

# ADA EAST DISTRICT ASSEMBLY INTERNAL AUDIT UNIT

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## FIRST QUARTER AUDIT REPORT

ON RISK AREAS IN FINANCE AND OPERATIONS OF THE ASSEMBLY

April 8, 2015

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## **1.0 INTRODUCTION**

### **1.1 Background**

In pursuance of our internal audit plan for 2015, the unit has conducted an audit covering risk areas in the financial and operational running of the district assembly for the first quarter of 2015. This audit zoomed in on risk areas in relation to the management of revenue generation (IGF) and the expenditure of such revenue. The audit also took into account how the District Assembly Common Fund (DACF) was spent. This audit was also targeted at identifying the shortcomings in the assembly's operations in regards to transport management. The audit specifies areas of audit, provide recommendations based on best practices and regulations of the state.

It was the aim of the audit team to provide management with effective policies, procedures and practices purported to ensure efficiency and effectiveness of the assembly.

### **1.2 Audit Perspective**

A walk through test on documented operating procedures in the areas of management of generation and expenditure of internally generated funds and the DACF, and the operational management of the assembly's transport system. The standards for the international professional practices of internal auditing were applied in the audit. The last day of the field work was 12<sup>th</sup> March, 2015.

### **1.3 Scope and objective**

The audit looked at risk areas in the financial and operational management of the Assembly for the period 1<sup>st</sup> January to 31<sup>st</sup> March, 2015.

The nature of the audit was to ascertain if risk controls pertaining to areas audited were being applied and also to establish if the controls were appropriate.

The specific objectives of the audit are as follows:

To ascertain that management has put in place measure to ensure:

- that there is compliance with laws and regulations to mitigate risk in the management of generation and expenditure of IGF.
- that the DACF is spent in compliance with the requisite laws and regulations
- that management of the assembly's transport system is adequate

## 2.0 **SUMMARY OF AUDIT FINDINGS AND RECOMMENDATIONS**

2.1 Risk mitigation in the management of generation and expenditure of IGF.

### **RECOMMENDATIONS:**

Management should introduce a reward and punishment scheme for revenue collectors. Management of the assembly should also surcharge the District Finance Officer and the Head of Revenue with losses caused by their negligence in the management of the assembly's finances in relations to generation and expenditure. Management should also look at organizing training programs for all staff of the finance and revenue departments to educate them on the laws and regulations governing their units.

2.2 Expenditure of DACF not fully in compliance with requisite laws and regulations.

### **RECOMMENDATIONS:**

The Assembly should ensure that all payments from the DACF be pre-audited before payment is made. Expenditure items should be fully investigated before making payments

2.3 Poor management of the assembly's transport activity.

### **RECOMMENDATIONS:**

Officers involved in the management of operations of transport should be duly given sufficient training in that field. Management should take key interest in supervising the activities of the transport unit.

### **3.0 DETAILED FINDINGS AND RECOMMENDATIONS**

#### **1. Poor risk management control in the generation and expenditure of IGF**

##### **CONDITION**

The District Assembly for the first quarter of 2015 generated revenue amounting to **One Hundred and Two Thousand, Three Hundred and Eighteen Ghana Cedis, and Seventy Seven Pesewas (GH¢102,318.77)** which represents a fall in revenue of **Sixty One percent (61%)** as compared to **One Hundred and Sixty Eight Thousand, Six Hundred and Forty Ghana Cedis, and Eighty Two Pesewas (GH¢168,640.82)** representing revenue generated in the first quarter of 2014.

There is little to no motivation for revenue collectors to improve upon their performance.

There is a very poor control on expenditures made on the District assembly's internally generated funds. Some members of management choose to flout laws and regulations when expenditures are to their benefit. Investigations conducted on payment vouchers for the first quarter makes it obvious that officers in charge of expenditure have very little or no regard for the financial regulations and laws pertaining to expenditure of government funds. There were several imprests that have not been retired to date, yet the finance officer keeps issuing more. There was failure to obtain the minimum number of quotations before procurement. Also, there were several payments made on items procured which never passed through stores. A clear depiction of the weak implementation of laws and regulations which increases the assembly's risk can be found in the **Appendix A** attached.

##### **CRITERIA**

Part IX paragraph 13(b) of the Financial Memoranda for District Assemblies (Act 656) states "**all payment vouchers shall be receipted in one of the following ways: (b)by the attachment to the Payment Voucher of the payee's official receipt. Facsimile signature stamps shall not be used.**".

Failure to retire accountable imprest is also addressed by Part IX paragraph 36(b) of the Financial Memoranda for District Assemblies (Act 656) which states that "**standing Imprest which shall be recouped from time to time during the financial year concerned by submitting receipts to the Finance Officer or Cashier for re-imburement.**".

Section 43(1) of the Public Procurement Act 2003 (Act 663) also states" **the procurement entity shall request quotations from as many suppliers or contractors as practicable, but from at least three different sources.**".

Chapter 3 Regulation 0316 of the Stores Regulation 1984 also makes it clear in relation to the attachment of stores receipt to payment vouchers by stating that "**the endorsed original of the Stores Receipt Voucher shall always be attached to the Payment Voucher on which payment is made to the supplier.**".

## **CAUSE**

Management has failed to put in place proper strategies to bring in and improve the assembly's revenue situation. Failure to strictly monitor revenue collectors' activities also contributes to the fall in revenue of the assembly. There is no reward or punishment scheme to motivate revenue collectors.

Management pay no attention to pre-audit queries when making certain expenditure payments. There is also the lack of regard for regulations and laws governing how government monies are to be spent on the part of the management. Management has also failed to set proper priorities for the disbursement of funds.

## **EFFECTS**

With the fall in revenue, it is obvious the development plan tabled out for the district will be affected. The district assembly will also be challenged financially in carrying out its obligations to the society.

The assembly stands to open itself up for legal actions to be taken against it for certain irregular expenditures. There is also the risk of failing our annual FOAT assessment due to the poor management of risk control of the assembly's finances.

There is a very high risk for the perpetuation of fraud due to the poor implementation of risk controls.

## **RECOMMENDATIONS**

Management should introduce a reward and punishment scheme for revenue collectors. The scheme will go a long way to motivate the revenue collectors to improve on their performance. There should also be an active monitoring mechanism to track performance of revenue collectors for statistical analysis to be made to advice on approaches for improvement in revenue.

Training programs should be held for staff of the finance and revenue units and management on financial regulations and laws to serve as a refresher course and a reminder for why those laws and regulations are to be adhered to. Management should surcharge the Finance Officer and the Revenue Head for any financial losses made due to their negligence or inactions. This will serve as a deterrent for any future malpractice. Clear and strategic priorities should be set for how revenues will be spent.

## **2. Non-Compliance with Laws and Regulations governing the expenditure of DACF**

### **CONDITION**

The assembly has failed to comply with some laws and regulations governing the expenditure of government funds. Some payment vouchers covering expenditures from the District Assembly Common Fund had no memos attached to warrant payments made. It was also noted some procurements made with the DACF never passed through stores, hence payment vouchers for such purchases had no stores receipt attached. There was also the failure to withhold tax on allowances paid from the Fund. There was the instance where the minimum of three quotations for procurement was not obtained before payments were made.

There was also a peculiar instance where disbursement to the tune of Three Thousand and Forty Ghana cedis (GH¢3,040.00) was made from the common fund to pre-finance an aquaculture TV documentary with little due diligence.

## **CRITERIA**

International best practice prescribes for a memo to be attached to all payment vouchers as an authority note warranting approval or disapproval for payment.

Section 43(1) of the Public Procurement Act 2003 (Act 663) also states” **the procurement entity shall request quotations from as many suppliers or contractors as practicable, but from at least three different sources.**”.

Chapter 3 Regulation 0316 of the Stores Regulation 1984 also makes it clear in relation to the attachment of stores receipt to payment vouchers by stating that “**the endorsed original of the Stores Receipt Voucher shall always be attached to the Payment Voucher on which payment is made to the supplier.**”.

Section 84(2) of the Internal Revenue Service Act 2000, (Act 592) states “**Subject to subsection (4), where a resident person pays a sum to another resident person which does not fall within subsection(1),**

**(a) for the supply or use of goods or property of any kind, or**

**(b) for the supply of any services, [As amended by the Internal Revenue**

**(Amendment)**

**Act, 2002 (Act 622), s.13.] in respect of a contract between the payee and a resident person other than an individual exceeding fifty currency points, the person making the payment shall withhold tax on the gross amount of the payment at the rate prescribed in Part IV of the First Schedule.**

**(3) For the purpose of determining under subsection (2) whether a contract exceeds fifty currency points, two or more contracts in respect of the same goods, property or services shall be treated as a single contract.”**

## **CAUSES**

Management have little or no regard for the laws and regulations governing the expenditure of public funds.

Failure to present such payments for pre-audits is also a key cause of such actions.

## **EFFECTS**

There is a risk for fraud to be perpetuated if controls put in place to check them are not being followed.

The Assembly is also put at the risk of not getting value for money in its transactions with other organizations or individuals.

There is the risk of a lawsuit from the Internal Revenue Authority for failure to withhold tax.

## **RECOMMENDATIONS**

The Assembly should ensure that all DACF payments are pre-audited before payments are made. Also, all payment items should be fully investigated and backed by all necessary documents to ensure the assembly is getting its money's worth.

### 3. **Weak management of transport system of the assembly**

#### **CONDITION**

Management must be commended for putting certain measures in place to try to control fuel usage at the assembly. With that said, there is still a poor control mechanism to account for fuel used by assembly vehicles since no log books are kept. No vehicle belonging to the assembly has been comprehensively insured. It is also practically impossible to verify authorizing officers for the movement of vehicles.

There is no maintenance schedule and also no track of maintenance for all assembly vehicles.

#### **CRITERIA**

Regulation 1604 of the Stores regulation states that **“A vehicle Log Book shall be maintained for each vehicle and shall always be carried on the vehicle. Journeys undertaken shall be recorded and full particulars of receipts of fuel, oil and lubricants shall be entered up daily in the Log Book by the driver. Recordings in the Log Book shall be made in duplicate. All journeys recorded in the Log Book shall be certified by the officer using the vehicle.”**

Paragraph 63 of the Financial Memoranda 2004 states that **“a history chart shall be kept by the Co-ordinating Director for each vehicle. This chart shall show...”**

Paragraph 62 of the Financial Memoranda 2004 states that **“all vehicles shall be comprehensively insured.”**

#### **CAUSES**

Weak enforcement of regulations governing the management of transport.

#### **EFFECTS**

There will be difficulty in accounting for usage of fuel. There is also the risk of abuse of usage of official vehicles since their movements are not logged.

There is also the risk of frequent breakdown of vehicle due to the poor tracking of maintenance. There is a high financial risk on the assembly should any of its vehicles be involved in an accident since none of the vehicles are insured.

#### **RECOMMENDATIONS**

Officers involved in the management of operations of transport should be duly given sufficient training in that field. Management should take key interest in supervising the activities of the transport unit.

Management should ensure all vehicles of the assembly are comprehensively insured. The transport officer should also develop a maintenance schedule for all assembly vehicles.

## 4.0 MANAGEMENT RESPONSE

- **Poor risk management control in the generation and expenditure of IGF**

Management has taken note of all findings and recommendations put across and has resolved to put in place a team to work out the motivational scheme for revenue collectors.

Management has also resolved to table some training programs for members of the finance unit to build their capacity.

Steps have also been taken to correct most of the payment vouchers which did not bear all the appropriate documents.

- **Non-compliance with laws and regulations governing the expenditure of IGF**

Management is taking steps to ensure that all payment vouchers are pre-audited before are made out of the DACF.

Management has resolved to make available all documents needed to clear any doubts about the money paid from the DACF for the aquaculture documentary.

- **Weak management of transport system of the assembly**

Management has already directed the transport officer to open file for each vehicle and also record the history chart.

Management will also consider the recommendation for taking a comprehensive insurance policy relating to the assembly's vehicles.

## 5.0 CONCLUSION

The Internal Audit unit is very grateful to all the other departments of the Assembly who willingly cooperated with the unit to make this report possible. We also want to highly congratulate management for taking swift actions upon receipt of our draft report to correct and put in place measures to curtail the weakness in the implementation of controls.