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Compliance of Financial Management Regime in Ghanaian Local Government

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Abstract
The study investigates the budgeting, accounting and reporting practices of Metropolitan, Municipal and District assemblies (MMDAs) in Ghana and the extent to which these practices conform with financial regulations and laws, specifically the Local Government Act 1993 (Act 462) and the Financial Memorandum of MMDAs, (2004). The study relied on the survey design in the collection of the relevant data. The data was collected through self-administered questionnaires to 20 MMDAs purposively selected. This was supplemented by structured interviews and observations. The result shows an average level of total compliance with financial laws and regulations index of 12.33 (representing 82.2%). Moreover, the study establishes that there is no significant difference among MMDAs regarding their level of compliance with the laws. The findings also suggest that there is no significant association between number of accounting staff and level of compliance with financial laws and regulations. The study concludes that the assemblies' compliance to budgeting, accounting and reporting provisions is encouraging, even though total compliance is ideal.
Key words: Financial management, Budgeting and budgetary control, Compliance index, Accounting and reporting, MMDAs in Ghana.

1.0 Introduction

Over the years, decentralization of the machinery of government has become a recurring theme in the political and administrative discourse as well as a fashionable battle cry of advocates of administrative reform everywhere in the world (Asibuo, 1992). Decentralization has been described in the literatures as a pillar of good governance, alternative approach for promoting informed decision making, an agent of development and democratization, among others (Robertson, 2002). It is therefore not surprising that successive governments in Ghana since independence have recognized the need to implement a decentralization programme geared towards faster socio-economic development. For instance, the Provisional National Defence Council (PNDC) government passed the Local Government Law, 207 in 1988 which was later replaced by the Local Government Act, 1993 (Act 462) under the Fourth Republic.

The Local Government Act imposed enormous developmental functions on the Metropolitan, Municipal and District Assemblies (MMDAs) and these responsibilities demand an effective and efficient mobilization and management of financial resources. According to Boachie-Danquah (1996) the decentralization concept will become a practical reality when the assemblies become financially self-reliant. For the MMDAs to be financially self-reliant, it becomes necessary that an effective financial management system is in place in the MMDAs. Financial Management involves the process of planning, budgeting, accounting and controlling of financial resources deployed within an organization. It is a system that provides funds for an organization, ensures the maintenance and the control of the funds as well as reports on the use of the funds (Awaitey, 2003).

Ghana's Public Financial Management (PFM) system is based on a solid legal and regulatory framework. The 1992 Constitution sets out clearly the fiscal roles of the executive, legislature and judicial branches and provides the basis for the raising of resources and their spending. Within the framework of the Constitution are the laws governing the management of public funds which include the Financial Administration Act, 2003 (Act 654), the Financial Administration Regulations, 2004 (L.I. 1802), the Financial Memorandum for DAs, 2004, among others. These legislative and regulatory framework sets out the basic budget and accountability structures in all public institutions including MMDAs. Despite the fact that the legal and regulatory framework governing local government in Ghana contains provisions on the various sources of revenues and how the revenues so generated should be managed by the MMDAs, there have been many reports of the misappropriation of funds by the MMDAs. These misappropriations have been largely attributed to the absence of and/or weaknesses in financial management mechanisms or structures at the Assemblies (Boachie-Danquah, 1996). In recent times, the call for better financial management in MMDAs especially in Ghana has been on the ascendancy. The call has become timely due to the regular reports of financial irregularities being perpetuated by personnel of some assemblies (Asibuo, 1992).

In the face of the above concerns, there appears to be little information explaining the core financial management practices of the current financial management regimes in the MMDAs as well as the level of compliance by the MMDAs. This study is therefore aimed at examining the core financial management practices within the

MMDAs with particular reference to the budgeting, accounting and reporting and how these practices are consistent with the underlying laws and regulations with the view to contributing to filling the knowledge gap. Specifically, the study examines: the financial management practices of MMDAs; effectiveness of control procedures to ensure sound financial management; the extent to which the MMDAs comply with the financial laws and regulations; and the link, if any, between the number of accounting staff and the level of compliance.

The paper is organised as follows: the next section reviews literature on decentralisation and the core components of financial management. Following that is the method for the study and the hypothesis development. The next section provides the presentation and discussion of results. The last section contains the conclusions and recommendations.

2.0 Review of Literature

2.1 The Decentralisation Concept

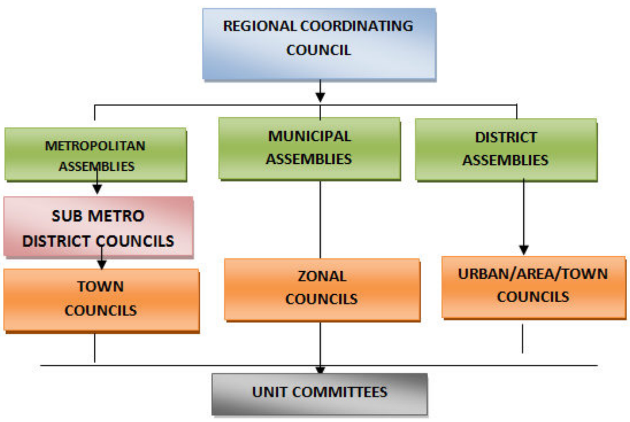
The rapid increases in the populations of the countries the world over has resulted in increases in the demands of society. These increases in the needs and wants of society pose greater challenges to governments all over the world, challenges which call for a more effective and efficient mobilization of financial resources as well as the management of such resources (Dejenie, 2003). The situation is not different in the case of Ghana as the literature suggests that finance is the scarcest resource and therefore requires careful and proper handling (Dejenie, 2003, Boachie-Danquah, 1996).

In Ghana, the 1992 Republican Constitution provides under article 240 (1) that “Ghana shall have a system of local government and administration which as far as practicable be decentralized”. Therefore, the finances of the local government can therefore be examined in the context of the decentralisation principles and practices originating from the Local Government Act, 1993, Act 462. Awaitey (2003) supports this view by stating that “Local government finance, and for that matter the financial management of DAs hinges basically on the level of decentralization of the government machinery of a country”. He further contends that any effective urban financial management can be attributable to the success rate of the Central Government’s decentralization programme and especially to the level of financial autonomy granted to the local governments in a country.

Decentralisation may be defined broadly to mean “the transfer of responsibility for planning, management and resource raising and allocation from the central government and its agencies to the lower levels of government” (Robertson, 2002: 5). Robertson (2002) identified three broad types of decentralisation: political, administrative and fiscal, and four major forms of decentralisation: devolution, delegation, deconcentration and divestment. According to him the notion of decentralisation is closely linked to the concept of subsidiarity, which according to Robertson proposes that functions (or tasks) be devolved to the lowest level of social order that is capable of completing them. The United Nations (1965) defines decentralisation to mean "the transfer of authority on a geographical basis, whether by deconcentration of authority to field units of the same department or level of government, or by devolution of authority to local government units or special statutory bodies."

In Ghana, the local government system is coordinated and facilitated through the Regional Coordinating Council, which serves as the apex of the local government structure in Ghana. The local governance structure consists of the Metropolitan assemblies, Municipal assemblies and District assemblies. The status of the assembly is dependent on the population of the area and the geographical contiguity as well as economic viability. A Metropolitan assembly may have sub-metro district council under it due to size. Town councils, Zonal council and Urban councils are at the grass root level of the local governance structure as shown in Figure 1.

Figure 1: Ghanaian Local Government Structure



(Source: Ministry of Local Government and Rural Development, 1996)

2.2 Financial Management of District Assemblies

Local government authorities in developing countries have come under increasing financial pressures during the last decade (McMaster, 1994). They now face a rapidly growing demand for essential services and facilities as a result of continuing rapid population growth. However, McMaster (1994) mentions that their capacity to supply the services and undertake the necessary infrastructural development is severely constrained by the inadequacy of the financial resources generated. In addition, MMDAs not only have a huge backlog of new infrastructure requirement but also need to allocate significantly more resources to maintenance, renovation and replacement of older and deteriorating facilities. Therefore, it stands to reason that these financial resources have to be properly used and assemblies should be seen to have used the funds for the purpose which they were intended for, and that maximum benefit has been derived. In order to ensure transparency and accountability of public monies, sound financial management practices in the assemblies is essential. (Financial Memoranda for MMDAs, 2004). Awaitey (2003) also defines it as "that managerial activity which is concerned with the planning and controlling of an organization's financial resources". He describes it as the art of mobilizing financial resources and making prudent, judicious, optimum and efficient use of such resources. Financial management for the purpose of this work therefore focuses on Budgeting, Accounting and Reporting.

2.3 Budgeting in MMDAs

Section 92 (1) of Act 462 provides for the preparation of an annual budget for MMDAs. It specifically states that "every District Assembly shall, before the end of each financial year submit to the Regional Co-ordinating Council (RCC) a detailed budget for the district stating the revenue and expenditure of the District for the ensuing year." It is the responsibility of the budget unit to liaise with the District Co-ordinating Director, the District Finance Officer and other heads of departments to collate and prepare the draft budget. The Act further requires that a composite budget be prepared by MMDAs stipulating that the budget for an MMDA should include the aggregate revenue and expenditure of all departments and organizations under the MMDA and the District Co-ordinating Directorate, including the annual development plans and programmes of the departments and organizations under the Assembly.

The draft budget is subsequently submitted to the Executive Committee for further discussions. Following the approval by the Executive Committee, the Budget (together with Fee-Fixing and Rate Imposition Resolutions) is opened to public debate. Consultative meetings are held with representatives of recognised rate-payer groups and organisations. At these meetings the Assembly negotiates the level of fees, rates, charges, etc with the rate payers and communicates the various programmes it intends to undertake in the ensuing financial year to the rate payers for consensus to be achieved. The consultation with rate-payers leads to mutual co-operation between the MMDA and rate payers and promotes decentralisation of the Assembly's fiscal policy measures through dialogue. After the consultative meetings, the final draft budget is presented to the General Assembly for further discussion and approval. Thereafter, a resolution of the approval is adopted and published and the Fee-Fixing and Rate Imposition Resolutions are gazetted. Some MMDAs publish bye-laws to this effect. This process gives legality to the Budget and the Fee-Fixing and Rate Imposition Resolutions for implementation.

MMDA's budget must be approved before the end of the financial year, preferably early December so that they can be forwarded to the various Regional Co-ordinating Councils before the financial year closes as stipulated under Section 92 (1) of Act 462 as stated earlier. Here, the RCC collates and co-ordinates the budgets of the various DAs in the region and is thereafter submitted to the Minister of Finance and copies sent to the Minister of Local Government and the National Development Planning Committee.

2.4 Accounting and Financial Reporting by Local Government Units

Chan (2003) suggests three main purposes of government accounting; the basic purpose of safeguarding the public treasury preventing and detecting corruption and graft, the intermediate purpose of facilitating sound financial management and the advanced reason to helping government discharge its public accountability. For these purposes to be achieved, it is required that funds are spent according to appropriate procedures, in the manner designated by law, and that proper accounting standards are observed. Some of the provisions in the laws are discussed below.

2.4.1 Preparation of Financial Statements

Every MMDA like all other public organisations is expected to keep proper financial records and prepare monthly as well as annual financial statement for onward submission to the Auditor General for audit. Section 40 of the Financial Administration Act, 2003 requires all Ministries, Departments and Agencies (MDAs) to submit within fifteen days after the end of each month statements of account to the Auditor-General and to the Ministry of Finance. Section 41 also requests the preparation of annual statement of accounts within three months after the end of each financial year. Subsection (2) of each of the sections mentioned requires that statement of accounts should be prepared in accordance with generally accepted accounting principles, and in accordance with instructions issued by the Controller and Accountant-General. The Act again requests MDAs and by extension MMDAs to state the basis of account. However, Regulation 186 of the Financial Administration

Regulations, 2004 stipulates that public accounts and other government accounts be prepared using the accrual basis of accounts except that the specific basis and procedures for preparing the accounts are determined by the Controller and Accountant-General. This marks a departure from the cash basis of accounts which has been applied over the years in the preparation of government accounts.
Sections 40 and 41 of the Financial Administration Act and Regulations 188, 189 and 190 of the Financial Administration Regulations provide for the components of the periodic accounts as follows:

a) A balance sheet showing the assets and liabilities of the Consolidated Fund.
b) A statement of revenue and expenditure for the year;
c) A cash flow statement for the department for the year; and
d) Notes that form part of the accounts. This is to include particulars of the extent to which the performance criteria specified in the financial estimates of the department's output are satisfied.

The Act only states 'assets and liabilities' but the regulation goes further to limit the type of assets and liabilities to liquid assets and liabilities, thus 'financial assets and liabilities'. The requirement of the balance sheet by both the Act and the Financial Administration Regulation further affirms the marked departure from the cash basis of accounting to the accrual basis. Hitherto, the balance sheet was not required as capital expenditures were written off in the year in which the payment was made.

2.4.2 Financial Controls in MMDAs

The controls of revenue and expenditure become essential in ensuring that MMDAs are always solvent and are able to provide the necessary services to the local population. Financial control has to do with the ability to ensure that the Spending Officers of MMDAs authorise the commitment of funds within the limits of funds placed at their disposal (approved budget) and according to appropriate procedures. The basic authority for expenditure is the approval of the Assembly's Annual Estimates under Section 87 of the Local Government Act. The approved estimates may only be varied by an approved supplementary budget or reallocation of budget. But the Assemblies are to aim at reducing the number and extent of supplementary budgets to the minimum and that applications are only approved when it is shown that it is in the best interest of the public.
The control of expenditure in the Assemblies is exercised by the following officers, The District Chief Executive, The District Co-ordinating Director, The District Finance Officer, The Internal Auditor and Officers responsible for the different heads of expenditure, who are normally the heads of departments.
Other equally important practical applications of financial control measures in the DAs include:

- The accounting for revenue collection within 48 hours through banking of such revenue;
- Opening and use of appropriate books of accounts for proper recording of revenue and expenditure transactions. The main books of account kept by the finance offices are the Treasury cashbook and the Treasury ledger; and
- Preparation and analysis of financial statements as a means of accounting for stewardship and use of public financial resources.

2.5 Hypotheses Development

A study by Da Costa Carvalho *et al.* (2003) on compliance by Portuguese municipalities to practices required by law concluded that metropolitan assemblies comply more with financial regulations than municipal and DAs. Thus, metropolitan areas have significantly higher levels of compliance. Da Costa Carvalho et al. attributed this to the fact that, the electorates are presumably more demanding in terms of the quality of information they receive. One can also infer that this phenomenon may be so because of the availability of facilities (i.e. accommodation, recreational centres etc.) and opportunities for self development in the metropolitan areas, for which reason the best of personnel with requisite qualifications and competence are attracted to them.
Stated formally, the first hypothesis, in its null form, is as follows:

H_1: There is no significant difference among DAs in the extent of compliance with financial laws and regulations.

Boachie-Danquah (1996) mentions poor accounting practices as one of the core financial management problems in the DAs and which poor practices he attributes to the acute shortage of qualified staff to undertake the activities of the highly technical and professional areas of finance and accounting. This therefore suggests that with the right number of qualified staff at the accounting departments of the various assemblies, better financial management practices could be undertaken thereby resulting in high compliance levels. The second hypothesis, stated formally, in a null form is as follows:

H_2: There is no significant positive relationship between the number of accounting staff and the level of compliance with relevant laws.

3.0 Research Methodology

3.1 Research Design

The researchers employed the survey design in which data was collected through questionnaire administration and interviews. In view of the research objectives, the survey strategy becomes the most appropriate strategy as it allows for the collection of a large amount of data from a sizeable population in a highly economical way (Saunders et al. 2007).

3.2 Population and Sample Design

The population of the study is made up of MMDAs in Ghana. Twenty-two (22) MMDAs were purposively selected for the study; however, only twenty completed questionnaires were retrieved. In all four (4) Metropolitan Assemblies, nine (9) Municipal Assemblies and seven (7) District Assemblies were involved in the study. The sample selection was skewed toward Metropolitan and Municipal Assemblies because these assemblies were found to have better financial management structures and was able to provide the information required for the study. Most of the District Assemblies lacks management capabilities and are not firmly in operation thereby will not be in the position to satisfy the information needs of the study. Thus the sample selection was largely informed by three main factors: proximity, accessibility and availability of data.

3.3 Data Analysis and Presentation

Data gathered relating to the level of compliance of DAs were analysed using a total compliance index. This measures the level of compliance with the regulatory provisions on budgeting and accounting. Local authority practices and information are scored against these budgeting and accounting provisions, scoring one (1) when they are conducted and zero (0) when they are not. The researcher assumed that all budgeting and accounting provisions are equally important, therefore, all have the same weight in the index:

$$Index = \sum_{i=1}^{m} P_i$$

Where: $\mathbf{P_i}$ represents the item or the budgeting and accounting provision in question
m represents the number of items (m ≤ 15), and
i represents the district assembly

Each MMDA may each reach a maximum compliance index of 15 points. From this we calculate the global compliance index for the whole sample. This is the mean of all MMDAs' compliance indexes. We used the global compliance index to determine the effectiveness or otherwise of the control procedures relating to the budgeting and accounting systems of the assemblies. The detail of the Budgeting and Accounting parameters are shown in Appendix I.

Correlation analysis was used to establish the association that exists between the number of accounting staff and level of compliance (that is H_2). Specifically, the Pearson's product-moment correlation coefficient, r, is used to establish the association. Hypothesis I is tested using Chi-square (X^2) with equal expected frequencies. The *t-statistic* is used to test the significance of the correlation coefficient in hypothesis II.

4.0 Results and Discussions

4.1 Compliance to Budgeting and Budgetary Control Requirement.

4.1.1 ***Budgeting***

One critical aspect of public financial management is budgeting and budgetary control. The Financial Administration Act 2003 (Act 654), which is the primary public financial management legislation in Ghana, requires all public sector entities to embrace budgeting and budgeting control practices in the deployment of state resources. In addition, the Local Government Act 1993 (Act 462) specifically requires MMDAs prepare annual budget. Section 87 of the Act states:

> "A District Assembly may incur all expenditure necessary for, or incidental to the carrying out of any functions conferred upon it under the Act or any other enactment, or by the instrument by which it is established, provided that expenditure is included in the approved budget of the District for the relevant year."

The study investigated the extent to which the selected MMDAs comply with the provisions of the laws on budgeting and budgetary control and it was found that all the 20 MMDAS prepare annual budgets prior to spending. This implies that the there is 100% compliance rate among MMDAs in relating to budgeting.

4.1.2 ***Budget Committees***

The legislations call for the establishment of budget committees to supervise budgeting and budgetary control process in the MMDAs. The result of the study confirms a 100% compliance rate to the requirement to create budget committees. Further interrogation brought out the roles played by budget committees in the MMDAs. Discussions with some of the finance and budgeting officers revealed that the budget committee has the responsibility of overseeing the entire budgeting process. The committee is responsible for conducting budget hearings, co-ordinating budgeting activities of the entire budget heads (i.e. decentralised departmental heads), consolidating and finally reviewing draft estimates based on inputs from heads of departments.

4.1.3 ***Budget Deadlines***

The Financial Memoranda for District Assemblies, 2004 and Section 92 of the Local Government Act 1993 require assemblies to prepare budgets before the end of the financial year. It was found that it was not every MMDA that comply with this rule. Seventy Five percent of the MMDAs complied with the rule while the remaining 25% fails to comply for various reasons. A number of reasons were given by the responding officers for their inabilities in meeting budget deadlines. The uncooperative posture of some heads of department in submitting their inputs was identified as a major cause of delays encountered in preparing budgets. Another significant reason given was the intense debates that sometimes characterised committee meetings during budget discussions. A lot of man hours (sometimes days and weeks) were often spent on the budget discussions which sometimes resulted in the rejection of the budget in whole or in part. Thus, the assemblies are unable to prepare the budget before the financial year ends.

4.1.4 ***Budget Phases***

Budget phases refer to the partitioning of an annual budget into short workable periods. Creation of budget phases supports effective budgetary control. The budget officers of the selected MMDAs were asked whether the annual budget is broken down into some shorter periods and implemented in phases and their responses are recorded in Table 1. From the responses, twelve out of the twenty respondents (representing 60%) prepare the annual budget in phases whereas the remaining eight (representing 40%) do not. As to the periods into which the annual budget is broken down, ten of the assemblies(50%) that present the budget in phases prepare budgets on monthly basis whiles two (10%) present it quarterly. In order to ensure the attainment of budget, monthly review throughout the budget period becomes necessary. These reviews allow for assessment of budget conditions and the preparation of reports comparing budgets to actual. These reports reveal deviations which are subsequently investigated and remedial actions taken to forestall future occurrences.

Table 1: ***Phases of the Budget***

Phase	**Count**	**Percentage**
Monthly	10	50
Quarterly	2	10
Semi annually	0	0
Not Applicable	8	40
Total	**20**	**100**

Source: Field Survey, 2011

4.1.5 ***Budgetary Control***

Budgetary control involves the preparation of budget, assigning responsibility, measuring actual outcome and comparing the planned outcome with the actual to take corrective action. Our compliance test indicates that all the 20 MMDAs instituted budgetary control system that enables them to generate the budget performance report. The result as to the period the variance reports are prepared is captured in Table 2.

Table 2: Time of Preparing Variance Report

	Count	**Percentage**
Monthly	14	70
Quarterly	3	15
Semi- annually	0	0
Annually	3	15
Total	**20**	**100**

Source: Field Survey, 2011

The outcome indicates that 70% assemblies present budget performance reports monthly, 15% presents its report quarterly with the remaining (15%) doing it annually. However, not all the assemblies investigate the variances. Fifteen of the respondents (75%) investigate variances whiles five (25%) do no investigation. From further interviews conducted with some of the Finance Officers, it was observed that some of the assemblies investigate only unfavourable variances.

The assignment of responsibility for budget performance is crucial in effective budgetary control system. Therefore, the study sought to determine the responsibility for budget performance. It is was found that in eleven assemblies (55%) the budget head holders are held responsible and are therefore tasked to provide explanations for the variances. However, nine of the assemblies (45%) indicates that the whole budget committee is held responsible and not individual budget heads which response is inconsistent with the provision in the financial memorandum of DAs which stipulates that ‘‘it shall be the responsibility of budget head holders to offer explanations on budget variances’’.

4.1.6 ***Computerisation of Budgeting Systems***

Part XIV of the Financial Memorandum of MMDAs, 2004 expects that all assemblies have their financial and accounting systems computerised and that each assembly provides for a buck-up facility for all data on its computer. The compliance test conducted reveals that not all the assemblies surveyed are complying with this provision. Eleven MMDAs (55%) have their budgeting system computerised and the remaining nine (45%) are yet to have a computerised budgeting system. The non-computerisation has resulted in the poor data storage systems being operated by some assemblies. This came to light during the field survey where data on the budgeted and actual revenue sources were difficult to come by. Several excuses were given by respondents for their inability to provide information on their revenue generation, the major one being that the files containing the data were missing. Some Finance Officers also gave the excuse that they were new at post and that since their assumption of duty they have tried tracing such data but to no avail. Discussions held with some officers of the assemblies attributed the delay in the computerisation of their budgeting and accounting systems to the high cost involved in undertaking such projects. Furthermore, the general lack of commitment on the part of some DCEs was also a reason stated for the delay.

4.2 Accounting and Reporting Compliance

4.2.1 ***Books of Accounts***

Section 90 of the Local Government Act, 1993 (Act 462) requires that assemblies keep proper accounts and proper records in relation to their activities and also prepare immediately after the end of each financial year a statement of their accounts. The study carried out a compliance test and the result has proven 100% compliance by among selected MMDAs. In relation to banking of revenues collected the Financial Memorandum of MMDAs requires that revenues collected are accounted for within forty eight hours of collection. The investigation carried out showed 80% compliance rate among the MMDAs. Even though the compliance rate is high, total compliance is anticipated to advance effective public financial management in the MMDAS. The major reason for the 20% non-compliance rate to this rule has to do with the remoteness of some revenue stations. The places where these revenue stations are situated also lack banking facilities. All the four assemblies who fail to meet the 48 hour deadline for depositing revenues into the designated bank account, however, account for their revenues on a weekly basis.

4.2.2 ***Preparation of Final Accounts***

In the spirit of good financial management in the MMDAs, the Financial Memoranda for MMDAS (2004) requires all assemblies to prepare monthly and annual accounts in accordance with the generally accepted accounting principles. The test result indicated 100% compliance rate for the preparation of monthly accounts. The result indicates that all the respondents prepare the Trial Balance, Revenue and Expenditure Statement and Balance Sheet which are required by the Act. The monthly accounts are required by law to be submitted within 15 days after the end of the month for which the statement relates. However, only 60% of the MMDAs comply with this rule and the remaining 40% fail to meet the submission deadline do so within 30 days.

Some of the eight assemblies attributed their non-compliance to the manual accounting system they operate. They argue that they spend a lot of time and effort in retrieving and processing data for the preparation of the financial statement. However, while Part XIV of the Financial Memorandum of DAs requires that assemblies computerised their financial and accounting systems, some assemblies are not complying, hence the delays in submitting their accounts with the appropriate authorities.

The MMDAs are also required to prepare annual accounts and statements. The result also indicates that not all the assemblies were complying with the preparation of annual accounts and statements. Table 3 presents the components of accounts and statements required to be prepared by assemblies and their levels of compliance.

Table 3: **Components of Annual Accounts and Statement**

Component	**Count**	**Percentage**
Revenue and Expenditure Statement	20	100
Balance Sheet	20	100
Comparative Statement of Revenue and Expenditure	19	95
Analysis of Advanced Accounts	16	80
Analysis of Deposits Outstanding	15	75
Statement of unredeemed Loans	9	45
Statement of total arrears of Rates uncollected	6	30
Statement showing the receipts, disbursement and unspent balance of grants and loans	9	45
Profit and Loss Accounts of any trading concern	3	15

Source: Field Survey, 2011

The result indicates that all the respondents prepare Revenue and Expenditure Statement and the Balance Sheet. Comparative statement of Revenue and Expenditure is prepared by 95% of selected MMDAs whiles 30%

prepare the Statement of total arrears of Rates uncollected. Three assemblies representing 15% of respondents indicated the preparation of Profit and Loss Accounts for some trading concern they undertake. This implies that there is very high non-compliance rate among MMDAs regarding the preparation of statement of unredeemed loans, statement of total arrears of rates, statement of receipt and disbursement of grants and loan, and statement of income statement for trading activities.It was also established that all MMDAs are able to meet the 90 days deadline for submission of annual accounts. It is interesting to note that some MMDAs are able to do so within a record period of 15 days after the end of the financial year.

4.2.3 ***Basis of Account Preparation***

Section 186 of the Financial Administration Regulations, 2004 requires generally that all public accounts and other government accounts be prepared on the accrual basis except that the specific basis and procedures for preparing the accounts is determined by the Controller and Accountant-General. The compliance test conducted showed that only 40% of the MMDAs use the accrual method as the basis of preparing accounts and statements. The remaining 60% fail to comply with the accrual basis requirement however, they were all found to be using cash basis of accounting in the preparation of accounts and statements required by the law. Further discussions with some officers at the assemblies however suggest that the accrual method is not wholly used in accounts preparation. What the assemblies use is actually the modified accrual basis. By this basis, revenues such as property rates are accrued while revenue from permits and fees, for example, are recognised on cash basis.

4.3 Testing the Hypotheses

4.3.1 ***Test of Hypothesis I***

The Hypothesis 1 is stated in its null as follows:

H_1: There is no significant difference among DAs in the extent of compliance with financial laws and regulations.

To test this claim, the Chi-Square Test was used. Here, the mean of the compliance index of each category of the MMDAs were obtained. The mean values of each category of MMDAs represented the observed values while the highest compliance index represented the expected values. The result of the test is summarised in Table 4.

Table 4: **Chi-Square Values Computation**

Assemblies	**Observed Values(O)**	**Expected Values(E)**	**(O – E)**	**$(O-E)^2$**	**$(O-E)^2/E$**
Metropolitan	12.50	15	-2.50	6.25	**0.42**
Municipal	12.78	15	-2.22	4.93	**0.33**
District	11.71	15	-3.29	10.82	**0.72**
					1.47

Source: Field Survey, 2011.

From the Chi-Square (X^2) tables, the theoretical Chi-Square value to determine the critical point for a 5% level of confidence is 5.99. The rule for acceptance states that the null hypothesis is accepted when the computed X^2 at a given confident level is smaller than the critical value. The computed X^2 in Table 4 is 1.47 is less than the critical value and therefore the null hypothesis is accepted. The conclusion therefore is that there is no significant difference among MMDAs in the extent of compliance with financial laws and regulations. It means that the level of compliance is not influence by the classification status of an assembly (whether metropolitan, municipal or district assembly).

4.3.2 ***Test of Hypothesis II***

The study asserts that there exists a positive relationship between the number of accounting staff and the level of compliance with relevant laws. Stated formally, the null hypothesis is stated as follows:

H_2: There is no significant positive relationship between the number of accounting staff and the level of compliance with relevant laws.

In testing the hypothesis, data on the number of staff and the compliance index of each assembly were obtained from the field through the research questionnaire as displayed in Table 5.A correlation coefficient (r) of 0.282 was the outcome of the test result. This means that there is a low positive relationship between the number of accounting staff and the level of compliance. The correlation coefficient (r) was tested to find out whether it is significantly different from zero. The test result shows a computed t of 1.301 and a t-statistic of 1.734 at a 5% significance level. Thus, the *t*-statistics exceeds the computed *t* indicating that the acceptance of the null hypothesis at 5% significance level. This means that an increase in the level of compliance of assemblies to financial laws and regulations is not significantly associated with an increase in the number of accounting staff. This implies that the quality of accounting staff should be pursued by policy makers' instead of mere numbers of the accounting class. A way out is to employ more professional accountants in the MMDAs to enhance the compliance to financial rules and regulation which are hall mark of effective public financial management.

Table 5: Number of Staff and Compliance Indexes of MMDAs

Codes	Number of Staff	Compliance Index (Maximum 15)
Me_1	55	14
Me_2	38	12
Me_3	6	11
Me_4	9	13
Mean C.I		**12.5**
Mu_1	6	12
Mu_2	6	10
Mu_3	9	13
Mu_4	4	12
Mu_5	8	13
Mu_6	8	13
Mu_7	7	15
Mu_8	6	13
Mu_9	10	14
Mean C.I		**12.78**
Da_1	6	13
Da_2	5	11
Da_3	11	14
Da_4	5	13
Da_5	6	11
Da_6	6	11
Da_7	4	9
Mean C.I		**11.71**
Grant Mean		**12.33**

Source: Field Survey, 2011 (Keys: Me_1 – Me_4: Metropolitan Assemblies; Mu_{1-9}: Municipal Assemblies; Da_{1-7}: District Assemblies).

The result of the Compliance Index (see Appendix 1) indicated that the basis of account preparation remains the least complied provision. This is closely followed by the provision on the computerisation of budgeting system. All the MMDAs sampled complied with the provisions on budgeting before execution; existence of budget committees, preparation of variance reports, keeping of proper books of accounts; Time of submitting annual accounts and statements and the preparation of monthly accounts and statements. The result indicates an average level of total compliance with financial laws and regulations of 12.33 (representing 82.2%). The over 80% average total compliance index shows that budgeting and accounting controls are in place in the assemblies and are effective for many types of the items of compliance.

5.0 Conclusions and Recommendations

5.1 Conclusions

The study concludes that all assemblies prepare budget before expenditure execution. Again, budget committees are present in all the assemblies and most of the assemblies issue budget estimate memo before the preparation of the detailed budgets. The use of budget estimate memo in the budget process implies that the budget process in most assemblies is well organised and formalised. Fifteen out of the twenty DAs (representing 75% of respondents) prepare budgets before the financial year ends. All the assemblies also prepare variance reports which compare budgeted and actual amounts but only fifteen of the assemblies investigate the variances, with about 60% of the assemblies having their budgeting system computerised. The remaining nine are yet to comply with the provision. Regarding financial accounting and reporting, all the assemblies open and use the appropriate books of account in recording all financial transactions, and most of them prepare monthly and annual financial statements as a means of accounting for stewardship. All assemblies comply with time within which annual financial statements and accounts are submitted. However, not all of them are able to submit their monthly statements and accounts on time. The hypothesis test results established that there is no significant difference among MMDAs in the extent of compliance with financial laws and regulations; all of them averagely complying with regulatory requirements. There also exist no significant association between the number of accounting staff and the level of compliance with relevant financial laws and regulations.

5.2 Recommendations

Based on the conclusions drawn from the study, we advance the following recommendations aimed at enhancing the budgeting and accounting practices of MMDAs in Ghana. In the first place, each assembly as a matter of urgency should set up a computerised data base which has to be reviewed from time to time. This computerised system will ensure the compilation of up to date information on new and existing businesses, commercial and residential properties etc. as well as their locations and addresses. The outcome of such a system therefore will ensure the timely release of reliable data for budgets and accounts preparations. Secondly, MMDAs should be required to publish their financial statements to ensure proper steward accountability at the local level. If revenues available to the assemblies are collected from the local people then it is logical that the people should know how the revenues so generated are used. Finally, MMDAs should engage professional accountants to manage their financial business. This recommendation is founded on the result finding which suggests that the number of accountants engaged by an MMDA has no significant relationship with the extent of financial compliance of the MMDAs, and by extention the quality of the accountants matter most.

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APPENDIX 1

Budgeting and Accounting Parameters and No. of Assemblies Complying

Subsystems	**Parameters**	**No. of Assemblies Complying**
Budgeting	1. Budgeting before expenditure execution	20
	2. Existence of budget committee	20
	3. Preparation of a Budget Estimates Memo	17
	4. Time of approving budget	15
	5. Existence of a budget coordinator	19
	6. Components of annual estimates of assembly's financial statement	18
	7. Preparation of a Variance Report	20
	8. Investigation of Variances	15
	9. Computerisation of budgeting system	11
Accounting and Reporting	10. Keeping of appropriate books of accounts	20
	11. Time of accounting for revenue collected	16
	12. Basis of accounts preparation	8
	13. Components of monthly accounts and statements	20
	14. Time within which monthly accounts and statement are submitted	12
	15. Time within which annual accounts and statements are submitted	20