AUDIT SERVICE

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My Ref ...3/ OTI/DAM A/LG.1/Vol II/04

Your Ref .....

Good Governance and Accountability

P. O. Box DG 74,

Dambai.

3rd February, 2023

THE COORDINATING DIRECTOR
KRACHI EAST M[illegible]MBLY
DAMBAI

MANAGEMENT LETTER ON THE AUDIT OF THE KRACHI EAST MUNICIPAL ASSEMBLY'S COMMON FUND FOR THE PERIOD JANUARY 1, 2022, TO DECEMBER 31, 2022.

Introduction

We have audited the accounts and other related records of the Krachi East Municipal Assembly for the period January 1, 2022, to December 31, 2022. in accordance with the statutory mandate of the Auditor-General under Article 187(2) of the1992 Constitution and Section 11(1) of the Audit Service Act 2000 (Act 584).

2. We shall be grateful for your response within 30 days upon receipt of this management letter as required by Section 29 (2) of the Audit Service Act, 2000 (Act 584).
3. You are reminded that the Auditor-General has the right to evoke sanctions on you and others without further notice in line with the provisions of Section 29 (2) of the Audit Service Act, (Act 584), if you fail to act and respond to this letter within the required period

Key Personnel

4. The following officials handled the administrative and financial duties of the Assembly during the period under review.

Name of Officer	Position	Staff ID	Period
Hon Francis kofi Okesu	MCE	N/A	01/01/2022-30/09/2022
Hon Joshua Mahu[illegible]	Ag. MCE	N/A	30/09/2022-31/12/ 2022
Issahaku Yakubu	MCD	684074	01/01/2022-31/12/2022

Richard Yawson	MFO	846865	01/01/2022-31/12/2022
Adjei Ernest Quaye	Works Engineer	62580	01/01/2022-30/08/2022
Felix Ackah	Works Engineer	60874	30/09/2022-31/12/ 2022
Abass Ibrahim	MPO	914233	01/01/2022-01/02/2022
Adakwa Yiadom Ernest	MPO	916053	01/03/2022-31/12/2022
Edmund Agyeman Akoboah	Procurement officer	1343810	01/01/2022-31/12/2022
Ernest Agbokli	MEHO	117497	01/01/2022-31/12/2022
Delanyo Datsomor	IA	881698	01/01/2022-31/12/2022
Atchu Francis	BO	911542	01/01/2022-31/12/2022

Audit Objectives

5. Our audit objectives are to determine whether or not;

   i) The accounts and the related records of the Assembly have been properly kept

   ii) All public monies received have been fully accounted for in accordance with applicable rules, regulation and directions instituted by management are sufficient to ensure an effective check on the assessment, collection and proper allocation of the revenue and other resources of the Assembly.

   iii) Monies have been expended for the purposes for which they were appropriated, and the expenditures have been made as authorized;

   iv) Essential records are maintained, and the rules and procedures applied are sufficient to safeguard and control public property.

   v) Programmes and activities have been undertaken with due regard to economy, efficiency, and effectiveness in relation to the resources utilized and results achieved.

Scope of Audit

6. Our audit coverage included a review of cash management regarding economy, efficiency and effectiveness. The audit also reviewed budgetary control, financial reporting and the internal controls in place regarding procurement, stores management, personnel records and Assets management.

Audit methodology and strategy

7. We used risk-based audit approaches for the conduct of the audit. This among others included interviews of officials of the Assembly to understand and document the system, examination of transactions, review of procurement procedures and review of contract records. We issued observations to management for their responses, which we have incorporated in this Management letter.

8. We derived our audit evidence using criterion and standards from sources including the Public Procurement Act. 2003 (Act 663), as amended, the Public Financial Management Act, 2016 (Act 921), the Public Financial Management Regulation 2019 (L.I 2378), the Financial Memoranda of Assemblies, the Local Governance Act 2016 (Act 636) and Ministerial directives among other statutes.

9. We assessed and drew an overall conclusion on the effectiveness of the control environment, designed and performed substantive tests to cover a sufficient sample of expenditure transaction in each spending unit to enable us to verify at 95% confidence level and 0.5% materiality level.

Limitation of our responsibility

10. We reviewed the accounts and related records and the system of control operated by management of the Assembly, only to the extent we considered necessary for the effective performance of the audit.

11. As a result, our review may not have detected all the weaknesses that exist or all improvements that could be made. We have prepared this management letter solely for your use and use within your institution.

12. Its content should not be disclosed to any third party without our consent. We would not accept any responsibility for any reliance a third party might place upon it.

Conclusion

13. Management of the Assembly maintained some sense of financial discipline despite the anomalies mentioned in this management letter. It is our hope therefore that management of the Assembly would improve upon its operations, particularly with regards to revenue mobilization/collection, expenditure authorization, proper project management and safeguarding of assets as well as compliance to laws, rules, and regulations.

14. Management is therefore admonished to take note of the weaknesses identified and endeavour to implement and enforce the audit recommendations made.

SUMMARY OF FINDINGS AND RECOMMENDATIONS

15. Contrary to Regulation 78 of the Public Financial Management Regulations (PFMR), 2019 (L.I. 2378), management made a total payment of GH₵16,500.00 for various repair works carried out but failed to support the payments with authorized works orders and certificates of satisfactory completion of work.

We cautioned management to desist from the practice and ensure that all subsequent repair works are backed by works orders and duly certified by a responsible designated officer by issuing a certificate of satisfactory work done.

16. We noted that management of Krachi East Municipal Assembly made payments totaling GH₵8,495.00 for goods and services but failed to support the transactions with relevant expenditure documents such as invoices, receipts, activity report, distribution list, and other relevant documents to authenticate the transactions.

We recommended that management should provide the relevant supporting documents to authenticate the payments, failing which the amount of GH₵8,495.00 should be jointly refunded by the authorizing officers (Ag. MCE, Municipal Co-ordinating Director and the Finance Officer).

17. In violation of Section 20 of the Public Procurement Act, 2016, Act 914, (as amended) we noted that the management of Krachi East Municipal Assembly procured goods and services totalling GH₵17,200.00 without obtaining and comparing quotations from other suppliers or service providers to ensure competitive pricing and value for money.

We urged management to desist from the practice and instead ensure that the tenets of the Public Procurement Act are adhered to and strictly complied with in all subsequent procurements to avoid sections for breach of the law.

18. In contrast with Sections 116 and 117 of the Income Tax Act, 2015 (Act 896) management withheld GH₵4,117.89 as withholding tax on payment of GH₵82,357.80 made but failed to remit the tax deductions to the Commissioner-General of GRA.

We urged the MFO to promptly pay all withheld taxes to the Commissioner-General of the Ghana Revenue Authority failing which any cost by way of penalties imposed on the Assembly for late remittance or non-remittance should be borne by the MFO.

19. We noted contrary to Regulation 78 of the Public Financial Management Regulation, 2019 (L I 2378), that management of the Assembly paid GH₵13,624.00

from its DACF funds for 2 Boxer Motor Bikes. The said motor bikes were not supplied as we could not find any records as to their receipt in the assembly nor could the physical bike be traced.

We urged the management to produce the motor bikes for physical verification failing which the transaction will be disallowed and the authorizing officers jointly surcharged with the amount involved.

20. We discovered during our examination of payment vouchers of the Krachi East Municipal Assembly that, the Assembly paid a total of GH₵13,373.00 for various commitments from its DACF. However, management could only account for GH₵5,550.00 of the expenditure leaving a balance of GH₵7,823.00 unaccounted for. This violates Regulation 78 (1) (a) and (b) of the Public Financial Management Regulation, 2019 (LI 2378).

    We recommended to the MFO and the MCD to account for the GH₵7,823.00.00 by providing the necessary documentation for our verification failing which the transactions will be disallowed and they shall be held liable for refund.

21. We noted that the Krachi East Municipal Assembly entered into a five (5) year service agreement valued at GH₵1,437,500.00 with Zoomlion Ghana Ltd on 16 November 2020 for Sanitation Improvement Package to take effect from 2 January 2019. The agreement contains unfavorable clauses against the Assembly.

    We recommended to management to take steps to seek legal advice aimed at reviewing the agreement and ensuring that each component of the package (solid waste containers and refuse collection trucks) is costed on unit basis so that the cost of those not supplied by the company may not be paid unduly.

22. Contrary to the dictates of Regulation 78 of the Public Financial Regulations, 2019 (L.I 2378), the activities and performance of Zoomlion Ghana Ltd in the District

during the period under review was found to be unsatisfactory and not according to the contract terms with the company.

We recommended to management to focus their minds to these anomalies and take steps to ensure the assembly receives value for money out of such contracts. We further recommended that the General Assembly of the Krachi East Municipal Assembly should take keen interest in how the assembly engages in contracts of this nature and immediately take a decision to terminate the contract if found to be detrimental to the development of the district.

DETAILS OF FINDINGS AND RECOMMENDATIONS

Payment for Works Without Works Orders/Certificates of Successful Completion of Work – GH₵16,500.00

23. Regulation 78 of the Public Financial Management Regulations (PFMR), 2019 (L.I. 2378) provides among others that a Principal Spending Officer of a covered entity is personally responsible for ensuring in respect of each payment of the covered entity, the validity, accuracy, and legality of the claim for the payment and that evidence of services received certificates for work done and any other supporting document exists.

24. Our audit revealed that, management made a total payment of GH₵16,500.00 for various repair works carried out but failed to support the payment vouchers with authorized works orders and certificates of satisfactory completion of repaired works. Details are provided below:

No.	PV No.	Payment date	Payee	Purpose	Cheque No.	PV Amount GH₵
1	15/06/2022	14/06/22	Wensil Enterprisec	cost of supply and installation of hand pump at Pompi	003137	6,900.00

2	09/06/22	14/06/22	Bless Joe Electricals & Plumbing Dealer	Cost of items to connect water to magistrate Bungalow	003128	9,600.00
	Total					16,500.00

25. The lapse is blamed on expenditure control weakness which could be exploited to the disadvantage of the Assembly.

26. In the absence of works orders and completion certificates, payments could be made for work not done or for shoddy work.

27. We asked management to properly justify the expense with the appropriate documentation, failing which the expense would be disallowed and the amount involved surcharged against the authorizers of the payments (the Ag. MCE, MCD, MFO and the Works Engineer).

28. Management noted our recommendation for compliance.

Unsupported Payments – GH₵8,495.00

29. Regulation 78 of the Public Financial Management Regulation (PFMR), 2019, (L.I. 2378) stipulates among others that a Principal Spending Officer of a covered entity is personally liable for the validity, accuracy and legality of the claim for the payment and that evidence of services received, certificates for work done and any other supporting documents exists.

30. We noted contrarily that management of Krachi East Municipal Assembly made payments totaling GH₵8,495.00 for goods and services but failed to support the transactions with relevant expenditure documents such as invoices, receipts, activity report, distribution list, and other relevant documents to authenticate the transactions. Details are provided in the table below:

No.	PV No.	Payment date	Payee	Purpose	PV Amount GH₵	Amount Accounted for (GH₵)	Outstanding balance

1	30/06/22	27/06/22	DCD	Funds to submit urban development action plan for GSCSP	2,500.00	500.00	2,000.00
2	05/06/22	10/06/22	DCD	Cost of 50 reflective jackets for revenue mobilization teams	3,120.00	0.00	3,120.00
3	02/10/22	14/10/22	DCD	Funds to service DPCU & budget committee	3,375.00	0.00	3,375.00
	Total				**8,995.00**	**500.00**	**8,495.00**

31. The Finance Officer's failure to ensure that all relevant payment documents were provided before payments were made resulted in the anomaly.

32. Management's failure to ensure the presence of all relevant payment documentation before effecting payment was the cause of the anomaly. This made it impossible for us to ascertain whether the expenditures in question were incurred in the interest of the Assembly or otherwise. The Assembly risk losing funds through the practice if not stopped.

33. We recommended that management provide the relevant supporting documents to authenticate the payments failing which the amount of GH₵8,495.00 should be jointly refunded by the Municipal Co-ordinating Director and Finance Officer.

34. Management noted our recommendation for implementation.

Uncompetitive Procurements – GH₵17,200.00

35. Section 20 of the Public Procurement (Amendment) Act, 2016, (Act 914), requires a procurement entity to request for 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 entity and their members and the different price quotation sources.

36. On the contrary, we noted that management of Krachi East Municipal Assembly procured goods and services totalling GH₵17,200.00 without obtaining and comparing quotations from other suppliers or service providers to ensure competitive pricing and value for money. See details attached.

No.	PV No.	Payment date	Payee	Purpose	PV Amount GH₵
1	36/06/22	28/06/2022	DCD	maintenance of vehicle number UW5859-19	2,800.00
2	09/06/22	14/06/22	Bless Joe Electricals & Plumbing Dealer	Cost of items to connect water to magistrate Bungalow	9,600.00
3	07/07/22	21/07/22	DCD	Funds for repair works on Vehicle No. GM2954-12	4,800.00
	Total				**17,200.00**

37. Management's disregard for the public procurement laws resulted in the omission. The transactions in question lack transparency and competition and we could not vouch that the Assembly obtained value for money in the said procurements.

38. We urged management to desist from the practice and instead ensure that the tenets of the Public Procurement Act are adhered to in all subsequent procurements to avoid any sanctions.

39. Management noted our recommendation for compliance.

Failure to Remit Withheld Taxes – GH₵4,117.89

40. Income Tax Act 2015 (Act 896) Section 116 (2) stipulates" a resident person, other than an individual, shall withhold tax on the gross amount of payment at the rate specified in the First Schedule when the person makes payment to another resident person who does not fall within subsection 1 or section 114 for; Supply or use of goods, Supply of any works, or Supply of services, in respect of a contract between the payee and the resident person".

41. We noted during our audit that management paid GH₵82,357.80 from its the District Assembly Common Fund Account for certificate No.1 for the construction of No.1 6units classroom at Pai-Katanga for which a tax of GH₵4,117.89 was

withheld. However, management failed to remit the tax to the Commissioner-General. Details are as shown below.

PV No.	Payment Date	Payee	Purpose	Taxable Amt. GH₵	Tax Rate	Tax GH₵
24/04/2022	25/04/2022	Eden Blueprint	Payment of certificate No.1 for construction of 6 units classroom at Pai-Katanga	82,357.80	5%	4,117.89
Total				82,357.80		4,117.89

42. The infraction was occasioned by lack of due diligence and non-adherence to the Income Tax law by management, thus denying the state of tax revenue totalling GH₵4,117.89

43. We urged the management to promptly pay all withheld tax to the Commissioner-General of the Ghana Revenue Authority without any further delay and make available the evidence of payment for our verification.

44. Management noted our recommendation for compliance.

Payment for goods not received – GH₵13,624.00

45. Regulation 78 (1) (a) and (b) of the Public Financial Management Regulation, 2019 (LI 2378) states that " A Principal Spending Officer of a covered entity is personally responsible for ensuring in respect of each payment of that covered entity; the validity, accuracy and legality of the claim for the payment, that evidence of services received, certificates for work done and any other documents exist.

46. We noted during our audit that management of the Assembly paid GH₵13,624.00 from its DACF funds for 2 Boxer Motor Bikes. The said motor bikes were not supplied as we could not find any records as to their receipt in the assembly nor could the physical bike be traced. Details of alleged purchased transaction are summarized in the table below.

PV No.	Payment Date	Payee	Purpose	PV Amount GH₵
07/04/2022	04/04/2022	Municipal Coordinating Director	Payment for 2 motor bikes (Boxers125-200)	13,624.00

47 Lack of due diligence on the part of management coupled with the practice of pre-financing procurements by management of the Assembly caused the omission which could lead to loss of funds to the Assembly and for that matter the State through fictitious and non-existent transactions.

48. We urged the management to produce the motor bikes for physical verification failing which the transaction will be disallowed and the authorizing officers jointly surcharged with the amount involved.

49. Management responded it has noted our recommendation for compliance.

Payments not fully acquitted – GH₵7,823.00

50. Regulation 78 (1) (a) and (b) of the Public Financial Management Regulation, 2019 (LI 2378) which state that a Principal Spending Officer of a covered entity is personally responsible for ensuring in respect of each payment of that covered entity;

(a) The validity, accuracy and legality of the claim for the payment.

(b) That evidence of services received, certificates for work done and any other documents exist.

51. In contrast with the above provision, we discovered during the audit that management made three (3) separate payments totaling GH₵13,373.00 out of its DACF allocations but could account for only GH₵5,550.00 of the payments, thus leaving an outstanding balance of GH₵7,823.00 not accounted for. Details are provided below;

SN	PV No.	Payment Date	Payee	Purpose	PV Amount GH₵	Amt Acquitted	Amt. Not Acquitted GH₵	Remarks
1	3/1/2022	16/02/22	Municipal Coordinating Director	Payment for Internal audit agency monitoring visit	10,175.00	5,550.00	4,625.00	Provide acquittal

2	2/3/2022	22/04/22	Municipal Coordinating Director	Payment for transport and per diem to IA	2,100.00	-	2,100.00	Provide travel claim form
3	2/12/2022	16/12/22	Municipal Coordinating Director	Payment of per diem and transport	1,098.00	-	1,098.00	Provide travel claim form
Total					13,373.00	5,550.00	7,823.00	

52. Managements indifference towards ensuring that expenditures are appropriately authorized before effecting payments resulted in the infraction which lends itself to misappropriation of funds and thus hindering developmental activities in the municipality.

53. We recommended to management to properly and fully account for the payment of GH₵7,823.00 by providing the necessary documentations for our verification failing which the transactions will be disallowed and the amount jointly surcharged against the authorizing officials (the MCE, MCD and MFO).

54. Management noted our recommendation for compliance.

Inclusion of unfavorable clauses in a new agreement with Zoomlion - GH₵1,437,500.00

55. Section 52 of the Public Financial Management Act, 2016 (Act 921) enjoins all District Coordinating Directors who are the Spending Officers to put proper control systems in place to prevent losses and wastage in the use of public funds.

56. On the contrary, we noted that the Krachi East Municipal Assembly entered into a five (5) year service agreement valued at **GH₵ 1,437,500.00** with Zoomlion Ghana Ltd on 16 November 2020 for Sanitation Improvement Package to take effect from 2 January 2019 which contained unfavorable clauses against the Assembly. Find below the clauses of the agreement and our comments on them.

i. Clause 7 (c)-The Agreement shall be deemed renewed automatically where the Assembly does not serve notice for either renewal or termination of the Agreement 30 days to the expiration of the agreement. (Automatic renewal of contracts is not prudent. The contract should rather terminate

automatically for the Assembly to renew it if it so desires and not the other way round)

ii. Clause 6 (a)-The service fees indicated (clause 5) shall be reviewed annually by Zoomlion based on prevailing economic conditions. Such review will be communicated to the Assembly before its implementation. (The review of fees should rather be negotiated through an annual review window and not unilaterally by Zoomlion Ghana Ltd and only to communicate same to Assembly)

iii. Clause 7(d).....the breaching party shall pay return on investment on the assets of either party where due process is not adhered to in the termination of this agreement (return on investment defined in clause 2.1.13 as the value the company would have generated on its assets or machinery, thereby negating mutuality in respect of that clause) The inability on the part of the former DCE and the DCD to seek legal advice before appending their signatures to the contract accounted for the inclusion of the unfavorable clauses against the Assembly.

In a related development, we noted that the SIP agreement has not been deliberated and approved by the Executive Committee and /or the General Assembly which is the legislative arm of the district. In the event of disputes, the Assembly stands to lose a great deal. The Assembly is likely not to obtain value for money within the five (5) years duration with such unfavorable terms.

57. We recommended to management to take steps to seek legal advice aimed at reviewing the agreement, and ensuring that each component of the package (solid waste containers and refuse collection trucks) are costed on unit basis so that the cost of those not supplied by the company may not be paid unduly.

58. We further recommended that the agreement should be deliberated and approved by the Executive Committee and/or the General Assembly.

59. Management promised to take action on our recommendations.

Unsatisfactory execution of SIP and Fumigation by Zoomlion Ghana Ltd

60. Regulation 78 of the Public Financial Regulations, 2019 (L.I 2378) provides that, a Principal Spending Officer of a covered entity is personally responsible for ensuring in respect of each payment of that covered entity, the validity, accuracy

and legality of the claim for the payment and that the evidence of services received, certificate of work done, and any other supporting document exists.

61. On the contrary, the activities and performance of Zoomlion Ghana Ltd in the Municipality during the period under review was found to be unsatisfactory and not according to the contract agreement as the company's activities were concentrated mainly in Dambai township and left out the rest of the communities in the Municipality.

62. We further noted that only 16 solid waste containers are used within the district instead of the contracted number of 20 containers.

63. Activities reports presented to us did not show that there was any disinfestation of government apartments, the disinfection and disinfestation of hospitals, clinics and health centers which is part of the fumigation contract with the Assembly. Meanwhile, a total amount of GH₵125,781.25 was deducted from the Assembly's allocation of the District Assembly Common Fund for fumigation for quarters 2, 3, and 4 of 2021, while GH₵ 181,125.00 was deducted for quarters 1, 2, and 3 for the year 2022.

64. Similarly, a total GH₵132,968.75 was deducted for SIP activities for quarters 2, 3 and 4 of 2021 while GH₵191,475.00 was deducted for quarters 1, 2 and 3 of 2022. Details of deductions are provided in the table below.

SN	Period	Fumigation GH₵	SIP GH₵
1	2021 Q2	25,156.25	26,593.75
2	2021 Q3	50,312.50	53,187.50
3	2021 Q4	50,312.50	53,187.50
4	2022 Q1	50,312.50	53,187.50
5	2022 Q2	50,312.50	53,187.50
6	2022 Q3	80,500.00	85,100.00
Total		**306,906.25**	**324,443.75**

65. This in blamed on the absence of an effective system in place at the assembly to abrogate and block contracts, and agreements that do not incur benefits to the assembly.

66. Committing the assembly to such complex and long-term contracts is a drain on assembly coffers when it does not receive commensurate value for money and deprives it of the needed funds for critical projects.

67. We recommended to management to focus their minds to these anomalies and take steps to ensure the assembly receives value for money out of such contracts.

68. We further recommended that the General Assembly of the Krachi East Municipal Assembly should take keen interest in how the assembly engages in contracts of this nature and immediately take a decision to terminate the contract if found to be detrimental to the development of the district.

Acknowledgement

69. We sincerely appreciate the assistance that the management and staff of the Assembly accorded us during the audit.

Daniel Lopez K. Tumawu
Ag. District Auditor
District 'A'
Dambai

Cc:

The Auditor General
Audit Service
Accra

The Deputy Auditor General (EIDA/NZ),
Audit Service,
Accra

The Regional Auditor
Oti Region
Dambai

The Minister
Local Government and Rural Dev.
Accra