounts of the MMDAs will be discussed. Specifically, we will look at the books of accounts, local government revenue and expenditure and annual accounts of district assemblies.

Objectives

At the end of this session, you should be able to:

a) describe the two main books of account kept by the MMDAs
b) prepare statement of receipt and payment of MMDAs
c) prepare statement of revenue and expenditure of MMDAs
d) prepare statement of financial position of MMDAs
e) prepare statement of cash flow of MMDAs

Now read on…

3.1 Introduction

District Assemblies are required to report to the people they serve. It is, therefore, mandatory for District Assemblies to keep proper books of accounts. Section 90 of the Act 462 states that every District Assembly shall keep proper accounts and proper records in relation to them and shall prepare immediately after the end of each financial year a statement of its accounts in such a format prescribed by the Auditor General.

The revenues of the local government have been categorized under eight sub heads by the Financial Memorandum of the MMDAs. These are

- Grants
- Rates
- Lands
- Licenses
- Other revenues
- Fees and fines
- Rent
- Investment incomes

3.2 Books of Accounts

All MMDAs use the basic accounting books in recording accounting transactions. MMDAs shall keep proper books of accounts which will reflect the accuracy and completeness of accounting transactions at any given period. The general rule relating to maintenance of proper books of accounts is stipulated in the Financial Memorandum of MMDAs, 2004 as follows:

a) The following main books of account shall be kept at all Assembly Finance Offices:
   - **i. Treasury Cash Book**

     This is the main book used to record all receipt and payments. All receipts are entered under cash debit column and all payments are entered under the cash credit column. Every receipt entry in the Treasury Cash book should be supported by a duplicate copy of general counterfoil receipt and payment supported by the original serially numbered payment voucher except contra between cash and bank.

     A daily reconciliation of cash on hand should be done with the balance on the cash book to confirm the amount of cash at hand. The treasury cash book should be ruled off and balanced at the end of each month, at the inspection by the Auditor and a handing over by one finance officer/cashier to another.
   - **ii. Treasury Ledger**

     There are four ledger divisions kept by District Assemblies:
     - Revenue ledger
     - Expenditure ledger
     - Revenue and expenditure and accumulated surplus account
     - Below-the-line ledger

     Entries into the ledger is made from the duplicates of general counterfoil receipts and originals of payment vouchers or journal vouchers.

     A revenue and expenditure account should be prepared in the ledger at the end of each financial year and the balances of all revenue and expenditure sub-heads shall be transferred by means of journal voucher. The balance on the revenue and expenditure account is then transferred to the accumulated surplus account.

b) All books of accounts shall be written in ink

c) The books of account when completed be preserved and not destroyed without the permission of the Auditor General and Public Records & Archives Administration

d) The use of green ink by any person other than the Auditor for the purpose of marking entries made in any book of account is prohibited.

e) No figures shall be altered in any book of account after it has been audited without the prior knowledge and consent in writing of the auditor

f) Other book required of every assembly is the ***Journal voucher***

   It is used for recording all transactions which do not involve the receipt and payment of cash. It is used for adjustment entries such as correction of error in entry, overpayments recovered, accounting for losses of stores and funds.

3.3 Financial Reporting

The Financial Administration Act, Financial Administration Regulation and the Financial Memorandum of MMDAs deal with accounts and audit of MMDAs.

3.3.1 Basis of Accounts

Accounts prepared and submitted by MMDAs shall state the basis used in the preparation of the accounts and shall identify any significant departures and reasons for departures.

The Financial Administration Regulation recommends the adoption of either the accrual or cash basis of accounting. However, the modified cash basis is being adopted by the Controller and Accountants General department for use by MDAs and MMDAs. It is therefore obvious that all MMDAs are expected to adopt the modified cash basis of accounting as a transitional measure to the accrual basis.

3.3.2 Annual Accounts and Statements

The annual accounts and statements that are to be prepared, submitted for audit and published by the MMDAs shall comprise the following:

a) The revenue and expenditure statement for the financial year signed and dated by the Finance Officer and the Coordinating Director.
b) The statement of financial reporting at 31st December signed and dated by the finance office and the Coordinating Director
c) A comparative statement of revenue and expenditure, which details the years actual revenue and expenditure by heads, sub-heads and items in relation to the estimates and all additional or reduced provisions approved.
d) An analysis of advance accounts outstanding at 31st December
e) An analysis of Deposit outstanding at 31st December
f) A statement of unredeemed loans
g) The profit and loss accounts of any trading concerns under the control of the Assembly
h) A statement showing the receipt, disbursement and unspent balance in respect of all grants and loans for specific purposes
i) An analysis of claims against Assembly funds for goods and services supplied remaining unpaid at 31st December
j) A statement of total arrears of rates uncollected at 31st December and subdivided in accordance with the sub-head of Head 1 of the revenue Estimates
k) Notes mentioning basis of accounting, classification of accounts, development expenditure and foreign currency transactions.

3.4 Format for the Annual Financial Statement of MMDAs

The financial report of MMDAs basically consists of Receipt and Payments, Income and Expenditure Accounts, Statement of Financial Position and other supporting statements.

3.4.1 Format for the Statement of Receipt and Payment

NYANSAPO DISTRICT ASSEMBLY
STATEMENT OF RECIEPT AND PAYMENT FOR THE YEAR ENDED

RECIEPTS	**NOTES**	**ANNUAL BUDGET**	**ACTUAL**	**VARIANCE**
		GHC	**GHC**	**GHC**
RATES	2	XX	XX	XX
LAND AND CONCESSIONS	3	XX	XX	XX
FEES AND DINES	4	XX	XX	XX
LICENSES	5	XX	XX	XX
RENT	6	XX	XX	XX
GRANT	7	XX	XX	XX
INVESTMENT INCOME	8	XX	XX	XX
OTHER REVENUES	9	XX	XX	XX
LAOANS AND ADVANCEDS RECEIVED	10	XX	XX	XX
LOANS AND ADVANCES RECOVERY	11	XX	XX	XX
TOTAL RECIEPTS		XX	XX	XX
PAYMENTS				
COMOENSATIONS FOR EMPLOYEES	12	XX	XX	XX
GOODS AND SERVICES	13	XX	XX	XX
NON FINANCIAL ASSETS	14	XX	XX	XX
INTEREST	15	XX	XX	XX
GRANTS	16	XX	XX	XX
SOCIAL BENEFITS	17	XX	XX	XX
OTHER EXPENDITURE	18	XX	XX	XX
LOANS AND ADVANCES GRANTED	19	XX	XX	XX
FINANCIAL ASSETS	20	XX	XX	XX
REPAYMENT OF LOANS	21	XX	XX	XX
TOTAL PAYMENT		XX	XX	XX
CASH SURPLUS/DEFICIT		XX	XX	XX
CASH AND CASH EQUIVALENTS AT BEGINNING		XX	XX	XX
CASH AND CASH EQUIVALENTS AT END		XX	XX	XX

3.4.2 Format for the Statement of Revenue and Expenditure

NYANSAPO DISTRICT ASSEMBLY
STATEMENT OF REVENUE AND EXPENDITURE FOR THE YEAR ENDED

		ANNUAL BUDGET GHC	ACTUAL GHC	VARIANCE GHC
RATES	2	XX	XX	XX
LAND AND CONCESSIONS	3	XX	XX	XX
FEES AND DINES	4	XX	XX	XX
LICENSES	5	XX	XX	XX
RENT	6	XX	XX	XX
GRANT	7	XX	XX	XX
INVESTMENT INCOME	8	XX	XX	XX
OTHER REVENUES	9	XX	XX	XX
TOTAL		XX	XX	XX
EXPENDITURE				
COMPENSATION FOR EMPLOYEES	12	XX	XX	XX
GOODS AND SERVICES	13	XX	XX	XX
CONSUMPTION OF FIXED CAPITAL	22	XX	XX	XX
INTEREST	15	XX	XX	XX
GRANTS	16	XX	XX	XX
SOCIAL BENEFITS	17	XX	XX	XX
OTHER EXPENDITURE	18	XX	XX	XX
TOTAL EXPENDITURE		XX	XX	XX

3.4.3 Format for Statement of Financial Position

NYANSAPO DISTRICT ASSEMBLY
STATEMENT OF FINANCIAL POSITION AS AT

ASSETS	**NOTES**	**2018**	**2017**
NON-FINANCIAL ASSETS:		**GHC**	**GHC**
PROPERTY PLANT AND EQUIPMENT	23	XX	XX
INFRASTRUCTURE	24	XX	XX
CAPITAL WORK NIN PROGRESS	25	XX	XX
INVENTORY	26	XX	XX
OTHER NON-FINANCIAL ASSETS	27	XX	XX
TOTAL NON-FINANCIAL ASSETS		XX	XX
FINANCIAL ASSETS			
FIXED DEPOSITS	28	XX	XX
INVESTMENTS SECURITIES OTHER THAN SHARE	29	XX	XX
LOANS AND ADVANCES	30	XX	XX
EQUITY INVESTMENT	31	XX	XX
OTHER RECIEVABLES	32	XX	XX
TOTAL FINANCIAL ASSETS		XX	XX
TOTAL ASSETS		**XX**	**XX**
LIABILITIES AND FUNDS			
DEPOSITS AND WITHHOLDINGS	33	XX	XX
ACCOUNTS PAYABLES	34	XX	XX
LOANS/DEBT	35	XX	XX
OTHER LIABILITIES	36	XX	XX
TOTAL LIABILITIES		XX	XX
ACCUMULATED FUND		XX	XX
NETWORTH		**XX**	**XX**

3.4.4 Format for Statement of Cash Flows

NYANSAPO DISTRICT ASSEMBLY
STATEMENT OF CASH FLOW FOR THE YEAR ENDED

	NOTES	2018	
		GHC	**GHC**
CASH FLOW FROM OPERATING ACTIVITIES			
GRANTS		XX	
OTHER REVENUES COMPENSATION FOR EMPLOYEES		XX	
GOODS AND SERVICES		(XX)	
CONSUMPTION OF FIXED CAPITAL		(XX)	
INTEREST		(XX)	
GRANTS		(XX)	
SOCIAL BENEFITS		(XX)	
OTHER EXPENDITURE		(XX)	
NET CASH FLOW FROM OPERATING ACTIVITIES			XX
CASH FLOW FROM INVESTING ACTIVITIES			
CASH PURCHASES OF PROPERTY PLANT AND EQUIPMENT		(XX)	
CAPITAL WORK IN PROGRESS PAYMENT		(XX)	
CASH PURCHASE OF INVENTORY		(XX)	
CASH PURCHASE OF EQUITY/SECURITIES		(XX)	
LOANS AND ADVANCES		(XX)	
SALE OF EQUITY/SECURITIES		XX	
SALE OF PROCEES FROM PROPERTY PLANT AND EQUIPMENT		XX	
SALE OF INVENTORY		XX	
RECOVERY FROM WIP		XX	
NET CASH FLOWS FROM INVESTING ACTIVITIES			XX
CASH FLOW FROM FINANCING ACTIVITIES			
DOMESTIC BORROWING		XX	
FOREIGN BORROWING		XX	
REPAYMENT OF DOMESTIC DEBT		(XX)	
REPAYMENT OF FOREIGN DEBT		(XX)	
NET CASH FLOW FROM FINANCING ACTIVITIES			XX

NET CASH FLOWS FOR THE YEAR	XX
CASH AND CASH EQUIVALENTS AT START	XX
CASH AND CASH EQUIVALENTS AT YEAR END	XX

ILLUSTRATIONS

Example 1

The following is the trial balance extracted from the books of AGAMA District Assembly for the year ended 31st December 2016;

	GHS	GHS
COMPENSATION OF STAFF	18168	
ADVANCES RECIEVABLES	3994	
COMMON FUND RECIEVABLE	2371	
INFRASTRUCTURE PLANTS AND EQUIPMENT	1958	
USE OF GOODS AND SERVICES	26470	
CASH AT BANK	29237	
SOCIAL BENEFITS	17530	
ACCUMULATED FUND (AT 1/1/2016)		13705
SUNDRY PAYABLE		27
RATE		8180
OVERDRAFTS		9276
FEES AND FINES		22189
INVESTMENT INCOME		3
COMMON FUND		37534
LAND AND CONCESSIONS		3124
DEDUCTIONS DUE TO ASSOCIATIONS		1497
RETENTION FUND		4193
	99728	99728

The Assembly applies the IPSASs in preparing financial statements.

Required

a) Prepare the income and expenditure statement for the year ended 31st December 2016 for the Assembly.
b) Prepare the statement of financial position of the Assembly as at 31 December 2016.

Solution

a)

AGAMA DISTRICT ASSEMBLY

INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

INCOME	**GHS**	**GHS**
RATE		8180
FEES AND FINES		22189
INVESTMENT INCOME		3
LAND AND CONCESSIONS		3124
GRANT (COMMON FUND)		37534
		71030
EXPENDITURE		
COMPENSATION	18168	
UDE OF GOODS AND SERVICES	26470	
SOCIAL BENEFITS	17530	62168
EXCESS REVENUE OVER EXPENDITURE		8862

b) AGAMA DISTRICT ASSEMBLY

STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2016

	GHS	**GHS**
NON-CURRENT ASSETS		
INFRASTRUCTURE,PLANTS AND EQUIPMENT		1958
CURRENT ASSETS		
ADVANCES RECIEVABLES	3994	
COMMON FUND RECIEVABLES	2371	
CASH AT BANK	29237	35602
		37560
LIABILITIES		
SUNDRY PAYABLES	27	
OVERDRAFTS	9276	
DEDUCTIONS DUE TO ASSOCIATIONS	1497	

RETENTION FUND	4193	14993
		22567
CONTRIBUTED BY		
ACCUMULATED FUND		13705
EXCESS REVENUE OVER EXPENDITURE		8862
		22567

Example 2

The following balances represent the trial balance of SANTO Municipal Assembly as at 31 December 2015

	GHS'000
DACF ALLOCATION RECIEVABLE	1600
PROPERTY RATE	442.5
FIXED DEPOSIT ACCOUNT	100
VEHICLE PURCHASED	280
INVESTMENT IN SHARES	400
RENT INCOME	17
ELECTRICITY AND WATER BILLS	18.4
TELEPHONE	21.8
ROAD USER FEE	23.4
INVESTMENT INCOME	60.35
VOUCHER PAYABLE	73
SALARIES AND WAGES	166.7
VEHICLE ADVANCES	130.65
RETENTION MONEY	24.71
PERSONNEL SALARY ADVANCES	45.8
CASH AT BANK	36.5
PETTY CASH	10.4
STATIONERY	50.1
BASIC RATE	50
MEETING ALLOWANCE	31.8
MARKET FEES	20.6
TRAVELLING AND TRANSPORT	18.5
SSF CONTRIBUTION	7.15
EQUIPMENT	22.5
ACCUMULATED FUND BALANCE	227.4
POVETY ALLEVIATION	1212.6

The following information is relevant;

I. Stock of unused stationery amount to GHS 22590; unpaid bills, water and electricity and telephone are respectively GHS 1480 and GHS 520
II. Only 80% of the common fund has been received from the Administrator as at 31st December 2015.
III. The district expects revenue of GHS 18400 from court fines and charges of cases pending at the district court at the year end.
IV. The Assembly adopts the accrual concept in preparing its financial statement in line with the IPSAS
V. Ignore consumption of fixed capital.

Required

a) Prepare the Revenue and Expenditure Account for the year ended 31 December 2015.
b) Prepare the statement of financial position as at 31 December 2015

SOLUTION

a) SANTO DISTRICT ASSEMBLY

REVENUE AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2015

REVENUE	**NOTES**	**GHS'000**	**GHS'000**
RATE	1		492.5
FEES AND FINES	2		62.4
RENT			17
INVESTMENT INCOME			60.35
GRANT	3		2000
			2632.25
EXPENDITURE			
COMPENSATION		166.7	
USE OF GOODS AND SERVICES	4	120.01	
SOCIAL BENEFITS	5	1212.6	1499.31
EXCESS INCOME OVER EXPENDITURE			**1132.94**

b) SANTO DISTRICT ASSEMBLY

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

NON-FINANCIAL ASSET	**GHS'000**	**GHS'000**
VEHICLES AND EQUIPMENT (22.5+280)	302.5	
STATIONERY	22.59	325.09

FINANCIAL ASSETS		
FIXED DEPOSIT	100	
INVESTMENT IN SHARES	400	
ADVANCES (130.65+45.8)	176.45	
RECIEVABLES (400 COMMON FUND + 18.4)	418.4	
CASH AT BANK (10.4+36.5)	46.9	1141.75
		1466.84
LIABILITIES		
RETENTION MONEY	24.71	
SSF CONTRIBUTION	7.15	
VOUCHERS PAYABLE	73	
EXPENSE OWINGS:		
ELECTRICITY AND WATER	1.48	
TELEPHONE	0.52	106.86
		1359.98
SURPLUS AND BALANCES		
ACCUMULATED FUND BALANCE		227.04
SURPLUS		1132.94
		1359.98

WORKINGS

W1) RATE	**GHS'000**
PROPERTY RATE	442.5
BASIC RATE	50
	492.5

W2) FEE AND FINES	**GHS'000**
MARKET FEES	20.6
ROAD USER FEE	23.4
COURT FINES	18.4
	62.4

W3) GRANTS

This is made up of common fund for the year and is determined as 1600000/0.8 = **GHS2,000,000**

W4) USE OF GOODS AND SERVICES

	GHS'000
ELECTRICITY AND WATER BILL (18.4+1.48)	19.88

TELEPHONE (21.8+0.52)	22.32
STATIONERY (50.1-22.59)	27.51
MEETING ALLOWANCE	31.8
T&T	18.5
	120.01

W5) Social Benefits is made up of expense made on poverty alleviation

Example 3
You were recently promoted Accounts Supervisor in the West North Municipal Assembly. From the books of the Assembly, you have extracted the following information for the month ended 30 April 2017.

PROPERTY RATE RECEIVED	500,000
FEES AND FINES	1,500,000
RENT INCOME	500,000
COMMON FUND ALLOCATION RECEIVED	17,520,000
DISTRICT DEVELOPMENT FACILITY	1,280,000
GRANTS FROM THE DANISH GOVERNMENT	2,450,000
MISCELLANEOUS RECIEPTS	250,000
PAYMENTS BUILDING CONSTRUCTION	750,000
COMPENSATION	1,650,000
PENSION AND GRATUITIES	250,000
OVERHEAD COSTS	870,000
MISCELLANEOUS EXPENSES	55,000
PURCHASE OF SHARES IN ECOBANK LTD	5,000,000
PROCEEDS FROM SALE OF PROPERTY	125,000
REPAYMENT OF LOAN	

	2,000,000
BANK OVERDRAFT AT THE START OF THE MONTH	8,250,000

Required
From the information extracted, you are required to prepare a statement of cash flow for the Assembly for the month of April 2017 in accordance with the International Public Sector Accounting Standard (IPSAS 2)

SOLUTION

ASSIN SOUTH MUNICIPAL ASSEMBLY
STATEMENT OF CASH FLOW FOR THE MONTH ENDING 30 APRIL 2017

CASH FLOW FROM OPERATING ACTIVITIES	**GHS**
PROPERTY RATE RECEIVED	500,000
FEES AND FINES	1,500,000
RENT INCOME	500,000
COMMON FUND ALLOCATION RECEIVED	17,520,000
DISTRICT DEVELOPMENT FACILITY	1,280,000
GRANTS FROM THE DANISH GOVERNMENT	2,450,000
MISCELLANEOUS RECIEPTS	250,000
COMPENSATION	(1,650,000)
PENSION AND GRATUITIES	(250,000)
OVERHEAD COSTS	(870,000)
MISCELLANEOUS EXPENSES	(55,000)
Net cash flow from operating activities	**21,175,000**

CASH FLOW FROM INVESTING ACTIVITIES

PURCHASE OF SHARES IN ECOBANK LTD	(5,000,000)	
PAYMENTS BUILDING CONSTRUCTION	(750,000)	
PROCEEDS FROM SALE OF PROPERTY	125,000	
Net cash flow from investment activities		**(5,625,000)**
CASH FLOW FROM FINANCING ACTIVITY		
REPAYMENT OF LOAN		(2,000,000)
NET CHANGE IN STOCK OF CASH		**13,550,000**
CASH AND CASH EQUIVALENT AT BEGINNING		**(8,250,000)**
CASH AND CASH EQUIVALENT AT CLOSE		**5,300,000**

SUMMARY We have discussed the final accounts of the MMDAs. We looked at the books of accounts kept by the MMDAs and the basis of accounts where we concluded that MMDAs are required to adopt the modified accrual basis of accounting as a transitional measure to the accrual basis in line with the IPSAS. We further looked at the format for preparing the annual financial reports with some illustrations.

Self-Assessment Questions

Exercise 4.3

1. Describe the main Books of Accounts kept by the MMDAs.
2. Outline five composition of the annual account.
3. The following trial balance of SALASA District Assembly has been prepared by the District Finance Officer.

TRIAL BALANCE AS AT 31 DECEMBER 2016

	GHS'000	**GHS'000**
PROPERTY RATE		147000
17% FIXED DEPOSIT	35445	
SPECIAL RATES		12348
VEHICLE LOAN	177264	
INVESTMENTS	1098420	
ELECTRICITY	3125	
DISTRICT ASSEMBLY COMMON FUND		98000
SALARY ADVANCE	9347	

INTEREST ON FIXED DEPOSIT		3517
TELEPHONE	780	
CONSERVANCY FEES		55002
INVESTMENT INCOME RECEIVED		75500
WAGES AND SALARIES	92519	
GENERAL RESERVE FUND		20456
SPECIFIC GRANT		978350
CASH AT BANK	11220	
SHARE OF STOOL LAND REVENUE		24803
INFRASTRUCTURE PLANT AND EQUIPMENT	215139	
CONTRACT RETENTION		12330
WATER AND SANITATION	1140	
MEDICAL REFUND	3850	
SCHOLARSHIPS AND BURSURY	13239	
CONSUMPTION OF FIXED CAPITAL	16500	
VEHICLES REPAIRS	10230	
ACCUMULATED SURPLUS FUND		216202
PETTY CASH	2123	
VEHICLE INSURANCE	9442	
BANK LOAN		115550
INTEREST ON BANK LOAN	3700	
STATIONERY	11550	
POVERTY ALLEVIATION	39320	
SCHOOL FEEDING PROGRAMME	21000	
BASIC RATE		10452
STAFF ALLOWANCE	10550	
STATIONERY SUPPLIERS		8764
TRAVEL AND TRANSPORT	4908	
SSF CONTRIBUTION		12537
	1790811	**1790811**

The following information is relevant;

a) The SALASA District Assembly has been using the Accrual basis for the preparation of its account in line with the IPSAS.

b) Investment includes a GHS 36million 30% fiduciary bull acquired on 1st August 2016 from Concise Security Ltd. Income from the bill is received quarterly.

c) The fixed deposit had a balance of GHS 11.445 million at the beginning of the year. The additional investment was made equally on 1st April and 1st July. Beginning this year, interest has been received quarterly in arrears.

d) Included in the specific grant are two grants which originally were GHS 600 million and GHS 850 million and were received from the Governments of Norway and Japan for the construction of Health Post and Water Treatment station respectively. Both were received 2 years ago. The policy has been to recognize annual grant revenue based in the estimated completion period for the two projects which were originally 4 years for the health post and 5 years for the water treatment station. However, the Health Post was completed in September 2016 whiles it is possible that the water treatment station will be completed the following year. 50% of the remaining specific grant is for a vaccination program that has been completed this year; the balance was received from the Danish Government for human resource development for two years starting from 1st January 2017.

Required

Prepare the Revenue and Expenditure Account of SALASA District Assembly for the year ending 31st December 2016 and the statement of financial position as at that date.

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 4: IPSAS 14 EVENTS AFTER REPORTING DATE

Welcome to Session four of unit four. In this session we will discuss one of the International Public Sector Accounting Standards, IPSAS 14 Events after Reporting Date. This standard generally prescribes the treatment of events after the reporting date. We will discuss the objective of the standard, scope of the standard, adjusting events and non-adjusting events after the reporting date.

Objectives

At the end of this session, you should be able to:

a) explain the objective and scope of IPSAS 14
b) differentiate between adjusting events and non-adjusting events after reporting date.

Now read on…

4.1 Objective and Scope

The standard prescribes generally the treatment of events after the reporting date. Specifically, it prescribes:

(a) When an entity should adjust its financial statements for events after the reporting date; and
(b) The disclosures that an entity should give about the date when the financial statements were authorized for issue, and about events after the reporting date.

The Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

4.2 Events after the Reporting Date

Events after the reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorized for issue. Two types of events can be identified:

(a) Those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
(b) Those that is indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

4.3 Adjusting Events after the Reporting Date

An entity shall adjust the amounts recognized in its financial statements to reflect adjusting events after the reporting date. The following are examples of adjusting events after the reporting date that require an entity to adjust the amounts recognized in its financial statements, or to recognize items that were not previously recognized:

(a) The settlement after the reporting date of a court case that confirms that the entity had a present obligation at the reporting date.
(b) The receipt of information after the reporting date indicating that an asset was impaired at the reporting date, or that the amount of a previously recognized impairment loss for that asset needs to be adjusted. For example:
    i. The bankruptcy of a debtor that occurs after the reporting date usually confirms that a loss already existed at the reporting date on a receivable account, and that the entity needs to adjust the carrying amount of the receivable account; and
    ii. The sale of inventories after the reporting date may give evidence about their net realizable value at the reporting date;
(c) The determination after the reporting date of the cost of assets purchased, or the proceeds from assets sold, before the reporting date;
(d) The determination after the reporting date of the amount of revenue collected during the reporting period to be shared with another government under a revenue-sharing agreement in place during the reporting period;
(e) The determination after the reporting date of performance bonus payments to be made to staff if the entity had a present legal or constructive obligation at the reporting date to make such payments as a result of events before that date; and
(f) The discovery of fraud or errors that show that the financial statements were incorrect.

4.4 Non-Adjusting Events after the Reporting Date

An entity shall not adjust the amounts recognized in its financial statements to reflect non-adjusting events after the reporting date.

The following are examples of non-adjusting events after the reporting date:

a) Where an entity has adopted a policy of regularly revaluing property to fair value, a decline in the fair value of property between the reporting date and the date when the financial statements are authorized for issue.
b) Where an entity charged with operating particular community service programs decides after the reporting date, but before the financial statements are authorized, to provide/distribute additional benefits directly or indirectly to participants in those programmes.

4.5 Disclosure of Non-Adjusting Events after the Reporting Date

If non-adjusting events after the reporting date are material, non-disclosure could influence the economic decisions of users taken on the basis of the financial statements. Accordingly, an entity shall disclose the following for each material category of non-adjusting event after the reporting date:

(a) The nature of the event; and
(b) An estimate of its financial effect, or a statement that such an estimate cannot be made.

The following are examples of non-adjusting events after the reporting date that would generally result in disclosure:

(a) An unusually large decline in the value of property carried at fair value, where that decline is unrelated to the condition of the property at reporting date, but is due to circumstances that have arisen since the reporting date;
(b) The entity decides after the reporting date, to provide/distribute substantial additional benefits in the future directly or indirectly to participants in community service programs that it operates, and those additional benefits have a major impact on the entity;
(c) An acquisition or disposal of a major controlled entity or the outsourcing of all or substantially all of the activities currently undertaken by an entity after the reporting date;
(d) Announcing a plan to discontinue an operation or major program, disposing of assets, or settling liabilities attributable to a discontinued operation or major program, or entering into binding agreements to sell such assets or settle such liabilities (guidance on the treatment and disclosure of discontinued operations can be found in the relevant international or national accounting standard dealing with discontinued operations);
(e) Major purchases and disposals of assets;
(f) The destruction of a major building by a fire after the reporting date;
(g) Announcing, or commencing the implementation of, a major restructuring
(h) The introduction of legislation to forgive loans made to entities or individuals as part of a program;
(i) Abnormally large changes after the reporting date in asset prices or foreign exchange rates;
(j) In the case of entities that are liable for income tax or income tax equivalents, changes in tax rates or tax laws enacted or announced after the reporting date that have a significant effect on current and deferred tax assets and liabilities (guidance on accounting for income taxes can be found in the relevant international or national accounting standard dealing with income taxes);

(k) Entering into significant commitments or contingent liabilities, for example, by issuing significant guarantees after the reporting date; and
(l) Commencing major litigation arising solely out of events that occurred after the reporting date.

SUMMARY

This standard generally prescribes the treatment of events after the reporting date. In conclusion, we have discussed the objective of the standard, scope of the standard, adjusting events and non-adjusting events after the reporting date. We have also outlined the disclosure requirement of Non-Adjusting Events after the Reporting Date.

Self-Assessment Questions

Exercise 4.4

1. State the objective of IPSAS 14, Events after reporting date .
2. Explain the differences between adjusting events and non-adjusting events after reporting date.
3. Enumerate the disclosure requirement of an entity for each material category of non-adjusting event after the reporting date

SESSION 5: IPSAS 16 INVESTMENT PROPERTIES

In session four, we discussed the adjusting and non-adjusting events after reporting dates. In this session the objective and scope of IPSAS 16, Investment Properties will be discussed. We will further discuss the recognition and measurement criteria of investment properties as well as the disclosure requirements.

Objectives

At the end of this session, you should be able to:

a) Explain the accounting treatment of investment properties
b) Outline the conditions for recognizing investment property
c) Discuss the models for measuring investment property

Now read on…

5.1 Objective and Scope of Investment Property

This Standard prescribes the accounting treatment for investment property and related disclosure requirements. It applies to accounting for investment property, including

a) the measurement in a lessee's financial statements of investment property interests held under a lease accounted for as a finance lease, and
b) the measurement in a lessor's financial statements of investment property provided to a lessee under an operating lease.

This Standard does not, however, deal with matters covered in IPSAS 13, Leases, including:

(a) Classification of leases as finance leases or operating leases;
(b) Recognition of lease revenue from investment property (see also IPSAS 9, Revenue from Exchange Transactions);
(c) Measurement in a lessee's financial statements of property interests held under a lease accounted for as an operating lease;
(d) Measurement in a lessor's financial statements of its net investment in a finance lease;
(e) Accounting for sale and leaseback transactions;
(f) Disclosure about finance leases and operating leases.
(g) Biological assets related to agricultural activity (see IPSAS 27, Agriculture); and
(h) Mineral rights and mineral reserves such as oil, natural gas, and similar non-regenerative resources.

5.2 Significant Definitions

Carrying amount: This is the amount at which an asset is recognized in the statement of financial position.

Cost: This is the amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.

Investment property: This is land or a building – or part of a building – or both held to earn rentals or for capital appreciation, or both, rather than for:

a) Use in the production or supply of goods or services, or for administrative purposes; or
b) Sale in the ordinary course of operations.

Owner-occupied property: This is property held (by the owner or by the lessee under a finance lease) for use in the production or supply of goods or services, or for administrative purposes

5.3 Examples of Investment Property

a) Land held for long-term capital appreciation rather than for short-term sale in the ordinary course of operations. For example, land held by a hospital for capital appreciation that may be sold at a beneficial time in the future.
b) Land held for a currently undetermined future use. (If an entity has not determined that it will use the land as owner-occupied property, including occupation to provide services such as those provided by national parks to current and future generations, or for short-term sale in the ordinary course of operations, the land is regarded as held for capital appreciation).
c) A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases on commercial basis. For example, a university may own a building that it leases on a commercial basis to external parties.
d) A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.
e) Property that is being constructed or developed for future use as investment property.

5.4 Recognition

Investment property is recognized as an asset when, and only when:

a) It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the entity; and
b) The cost or fair value of the investment property can be measured reliably.

5.5 Measurement at Recognition

Investment property is measured initially at its cost (transaction costs shall be included in this initial measurement).Where an investment property is acquired through a non-exchange transaction, its cost shall be measured at its fair value as at the date of acquisition.

5.6 Measurement after initial recognition

Measurement of recognized assets is carried out using any of these two applicable methods:

a) *Fair Value Model* - Investment property is measured at fair value unless there is clear evidence when the entity first acquires an item of investment property that the fair value of the asset is not reliably determined;
b) *Cost Model* - Investment property is measured at fixed cost less any accumulated depreciation and any accumulated impairment losses.

5.7 Transfers

Transfers to or from investment property shall be made when, and only when, there is a change in use, evidenced by:

a) Commencement of owner-occupation, for a transfer from investment property to owner- occupied property;
b) Commencement of development with a view to sale, for a transfer from investment property to inventories;
c) End of owner-occupation, for a transfer from owner-occupied property to investment property; or
d) Commencement of an operating lease (on a commercial basis) to another party, for a transfer from inventories to investment property

5.8 Fair Value Model

Under the Fair Value, an entity reports the effect of adopting the standard on its effective date (or earlier) as an adjustment to the opening balance of accumulated surpluses or deficits for the period in which the IPSAS is first adopted. In addition:

a) If the entity has previously disclosed publicly in the financial statements or otherwise, the fair value of its investment property in earlier periods the entity is encouraged, but not required, to:
   i. Adjust the opening balance of accumulated surpluses or deficits for the earliest period presented for which such fair value was disclosed publicly; and
   ii. Restate comparative information for those periods;
b) If the entity has not previously disclosed publicly the information described in (a), the entity should not restate comparative information and should disclose such fact.

5.9 Disposals

An investment property shall be derecognized (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

5.10 Disclosure: Fair Value and Cost Model

IPSAS 16 requires the following disclosures in addition to the disclosures to those in IPSAS 13:

a) Whether it applies the fair value or the cost model;
b) If it applies the fair value model, whether, and in what circumstances, property interests held under operating leases are classified and accounted for as investment property;
c) When classification is difficult, the criteria it uses to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations;
d) The methods and significant assumptions applied in determining the fair value of investment property, including a statement whether the determination of fair value was supported by market evidence, or was more heavily based on other factors (which the entity shall disclose) because of the nature of the property and lack of comparable market data;
e) The extent to which the fair value of investment property (as measured or disclosed in the financial statements) is based on a valuation by an independent valuer who holds a recognized and relevant professional qualification and has recent experience in the location and category of the investment property being valued. If there has been no such valuation, that fact shall be disclosed;

5.10.1 Disclosure: Fair Value Model

IPSAS 16 requires that in addition to the disclosures above, an entity that applies the fair value model shall disclose a reconciliation between the carrying amounts of investment property at the beginning and end of the period, showing the following:

a) Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized in the carrying amount of an asset;
b) Additions resulting from acquisitions through entity combinations;
c) Disposals;
d) Net gains or losses from fair value adjustments;
e) The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
f) Transfers to and from inventories and owner-occupied property; and
g) Other changes.

5.10.2 Disclosure: Cost Model

In addition to the disclosures required, an entity that applies the cost model shall disclose:

a) The depreciation methods used;
b) The useful lives or the depreciation rates used;
c) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period;
d) The reconciliation of the carrying amount of investment property at the beginning and end of the period, showing the following:
    i. Additions, disclosing separately those additions resulting from acquisitions and those resulting from subsequent expenditure recognized as an asset;
    ii. Additions resulting from acquisitions through entity combinations;
    iii. Disposals;
    iv. Depreciation;
    v. The amount of impairment losses recognized, and the amount of impairment losses reversed, during the period in accordance with IPSAS 21 or IPSAS 26, as appropriate;
    vi. The net exchange differences arising on the translation of the financial statements into a different presentation currency, and on translation of a foreign operation into the presentation currency of the reporting entity;
    vii. Transfers to and from inventories and owner-occupied property; and
    viii. Other changes; and
e) The fair value of investment property. In the exceptional cases described above, when an entity cannot determine the fair value of the investment property reliably, the entity shall disclose:
    i. A description of the investment property;
    ii. An explanation of why fair value cannot be determined reliably; and
    iii. If possible, the range of estimates within which fair value is highly likely to lie.

SUMMARY

This Standard prescribes the accounting treatment for investment property and related disclosure requirements. We have discussed the objective and scope of investment property as well as some significant definitions. We also looked at the initial and subsequent measurement and recognition criteria using the two basic models – Cost and Fair value.

Self-Assessment Questions

Exercise 4.5

1. Explain the accounting treatment of investment properties
2. Outline the conditions for recognizing investment properties

Discuss the models for measuring investment properties according to IPSAS 16

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 6: IPSAS 17 PROPERTY, PLANT AND EQUIPMENT

Welcome to Session six of unit 4. I hope you are enjoying the lessons. In this session we will discuss International Public Sector Accounting Standard 17, Property, Plant and Equipment. This standard prescribes the accounting treatment for property, plant, and equipment so that users of financial statements can discern information about an entity's investment in its property, plant, and equipment and the changes in such investment.

Objectives

At the end of this session, you should be able to

a) prescribe the accounting treatment for Property, Plant and Equipment according to IPSAS 17.
b) measure and recognize property, plant and equipment
c) determine the carrying amount of property, plant and equipment

Now read on…

6.1 Objective and Scope of IPSAS 17

The principal issues in accounting for property, plant, and equipment are

a) the recognition of the assets,
b) the determination of their carrying amounts, and
c) the depreciation charges and impairment losses to be recognized in relation to them.

The Standard applies to all public sector entities except:

a) When a different accounting treatment has been adopted in accordance with another IPSAS;
b) In respect of heritage assets. However, the disclosure requirements apply to those heritage assets that are recognized.
c) Government Business Enterprises
d) Biological assets related to agricultural activity; or
e) Mineral rights and mineral reserves such as oil, natural gas, and similar non regenerative resources (see the relevant international or national accounting standard dealing with mineral rights, mineral reserves, and similar non-regenerative resources).

6.2 Heritage Assets

The Standard does not require an entity to recognize heritage assets that would otherwise meet the definition of, and recognition criteria for, property, plant, and equipment. If an entity does recognize heritage assets, it must apply the disclosure requirements of this Standard and may, but is not required to, apply the measurement requirements of this Standard. The Standard described some assets as heritage assets because of their cultural, environmental, or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

Certain characteristics, including the following, are often displayed by heritage assets (although these characteristics are not exclusive to such assets):

a) Their value in cultural, environmental, educational, and historical terms is unlikely to be fully reflected in a financial value based purely on a market price;
b) Legal and/or statutory obligations may impose prohibitions or severe restrictions on disposal by sale;
c) They are often irreplaceable and their value may increase over time, even if their physical condition deteriorates; and
d) It may be difficult to estimate their useful lives, which in some cases could be several hundred years.

Public sector entities may have large holdings of heritage assets that have been acquired over many years and by various means, including purchase, donation, bequest, and sequestration. These assets are rarely held for their ability to generate cash inflows, and there may be legal or social obstacles to using them for such purposes.
Therefore, entities that recognize heritage assets are required to disclose in respect of those assets such matters as, for example:

a) The measurement basis used;
b) The depreciation method used, if any;
c) The gross carrying amount;
d) The accumulated depreciation at the end of the period, if any; and
e) A reconciliation of the carrying amount at the beginning and end of the period showing certain components thereof.

6.3 Significant Definitions

Carrying Amount: (for the purpose of this standard) is the amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

Class of Property, Plant and Equipment: means a grouping of assets of similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Cost: is the amount of cash or cash equivalents paid and fair value of the other consideration given to acquire an asset at the time of its acquisition or construction.

Depreciation: is the systematic allocation of the depreciable amount of an asset over its useful life.

Depreciable Amount: is the cost of an asset, or other amount substituted for cost, less its residual value.
Entity Specific Value: is the present value of the cash flows an entity expects to realise from the continuing use of an asset and from its disposal at the end of its useful life or expect to incur when setting a liability.
Exchange Transactions: These are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.
Fair Value: is the amount for which an asset could be exchanged or liability settled, between knowledgeable, willing parties in an arm's length transaction.
An Impairment Loss of a cash generation asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.
An Impairment Loss of a Non-Cash Generating Asset: is the amount by which the carrying amount of an asset exceeds its recoverable service amount.
Non-exchange Transactions: are transactions that are not exchange transactions. In non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.
Property, Plant and Equipment: They are tangible items that:

a) are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and
b) are expected to be used during more than one reporting period.

Recoverable Amount: is the higher of a cash-generating asset's fair value less costs to sell and its value in use.
Recoverable Service Amount: is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.
The Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Useful Life is:

a) The period over which an asset is expected to be available for use by an entity; or
b) The number of production or similar units expected to be obtained from the asset by an entity.

6.4 Measurement after Recognition

IPSAS 17 requires an entity to choose either the cost model or there valuation model in as its accounting policy.

6.4.1 Cost Model

After recognition as an asset, an item of property, plant, and equipment shall be carried at its cost, less any accumulated depreciation and any accumulated impairment losses.

6.4.2 Revaluation Model

After recognition as an asset, an item of property, plant, and equipment whose fair value can be measured reliably is carried at a revalued amount, being its fair value at the date of the revaluation, less any subsequent accumulated depreciation, and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

6.5 Depreciation

Each part of an item of property, plant, and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

6.6 Disclosure

The Standard requires that the financial statements shall disclose, for each class of property, plant, and equipment recognized in the financial statements:

a) The measurement bases used for determining the gross carrying amount;
b) The depreciation methods used;
c) The useful lives or the depreciation rates used;
d) The gross carrying amount and the accumulated depreciation (aggregated with accumulated impairment losses) at the beginning and end of the period; and
e) A reconciliation of the carrying amount at the beginning and end of the period showing:
    i. Additions;
    ii. Disposals;
    iii. Acquisitions through entity combinations;
    iv. Increases or decreases resulting from revaluations and from impairment losses (if any) recognized or reversed directly in net assets/equity;
    v. Impairment losses recognized in surplus or deficit;
    vi. Impairment losses reversed in surplus or deficit;
    vii. Depreciation;
    viii. The net exchange differences arising on the translation of the financial statements from the functional currency into a different presentation currency, including the translation of a foreign operation into the presentation currency of the reporting entity; and
    ix. Other changes.

The financial statements shall also disclose for each class of property, plant, and equipment recognized in the financial statements:

a) The existence and amounts of restrictions on title, and property, plant, and equipment pledged as securities for liabilities;
b) The amount of expenditures recognized in the carrying amount of an item of property, plant, and equipment in the course of its construction;
c) The amount of contractual commitments for the acquisition of property, plant, and equipment; and
d) If it is not disclosed separately on the face of the statement of financial performance, the amount of compensation from third parties for items of property, plant, and equipment that were impaired, lost or given up that is included in surplus or deficit. If a class of property, plant, and equipment is stated at revalued amounts, the following shall be disclosed:
    i. The effective date of the revaluation;
    ii. Whether an independent valuer was involved;
    iii. The methods and significant assumptions applied in estimating the assets' fair values;
    iv. The extent to which the assets' fair values were determined directly by reference to observable prices in an active market or recent market transactions on arm's length terms, or were estimated using other valuation techniques;
    v. The revaluation surplus, indicating the change for the period and any restrictions on the distribution of the balance to shareholders or other equity holders;
    vi. The sum of all revaluation surpluses for individual items of property, plant, and equipment within that class; and
    vii. The sum of all revaluation deficits for individual items of property, plant, and equipment within that class

SUMMARY

In this Unit we discussed the financial reporting in the local government. We looked at the decentralization in Ghana, District assemblies common Fund, Final accounts of the MMDAs and relevant International Public Sector Accounting Standards such as IPSAS 14, 16 AND 17.
In conclusion, issues discussed under IPSAS 17 property, plant, and equipment include the recognition of the assets, the determination of their carrying amounts, the depreciation charges and impairment losses to be recognized in relation to the assets. In measuring the PPE after recognition, two models have been discussed – Cost and Revaluation models.

Self-Assessment Questions

Exercise 4.6

1. Outline four (4) exceptions to IPSAS 17, Property, Plant and Equipment.
2. Differentiate between Carrying Amounts and Depreciable Amounts.
3. Define the following terms according to IPSAS 17
    a. Exchange transactions
    b. Fair value
    c. Impairment Loss of a Cash generation asset
    d. Entry Specific Value
4. Explain the two model for measuring property, plant and equipment.

UNIT 5: PUBLIC PROCUREMENT AND PUBLIC SECTOR STORES MANAGEMENT

Unit Outline

Session 1: Meaning and function of public procurement.
Session 2: Public Procurement Board.
Session 3: Procurement structures
Session 4: Procurement rules
Session 5: Methods and process of disposing off public assets
Session 6: Public sector stores management (stock taking and stores control, FIFO & WAM)

Both private and public sectors acquire goods and services for use. The procurement process when not managed properly can lead the organization to incur cost in the form of inflation of orders, payment of private purchases, overpayment of invoices, acquisition of poor quality goods, theft of goods, delays in the supply of goods and services etc. One way of mitigating these costs is to regulate the procurement process in order to achieve the objectives of the organization. Standardization of procurement process and ensuring value for money in all acquisitions by organizations are pertinent benefits from regulating the procurement activity.

Unit Objectives

By the end of this unit you should be able to:

1. Explain the meaning of public procurement.
2. Explain the functions of the procurement board.
3. Discuss the various approaches for disposing off public assets
4. Discuss the public sector stores management.
5. Use FIFO and WAM as a means of stores control.

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 1: MEANING AND FUNCTION OF PUBLIC PROCUREMENT

Dear Learner, you are welcome to the first session of Unit 5. In this unit, we begin our discussion of public procurement with definition and explanation of public procurement as well as the scope of public sector procurement. This unit ends with a discussion of the importance of public sector procurement. We believe you would enjoy this unit, just like other previous units.

Objectives

By the end of this unit you should be able to:

a) define and explain public sector procurement process
b) outline the importance of regulating the public sector procurement process
c) discuss the stages in the general procurement process.

Now read on…

5.1 Definition and Meaning of Public Procurement

Procurement may be defined as the act of acquiring goods, works and services that are relevant to the achievement of the objectives of an organisation. The resources of an organization need to be acquired or constructed. The process of acquisition needs to be properly handled so that the organization can achieve value for money. This is of concern to both the private and public sectors. When the procurement action is undertaken by a public sector organization like a ministry, department or agency then it is termed as public procurement.

5.2 Some Relevant Definitions

Goods means objects of every kind and description including raw materials, products and equipment and objects in solid, liquid or gaseous form, and electricity, as well as services incidental to the supply of the goods if the value of those incidental services does not exceed that of the goods themselves; An example of services incidental to the supply of goods will be training of staff (costs) on use of acquired technical products.

Works means work associated with the construction, reconstruction, demolition, repair or renovation of a building or structure or surface and includes site preparation, excavation, erection, assembly, installation of plant, fixing of equipment and laying out of materials, decoration and finishing, and any incidental activity under a procurement contract.

Services mean intangible products such as accounting, banking, cleaning, consultancy, education, insurance, expertise, medical treatment or transportation.

Procurement entity means any entity conducting public procurement under this Act

Tender: In procurement refers to the process whereby governmental institutions invite bid for large projects that must be submitted within a finite deadline. These invitations are normally made public through publication in daily newspapers.
Request for Tenders (RFT) is a formal, structured invitation to suppliers to submit a bid to supply products or services.

Tender document: A written invitation sent to potential suppliers of a good or service to inform them about the information required for the buyer to choose among them.
Bid: Is to offer a certain price for something, especially at an auction. In response to request for tenders, potential suppliers indicate what they have to offer and the price at which they are willing to trade those goods, contracts and services. The bid-receiving party would then decide on who to buy from based on his/her requirements and bids received.
Proposal: It is a plan that is put forward for consideration.
Quotation: It is a written statement of the cost of a good, contract or service.
Tender Security: a bid security is an amount of money that may be calculated as a percentage of the budget estimate of a procurement requirement or a percentage of a bidder's bid price. It is used as a protection against bidders withdrawing their bids prior to the end of their bid validity period, or for refusing to sign the contract.
Tender Validity Period: is the period in course of which the supplier is bound by the tender, in relation to its content and conditions offered (price, execution time, guarantee, etc.).

Margin of Preference: Is the extent to which one person or group is given more favourable treatment than others. The percentage of reduction in the requirements of the goods, contracts and services to be procured by a procurement unit for domestic suppliers/ tenderers or domestically produced goods, works and services.

5.3 General Procurement process

Procurement process is the stages through which a procurement activity is undertaken. Each of these stages has to be managed well in order to achieve the procurement objectives which would include achieving value for money in all procurement activities. The process ordinarily will be firm-specific but generally involve the following stages.

Preparation of requisitions: The procurement process will begin with the raising of requisitions by the department or unit within the organization that realizes the need to replenish its stock of items. The need for requisitions will be initiated when the stock levels of the goods reach the re-order level for existing items or by the commencement of a new activity that would require the good or service. Upon the realization of the need for certain goods or services, the head of the unit in the organization or the responsible officer will request for them, normally from the procurement head by filling a requisition form. The requisition form details out the identification of the item needed, quantity needed, when needed, and the purpose for the request.

Authorization of request: The control activity in the procurement process requires that requisitions raised are duly authorized before they are processed. The authorization ensures that the request actually reflects the needs of the unit making it and it is in the best interest of the organization. A designated person (superior), other than the one making the requisition will authorize the requisition.

Search for suppliers: The authorization of the requisition empowers the procurement office to commence the search for potential suppliers. Normally, for acquisition of regular items, the organization will have a list of potential suppliers to choose from, based on previous dealings. In the case of new business, depending on the nature and size of the transaction, the acquisition intention will have to be publicly advertised and a pool of suppliers constructed for selection. Also, the nature and size of the transaction may warrant that the acquisition goes through a tender, irrespective of whether it is a new business or regular acquisition.

Selection of suppliers: The construction of the pool of suppliers should facilitate the process of choosing a supplier. A supplier will generally be settled on after considering the ability of the supplier to deliver the right items on time and at reasonable prices.

Placing a purchase order: An order is a firm request placed by a buyer with a supplier detailing the items to be supplied, quantity and quality of these items as well as the delivery dates. Selected supplier is contacted to supply the organization with the said items to be acquired under the terms and conditions agreed upon between the supplier and the organization. The order placed with the supplier needs to tally with the requisition raised by the requisition unit in terms of quantity, quality and delivery schedule.

Receipt of goods and services: These are arrangements within the firm put in place to facilitate the receipt of the items ordered from the supplier. This stage of the procurement process is to ensure that the organization gets to receive only items it has ordered for. Thus, items received need to be checked with orders placed with the supplier to confirm quality and quantity levels. The condition of the supplied items needs to be verified. The supplier has to be notified of any anomaly as early as possible. The delivery of the goods is accompanied by a goods received note (GRN) which when signed by the organization indicates the acceptance of the items and places a payment responsible on the organization. GRN is generally prepared by the stores unit of the buyer. Where there are discrepancies, a debit note has to be raised by the buyer as a source document covering the goods being returned to the supplier. The debit note indicates that the buyer's indebtedness to the supplier has been reduced by the size of the amount indicated on the debit note.

Invoice processing and payment of suppliers*:* Subsequent to the receipt of the goods, the payment process is commenced. The accounts department needs to be furnished with copies of the requisition, purchase order, GRN and any other relevant documents connected with the acquisition. These documents will have to go through pre-audit before payment is effected.

5.4 Public Procurement Regulation

The procurement process when not managed properly can lead the organization to incur cost in the form of:

- inflation of orders,
- payment of private purchases,
- overpayment of invoices,
- acquisition of poor quality goods,
- theft of goods,
- delays in the supply of goods and services etc.
- Standardization of procurement process and ensuring value for money in all acquisitions by organizations are pertinent benefits from regulating the procurement activity.

5.5 Public Procurement Act 2003 (Act 663) and Public Procurement Amendment Act, 2016 (Act 914)

The major regulation for public sector procurement is the Public Procurement Act 2003 (Act 663). The Act is divided into nine (9) parts dealing with the following major issues: establishment of the public procurement board; procurement structures; methods of procurement; tendering procedures; methods and process to engage the services of consultants; review; disposal of stores, plant and equipment; and miscellaneous topics respectively. Effective 1st July, 2016, the Public Procurement (Amendment) Act 2016 (914) was passed and became operational, amending Sections of Act 663. According to the public procurement authority, highlights of the new provisions include:

- Revised Approval Thresholds;
- Re-Constitution of Entity Tender Committees;
- Dissolution of District and Ministerial Tender Review Boards;
- Categorization of Entity Tender Committees;
- Revised Thresholds for Procurement Methods;
- Introduction of New Procurement Structures for Local Government Agencies;

Scope of Act 914
Section 14 states that Act 914 applies to
(a) the procurement of goods, works and services, financed in whole or in part from public funds;

(b) functions that pertain to the procurement of goods, works and services including the description of requirements and sources of supply, selection and award of contracts and the phases of contract administration;
(c) the disposal of public stores, vehicles and equipment; and
(d) procurement with public funds including loans procured by government, grants, foreign aid funds and internally generated funds except as exempted under section 96. Meanwhile, section 96 states that
(1) Despite the extent of the application of this Act to the procurement, procurement with international obligations arising from a grant or concessionary loan to the Government shall be in accordance with the terms of the grant or loan subject to the prior review and “no objection” of procurement procedures by the Authority.
(2) Procurement arising from an external loan and commercial facility, secured by Government, other than a concessionary loan and grant which specifies particular procurement procedures shall be subject to the prior review and “no objection” of those procurement procedures by the Authority.”

Thus, sections 14 and 96 define the scope of Act 914. The Act mandates all procurements with public funds, loans, grants and disposal of public stores, vehicles and equipment to follow the procedures outlined in it except where they relate to international grants, concessionary loan, external loan and commercial facility by Government with special procurement procedures. But even in such exceptional cases, the Procurement Authority shall subject the procurement procedures to prior review and “no objection” of those procedures.
Also, in addition to following procedures enshrined in the Act 914, all procurement entities are mandated to follow all other procedures specified in manuals, regulatory notices and guidelines issued by the Board.

SUMMARY

In this session, we have learnt about the meaning of procurement, the procurement process, the rationale for regulating the procurement activity and the scope of Act 914. Revise these principles in procurement and make sure that you can explain each of them.

Self-Assessment Questions

Exercise 5.1

1. Define and explain public sector procurement process.
2. Define the following terms as used in procurement.
    - Goods
    - Works
    - Services
    - Tenders
    - Request for tenders
    - Proposals

- Quotation
- Bid
- Tender documents
- Margin of preference

3. Outline the importance of regulating the public sector procurement process.
4. Discuss the stages in the general procurement process

SESSION 2: PUBLIC PROCUREMENT BOARD

Dear Learner, you are welcome to Session 2. We hope, by now, you know public procurement, the regulatory framework and the scope of the Public procurement Amendment Act 2016 (Act 914). In this session, we shall continue our discussion of the relevant sections of the Act 914. The activities of the public procurement authority are under the control of the public procurement board. In this session, we shall be considering the composition of the Board and its functions, as enshrined in Act 914.

Objectives

By the end of this session, you should be able to:

a) outline the composition of the public procurement board
b) explain the functions of the public procurement board

Now read on…

2.1 The Public Procurement Board

The Act establishes the public procurement board with the object of harmonising the processes of public procurement in the public service to secure a judicious, economic and efficient use of state resources in public procurement and ensure that public procurement is carried out in a fair, transparent and non-discriminatory, environmentally and socially responsible manner. The Board governs the National Procurement Authority. The board is made up of nine (9) persons appointed by the President and comprising of the chairperson, four people from the public sector (representative of the Attorney General, and three persons including at least one woman nominated by the Minister of Finance), three people including a woman from the private sector and the Chief Executive officer of the Authority. Members of the Board have a tenure of 4 years which is renewable for a term only. But board members have the liberty to resign through writing to the President or they can be removed from office for a justifiable reason.

Meetings of the Board are to be held at least once in every quarter but the chairperson can call for meetings at places and times that there is legitimate business of the Authority to be dealt with. All decisions at any of the Board's meetings are valid provided there are at least five (5) board members (including the Chief Executive) present, irrespective of whether there is a vacancy in the board or the appointment of a board member(s) is defective.

Parliament shall provide funding for the Public Procurement Authority's expenses in addition to other funds raised through administrative fines and fees, donations, grants and gifts and any other moneys provided by the Minister. Also, the Authority, through the Minister of Finance, may retain part of its internally generated funds (IGF) for specific purposes. In all these, it is mandatory that proper records and accounts are prepared annually (based on government's accounting period) for audit by the Auditor-General or his/her representative.

The Board shall within three months after the end of each year, submit to the Minister a written report indicating the activities and operations of the Board in respect of the preceding year. The annual report shall include a copy of the audited accounts together with the Auditor-General's report and the Minister shall as soon as practicable after receipt of the annual report submit the report to Parliament with such comment as the Minister considers necessary. The part of the annual report concerning a Metropolitan,

Municipal or a District Assembly and the relevant part of the audited accounts, together with relevant parts of the Auditor-General's Report affecting specific Metropolitan, Municipal or District Assemblies shall be submitted to that Metropolitan, Municipal or District Assembly for debate.

2.2 Functions of the Board

In furtherance of its object the Board shall perform the following functions:

a) make proposals for the formulation of policies on procurement;
b) ensure policy implementation and human resource development for public procurement;
c) develop rules, instructions, other regulatory documentation on public procurement and formats for public procurement documentation;
d) monitor and supervise public procurement and ensure compliance with statutory requirements;
e) have the right to obtain information concerning public procurement from contracting authorities;
f) establish and implement an information system relating to public procurement;
g) publish by the end of each month a Public Procurement Bulletin which shall contain information germane to public procurement, including proposed procurement notices, notices of invitation to tender and contract award information;
h) assess the operations of the public procurement processes and submit proposals to the Board for improvement of the processes;
i) present annual reports to the Minister on the public procurement processes;
j) facilitate the training of public officials involved in public procurement at various levels;
k) develop, promote and support training and professional development of persons engaged in public procurement, and ensure adherence by the trained persons to ethical standards;

l) advise Government including Metropolitan, Municipal and District Assemblies on issues relating to public procurement;
m) organise and participate in the complaints and administrative review procedures in Part VII of this Act;
n) plan and co-ordinate technical assistance in the field of public procurement;
o) maintain a register of procurement entities and members of and secretaries to tender committees of public procurement entities;
p) maintain a data base of suppliers, contractors and consultants and a record of prices to assist in the work of procurement entities;
q) investigate and debar from procurement practice under this Act, suppliers, contractors and consultants who have seriously neglected their obligations under a public procurement contract, have provided false information about their qualifications, or offered inducements of the kind referred to in section 32 of this Act;
r) maintain a list of firms that have been debarred from participating in public procurement and communicate the list to procurement entities on a regular basis;
s) hold an annual forum for consultations on public procurement and other related issues;
t) assist the local business community to become competitive and efficient suppliers to the public sector; and
u) perform such other functions as are incidental to the attainment of the objects of this Act.

In this session, we have learnt about the composition and functions of the public procurement Authority. The Board performs the above functions in order to achieve the objects of the Authority. Note that the authority is at liberty to perform any other function necessary for the achievement of the objectives of the authority.

Self-Assessment Questions

Exercise 5.2

1. explain the composition of the Board of the Public Procurement Authority.
2. Identify and explain five functions of the Board of the Procurement Authority.

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 3: PROCUREMENT STRUCTURES

Dear Learner, you are welcome to Session 3. We hope by now, you have acquired knowledge of the composition, operation and functions of the public procurement Authority Board. In this session, we extend our discussion on public procurement by looking at the arrangement of the various functions/activities and the responsibilities for executing public procurement in Ghana. We hope you will enjoy this session.

Objective

By the end of this session, you should be able to:

a) identify and explain the functions of the various procurement structures used in the public sector of Ghana.

Now read on…

3.1 Procurement Structures

Declaration of procurement entity

Section 15 of Act 914 outlines the process for declaring an entity as a procurement entity. It states that;

15. 1) The Minister in consultation with the Board may, by notice in the *Gazette*, declare an entity, a subsidiary or agency of an entity or a person to be a procurement entity.

2) Subject to approval by the Board, a procurement entity may undertake procurement in accordance with established commercial practices if

(a) the procurement entity is legally and financially autonomous and operates under commercial law;

(b) it is beyond contention that public procurement procedures are not suitable, considering the strategic nature of the procurement; and

(c) the proposed procurement method will ensure value for money, provide competition and transparency to the extent possible.

3) The approval given by the Board to a procurement entity to undertake procurement in accordance with established commercial practices shall be published in the *Gazette*.

3.2 Procurement Entity

16. (1) A procurement entity is responsible for procurement, subject to this Act and any other conditions that may be established in Regulations and administrative instructions issued by the Minister in consultation with the Board.

(2) Procurement decisions of an entity shall be taken in a corporate manner and the internal units concerned shall contribute to the decision-making process.

3.2.1 Head of procurement entity

Act 914 identifies the head of a procurement entity in Section 17 and outlines the responsibilities of such a person Section 18.

17. (1) The head of entity and an officer to whom responsibility is delegated are responsible and accountable for action taken and for instructions as regards the implementation of this Act.

(2) The liability of the head of entity or officer to whom responsibility is delegated is however limited to acts that are inconsistent with this Act.

3.2.2 Functions of the head of a procurement entity

18. (1) The head of entity shall ensure that provisions of this Act are complied with.

(2) The concurrent approval by a tender review committee shall not absolve the head of entity from accountability for a contract that may be determined to have been procured in a manner that is inconsistent with a provision of this Act.

(3) The head of entity shall

(a) establish within the procurement entity, a procurement unit, staffed with qualified procurement personnel;

(b) empanel competent and qualified evaluation panels;

(c) ensure that at each stage of the procurement activity, procedures prescribed in this Act have been followed;

(d) ensure that stores, vehicles and equipment are disposed of in compliance with this Act;

(e) exercise sound judgment in making procurement decisions; and

(f) refer to the entity tender committee for approval, a procurement above the approval threshold of the head of entity.

(4) The head of entity shall

(a) apply the thresholds that relate to heads of entities as specified in the Second and Third Schedules to this Act; and

(b) facilitate contract administration and ensure compliance with the reporting requirements under this Act.

3.3 Procurement Unit

Each public sector entity must have a procurement unit that is headed by a qualified person.

19. (1) The head of a procurement entity of each ministry, department and agency and Metropolitan, Municipal and District Assembly, shall establish a procurement unit within the entity which shall be headed and staffed by qualified procurement personnel.

(2) The head of a procurement entity shall appoint a head of procurement of the procurement entity who shall be the Secretary to the entity tender committee.

3.4 Entity Tender Committee

Tender Committee means the body within entity with responsibility for planning, processing, and generally taking procurement decisions and ensuring compliance with the public' procurement law, among others. Section 20 of the Act makes it mandatory for all procurement entities to establish entity tender committee. Generally an entity tender committee is a committee set up in an organization to ensure that procurements are done in a fair, efficient and cost effective manner and according to due process. The committee ensures that contracts are properly advertised, qualified bids are invited, the selection process of suppliers is transparent and fair and appropriate regulations are duly followed. Act 914 specifies the composition of entity tender committees according to the categories that each public entity belongs. The first schedule of the Act groups the entities into six categories, as shown in Table 5.1 Below. Also, persons who are supposed to be members of every entity is specified in Schedule 1B of Act 914. For illustration, the composition of the entity tender committees of Categories A and F entities have been reproduced in Table 5.2A and 5.2B.

Table 5.1: "FIRST SCHEDULE OF ACT 914 (Section 20 and 20A)
CATEGORIES OF ENTITY TENDER COMMITTEES
SCHEDULE 1A

CATEGORY A (SPECIAL CONSTITUTIONAL BODIES)
1. Legislature
2. Judiciary
3. Council of State
4. Bank of Ghana

CATEGORY B
1. Independent Constitutional Bodies1
2. Office of the President
3. Ministries
4. State Owned Enterprises
5. Regional Coordinating Councils
6. Statutory fund management bodies

CATEGORY C
1. Head Office of subvented agencies and government departments 2
2. Teaching Hospitals
3. Tertiary Institutions including autonomous schools, institutes, colleges and campuses of universities

CATEGORY D

1. Regional office of subvented agencies and government departments
2. Specialist hospitals, regional Health Directorate, Municipal Hospitals, Regional hospitals
3. Colleges and Training Institutions 3

CATEGORY E

1. District office of subvented agencies and government departments4
2. District health directorate, District hospitals, Hospitals, polyclinics, Health centres.
3. Second cycle schools or institutions

CATEGORY F

1. Metropolitan Assemblies
2. Municipal Assemblies and District Assemblies

(footnotes)

1. Category B1 includes –Public Services Commission, National Development Planning Commission, Office of the Head of Civil Service, Electoral Commission, Office of the District Assemblies Common Fund Administrator, Commission On Human Rights and Administrative Justice, National Media Commission, Lands Commission and National Commission for Civic Education.
2. Category C1, D1 and E1 includes the Ghana Education Service, Ghana Health Service, Ghana Police Service, Ghana Prisons Service, Ghana Immigration Service, Ghana National Fire Service, Ghana Revenue Service and the Local Government Service.
3. Colleges – Training Colleges (Nursing & Agricultural or similar Colleges).
4. That are not decentralised departments

3.4.1 Composition of Entity Tender Committees

According to Act 914 specifies the composition of each entity tender committee, chairperson and other rules for having the meeting. In the public sector, the entity tender committees are expected to meet at least once every quarter with two weeks prior notices given to all members.

In spite of the composition and existence of ETCs, each procurement entity is expected to have a tender evaluation panel (TEP), according to section 20F. The work of TEP is basically to follow the predetermined tender evaluation criteria to assess whether the work of ETC for a particular procurement followed due process.

Table 5.2A: SCHEDULE 1B (Section 20) - COMPOSITION OF ENTITY TENDER COMMITTEES – 1B 1 CATEGORY A

Item	Legislature	Judiciary	Council of State	Bank of Ghana
Chairperson[1]	Chief Administrator	Judicial Secretary		Governor
				First Deputy Governor
Members	Head of Finance	Head of Finance	Chief Director	
	Majority Leader	2 Members - Judicial Service Council	Head of Finance	Head of Legal
	Minority Leader	3 Members- Superior Courts[3]	3 Heads of Departments	A Rep. of the Minister of Finance
	Chairperson of Public Accounts Committee	2 Members of Professional Bodies		Rep. of the Office of the President
	Chairperson of Works Committee		2 Members of Professional Bodies	Head of Finance
	Chairperson of a third Parliamentary Committee (Selected by Speaker)			1 Departmental Head
	2 Members of Professional Bodies[2]			2 Members of Professional Bodies
Total Membership	9	9	7	9
Secretary	Head of Procurement Unit	Head of Procurement Unit	Head of Procurement Unit	Head of Procurement Unit
Quorum	Chairperson and 4 members	Chairperson and 4 members	Chairperson and 3 members	Chairperson and 4 members

1 Chairpersons may delegate to a member of the entity tender committee
2 Selected Professional Bodies with skills required in procurement

3 One member each from the High Court, Court of Appeal and the Supreme Court

Table 5.2B: Schedule 1C-Composition of Entity Tender Committee for Metropolitan, Municipal and District Assemblies

Item	Metropolitan Assemblies	Municipal and District Assemblies
Chairperson	Metropolitan Chief Executive	Municipal or District Chief Executive
Members	Director of Finance	District Finance Officer
	Legal Officer of the Metropolitan Assembly or Lawyer appointed by the Metropolitan Assembly	Legal Officer of the Metropolitan Assembly or Lawyer appointed by the Metropolitan Assembly
	2 Chairpersons of committees (Works/Finance) of the Assembly	2 Chairpersons of committees (Works/Finance) of the Assembly
	2 Heads of Departments within the Metropolitan Assembly, including user departments	2 Heads of Departments within the Metropolitan Assembly, including user departments
	Budget officer of the Metropolitan Assembly	District Budget Officer
	Metropolitan Coordinating Director	District Cordinating Director
Tot. Memb'ship	9	9
Secretary	Head of Procurement Unit	Head of Procurement Unit
Quorum	Chairperson and 4 others	Chairperson and 4 others

3.4.2 Thresholds for Entity Tender Committees

These are maximum amounts of goods, works and services that entities have power to supervise their acquisition. Any amount going beyond the threshold of approving authorities must be sanctioned by the authority that has the approving power. For instance, if a tertiary institution like University of Cape Coast which belongs to category C of entity tender committees (ETC) wants to buy any goods which is up to GHS60,000, the entity head (like the Vice Chancellor) can approve of the purchase without recourse to the ETC or central tender review committee (CTRC).

Table 5.3: Thresholds for Ministries Departments and Agencies: Approving Authority

		Approving Authority		
		CTRC	ETC	Entity Head
Category A & B	Goods	Above 1m	Above 100,000 to 1m	up to 100,000
	Works	Above 2m	Above 150,000 to 2m	up to 150,000
	Services	Above 1m	Above 100,000 to 1m	Up to 100,000
Category C	Goods	Above 800,000	Above 60,000 to 800,000	up to 60,000
	Works	Above 1,500,000	Above 90,000 to 1,500,000	up to 90,000
	Services	Above 800,000	Above 60,000 to 800,000	up to 60,000
Category D[1]	Goods	Above 400,000	Above 45,000 to 400,000	up to 45,000
	Works	Above 800,000	Above 75,000 to 800,000	up to 75,000
	Services	Above 400,000	Above 45,000 to 400,000	up to 45,000
Category E[2]	Goods	Above 200,000	Above 30,000 to 200,000	up to 30,000
	Works	Above 400,000	Above 45,000 to 400,000	up to 45,000
	Services	Above 200,000	Above 30,000 to 200,000	up to 30,000

[1]As regards regional officers of a subvented agency, procurement above the regional entity tender committee threshold shall be handled by their head office entity tender committee (ETC).
[2]District hospitals and schools shall use the entity tender committees and central tender review committees (CTRC) as appropriate for procurements above the ETC's threshold. The district offices of a subvented agency shall operate under the threshold guidelines of their head office agency.

3.4.3 General Provisions on the Functions of an Entity Tender Committee

20A. (1) An entity tender committee shall
(a) ensure that at each stage of procurement activity, procedures prescribed in this Act have been followed;
(b) work within the threshold limits specified in the Second Schedule and the method thresholds specified in the Fifth Schedule;
(c) exercise sound judgment in making procurement decisions; and

(d) review and refer to the central tender review committee for concurrent approval, procurement above the entity tender committee's threshold, that has been duly
(i) processed by the procurement unit: and
(ii) evaluated by the appropriate evaluation panel constituted by the head of entity.
(2) The chairpersons and members of an entity tender committee and a tender review committee may delegate their functions in writing.

3.4.4 Functions of Specific Entity Tender Committees

20B. (1) An entity tender committee of a central management agency, ministry, department and subvented agency shall
(a) review and approve annual procurement plans and quarterly updates of procurement plans in order to ensure that they support the objectives and operations of the entity;
(b) confirm the range of acceptable costs of items to be procured and match these with the available funds in the approved budget of the entity;
(c) review the schedules of procurement and specifications and ensure that the procurement procedures to be followed are in strict conformity with the provisions of this Act, the Regulations and guidelines made under this Act;
(d) ensure that the necessary concurrent approval is obtained from the appropriate tender review committee where applicable, as specified in the Second Schedule;
(e) facilitate contract administration and ensure compliance with reporting requirements under this Act; and
(f) assist the head of entity to ensure that stores, vehicles and equipment are disposed of in accordance with this Act.

(2) An entity tender committee of a Regional Coordinating Council shall
(a) review procurement plans in order to ensure that they support the policies and programmes of the Regional Administration, Metropolitan, Municipal or District Assembly;
(b) confirm the range of acceptable costs of items to be procured and match these with the available funds in the approved budget of the Regional Administration, Metropolitan, Municipal Assembly or District Assembly;
(c) review the schedules of procurement and specifications and ensure that the procurement procedures to be followed are in strict conformity with the provisions of this Act, its Regulations and guidelines;
(d) ensure that the necessary concurrent approval is obtained from the appropriate tender review committee where applicable, as specified in the Third Schedule;
(e) facilitate contract administration and ensure compliance with reporting requirements under this Act; and
(f) assist the head of entity to ensure that stores, vehicles and equipment are disposed of in compliance with this Act.

(3) An entity tender committee of a Metropolitan, Municipal or District Assembly shall
(a) review and approve annual procurement plans and quarterly updates of procurement plans in order to ensure that they support the policies and programmes of the Assembly;
(b) confirm the range of acceptable costs of items to be procured and match these with the available funds in the approved budget of the Assembly;
(c) review the schedules of procurement and specifications and ensure that the procurement procedures to be followed are in strict conformity with the provisions of this Act, the Regulations and guidelines made under this Act;
(d) ensure that the necessary concurrent approval is obtained from the appropriate tender review committee where applicable, as specified in the Third Schedule;
(e) facilitate contract administration and ensure compliance with reporting requirements under this Act; and
(f) assist the head of entity to ensure that stores, vehicles and equipment are disposed of in compliance with this Act.

3.5 Tender review committees

All MDAs and MMDAs shall have tender review committees. While the TRC of the MDAs is the central tender review committee with its members appointed by the Finance Minister in consultation with the board, the TRC of the MMDAs is the regional tender review committee with its members appointed by the regional Minister in consultation with the Finance Minister.

3.5.1 Functions of a Tender Review Committee

Section 20F (6) states that the central tender review committee, the regional tender review committee and each entity tender committee shall perform the functions of the tender review committee for the entities for which they are responsible.
(7) A tender review committee shall perform the following functions:
(a) review the activities at each step of the procurement cycle leading to the selection of the lowest evaluated bid or best offer by the procurement entity in relation to the particular procurement under consideration, in order to ensure compliance with this Act, its operating instructions and guidelines;
(b) give concurrent approval or otherwise to enable the procurement entity continue with the procurement process subject to subsection (1) of section (16);
(c) participate in public procurement fora; and
(d) review decisions of heads of entities in respect of a complaint.
(8) The regional tender review committee shall furnish the Board, Metropolitan, Municipal and District Assembly with reports pertaining to the regional tender review committee's operations in the prescribed format.
(9) A tender review committee may engage the services of consultants and advisers or co-opt persons with the specialised expertise that it may require for the proper and efficient performance of its functions.

3.5.2 Review of Tender Review Committee Decisions

20G. (1) A procurement entity or tenderer aggrieved by the decision of a tender review committee may apply to the Board for the review of the decision of that tender review committee.
(2) The Board shall take appropriate action and determine the grievance in accordance with section 80(3) or as it considers appropriate.

(3) A tenderer or procurement entity that is dissatisfied with a decision of the Board may seek redress in court.

SUMMARY

In this session, we have learnt about the declaration of procurement entity, the establishment of procurement units within public sector entities, the functions of the entity head, entity tender committee, tender review committees as well as the procurement thresholds of the various procurement structures.

Self-Assessment Questions

Exercise 5.3

1) Explain the functions of the following procurement structures
   i. Head of an entity.
   ii. Entity tender committee
   iii. Tender review committee
2) Explain the process for declaring an entity as a procurement entity.

SESSION 4: PROCUREMENT RULES

Dear Learner, you are welcome to Session 4. We hope you are familiar with the various structures used in the public procurement process of Ghana. In this session, we will be learning about the rules, procedures, standards that must be followed by the public sector when buying goods, works or services.

Objectives

By the end of this session, you should be able to:

a) explain procurement plans and their need.
b) discuss procedures for tender and administration of tender.

Now read on…

4.1 Procurement Plans

Procurement entities are mandated to prepare and submit to the entity tender committee at least one month to the end of the year that proceeds the year that the procurement plan relates and post the procurement plan at the Authority's website. Act 914 also mandates procurement entities to update procurement plans after budget approval and at quarterly intervals after that. The updated plan should also be posted on the Authority's website. Procurement plan is the projected procurement activity for the ensuing period. It is meant to keep procurement activities within budgets, ensure proper control of procurements ensure that programmes are supported by the necessary procurement arrangements. The procurement plan shall indicate (a) contract packages, description or lots; (b) the estimated cost of each packages; (c) the procurement method, approvals needed and; (d) processing steps and times.

4.2 Qualification of Tenderers

A tenderer is an individual or organization who being convinced of his/its qualification and expertise for a contract puts in a bid to supply the goods, works and service being procured by a procurement entity. Section 22 of the procurement Act has rules governing who qualifies to put in a bid for goods, works and/or services being sought by a procurement entity for purchase.

The procurement entity reserves the right to specify the documents (in writing or any form in accordance with Evidence Decree, 1975 (N.R.C.D. 323)) to be submitted by tenderers and disqualify any tenderer who provides false, *materially* inaccurate or incomplete information at any time that such information comes to the attention of the entity. In other words, if the inaccuracy or incompleteness of the information is immaterial then the tenderers may be called upon to rectify the anomaly but failure to do so on time can lead to disqualification. Also, the procurement entity may require a tenderer to authenticate a foreign document submitted in support of his/her qualification.

In addition, a procurement entity may engage in prequalification proceedings to identify tenderers who are qualified prior to the submission of the tenders. The form of the prequalification proceedings shall be specified by the procurement entity and tenderers have the right to request for information on documents to be submitted at their cost. Section 23 and 24 give details on the information, procedure and decision of the prequalification proceedings.

Other qualifications of the tenderer are as follows:
22. (1) A tenderer in public procurement shall

(a) possess the necessary.
- (i) professional and technical and environmental qualifications;
- (ii) financial resources;
- (iii) equipment and other physical facilities;
- (iv) managerial capability, reliability, experience in the procurement object and reputation; and
- (v) the personnel to perform the procurement contract;

(b) have the legal capacity to enter the contract;
- (ba) meet ethical and other standards applicable in this country

(c) be solvent, not be in receivership, bankrupt or in the process of being wound up, not have its business activities suspended and not be the subject of legal proceedings that would materially affect its capacity to enter into a contract;

(d) have fulfilled its obligations to pay taxes and social security contributions and any paid compensation due for damage caused to property by pollution;

(e) have directors or officers who have not in any country been
- (i) convicted of any criminal offence relating to their professional conduct or to making false statements or misrepresentations as to their qualifications to enter into a procurement contract, within a period of ten years preceding the commencement of the procurement proceedings; or
- (ii) disqualified pursuant to administrative suspension or debarment proceedings.

(f) meet such other criteria as the procurement entity considers appropriate that does not discriminate and is objectively justifiable.

4.3 Suspension of a Supplier or Consultant

22A. (1) The Board may suspend a supplier or consultant from engaging in any public procurement or disposal process for a period determined by the Board *(a)* on the recommendation of a procurement entity or after investigations on its own initiative; and

(b) where it is determined after a special audit or by a court, that a tenderer is engaged in corrupt or fraudulent practices.

(2) The suspension of a supplier or consultant by the Board shall occur where

(a) the supplier or consultant is in contravention of a provision in this Act;

(b) the supplier or consultant is debarred from the procurement processes of an international agency of which the Republic of Ghana is a member;

(c) the supplier or consultant is found to have a record of unsatisfactory performance after investigations by the Auditor-General;

(d) the supplier or consultant fails to substantially perform its obligations under the contract;

(e) the supplier or consultant is suspended by a professional body for professional misconduct;

(f) the supplier or consultant is found to have faulted on its obligations by an Act of Parliament; or

(g) the supplier or consultant has been convicted of corrupt practice or a fraudulent act under this Act.

4.4 Form of Communication

26. (1) A procurement entity shall, when soliciting the participation of a tenderer in procurement proceedings, specify

(a) the form of the procurement proceedings; and

(b) measures and requirements needed to ensure the protection of classified information involved in the procurement.

(2) A procurement entity shall only use the means of communication commonly used by a tenderer in a specific type of procurement in the procurement process and in any meeting with tenderers shall use means of communication that ensure the full participation of tenderers.

(3) A procurement entity shall put in place measures to secure the authenticity, integrity and confidentiality of the information used in a procurement process.

(4) Communication between procurement entities and tenderers shall be in writing and communication in any other form shall be referred to and confirmed in writing.

4.5 Records of Procurement Proceedings

In the interest of providing evidence of having followed due process, promoting fairness and accountability, documenting procedures, and providing evidence to the procurement board, Auditor-General, donors through the Finance Minister or their representative, procurement entities are required to keep records in specified forms on every procurement proceedings. The specific provisions on which records to keep and how they are maintained are captured in section 28.

28. (1) A procurement entity shall maintain a record of the procurement proceedings containing the following information

(a) a brief description of the goods, works or services to be procured, or of the procurement need for which the procurement entity invited proposals or offers;

(b) the names and addresses of suppliers or contractors that submitted tenders, proposals, offers or quotations, and the name and address of the supplier or contractor with whom the procurement contract is entered;

(c) information relating to the qualifications, or lack of qualifications of suppliers or contractors that submitted tenders, proposals, offers or quotations;

(d) the price, or the basis for determining the price and a summary of the other principal terms and conditions of each tender, proposal, offer or quotation and of the procurement contract if these are known to the procurement entity;

(e) a summary of the evaluation and comparison of tenders, proposals under section 69, offers or quotations including the application of any margin of preference pursuant to section 60;

(f) if the tenders, proposals, offers or quotations were rejected, a statement to that effect and the grounds for the rejection;

(g) if, in procurement proceedings involving methods of procurement other than tendering, those proceedings did not result in a procurement contract, a statement to that effect and the reasons;

(h) the information required under section 29, if a tender, proposal, offer or quotation was rejected pursuant to that provision;

(i) a statement of the grounds and circumstances on which the procurement entity relied to justify the selection of the method of procurement used;

(j) in the procurement of services by means of Part VI, the statement required under section 71 of the grounds and circumstances on which the procurement entity relied to justify the selection procedure used;

(k) in procurement proceedings involving direct invitation of proposals for services in accordance with section 63(3), a statement of the grounds and circumstances on which the procurement entity relied to justify the direct invitation;

(l) in procurement proceedings in which the procurement entity, in accordance with section 25, limits participation on the basis of nationality, a statement of the grounds and Circumstances relied upon by the procurement entity for the limitation

(m) a summary of any requests for clarification of the prequalification or invitation documents, the responses received as well as a summary of any modification of the documents;

(n) a record of any complaints received from suppliers, contractors or consultants and the responses received.
(o) a statement of the reasons and circumstances relied on by the procurement entity when the procurement is cancelled, stating the reasons and circumstances relied on by the procurement entity for its decision to cancel the procurement;
(p) the reasons and circumstances for which a procurement entity rejected a tender or consultancy proposal;
(q) any socio-economic policies considered in the procurement proceedings, details of the policies and the manner in which they were applied;
(r) a copy of the review proceedings where a complaint is submitted to the procurement entity;
(s) where a system other than competitive tendering has been used, the reasons and circumstances the procurement entity considered when selecting the other procurement method;
(t) the reasons and circumstances relied on by a procurement entity when a tenderer is excluded from procurement proceedings;
(u) a statement where the award of a procurement contract is as a result of the failure of the previous tenderer to sign the procurement contract or provide the required security for the performance of the contract;
(v) the reasons and circumstances relied on by a procurement entity where confidentiality in the procurement proceedings is required;
(w) the requirements imposed on tenderers for the protection of classified information in a procurement process;
(x) a statement of the reasons and circumstances used to justify the framework agreement process where applicable; and
(y) any other information required to be included in the record by a procurement entity in furtherance of the procurement process.

4.6 Cancellation of Procurement Proceedings

28A. (1) A procurement entity may, for specific and fully justified reasons, cancel procurement proceedings before the expiry of the deadline for the submission of tenders, where

(a) the entity discovers an imperfection in the wording of the request for submission of tenders, which could mislead tenderers;
(b) the procurement entity decides to carry out the work subject of the tender by itself;
(c) there is a cut in the budget intended for performing the contract;
(d) no bid has been submitted;
(e) exceptional circumstances or a force majeure render normal performance of the contract impossible;
(f) the economic or technical data of the project has fundamentally changed.

(2) The head of a procurement entity may, after the expiry of the deadline for the submission of tenders, cancel a procurement proceeding where

(a) no tender has been submitted within the specified deadline;

(b) the tender procedure has been unsuccessful;

(c) it is established that the tender documents contain terms or technical specifications that cannot be met by any of the tenderers or that these specifications lead exclusively to a specific economic operator;

(d) the prices of the tenders that meet the terms and the technical requirements of the tender documents are unrealistic or appear to be the product of collusion between the tenderers, resulting in the circumvention of healthy competition;

(e) the circumstances under which the procurement procedure was announced have changed to such an extent that the scope of the tender procedure is no longer necessary;

(f) exceptional circumstances or a force majeure render normal performance of the contract impossible; or

(g) any other serious unforeseeable reason, which the procurement entity considers justifiable, applies.

(3) The head of a procurement entity shall, before cancelling a procurement proceeding under subsection (2) have due regard to

(a) the time and resources expended by interested tenderers, particularly in the case of complex contracts with a complicated scope;

(b) the right of an interested party who has or had an interest in being awarded the specific contract, and who has sustained or is likely to sustain a loss as a result of the cancellation, to seek administrative review under this Act or to seek redress in court; and

(c) general principles of good faith and transparency and public policy.

(4) A procurement entity may cancel procurement proceedings after acceptance of a successful tender if the tenderer whose submission has been accepted, fails to sign the applicable contract as required or fails to provide the applicable security required for performance of the contract.

(5) Subject to subsection (3), where a procurement proceeding is cancelled before the contract is signed, a tenderer or interested party shall not be entitled to claim any compensation from the procurement entity.

(6) For the avoidance of doubt, a procurement entity shall not incur liability for invoking this section and shall in no event be liable for any damages including, damages for loss of profits in any way connected with the cancellation of a tender.

(7) The publication of a tender notice does not commit the procurement entity that published the notice to implement the programme or project announced.

(8) Subject to this section, where a tender proceeding divides tenders into lots, individual lots may be cancelled.
(9) The decision of a procurement entity to cancel the procurement and reasons for that decision shall be included in the record of procurement proceedings and shall be promptly communicated to any tenderer or consultant who presented a tender or proposal.
(10) A cancellation notice shall promptly after decision to cancel is made, be published on the website of the procurement entity or of the Authority.
(11) After cancelling a procurement proceeding, the procurement entity may
(a) start a new tender proceeding; or
(b) re-start the tender proceeding using the same reference as the original invitation."

A procurement entity shall publish notice of the procurement awards on the authority's website.
A procurement entity should reject the tender of a supplier, consultant or contractor who attempts to give inducements (of any form) to the entity, its current or previous staff.
Procurement entities shall give a description of the goods, works and services to be tendered by giving an objective technical and quality characteristics about them without using tenderers in any prequalification documents, invitation documents or other documents for invitation of proposals, offers or quotations. The procurement entity shall use standardised features, requirements, symbols and terminology relating to the technical, quality and performance characteristics of the goods, works or services to be procured shall be used, where available, to formulate the specifications, plans, drawings and designs to be included in the pre-qualification documents, invitation documents or any other documents for invitation of proposals, offers
quotations.

In all these, English shall be the language of communication. Also, the procurement entity must main a high level of confidentiality in the entire procurement process.

In this session, we have learnt some of the rules governing public procurement in Ghana. Specifically, we have discussed the meaning of procurement plans and why it is necessary for public sector entities to prepare them; we also looked at the meaning and qualification of a tenderer as well as the records and procedures of administering a tender.

Self-Assessment Questions

Exercise 5.4

1. Explain procurement plans and their need.
2. Who is a Tenderer?
3. Outline five qualifications of a tenderer
4. Discuss procedures for tender and administration of tender.

SESSION 5: METHODS OF PROCUREMENT

Dear Learner, you are welcome to Session 5. In this session, we will be learning about the various methods of procurement for the public sector of Ghana. These methods are classified into competitive tendering, single source procurement, selection of consultants and framework contracting.

Objectives

By the end of this session, you should be able to:

a) explain the following methods of procurement
   i. Competitive tendering
   ii. Two stage tendering
   iii. Restricted tendering
   iv. Single source procurement
   v. Request for quotations
   vi. Selection of consultants
   vii. Framework contracting
b) discuss the circumstances in which each of the procurement methods would be appropriate.

Now read on…

5.1 Introduction

Methods of procurement and conditions of use, including framework contracting are discussed in Section 34A (1) of Act 914. According to this section, the procurement entity may conduct procurement by means of the following methods and as from time to time determined by Regulations, even though the competitive method is preferred:

(a) competitive tendering that includes;
   (i) international competitive tendering,
   (ii) national competitive tendering,
   (iii) request for quotations, and
   (iv) restricted tendering;
(b) single source procurement;
(c) selection of consultants determined by
   (i) quality and cost based selection,
   (ii) quality based selection,
   (iii) selection based on consultant’s qualification,
   (iv) least cost selection,
   (v) fixed budget selection, and
   (vi) single source selection; and
(d) framework contracting where

(i) the Board in consultation with the Minister, may introduce framework contracting agreements and other methods for any specific entity where the context permits until it is possible to do so nationally; and
(ii) a procurement entity may engage in a framework agreement procedure in accordance with regulations or guidelines issued by the Board.

(2) These methods shall be used subject to and in accordance with the thresholds specified in the Fifth Schedule.".

5.2 Methods of Procurement

Act 914 allows for four main methods of procuring goods, works and services by the public sector. These include competitive tendering, two-staged tendering, restricted tendering and single-source procurement.

Competitive Tendering
This is the form where different suppliers are asked to bid for the supply of goods, works and services and the mode of selection is largely based on cost, quality, timeliness and efficiency of the goods, works or services to be tendered for.

All other things being equal, the competition among suppliers in the acquisition process of competitive tendering leads the procurement entity and the selected supplier to gain value for money. It also provides competition; promote fairness and equity in the handling of suppliers. Some of the drawbacks of using competitive tendering are the destruction of the relationship between the procurement entity and reliable suppliers; restriction on the extent of communication between the procurement entity and the supplier; potential to slow down the procurement activity; threat of suppliers use of poor quality resources and disregard for standards;

The Act mandates all procurements by the public sector to be done using competitive tendering except under exceptional circumstances where the use of the other methods becomes eminent. In such exceptional circumstances, the procurement entity shall include in the record required a statement of the grounds and circumstances on which it relied to justify the use of that other method.

Two-Stage Tendering
Two-stage tendering is a type of procurement that divides the procurement process into two stages and allows a supplier to be selected before detailed design development: in stage 1, suppliers are basically asked to bid for the contract based on design, construction programme and brief description. At stage 2, the lump sum of the entire contract is agreed upon through negotiation between the selected supplier(s) and the client. Stage one gives the client the opportunity to use competition to select the preferred contractor based on design and construction programme. At the same time the

preferred contractor gets the chance to be involved in designing the project and pricing the project realistically. Stage two grants the opportunity to the parties involved to engage in effective communication, with no fear of other potential suppliers having knowledge of such discussions, which would facilitate fixing a price that is acceptable to all. In spite of these, there is the challenge that negotiations between the preferred contractor and the client may break down and this may be expensive to both parties. Also, the client is still ultimately responsible for design defects even though the preferred contractor takes part in finalizing the design.

Restricted Tendering

Restricted tendering means that the acquisition will be open to tender but not everybody will be given the opportunity to bid for the contract. The contract will only be open to some elected members. These members are selected because the entity can conclude that on the basis of economy and efficiency, they are the best. This notwithstanding, the procurement entity will have to seek the approval of the Board before engaging in restrictive tendering. The Authority may charge a processing fee for single source and restricted tendering applications.

Conditions for using restricted tendering

i. Products to be offered are highly specialized and complex such that only a few suppliers are available.
ii. Cost benefit analysis shows that given the value of the goods, works and services to be supplied it is not prudent to consider evaluating a large pool of suppliers but a restricted number is appropriate.
iii. If an offer for competitive tendering fails to receive any response after publication.

The procedure for engaging in restricted tendering is to invite tenders from suppliers and contractors who can provide the goods, works or services and select, in a non-discriminatory manner, a number of suppliers or contractors to ensure effective competition. Notice of selective-tendering award in the Public Procurement Bulletin should be given.

Single Source Procurement

In single sourcing, the procurement entity, due to a deliberate but based on certain conditions, decides to engage just one supplier for an item in need. Single sourcing is different from restricted tendering and sole sourcing. While in single sourcing, the procurement entity engages only one supplier, in restricted tendering the procurement entity does not engage just one supplier in the procurement process but deliberately limits the number limits the number of potential suppliers to be engaged. Even though single sourcing and sole sourcing are sometimes used interchangeably, the two terms are strictly not the same. In sole sourcing , the item to be acquired just have one supplier but in single sourcing, even though there may be more supplier for the item to be

acquired, the procurement entity deliberately decides to engage and buy from only one of them.
Act 914 allows the procurement entity to engage in single-source procurement but with the prior approval of the procurement Board under certain conditions.

Conditions for Single-source Procurement

i. Where goods, works and services are only available from a particular supplier or contractor (sole source) and there is no reasonable alternative.
ii. Where there is an urgent need for the goods, works or services (which is not as a results of dilatory conduct on the part of the procurement entity) and engaging in tender proceedings or any other method of procurement is impractical.
iii. Where owing to catastrophic event, there is an urgent need for the goods, works or technical services, making it impractical to use any other methods because of time constraint.
iv. Where the supplier, contractor or consultant has been engaged in previous procurement by the procurement entity and additional supplies (of the same standard and should be compatible with previous supplies) are needed, taking into account;
    - The effectiveness of the original procurement in meeting the needs of the procurement entity
    - The limited size of the proposed procurement in relation to the original procurement
    - The reasonableness of the price
    - The unsuitability of alternatives to the goods or services in question.
v. Where the procurement entity seeks to enter into a contract with the supplier or contractor for research, experiment, study or development, except where the contract includes the production of goods in quantities to establish commercial viability or recover research and development costs.
vi. Where the item to be bought has implication for national security and the procurement entity determines that single-source procurement is the most appropriate method to use.

5.3 Request for Quotations

Section 42 of Act 914 allows for the use of request for quotations (of which the successful quotation should be the lowest under the circumstances) as a means of procurement for:

i. readily available goods, works or technical services that are not specially produced or provided to the particular specifications of the procurement entity; and
ii. goods where there is an established market if the estimated value of the procurement contract is less than the amount in the fifth schedule.

Section 43 adds that in the process of engaging in request for quotations, the procurement entity shall request for quotations from as many suppliers or contractors as practicable, but shall compare quotations from at least three different sources that should not be related in terms of ownership, shareholding or directorship and the principles of conflict of interest shall apply between the procurement entities and their members and the different price quotation sources. The contractor or supplier should be informed of whether incidental charges (such as transportation and insurance charges, customs duties and taxes), are to be included in the price. Also, a supplier should only be allowed to give only one price quotation and shall not change its quotation. Lastly, prior to the opening of bids, the procurement entity shall not engage in negotiations with a supplier or contractor with respect to quotations submitted.

5.4 Framework Contracting

Some contracts relate to the supplier of goods, works and services that relate to each other and are expected to be together. In such a case framework contracting can be used to discharge such contracts. Framework contracting is an agreement with suppliers to establish terms governing contracts that may be awarded during the life of the agreements that set out terms and conditions for making specific purchases or call-offs. For instance, in the construction of the community day schools (E-Blocks), a framework contract to build a number of E-block Schools could have been entered into with the contractors.

In this session we have learnt about the common methods of procurement as well as their conditions for application in Ghana. You are to note the meaning of these methods (competitive tendering, two-stage tendering, restricted tendering, single –source procurement, request for quotations, framework contracting and the bases for selecting consultants) and their distinguishing characteristics. During your personal studies, find time to read on tendering procedures as enshrined in ACT 914.

Self-Assessment Questions

Exercise 5.5

1. Explain the following methods of procurement
   Competitive tendering
   Two stage tendering
   Restricted tendering
   Single source procurement
   Request for quotations
   Selection of consultants
   Framework contracting

2. Discuss the circumstances in which each of the procurement methods would be appropriate.
3. Identify and explain the various methods for selecting consultants by a procurement entity.

SESSION 6: DISPOSAL OF PUBLIC ASSETS AND PUBLIC SECTOR STORES MANAGEMENT

Dear Learner, you are welcome to the last session of Unit 5. In this session we conclude our discussion with a discussion on the process to follow in disposing off public assets and the approaches for managing the stores of public entities. Items that are bought by the public are owned by a public sector entity. These items will continue to be owned by the procurement entity until fully used or disposed. The process of disposal could lead to losses being borne by the state if not managed properly, just like the acquisition process. Likewise, when acquired goods are not properly managed it could lead to loses to the procurement entity. As a result, in this last session, we shall look at the process of disposing off assets and managing the stores of the public sector.

Objectives

By the end of this session, you should be able to:

a) explain the disposal process for public assets.
b) discuss the various approaches to public sector stores management.

Now read on…

6.1 Disposal of Public Assets

Disposal is the process of derecognizing the value of an asset and the asset from the records of the entity. Disposal is a natural consequence of acquisition of fixed asset because of the passage of time, exhausting the use of an asset, wear and tear and obsolescence. In Ghana, disposal of stores, vehicles, plant and equipment can be done when the item is considered unserviceable, obsolete and surplus to need. The procurement Act gives guidelines on how stores, vehicles, plant and equipment should be disposed off by following the right procedure.

6.2 Some Relevant Definitions

Unservicable: any item of stores, plant and equipment which cannot be used for the intended purpose in its present condition due to major defects or damage, and is beyond economic repair. Classification as beyond economic repair for this purpose shall be determined on the basis that repair costs are certified to cost more than fifty percent (50%) of the current market price of anew replacement item.

Obsolete: any item of stores plant and equipment which is rendered incapable of further effective use by developments in technology, incompatibility with associated items, or where the annual maintenance and breakdown costs can be certified to exceed thirty percent (30%) of the estimated cost of a new replacement item.

Surplus: any stores item which has not moved for a period in excess of two years, or any item of plant or equipment which has remained unused for a period in excess of one year, and where no potential use for the item can be envisaged within the Entity.

6.3 Process of Disposal of Stores, Vehicles, Plant and Equipment

i. Head of the procurement entity convenes a Board of Survey. According to the Act, the authority to dispose off an asset is vested in the board of survey (BOS). BOS shall be made up of representatives of departments with vehicles, unserviceable, obsolete or surplus stores, plant and equipment
ii. BOS shall report on the items and subject to a technical report on them, recommend the best method of disposal after the officer in charge has completed a BOS form.
iii. The head of the procurement entity shall approve BOS's recommendations.

6.4 Disposal Methods

The Act states that disposal of obsolete and surplus items shall be by transfer to government departments or other public entities, with or without financial adjustment; sale by public tender to the highest tenderer, subject to reserve price; sale by public auction; subject to a reserve price; or destruction, dumping, or buying as appropriate.

Transfer to Government departments or other public entities: Transfer to Government departments or other public entities is applicable where:

(a) an asset can be usefully deployed by another Procurement Entity;
(b) agreement is reached with the recipient Entity on price (if any), formal transfer of ownership, and removal from the premises.

Sale by public tender: Sale by public tender is applicable where:

(a) the estimated value of the asset, or group of assets packaged together, is of sufficient value to justify the costs of conducting a public tender;
(b) a number of separate lots of lower estimated value assets may be included in a single public tender; or
(c) for reasons of transparency a formal public tender is required to dispose of assets provided directly by a donor purchased with donor funds.

Public Auction: Disposal by public auction is applicable where:
(a) items or lots have an individual estimated sale value of less than Cedis 5million; and
(b) sufficient items or lots can be assembled for disposal to justify the costs of conducting the auction process.

Destruction, Dumping or Burying: Destruction, dumping or burying shall only be used where:

(a) the asset has no residual value and cannot be transferred to any other entity;

(b) the asset cannot be converted into any other form which subsequently gives it value; and
(c) approval has been obtained from the appropriate environmental agency.

6.5 Public Sector Stores Management

Public sector stores management is the process of planning, organizing, coordinating and controlling the activities of a public procurement entity that are related to the inventories of the entity.

6.6 Importance of Public Sector Stores Management

i. Ensure economy in the acquisition and management of inventory by using economic order quantity principles that ensure that ordering and carrying costs are at their barest minimum.
ii. Avoid shortage of inventory and its associated cost.
iii. Avoid overstocking and its associated cost.
iv. Ensure that the right caliber of personnel are recruited and trained for the job.
v. Offer protection for the items brought into stores.
vi. Ensue that the right processes are followed in disposing off public assets.

6.7 Inventory/Store Management Techniques/Tools

The techniques for managing public sector stores were extensively covered when you were doing cost accounting. These include using economic order quantity, re-order level, minimum stock levels, maximum stock levels, danger levels and average level principles. You are advised to revise these techniques as well as first-in-first-out and weighted average principles.

In this session, we have learnt about the process for disposing off public assets, the various methods for disposing off certain classes of assets and how to manage inventory and stores of the public sector. Ensure that you understand these principles and you have revised those that you needed to revise.

Self-Assessment Questions

Exercise 5.6

1. Distinguish among unserviceable, obsolete and surplus public sector assets.
2. Outline the procedures for disposing off public stores vehicles, property, plant and equipment.
3. State and explain the methods for disposing off obsolete and surplus items.
4. Define public sector stores management.
5. Explain the importance of managing public sector stores.

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

UNIT 6: PUBLIC SECTOR ACCOUNTABILITY

Unit Outline

Session 1: The Concept of Public Accountability
Session 2: Corporate Governance Principles for Public Sector Entities
Session 3: Structures for Accountability (The Controller and Accountant General's Department and Internal Audit Agency)
Session 4: Audit Service and Auditor General's Report
Session 5: Public Accounts Committee and Finance Committee of Parliament
Session 6: Audit Committees

You are welcome to the last unit of this module on Public Sector Accounting. In this unit, we will deal with the concept of public accountability, as well as the principles of corporate governance as they apply to public sector entities. In this unit, we will also discuss the structures for accountability by examining the mandate of statutory organisations established with the view of protecting the public purse.

Objectives

By the end of this unit**,** you should be able to:

1. explain the concept of public accountability
2. identify and explain the principles of corporate governance
3. describe the functions of the Controller and Accountant General's Department
4. describe the functions of the Audit Service
5. analyse the Auditor General's reports
6. explain the functions of the Public Account Committee
7. explain the role of Audit Committee in Public Sector Entities

This is a blank sheet for short notes on:

- Issues that are not clear; and
- Difficult topics, if any

SESSION 1: THE CONCEPT OF PUBLIC ACCOUNTABILITY

Objectives

By the end of this session, you should be able to:

a) explain the concept of financial control and public accountability
b) discuss the reasons for accountability
c) state the mechanisms for ensuring public accountability
d) outline the benefits of financial control
e) describe the main control structures used to ensure the proper utilization of government revenue

Now read on…

1.1 Financial Accountability in the Public Sector

Accountability is the obligation to give answers and explanations concerning one's action to those with a right to require, or those with reasonable expectation of receiving such answers and explanations.

Financial accountability in Public Sector basically means that those who are charged with carrying out public policies using public resources should be obliged to give an explanation of their action to their electorate; who may be a composite of interest groups of individuals as well as institutions.

1.2 Reasons for Accountability

Financial accountability is necessary because the financial resources used by the Executive in the Public Sector organizations are either collected from citizens or contracted on their behalf by the Executive. This creates accountability relationship with the government being responsible to account for the use of these revenues. It requires Governments to answers to the citizenry to justify the raising of public resources and the purpose for which they are used.

This point is emphasized by Aristotle when he said "to protect the Treasury from being defrauded, let all public money be issued openly in front of the whole city, and let copies of the accounts be deposited in the various wards". The implication of this is the need for transparency and financial accountability in the use of public finances.

Such accountability can be ensured through the institution of proper government accounting systems to ensure proper accountability of all manner of public financial resources.

1.3 Mechanisms for Ensuring Public Accountability

- **Disclosure**
  Making information available to stakeholders;
- **Organizational Structure**
  Defines clearly the authority and responsibilities of individual office holders;
- **Reporting**
  Provision of financial, administrative and other relevant- entity reports to government and other stakeholders;
- **Transparency**
  Making information available at no or no cost openness to stakeholders
- **Predictability**
  Adherence to law and regulation that are clear and known in advance, uniformity and effectively enforced

1.4 The Concept of Financial Control

Another means of ensuring proper accountability is through proper control of resources, that is the control of both public revenues and expenditures. The performance indicators that will be required in the control process include income, expenditure, commitments and budgets.

Revenues Control generally involves the process of ensuring that all revenues of Government that are generated in any form are paid into the main account of the Government, i.e. the Consolidated Fund. The various revenue collected agencies of the Government are directed to ensure that revenues generated are lodged in to specific accounts for onward transfer into the Government accounts with the Bank of Ghana.

1.5 Benefits of Financial Control

- It gives clear indication of responsibilities.
- It reflects the current position of an organization.
- It presents information that can be easily assimilated and understood.
- It allows comparability of budgets with income and expenditure.

1.6 Control Structures

Proper control of expenditure is a major concern. There are three main control structures that are to ensure that Government revenues are properly used. These are Parliamentary Control, Treasury Control and Department Control.

Parliamentary Control

It has to do with the various measures that Parliament can use for the purpose of controlling public expenditure. The 1992 Constitution establishes the Parliamentary authority over public funds and their uses. Parliament achieves such financial control over public expenditure through the following:

a) Public Finance Committee

This is a sub-committee of Parliament responsible for the receipt of the Finance Bills, Budgets and Proposals of Government for the consideration of Government.

b) **Appropriation Committee**

This committee is concerned with the passing of Appropriation Act for purposes of authorizing the Budget after its examination by the various sub-committees. The Appropriation Committee is in effect the whole house of Parliament when it sits to pass the Appropriation Act.

c) **Examination Sub-Committee**

These are sub-committees of Parliament that are responsible for the examination of individual estimates of the organizations. They are also to monitor the expenditures of the relevant organizations. The proper performance of their roles is a major control mechanism.

d) **Public Account Committee**

This committee scrutinizes the audit reports submitted to Parliament by the Auditor-General and conduct investigations into the cases of financial irregularities contained in the Auditor-General's Report. They also report to Parliament on their work indicating the findings and recommendation for consideration of the house and make a follow up on the implementations of the recommendations. Parliament takes action on the basis of the recommendations of the committee.

e) **The Audit Service**

This institution is responsible for the examination of public accounts to attest to the use of the various public funds as were sanctioned by Parliament at the beginning of the year. It is seen to assist Parliament to control public funds and their use through its assistance to the Public Account Committee in the form of its examination of all accounts of government organizations.

Treasury Control

This relates to a whole system of controls established in the Executive that ensures the flow of money to the various organizations and their expenditures.

It relates to systems of expenditure initiation, authorization, spending and recording.

It is in another way seen as the system of expenditure control by which the Controller and Accountant General monitors the expenditure under the heads of the approved estimates so as to ensure that spending is within approved limits.

Departmental Control

This is the control measure exercised at the Ministries, Departments and Agencies (MDAs). It is the measure that the MDAs can use for the controlling their expenditures. The Departmental Controllers are the Head of the Department or Chief Directors or Vote Controllers.

The Head of the Departments is required to ensure effective use of appropriation under his control within the ambit of Government policy and regulation and also to ensure due ad proper collection of Government revenue collectable by the department within the terms of any enactment.

SUMMARY

Self-Assessment Questions

Exercise 6.1

1. What is meant by financial accountability?
2. State two reasons for ensuring financial accountability in the public sector.
3. State five mechanisms for ensuring public accountability.
4. Outline four benefits of financial control
5. What are the main control structures used to ensure that Government revenues are properly utilized?
6. State the major roles of each of the following Committees.
   i. Pubic Finance Committee
   ii. Appropriation Committee
   iii. Public Accounts Committee

SESSION 2: CORPORATE GOVERNANCE PRINCIPLES FOR PUBLIC SECTOR ENTITIES

Objectives

By the end of this session, you should be able to:

a) explain the concept of Corporate Governance
b) appreciate the importance of Good Corporate Governance
c) state the signals or symptoms of bad corporate governance
d) discuss the Principles of Good Corporate Governance
e) explain the major duties of Board/Council member
f) outline the responsibilities of the Chairperson of a Board/Council

Now read on…

2.1 What is Corporate Governance?

Corporate Governance Manual for the Public Sector (n.d) defines corporate governance as a set of relationships between an organization’s management, governing body, owners and other stakeholders in which power is exercised in the management of economic and social resources for enhanced performance and sustainability development. It refers to the system by which public sector entities are governed and controlled. These systems include the laws, Institutions Processes and procedures Policies. The purpose of corporate governance in the public sector is to ensure effective and efficient management of public sector entities in order to achieve its objective-value of money.

2.2 Importance of Good Corporate Governance

As a result of such diverse and important roles, good corporate governance in Public Service organizations:

a) Encourages global investors to invest in various sectors of the economy.
b) Facilitates effective and efficient allocation of resources.
c) Assures stakeholders, including the citizens that their welfare is of primary concern to the Government and that the Public Service will be managed effectively and efficiently.

d) Creates an enabling environment where the citizens are empowered to voluntarily participate in governance so as to contribute towards national development.
e) Assures stakeholders that those who manage or abuse the trust reposed in them shall be sanctioned in accordance with relevant laws, rules and regulations.

2.3 Symptoms of Bad Corporate Governance in the Public Service

An absence of good corporate governance is detected through the following signals of bad corporate governance;

- Disregard to due processes
- Disregard to rule of laws and regulations
- Mal-functioning of key institutions such as ARIC, Internal audit, boards/councils
- Domination of the board by the chief executive officer and few others
- Cases of misappropriation and embezzlements
- Abuse office leading to control override failure to produce financial records or public accounts
- Misleading accounts and information
- Open board-CEO conflict and misunderstanding beyond the board room
- Internal control weakness.
- Poor response to citizens(consumers) complaints and enquires-lack of social accountability.

2.4 Corporate Governance Structure in the Public Service

The Public Services present a complex and challenging corporate governance architecture made up of the following:

- **Citizens**

They are regarded as the owners of Public Service organizations. Such Public Services were set up for public good.

- **Government**

The Government is elected by the citizens and hold "shares" in trust for the citizenry.

- **Sector Ministers**

They have strategic control consistent with their responsibility to Parliament and the Public. They have oversight of Public Sector organizations.

- **Parliament**

They are elected by the people, and take part in the decision-making process in democratically elected countries like Ghana. Parliament passes legislation which underpins the operating framework, including functions and powers of Public Services.

- **Parliament**

They act as fiduciaries of the citizens.

- **Boards**

They are appointed by the President in consultation with the Council of State. They have the responsibility for strategic direction, setting targets and reviewing the performance of management among other functions.

- **Management and other Staff**

The Chief Executive Officer is appointed by the President on the advice of the Board given in consultation with the Public Service Commission. Management is responsible for implementing strategy, and measuring performance.

2.5 Principles of Good Corporate Governance

Corporate Governance Manual of the Public Service recommended the following ten (10) principles of good corporate governance in public sector.

1. **Rule of Law**

Boards/Councils shall follow due process. This means that the right of employees shall be upheld during the investigation of an offence. The employee shall therefore be given the opportunity to defend himself. Penalty to be imposed shall be commensurate with the offence/misconduct so proven. Article 23 of the 1992 Constitution states that “Administrative bodies and administrative officials shall act fairly and reasonably comply with the requirements imposed on them by law and persons aggrieved by the exercise of such acts and decisions shall have the right to seek redress before a court or other tribunal.”

2. **Accountability**

Board/Council members must be ready to render account of their stewardship to the appointing authority. They shall be held responsible for all the acts of omission or commission on their part. Accountability implies that Board/Council members shall protect the interests of organizations and govern them properly. Personal and parochial interest of Board/Council members should not take precedence over those of organizations where they serve and the interest of the citizens.

3. **Transparency**

Board/Council in their dealings with others shall handle all transactions with a forthright, frank and open manner. Transparency implies full disclosure. There shall be no secrecy about transactions handled by a Board/Council member on behalf of the rest. If a member is interested in a transaction or contract that the organization is about to enter into, the member shall make his intentions known to his colleagues.

4. **Conflicts of Interest**

Article 284 of the 1992 Constitution states that “a public officer shall not put himself in a position where his personal interest conflicts or is likely to conflict with the performance of the functions of his office”. Guidelines on conflict of interest issued by CHRAJ provide public officials with adequate information to assist them identify, manage and resolve conflict of interest.

5. **Integrity**

This is a core value that relates to honesty and strong moral values. Integrity also applies to faithfulness and diligence. Board/Council members must avoid exhibiting double standards and misinformation. Members shall be bold to resist fraudulent practices and shall not be complicit in all forms of corrupt practices.

6. **Efficiency and Effectiveness**

These principles refer to leadership that produces results. Efficiency and effectiveness imply that resources shall be used at best to produce maximum results. Board/Council members shall refrain from misuse of corporate resources. Board/Council member shall participate in all Board/Council meetings to make decisions and retain full and effective control over the organizations. Appropriate internal controls shall be instituted and monitored to prevent or reduce waste in organization.

7. Social Accountability

Board/Council members shall adhere to international principles as appropriate on human rights; labour; environment; health and safety; and corruption.

8. Code of Conduct

Board/Council members shall impose upon themselves a Code of Conduct which shall cover among others,

- The personal conduct of members
- Relationship with the organization and its staff members especially; management relationship with stakeholders.
- Attendance and active participation at meetings by members.
- Adherence to the oath of secrecy, oath of office and unauthorized disclosure of information.

NB: Code of Conduct shall have sanctions to make them effective.

9. Independence

Board/Council members must demonstrate independence of mind and thought. Members shall not allow themselves to be pressurized to engage in shady transactions for the benefit of others. Independence starts with self-confidence. Members shall seek a second opinion or legal advice when they are not sure about the consequences of their action, especially when the request to perform that transaction or activity came from a third party. The independence of a member is likely to be assured if he refrains from seeking favours from management or third parties.

10. Evaluation

The Board/Council shall on annual basis assess its performance and effectiveness as a team and that of individual members, including the Chief Executive Officer. This is in line with good corporate governance. Weaknesses noted shall be corrected through appropriate capacity development programmes and other behavioural changes.

2.6 Board/Council Responsibilities of Public Sector Entities

1. **The major duties of Board/Council members are to:**
   a. Keep themselves abreast with the organization's business.
   b. Ensure good corporate governance.
   c. Exercise fiduciary duty of care not to put themselves in a position where there is a potential conflict between their own personal interest and their duty to the organization.
   d. Ensure critical review of all proposals and other issues placed before the Board/Council.
   e. Prepare for Board/Council meetings, study working papers and be prepared to ask pertinent questions at meeting.
   f. Uphold the values of accountability, efficiency, probity and transparency.
   g. Periodically update themselves on corporate governance.
   h. Have the general knowledge, skills and experience that may reasonably be expected of a Board/Council member carrying out the specific duties in relation to the organization.
   i. Undertake to act for the organization in a relationship of trust and confidence.
   j. Ensure that, decisions are made methodically and promptly and that the reasons for such decisions are recorded and when necessary, seek expert advice.
2. **The responsibility of a Board/Council Chairperson** include:
   a. Determination of agenda, venue and date of Board/Council meetings in consultation with the Chief Executive and the Secretary.
   b. Convening Board/Council meetings.
   c. Presiding over the meetings of the Board/Council and ensuring smooth functioning of the Board/Council in line with good corporate governance.
   d. Providing overall leadership to the Board/Council without limiting the principle of collective responsibility.
   e. Acting as the main link between the Board/Council and Sector Minister or National Development Planning Commission, and also between the Board/Council and the Chief Executive Officer.
   f. Leading the Board/Council in the determination of the organization's strategy and in monitoring the achievement of its goals.
   g. Ensuring that Board/Council committees are properly established and composed with clearly defined terms of reference.
   h. Projecting a positive image for the organization.
   i. Leading in evaluation and monitoring the compliance with organizational policies and governance processes.

SUMMARY

Self-Assessment Questions

Exercise 6.2

1. What is Corporate Governance?
2. Explain the purpose of Corporate Governance in the Public Sector.
3. State five benefits of good corporate governance.
4. List four symptoms or signals of bad corporate governance in the public service.
5. State four principles of good corporate governance in the public sector.
6. State four duties of Board/Council members.
7. Outline five responsibilities of the Chairperson of the Board/Council.

SESSION 3: STRUCTURES FOR ACCOUNTABILITY (CONTROLLER AND ACCOUNTANT GENERAL'S DEPARTMENT AND INTERNAL AUDIT AGENCY)

INTRODUCTION

Objectives

By the end of this session, you should be able to:

a) explain the concept of Internal Audit
b) describe the scope and objectives of the Internal Audit Agency
c) state the functions of the Internal Audit Agency
d) state the composition of the Internal Audit Board
e) outline the functions of the Internal Audit Board
f) describe the tenure of office and the meeting procedures of the Board

Now read on…

3.1 Internal Audit and internal Agency Act 2003

Most Public Sector organizations are large in size and very complex in structure. This has made it relevant for these public sector organizations to have Internal Audit Department to ensure that Internal Controls instituted by the management of these organizations are enhanced.

Internal Audit is an appraisal or monitoring activity established by directors, councils or board to the review of the accounting and internal control system as a service to the entity. It functions by, amongst other things, examining, evaluating and reporting to management on the adequacy and effectiveness of components of the accounting and internal control system. The Audit Service usually considers the activities of Internal Audit and their effect if any on their audit procedures.

3.1.1 Scope and Objectives of Internal Auditing

In the year 2003, the Internal Audit Agency Act, 2003 (Act 658) was passed to establish central agency to co-ordinate, facilitate, monitor and supervise internal audit activities within Ministries, Departments and Agencies and the various local government organization in order to secure quality assurance of internal audit within these institutions of state; to provide for the Board of the Internal Audit Agency and to provide for connected purpose.

3.2 Functions of the Agency (Section 3)

1) The Agency shall set standards and procedures for the conduct of internal audit activities in the MDAs and MMDAs.
2) The Agency shall ensure that;
   a) Financial, managerial and operating information reported internally and externally is accurate, reliable and timely.
   b) The financial activities of MDAs and MMDAs are in compliance with laws, policies, plans, standards and procedures.
   c) National resources are adequately safeguarded.
   d) National resources are used economically, effectively and efficiently.
   e) Plans, goals and objectives of MDAs and MMDAs are achieved.
   f) Risks are adequately managed in the MDAs and MMDAs.
3) Without limiting subsections (1) and (2), the Agency shall;
   a) Promote economy, efficiency and effectiveness in the administration of government programmes and operations.
   b) Prepare plans to be approved by the Board for the development and maintenance of an efficient internal audit for the MDAs and MMDAs.
   c) Facilitate the prevention and detection of fraud.
   d) Provide a means for keeping the MDAs and MMDAs fully and currently informed about problems and deficiencies related to the administration of their programmes and operations and the necessity for appropriate corrective actions.
4) The agency shall monitor, undertake inspections and evaluate the internal auditing of the MDAs and MMDAs.

3.3 Governing Body of the Agency (Section 4)

The Agency shall have a governing Board known as the Internal Audit Board.

3.3.1 Membership of the Board (section 5)

1) The Board shall consist of the following members appointed by the President acting in consultation with the Council of State:
   a) Chairperson
   b) The Minister responsible for Finance or a representative of the Minister
   c) The Minister for Local Government and Rural Development or a representative of the Minister
   d) The chairperson of the Public Service Commission or a representative of the chairperson
   e) The Director-General of the Agency appointed under section 12 of this Act
   f) Two other members appointed from the private sector

g) Two professional accountants each with not less than ten year experience in the profession nominated by the Council of the Institute of Chartered Accountants (Ghana).

2) The President shall in appointing members of the Board have regard to the integrity, knowledge, expertise and experience of the persons and in particular their knowledge in matters relevant to the functions of the Agency.

3.4 Functions of the Board (Section 6)

The Board shall formulate policies for the Agency and shall;

a) Established appropriate structures for the effective and efficient execution of the object of the Agency.
b) Secure the achievement of the object of the Agency.
c) Approve plans for the development and maintenance of an efficient internal audit for bodies and institutions to which this Act applies.
d) Take reasonable and timely action on the reports submitted to it by the Director-General.

3.5 Tenure of Office of Members of the Board (Section 7)

Members of the Board other than ex-officio members shall hold office for a period of four years and are on the expiration of that period eligible for re-appointment except that a member shall not be appointed for more than two terms in succession.

3.6 Meetings of the Board (Section 9)

1) The Board shall meet at such times and places as the chairperson may determine but shall meet at least every three months.
2) The chairperson may at any times, and shall, on the written request of the Director-General or four other members of the Board call a special meeting of the Board.
3) At each meeting of the Board, the chairman shall preside and in the absence of the chairperson, a member of the Board elected by the member present from among their number shall preside.
4) Then quorum for a meeting of the Board shall be three members including the Director-General or the person acting as Director-General.
5) A decision at a meeting of the Board shall be that of the majority of the members present and voting and where there is equality of votes, the chairperson or the person presiding shall have a second vote.
6) The Board may co-opt a person to act as an adviser at its meetings but a co-operated person is not entitled to vote at a meeting on a matter for decision by the Board.
7) The validity of any proceedings of the Board shall not be affected by a vacancy in its membership or by a defect in the appointment or qualification of any of its members.

8) Subject to this section, the Board shall regulate its own procedures.

3.7 Disclosure of interest (Section 10)

1) A member of the Board who is directly or indirectly interested in a manner being considered or dealt with by the Board shall disclose the nature of the interest at a meeting of the Board and shall not take part in any deliberation or decision of the Board with respect to the matter.
2) A meeting who fails to disclose an interest under subsection (1) is liable to be removed from the Board.

3.8 Committee of the Board (section 11)

The Board may for the discharge of its functions appoint committees comprising members or non-members or both and may assign to a committee such functions of the Board as the Board may determine except that a committee composed exclusively of non-members may only advise the Board.

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Self-Assessment Questions

Exercise 6.3

1. What is Internal Audit?
2. Explain the scope and objectives of Internal Auditing.
3. State the three functions of the Internal Audit Agency.
4. Outline the members that make up the Board.
5. State three qualities that the President will look up for in a person to be appointed as a member of the Board.
6. State four functions of the Board.
7. Explain the tenure of office of members of the Board.

SESSION 4: AUDIT SERVICE AND AUDITOR GENERAL'S REPORT

INTRODUCTION

Objectives

By the end of this session, you should be able to:

(a) appreciate the mandate of the Ghana Audit Service
(b) state the composition of the Audit Service Board
(c) describe the general nature of auditing in the public sector
(d) explain the responsibilities of the Auditor-General
(e) state the Constitutional Provisions in respect of the Auditor-General towards the Public Sector Auditing
(f) outline the procedures for appointing an Auditor-General

Now read on…

4.1 Audit Service Act, 2000 (Act 584)

The Audit Act 2000 is the main regulatory instrument for auditing in the public sector. Key areas are covered below:

4.1.1 The Governing Body of the Service

The governing body of the Service shall be the Audit Service Board referred to in this Act as "the Board". The Board shall consist of:

a) A chairman and four other members appointed by the President, acting in consultation with the Council of state
b) The Auditor-General
c) The Head of the civil Service or his representative

A member of the Audit Service Board, other than the Auditor-General or the Head of the Civil Service or his representative, may be removed from office by the President, acting in accordance with the advice of the Council of State for inability to perform the functions of his office arising from infirmity of mind or body or for any other sufficient cause.

PUBLIC SECTOR AUDITING

4.2 Auditor General

The Ghana Audit Service is established by the Constitution of Ghana (1992) as part of the Public Services of Ghana.

The Auditor General is part of the Audit Service Board, which is responsible for:

- Determining the terms and conditions of the services of the employees in the Ghana Audit Service.
- Making regulations for the efficient administration of the Ghana Audit Service.

4.3 Constitution of Ghana (1992)

The Constitution makes the following key provisions in respect of the Auditor-General;

- ✓ The Auditor-General shall audit the public accounts of Ghana, as well as all public offices (including courts, central and local government, and any public corporation or other body established by an Act of Parliament.
- ✓ The Auditor-General shall have access to all books, records, returns, and other documents relating or relevant to those accounts.
- ✓ The Auditor-General must submit his report to parliament within six months of the year end of each set of accounts.
- ✓ The Auditor-Generals report must draw attention to any irregularities in the accounts and any other matter which in his opinion ought to be brought to the notice of Parliament.
- ✓ The President may request the Auditor-General to audit the accounts of any organization within his remit.
- ✓ May disallow any item of expenditure which is contrary to the law. Furthermore, he may then make a surcharge for this amount, for any sum not accounted for, or the amount of any loss.
- ✓ In respect of disallowances and surcharges, any person aggrieved may appeal tom the high court.

This is a further requirement relation to the Auditor-General's independence.

The Auditor-General:

- ✓ Must not be subjected to the direction or control of any person or authority.

4.4 Appointment of the Auditor-General

- ➢ There shall be an Auditor-General who shall be appointed by the President acting in consultation with the Council of State.
- ➢ The office of the Auditor-General shall be a public office.
- ➢ A person appointed to be the Auditor-General shall, before entering upon the duties of his office, take and subscribe the Oath of the Auditor-General set out in the Second Schedule to the Constitution.

- The Auditor-General shall retire after attaining the age of sixty years but may be engaged for a limited period of not more than two years at a time but not exceeding five years in all and upon such other terms and conditions as the President acting in consultation with the Council of State shall determine.
- The salary and allowances payable, and the facilities and privileges available to the Auditor-General shall be determined by the President on the recommendations of a committee of not more than five persons appointed by the President, acting in accordance with the advice of the Council of State.
- The salary and allowances payable to the Auditor-General shall be a charge on the Consolidated Fund.
- The salary and allowances payable to the Auditor-General, his rights in respect of leave of absence, retiring award or retiring age shall not be varied to his disadvantage during his tenure of office.
- The provisions of article 146 of the Constitution relating to the removal of the Superior Court of Judicature from office shall apply to the Auditor-General.
- The Auditor-General may at any time resign his office in writing addressed to the President.

4.5 Audit of Public Accounts Generally

1. The public account of Ghana and of all public offices, including the courts, the central and local government administrations, all Universities and public institutions of like nature, of any public corporation or other body or organization established by an Act of Parliament shall be audited and reported on by the Auditor-General.
2. For the purpose of subsection (1), the Auditor-General or any person authorized or appointed for the purpose by the Auditor-General shall have access to all books, records, returns and other documents including documents in computerized and electronic from relating to or relevant to those accounts.
3. The public accounts of Ghana and of all persons and institutions referred to in subsection (1) including computerized financial and accounting systems and electronic transactions shall be kept in such a form as the Auditor-General shall approve and shall be subject to review by the Auditor-General.
4. An Internal Auditor of an organization or body to which subsection (1) applies shall submit a copy of each report issued as a result of internal audit work carried put to the Auditor-General.
5. All financial and accounting systems in respect of the accounts provided under subsection (1) shall be subject to prior approval of the Auditor-General and any change in any such system shall be notified to the Auditor-General and shall be subject to prior approval before implementation.
6. Any head of a public institution or other body subject to auditing by the Auditor-General who fails to comply with subsection (5) is liable to be surcharged with

the cost of any loss occasioned by defective or deficient internal controls of auditing.

4.6 Audit of Foreign Exchange Transactions

1. The Bank of Ghana hall, not later than three months after the end of the first six months of its financial year; and after the end of its financial year, submit to the Auditor-General for audit, a statement of its foreign exchange receipts and payments or transfers in and outside Ghana.
2. The Auditor-General shall, not later than three months after the submission of the statement referred to in section (1) submit his report to Parliament on the statement.

4.7 Examination of Accounts

The Auditor-General shall examine in such manner as he thinks necessary the public and other government accounts and shall ascertain whether in his opinion:

a. The accounts have been properly kept
b. All public monies have been fully accounted for, and rules and procedures applicable are sufficient to secure an effective check on assessment, collection and proper allocation of the revenue.
c. Monies have been expanded for the purposes for which they were appropriated and the expenditures have been made as authorized.
d. Essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property.
e. Programmes and activities have been undertaken with due regard to economy, efficiency and effectiveness in relation to the resources utilized and results achieved.

4.8 Auditing of Statutory Corporation

In respect of the accounts of a statutory corporation, a state enterprise or a public commercial institution operating under its own enactment, the Auditor-General or any person appointed by him shall upon the examination of the accounts of the body or institution, express his opinion as to whether accounts present fairly financial information in accordance with the applicable statutory provisions, stated accounting policies of the Government and is accordance with generally accepted accounting standards and essentially consistent with that of the preceding year.

The Auditor-General or any other person appointed by the Auditor-General to audit the accounts of statutory corporations shall in addition to the audit report draw attention to the following;

a. The profitability, liquidity, stability and the solvency of the corporation and also the performance of the shares of the corporation on the capital markets, where relevant.
b. Whether there was a delay in payment of government portion of any declared dividend, if any, into the Consolidated Fund.
c. Any significant cases of fraud or losses and the underlying causes.
d. Any internal control weakness noted.
e. The general corporate performance indicating achievement against set targets and objectives and whether the finances of the body have been conducted with due regard to economy, efficiency and effectiveness having regard to the resources utilized.

4.9 Examination on Receipt of Controller and Accountant Independence and Power of the Auditor-General

In the performance of his function under the Act or any other law, the Auditor-General;

a. Shall not be subject to the direction and control of any other person or authority.
b. May disallow any item of expenditure which is contrary to law and surcharge the amount of any expenditure disallowed upon the person responsible for incurring or authorizing the expenditure and any sum which has not been duly brought into account, upon the person by whom the sum ought to have been brought into account.

4.10 Annual Estimates of the Service

The Board shall at least two months before the end of the financial year submit to the President the estimates of the Service; and the President shall at least one month before the end of the financial year cause the estimates to be laid before Parliament without revision but with any recommendations that the President may make on them.

4.11 Stationing of Officers in Organizations Subject to Audit

1. The Auditor-General may require any organization or body subject to audit by the Auditor-General to make available while the audit is being carried on, suitable office accommodation for the proper conduct of the audit.
2. The Auditor-General shall require every person employed in his office who is to examine the accounts of an organization under this Act to comply with security arrangements applicable to, and to take any oath of secrecy required to be taken by persons employed in that organization and every such person shall comply with the requirement.
3. The Auditor-General shall station in Parliament House, permanent staff to enable Parliament carry out effectively its duties in respect of reports submitted by the Auditor-General to Parliament.

SUMMARY

Self-Assessment Questions

Exercise 6.4

1. Outline the composition of the Audit Service Board.
2. Outline the responsibilities of the Auditor General as a part of the Audit Service Board.
3. State the opinion which the Auditor-General is expected to give in the examination of accounts.

SESSION 5: PUBLIC ACCOUNTS COMMITTEE AND FINANCE COMMITTEE OF PARLIAMENT

Objectives

By the end of this session, you should be able to:

a) state the composition of Public Account Committee of Parliament
b) explain the functions of the Public Account Committee of Parliament
c) state the composition of Public Finance Committee of Parliament
d) explain the functions of Public Finance Committee of Parliament

Now read on…

5.1 Public Account Committee

5.1.1 Establishment of the Public Account Committee

The Public Account Committee is a committee of Parliament established under the standing orders of Parliament.

5.1.2 Composition of the Public Account Committee

1) The Public Account Committee is a 25 member committee made up proportionate membership of majority and minority in Parliament.
2) The chairperson of the Committee is selected from the minority side of the House.

5.1.3 Functions of the Public Account Committee

The Public Account Committee has a responsibility to;

1) Obtain Audit Reports on Public entities from the Auditor-General through the Speaker of the House.
2) Review the Reports and investigate financial irregularities reported by the Auditor-General in the Report.
3) Submit Report on the findings and recommendations to Parliament for approval.
4) Conduct a follow-up on the extent of implementation of their recommendations.

5.2 Public Finance Committee

5.2.1 Establishment of the Public finance Committee

The Public finance Committee is a committee of Parliament established under the standing orders of Parliament.

5.2.2 Composition of the Public Finance Committee

1) The Public Finance Committee is a 25 member committee made up proportionate membership of majority and minority in Parliament.
2) The chairperson of the Committee is selected from the majority side of the House.

5.2.3 Functions of the Public Finance Committee

The Public finance Committee has a responsibility for;

1) Receiving and reviewing Financial Proposal (Finance Bill).
2) Examining and reviewing loan agreements of government.
3) General oversight over Public Financial Management.

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Self-Assessment Questions

Exercise 6.5

1. State the compositions of the Public Account Committee.
2. State the composition of the Public Finance Committee.
3. State three responsibilities of the Public Account Committee.
4. State three functions of the Public Finance Committee.

SESSION 6: AUDIT COMMITTEES

Objectives

By the end of this session, you should be able to:

a) describe of the purpose of the Audit Committee
b) state the composition of Audit Committee
c) explain the functions of the Audit Committee

Now read on…

6.1 Establishment of the Audit Committee

86.

1) There is established by this Act, an Audit Committee that serves one particular covered entity or any other covered entities in a sector.
2) For the purpose of subsection (1), the Minister shall, by Regulations, specify;
    a) The number of Audit Committee to be established in each sector.
    b) The qualification for appointment to an Audit Committee
    c) The funding of Audit Committee
    d) The procedure for meetings of an Audit Committee

6.1.1 Composition of Audit Committee

87.

1) An Audit Committee consists of five members
2) The majority of members of an Audit Committee shall be independent members.
3) The internal Audit Agency and the Institute of Chartered Accountants, Ghana shall nominate the majority of members from among persons who do not work in the covered entity to which the Audit Committee relates and two other members shall be nominated by the Principal Account Holder.
4) The chairperson of an Audit Committee shall be elected from among the independent members of the Committee.
5) Without limiting subsection (2), an Audit Committee may, in the performance of its functions under this Act, co-opt a senior management personnel to serve on the Audit Committee.

6) The Principal Account Holder shall appoint the chairperson and member of an Audit Committee.

6.1.2 Functions of the Audit Committee

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1) An Audit Committee shall ensure that the head of a covered entity, to which the Audit Committee relates,
   a) Pursue the implementation of any recommendation contained in ;
      i. An Internal Audit Report.
      ii. Parliament's decision on the Auditor-General's report;
         a. Auditor-General's Management Letter
         b. The report of an internal monitoring unit in the covered entity concerned particularly, in relation to financial matters raised
   b) Prepares an annual statement showing the status of implementation of any recommendation contained in;
      i. An Internal Audit Report.
      ii. Parliament's decision on the Auditor-General's report.
      iii. Auditor-General's Management Letter.
      iv. The Report on financial matters raised in an internal monitoring unit of a covered entity.
      v. Any other related directive of Parliament.
2) An annual statement required under subsection (1) (b) shall;
   a) Indicate the remedial action taken or proposed to be taken to avoid or minimize the recurrence of an undesirable feature in the accounts and operations of a covered entity.
   b) Indicate the period for the completion of the remedial action.
   c) Be endorsed by the relevant sector Minister and forwarded to the Minister, Parliament, Office of the President and the Auditor-General within six months after the end of each financial year.

SUMMARY

Self-Assessment Questions

Exercise 6.6

1. Outline the purpose of the Audit Committee.
2. State the composition of the Audit Committee.
3. State four functions of Audit Committee.

ANSWERS TO SELF-ASSESSMENT QUESTIONS

REFERENCES

REFERENCES