

**IN THE FIRST SESSION OF THE FOURTH
PARLIAMENT OF THE FOURTH
REPUBLIC OF GHANA**

**REPORT OF THE PUBLIC ACCOUNTS
COMMITTEE ON THE AUDITOR-GENERAL'S
REPORT**

ON THE

**STATEMENT OF FOREIGN EXCHANGE
RECEIPTS AND PAYMENTS OF THE BANK
OF GHANA FOR THE TWO HALF YEARS OF
2001**

NOVEMBER 2005



INTRODUCTION

1. The Report of the Auditor-General on the Statement of Foreign Exchange Receipts and Payments of the Bank of Ghana for two half years of 2001 was laid before Parliament on 18th March 2004 in accordance with Article 187(2) of the Constitution. Pursuant to Order 162(2) of the Standing Orders of the House, the Report was referred to the Public Accounts Committee for consideration and report.

2. The Committee held two Sittings to deliberate on the Report. Evidence was taken from officials of Bank of Ghana (BoG), Ministry of Finance and Economic Planning (MOFEP) and the Controller and Accountant-General's Department (CAGD).

3. The Committee wishes to extend its gratitude to officials of the above-mentioned institutions for the input in clarifying issues raised by Members during the discussions.

REFERENCE

4. The following documents guided the Committee in its deliberations.
 - a. The 1992 Constitution
 - b. The Standing Orders of Parliament
 - c. The Financial Administration Decree (FAD) 1979, SMCD 221
 - d. The Bank of Ghana Law, PNDCL 291
 - e. The Bank of Ghana Act, 2001, Act 612
 - f. The Exchange Control Act 1961, Act 71.
 - g. The Financial Administration Act, 2003, Act 654
 - h. The Financial Administration Regulations, 1979, L.I. 1234
 - i. The Financial Administration Regulations, 2004, L.I. 1802

PART I

ANALYSIS OF RECEIPTS AND PAYMENTS

ANALYSIS OF RECEIPTS

5. Total foreign exchange receipts of Bank of Ghana for the two half years of 2001 amounted to US\$963,983,143 compared with an amount of US\$965,516,891 received for the corresponding period of 2000. This shows a shortfall of US\$1,533,747 or 0.2%.

6. The Bank's actual forex receipts of US\$963,983,146 for 2001 was more than its projection of US\$880,210,000 indicating a favourable variance of US\$83,773,146 or 9.5%.

7. The Bank's sources of forex receipts were from cocoa, gold, diamond, manganese, capital and invisible inflows. The Bank recorded increases in forex inflows from capital receipts (18.2%) and Invisible receipts (6.1%).

8. The increase in capital receipts resulted from a rise in grants from the U.K. and Netherlands, a credit facility from Union Bank of Switzerland (UBS) and International Development Agency – Economic Recovery Support Operation (IDA-ERSO).

9. Invisible receipts also went up as a result of the net inflows from West African Monetary Agency (WAMA) settlement in the second half of 2001. However, there was a sharp decrease in inward transfers as a result of the Bank's decision not to honour foreign cheques, following the fraudulent payment of US\$1,500,000 to Hajia Ocansey.

10. One of the major sources of forex inflow to Bank of Ghana, cocoa, recorded a sharp decline in receipts. The decline in forex receipts from cocoa

was attributed to a shortfall in both volume of cocoa exports and the average world market price for cocoa beans. The shortfall in volume of cocoa exports resulted from increase in smuggling of cocoa beans to neighbouring countries where producer prices were more attractive.

11. The sharp decline in cocoa receipts partially offset the increase recorded by BOG in respect of capital and invisible receipts and new inflows from manganese and diamond.

12. The details are set out in the table below:

YEAR	COCOA US\$	GOLD US\$	MANGANESE US\$	DIAMOND US\$	CAPITAL RECEIPTS US\$	INVISIBLE RECEIPTS US\$	TOTAL
2000	381,825,483	176,066,315	-	-	323,460,413	81,170,679	965,522,679
2001	296,218,233	154,947,458	2,306,693	1,486,082	425,554,307	83,470,370	963,983,043
Diff	(85,607,250)	(24,118,857)	2,306,693	1,485,082	102,093,894	2,305,691	(1,533,747)
%	-22.4	-13.5	-	-	31.5	2.84	0.16

ANALYSIS OF PAYMENTS

13. Foreign exchange disbursements by the Bank were primarily in respect of payment for visible and invisible imports and capital payments. Total foreign exchange payments by BoG for 2001 was US\$891,430,160 as against US\$1,158,845,272 recorded in 2000, representing a decrease of US\$267,415,112 or 23.1%.

14. The decline in foreign exchange payments for 2001 was the result of a general decline in payments in the three main components of forex outflows i.e. visible, invisible and capital payments. There was a decline in visible import

payments as a result of a fall in the average world market price of crude oil. There was no foreign exchange payment for non-oil import bills and capital payments also recorded a decline as a result of government's decision to opt for the Highly Indebted Poor Countries (HIPC) initiative.

15. Total invisible payments in respect of students' transfers, embassy transfers, management and technical services fees, capital subscriptions, contractual payments, WAMA Settlements and Sundry Payments declined by US\$43,894,490 or 28.2% from US\$155,472,920 in 2000 to US\$111,578,430 in 2001.

FOREIGN EXCHANGE RECEIPTS AND PAYMENT (NET) POSITION

16. A net surplus of US\$ 72,552,986 resulted from BoG's foreign exchange transactions during the period under review. The net surplus of \$72,552,986 represents a better performance over the previous year's deficit of US\$193,328,387.

17. The remarkable positive performance of the Bank resulted from a reduction in foreign exchange payments for non-oil and other import bills and a decline in capital and invisible payments.

FOREIGN EXCHANGE RESERVE ASSETS POSITION

18. The Foreign Exchange Reserve Assets position as at the end of December 2001 was US\$ 228,444, 831 compared with a level of US\$174,400,000 recorded at the end of December 2000. The significant increase in the foreign exchange reserves in 2001 was the result of the Bank's external sector policy that was targeted at building up the external assets to an appreciable level. External payments were therefore reduced whilst there was a slight improvement in foreign exchange inflow, especially in the second half of 2001.

PART II

FOREIGN EXCHANGE EARNING FROM DEALER COMMERCIAL BANKS AND POSITION OF BALANCES ON EXTERNAL ACCOUNTS HOLDINGS

MEMORANDUM ACCOUNT ITEMS

19. Exporters of non-traditional items such as bauxite, timber, agricultural produce, manganese, manufacturing and other invisible items are permitted to retain 100% of the forex proceeds from these exports. These proceeds are paid into foreign exchange accounts with the dealer commercial banks. The dealer commercial banks are then required to submit returns on these export items to the Bank.

20. Timely information on export earnings from these items is essential for monitoring and evaluating the foreign exchange inflows into the country.

21. According to the Auditor-General, the balance of payment position of the country and effective monetary policies cannot be established if complete, accurate and timely data on the country's foreign exchange inflows are not available to the Bank.

22. The Auditor-General however reported that Barclays Bank (Gh) and SSB Bank did not submit returns for the first quarter of 2001 whilst Merchant Bank, Ghana Commercial Bank (GCB) and International Commercial Bank (ICB) did not submit returns for the whole of 2001.

23. Information available to the Committee indicates that as at the time of reporting, most of the dealer banks have complied with the directive, except

Ecobank, Ghana Commercial Bank, Agricultural Development Bank, First Atlantic Bank and International Commercial Bank. According to Bank of Ghana, these banks have persistently defaulted in the submission of their returns despite several reminders sent to them.

24. The Bank attributed the non-compliance by the banks to inherent problems in the design of the Ghana Export Form (GEF), which makes monitoring the repatriation of proceeds from Non-Traditional Exporters (NTEs) difficult. As a result, information provided by the exporters are sometimes not accurate. The banks are also sometimes unable to determine whether funds received are for NTEs or other remittances.

Recommendation

25. Your Committee recommends that BoG should liaise with the Ministry of Trade and Industry and Ministry of Finance and Economic Planning to redesign the Ghana Export Form to facilitate the submission of returns by the dealer banks.

EXTERNAL ACCOUNTS HOLDERS POSITION

26. The Exchange Control Act, 1961 (Act 71) requires organizations permitted by BoG to operate external accounts to submit returns on the operations of these accounts to the Bank for purposes of monitoring and planning.

27. The audit, however, revealed that public and private institutions permitted to operate external accounts have failed to submit returns on the operations of these accounts to Bank of Ghana.

28. The Bank indicated that the situation has improved significantly following reminders sent to the defaulting institutions. In this regard, 27 public and private organizations have been reporting on the operation of their external accounts. Of this number, 23 are up to date with their returns whilst three others are yet to submit their returns for 2004. The only institution that has not been submitting returns is Ghana Airways.

Recommendation

29. To enhance monitoring role on the external accounts, BoG should always strive, including invoking sanctions, to get all relevant information on the external accounts from the institutions involved

PART III

MANAGEMENT ISSUES

INTEREST CHARGES ON WAMA SETTLEMENT

30. The Auditor-General reported that a total of West African Unit of Account (WAUA) 55,160 (equivalent of US\$75,017) was paid by BoG to some Central Banks in West Africa. The payments were in respect of interest charges for the late settlement of WAMA transactions. The Banks were BCEAO (the Francophone West African Central Bank), WAUA 47,818 (US\$ 65,033) and the Central Bank of Nigeria, WAUA 7, 341 (US\$9,984).

31. The Bank informed the Committee that the late settlement of WAMA transactions occurred due to lack of foreign exchange cover to effect payments. According to the Bank, its Foreign Reserve position has improved significantly and therefore believed the payment of penalties for the late settlement of WAMA transactions would be minimised significantly in future.

Recommendation

32. Your Committee reiterates the Auditor-General's recommendation that BoG should ensure that WAMA transactions are settled timeously to avoid the payment of interest charges.

PENALTIES ON OVER-DUE LOANS

33. The Auditor-General reported a total penalty payment of US\$603,551.33 for late settlement of loans in 2001 as against US\$932,032.25 in 2000, a reduction of US\$328,480.92 or 35.2%.

34. Your Committee was informed that the late settlement of overdue loans was the result of foreign exchange liquidity constraints; loan repayments had to

be deferred until foreign exchange was available. The Bank maintained that its foreign reserve position has improved and hoped that the incidence of overdue loans would be minimised.

35. Additionally, Bank of Ghana now provides MOFEP and CAGD with daily statement on debt service payments waiting funding. This has improved significantly and timely payments of outstanding loans.

Recommendation

36. The Committee wishes to urge BoG to continue to provide daily statement on external debt service payments and take other concerted measures with MOFEP and CAGD to ensure timely payment of loans as they fall due to minimize payment of penalties.

ADDITIONAL COSTS – KOFORIDUA HOSPITAL – US\$1,641,794

37. The Audit Report disclosed that an amount of US\$1,641,794 was paid to Messrs. Ibadessa Exportacones Y. Services, S.A. of Spain as charges for a nine-month delay in handing over site after the signing of the contract for the rehabilitation of the Koforidua Regional Hospital.

Recommendation

38. The Committee agrees with the Auditor-General's recommendation that appropriate pre-contract procedures, including consultation with all stakeholders should be put in place in all future projects to avoid contract delays and its attendant additional project costs.

DEBT SERVICE PAYMENTS TO CONSTRUCTION PIONEERS (CP)

39. The Auditor-General reported that his office was not furnished with relevant documents supporting various payments to Messrs. Construction Pioneers (CP) amounting to DM99.5m (US\$50,866,999).

40. Officials of Bank of Ghana indicated before the Committee that it is the practice of the Bank to request for certificates on projects before transfers are initiated. They further informed the Committee that examination of files on the transaction indicates that the Bank was furnished with the certificates of project execution before funds were transferred. The Bank was however not able to furnish the Committee with the relevant certificates.

41. Further investigations by the Committee indicates that the matter is currently pending before an international court of arbitration. The Committee shall duly inform the House of the outcome of the arbitration.

BELETED PAYMENTS OF CAPITAL SUBSCRIPTIONS

42. The Report noted a substantial increase in capital subscription payments during the second half of 2001. An amount of US\$3,265,223 was in respect of arrears owed to ECOWAS Executive Secretariat. Some of the arrears date as far back as 1982. An amount of US\$4,333,050.37 was also in respect of arrears of capital subscription to the ECOWAS Fund whilst US\$98,827 was in respect of arrears of Ghana's Contribution to ACP General-Secretariat.

43. This brought the total arrears of subscription payment during the second half of 2001 to US\$7,697,110.39.

44. The Bank attributed the belated payments to unavailability of funds and also untimely submission of information by the Ministry of Foreign Affairs (MFA) on the country's outstanding capital subscriptions to the Ministry of Finance and Economic Planning.

Recommendation

45. Your Committee agrees with the Auditor-General that MFA, MOFEP and BoG should always settle capital subscriptions promptly to avoid future sanctions or denial of benefits from international organizations Ghana is affiliated to.

PAYMENT OF MAINTENANCE ARREARS FOR LONG HAUL FLEET OF 3 DC10 AIRCRAFT (GHANA AIRWAYS LTD) – US\$3,000,000

46. An amount of US\$3,000,000 paid by Controller and Accountant-General for the settlement of arrears in respect of the maintenance of Ghana Airways Long Haul Fleet 3 DC 10 Aircraft remained outstanding as at the time of the audit. There was also no formal agreement between MOFEP and Ghana Airways Ltd on the loan.

47. Officials of MOFEP acknowledged before the Committee that there was no formal agreement between Ghana Airways and the Ministry but that MOFEP was arranging to have a written loan agreement signed.

48. They further indicated that Ghana Airways is under liquidation and that the liquidators are aware of the debt and therefore once the liquidation process is concluded the Committee would be notified of the out-come.

Recommendation

49. The Committee recommends that as soon as the liquidation process is conducted, MOFEP should notify PAC on the recovery of the loan from the liquidator.

LOAN AGREEMENT BETWEEN GPRTU AND SUMITOMO CORPORATION – 150 NISSAN URVAN BUSES SUPPLIERS CREDIT FACILITY GUARANTEED BY CAG

50. The Audit Report indicated that the CAG guaranteed on behalf of Government a loan of ¥213,052,500 with an interest charge 4.5% per annum for the Ghana Private Road Transport Union (GPRTU) from Sumitomo Corporation of Japan. The loan was used to finance the purchase of Urvan buses by GPRTU. Bank of Ghana, based on the Government's guarantee, issued a bank guarantee in 1995 in favour of Sumitomo Corporation of Japan.

51. An installment payment of ¥90,689,673 (US\$725,517.38) fell due on 9th July 2001 but GPRTU had only ₵489,546,431.11 in its account with Bank of Ghana as against an installment of ₵5,415,585,667 due on the loan.

52. The Sumitomo Corporation accordingly invoked the bank guarantee and demanded the payment of the amount from BoG. Bank of Ghana consequently invoked the counter guarantee by Government and debited the Consolidated Fund with ₵5,415,585,667 and lifting charges of ₵2,679,376.96 (¥45,344).

53. The Committee was told that GPRTU was servicing the debt till they defaulted on the last installment. MOFEP stated before your Committee that a debt-collecting agency has been appointed to recover the amount.

Recommendation

54. Your Committee recommends that MOFEP should ensure the recovery of all loans contracted by GPRTU and guaranteed by the Government that have become over due and report to PAC.

MISCELLANEOUS CAPITAL PAYMENTS OVER-STATED BY US\$124,523.04

55. The audit review of the schedule of miscellaneous capital payments disclosed an over payment of US\$124,523 during the second half of 2001.

56. According to BoG the overstatement resulted from the application of different cross rates in converting other currencies into the US dollar. The officials further stated that the above situation sometimes result from inadequate and inaccurate classification of accounts to be debited when payments are to be effected. The information is normally from MOFEP and CAGD. The Bank is in discussion with the two institutions and the Auditor-General's outfit on the issue.

Recommendation

57. Your Committee will notify the House of the outcome of the discussions between the Bank and the Auditor-General.

DOUBLE PAYMENTS AND OTHER ERRORS IN THE TRANSFERS OF FOREIGN EXCHANGE

58. The audit of the statement of foreign exchange receipts and payments of Bank of Ghana for the first half of 2001 disclosed errors, double transfers and the non-identification of beneficiaries in the transfer of forex for the settlement of Government's external obligations.

59. The deficiencies included a total loan repayment of UBS Chf37, 779 to African Development Fund (ADF) which was returned because of error or that the beneficiaries were unknown; double payment of Chf47,535 to the European Investment Bank (EIB) through UBS, Zurich. The amount was returned because Volta River Authority had already paid the loan.

60. Also, there was a double payment of US\$100,000 through Citi bank, N.Y. and Ghana International Bank (GIB), London, respectively in respect of operational expenses of GNPC's Rig Discoverer D 511. The amount was owed Messrs. Towell Barnoil Company of Oman. Another duplicate transfer was in respect of the settlement of various International Development Agency's (IDA) credits totalling US\$3,198,240.

61. The Bank acknowledged the findings of the Auditor-General on the payment of UBS Chf37, 779 to the African Development Fund that was initially routed through Bank National de Paris on 14th February 2001 instead of Bank Nationale de Suisse. The Bank rectified the error by recalling the funds, which were credited back to its account on 21st March 2001. Subsequently, the payment was made through the appropriate correspondent bank (Bank Nationale de Suisse) on 22nd March 2001 to avoid delays and payment of penalties.

62. With respect to the duplicated payment for the operational expenses of GNPC, BoG stated that the original instruction was that payment should be routed through Citibank. Bank of Ghana received a swift message from Citibank that the advising Bank could not effect the transfer. Bank of Ghana therefore paid the amount through GIB, London. It was after instructing GIB to effect payment, that Citibank communicated to BoG that they were able to apply the funds contrary to their earlier communications.

63. The error, according to BoG, originated from Citibank and appropriate steps have been taken to ensure that Citibank reversed the entry.

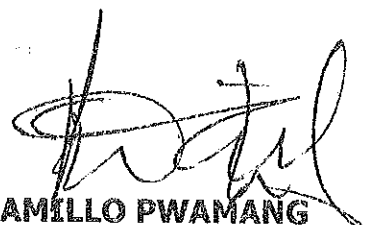
64. According to the Bank, it has since tightened its internal control mechanism to prevent such errors.

Recommendation

65. Your Committee recommends that BoG should continue to review its internal control and supervisory system in respect of external transfers so as to prevent wrongful transfers.

Respectfully submitted.


HON. SAMUEL SALLAS-MENSAH
CHAIRMAN, PUBLIC ACCOUNTS COMMITTEE


CAMILLO PWAMANG
CLERK, PUBLIC ACCOUNTS COMMITTEE
10TH November 2005