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PERFORMANCE AUDIT REPORT of the AUDITOR-GENERAL on PROCUREMENT OF DRUGS AND OTHER ITEMS IN THE MINISTRY OF HEALTH
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Performance audit of the Auditor-General on procurement of drugs and other items in the ministry of health
TRANSMITTAL LETTER

Ref. No. AG.01/109

Office of the
Auditor-General
Ministries Block ‘O’
P. O. Box MB 96
Accra

Tel. (021) 662493
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29 September 2006

Dear Sir,

PERFORMANCE AUDIT OF THE AUDITOR-GENERAL ON
PROCUREMENT OF DRUGS AND OTHER ITEMS
IN THE MINISTRY OF HEALTH

I have the honour to submit to you for presentation to
Parliament my 13th performance audit report in pursuant to Article
187(5) of the 1992 Constitution and Section 13(e) of the Audit
Service Act, Act 584. The Audit Service Act which came into force
in November 2000, gives me authority to audit programmes and
activities of public offices to ensure economy, efficiency and
effectiveness in the use of resources.

2. The Audit Service traditionally audits the financial statements
prepared by public bodies. Performance auditing has been introduced
at Ghana Audit Service as part of a capacity building project funded
by the European Union. The team that carried out the audit
comprised Messrs Jacob Essilfie, Mohammed Habib Wahab and
Douglas Acquah under the supervision of Messrs. Yaw Sifah, Ag.
Assistant Auditor-General and R. K. Anaglate, Deputy Auditor-
General, all of Performance Audits Department.
3. Performance audits are carried out by teams of professional staff, including specialists such as architects, legal experts, engineers, economists and accountants. Depending on the extent of the coverage and complexity, it normally takes between six months and one year to complete a performance audit, thus, making it more expensive than the traditional financial audit. Effective performance audits can lead to better use of resources by public bodies and provide support to democratic governments by bringing about accountability and transparency, improved operations and better decision-making.

4. This report to Parliament is the 13th report prepared by staff who have been professionally trained in conducting Performance Audits to internationally recognised standards to supplement the financial audits.

5. I would like to thank my staff for their assistance in the preparation of this report and the staff of the Ministry of Health, Ghana Health Service and other institutions for assistance offered to my staff during the audit.

6. I trust that this performance audit report will meet the approval of Parliament.

Yours Sincerely,

[Signature]

EDWARD DUA AGYEYEMAN
AUDITOR-GENERAL

THE RT. HON. SPEAKER
OFFICE OF PARLIAMENT
PARLIAMENT HOUSE
ACCRA
PERFORMANCE AUDIT OF THE AUDITOR-GENERAL ON PROCUREMENT OF DRUGS AND OTHER ITEMS IN THE MINISTRY OF HEALTH

EXECUTIVE SUMMARY

In recent times, the government’s attention has been focused on procurement procedures of Ministries, Departments and Agencies (MDAs) because there is a general perception of waste and leakage in government spending through procurement in the public sector. This has necessitated the promulgation of the Public Procurement Act in August 2003.

2. Within the Ministry of Health the general perception of waste and leakage of funds through procurement in MDAs was confirmed by the 2002 Auditor-General’s report which revealed among others that, a total of €1.61 billion worth of drugs had expired and therefore declared unwholesome. The 2003 report also highlighted irregularities in procurement such as; over-payments, goods paid for but not supplied, purchases not taken on charge, circumventing of laid down rules and non-transparent purchasing procedures all valued at €3.8 billion in a number of Budget Management Centres (BMCs) of MoH.

3. It was in the light of these 50 revelations that the Auditor-General requested that a performance audit be conducted on procurement of drugs and other medical items in MoH to evaluate the procurement system in MoH and find ways to improve the system in order to curb waste and safeguard government funds.
4. In conducting the audit, we gathered information from 24 BMCs in five regions across the country. We reviewed documents provided by the BMCs as well as literature on procurement; interviewed key personnel of the various sampled BMCs and inspected their storage facilities.

5. The audit revealed some levels of inefficiencies and ineffectiveness in the procurement procedures of the BMCs in the areas of information management, supplier management, presence of unwholesome drugs, low level expertise and lack of mechanisms to measure performance of the procurement function.

Tackling the problem

Improve Management Information

6. We noted that BMCs did not have adequate and available management information for effective procurement. The management information which was in use at the time of the audit was constrained by inadequate systems to collate and analyse data. This hinders strategic procurement activity such as monitoring prices, sharing information and identifying opportunities for savings. Improved management information would facilitate the monitoring and reporting of savings within MoH.

7. We recommend that, MoH ensures that management information is sufficiently developed in BMCs to provide basic information on suppliers, purchase transactions and process cost. This in turn will facilitate the setting, achievement and monitoring of savings over time within MoH.

8. We further recommend that MoH facilitates the building of local area networks in BMCs to enhance work efficiency and communication within
the organisation. In addition, the use of the Procurement Management System software should be promoted in BMCs.

**Develop Supplier Management**

9. The big volume of procurement by lower BMCs is undertaken outside established arrangements i.e. through the Central Medical Stores. Supplier management is underdeveloped in most BMCs with some BMCs not following best procurement practice in maintaining a list of approved suppliers, vetting new suppliers and formally recording supplier performance.

10. We recommend that, BMCs maintain or develop a suitable supplier management system. This should include a database of approved suppliers, proper vetting of new suppliers and a formal system for monitoring the performance of suppliers as well as sanctions for non-performance.

**Develop a robust performance measurement system for procurement**

11. None of the BMCs had a robust performance measurement system that encompassed clear objectives, comprehensive indicators and regular reporting to the BMC head.

12. We recommend that, MoH develops a robust performance measurement system for evaluating procurement with time related, measurable targets, including explicit savings targets for the BMCs. Performance against objectives should be reported regularly to the head of the BMC. The system should be able to generate management information required to measure value for money gains. In this regard, BMCs should
provide adequate training for their staff responsible for compiling and reporting performance information.

13. We further recommend that the Regional Health Directorate:
   - Agrees with the BMCs under their jurisdiction a strategy for achieving savings during procurement.
   - Monitors the implementation of strategy and holds the BMC to account for their procurement performance; and
   - Develops a system for identifying and tracking incidences of mis-procurement in order to apply the required sanctions to defaulting BMCs.

**Improve on quality of procurement expertise**

14. There were two out of 11 procurement officers with professional qualifications in purchasing and supply. At the time of our audit procurement officers had benefited from a one month structured training in procurement at GIMPA.

15. We recommend that MoH should consider recruiting qualified and experienced staff to manage the procurement function and intensify its training programmes for procurement officers. MoH should also encourage them to acquire professional qualification in purchasing and supply. It should demand from its BMCs quality procurement plans. This will require the Ministry to strengthen the BMC’s capacity to develop annual plans that meet the requirement of the MoH Procurement Manual of 2004.
Unwholesome drugs

16. All the BMCs visited had quantities of unwholesome drugs that were due to a number of factors. To minimize unwholesome drugs in BMCs, we recommend that before donations are accepted by BMCs, the drugs should be inspected to ensure they conform to medicines on the Essential Drug List and that their expiry dates are within acceptable limits.

17. Central Medical Stores (CMS) should be restructured to be able to stock medicines at all times to reduce excessive buying of medicine by lower BMCs from the local market.

18. MoH should continue to rehabilitate the CMS to ensure that medicines are properly stored to maintain their efficacy at all times.

19. Lastly MoH should encourage their doctors to prescribe medicines maintained on the Essential Drug List to reduce the drug turnover.
PERFORMANCE AUDIT OF THE AUDITOR-GENERAL ON PROCUREMENT OF DRUGS AND OTHER ITEMS IN THE MINISTRY OF HEALTH

CHAPTER ONE

INTRODUCTION

Reasons for the audit

The 2002 Auditor-General’s report showed a total amount of €1.61 billion as the total cost of drugs that were declared unwholesome in 2000 and 2001. The 2003 report highlighted various irregularities in procurement of commodities including: overpayment, goods paid for but not supplied, purchases not taken on charge, circumventing of laid down rules and non-transparent purchasing procedures by BMCs of the MoH. These irregularities amounted to €3.8 billion.

2. As a result, the Auditor-General has requested a performance audit to be carried out to find out the extent of the problems in the procurement of drugs and other items in MoH and consequently find ways of curbing waste.

Purpose and scope of the audit

3. We carried out the audit to evaluate the processing control framework and other key success factors that improve efficiency in the procurement function. The study concentrated on the operations of procurement officers, procurement committees and heads of BMCs. We further looked at how the new Public Procurement Act is influencing public procurement in MoH. The team collected financial data as well as records on procurement transactions for the period 2000 to 2004.
Methods and implementation

4. In undertaking the audit, we collected information from 24 BMCs spread across five regions of Ghana (Appendix 1) in order to obtain evidence for the audit. In particular we undertook a review of documentary evidence (Appendix 2) provided by the Procurement Units of the various BMCs.

5. We consulted with key staff in our sampled BMCs and MoH and reviewed financial data for analysis of spending on procurement. We also identified key initiatives being implemented with the aim of improving performance of procurement.

Structure of the audit report

6. Chapter One provides the reasons, purpose, scope and methodology used in the study. Chapter Two describes the key players and organisation of procurement in MoH. Chapter Three identifies problems relating to management information, supplier management, the quality of procurement staff and self-assessment of BMCs. The final Chapter presents recommendations to increase efficiency and effectiveness of procurement in MoH.
CHAPTER TWO

DESCRIPTIVE CHAPTER

Historical background

7. In the absence of a national procurement code, MoH through a five year Medium Term Health Sector Strategy (MTHS) from 1997 to 2001 had identified procurement as one of the key areas for capacity building. To achieve this objective, MoH prepared a Manual to enable it organise its procurement using specific procedures. The first edition of these procedures entitled "Procurement Procedure Manual" was published in 1999. All BMCs under MoH were directed to strictly follow the procedures outlined in the manual.

8. Parliament in 2004 passed the "The Public Procurement Act, Act 663" to give impetus to the crusade of reducing waste through public procurement. MoH has therefore reviewed its procurement procedure manual to take account of the Procurement Act.

Goals and objectives

9. The objectives of MoH to organize procurement under standard procedures were:
   - to present a graphical and easy to follow process during procurement;
   - to provide coherence and uniformity in the procurement management processes within and across implementation levels; and
   - to provide a basis for tracking a flexible and open ended participatory process in managing procurement.

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Performance audit of the Auditor-General on procurement of drugs and other items in the ministry of health
10. By adopting these objectives MoH seeks to:\(^2\):

(a) Ensure that its requirements for goods, works and services and disposal of stores are met through an open and fair process that provides a high degree of competition and value for money;

(b) Encourage Ghanaian businesses to be competitive and to sustain quality product development; and

(c) Hold heads of BMCs accountable for procurement decisions.

Rules and regulations

Process control framework


12. The Medium Term Expenditure Framework (MTEF) budget procedure also requires a BMC to state the direction within which resources can be prioritised and developed, and to consider how the procurement function contributes to the BMC's overall aims and objectives. BMCs are required to set objectives to enable their progress monitored, so that a BMC can assess its procurement performance.

Funding

Sources of funding

13. Procurement in MoH is financed from three main sources namely:

- Government of Ghana (GOG): This comes from budgetary allocations under cost centres GOG 2 (Administration), GOG 3 (Service) and GOG 4 (Investment). Releases of funds from GOG are irregular and hence sparingly used to pay debts incurred on health commodities procured.

- Internally Generated Funds (IGF): These are funds obtained from the daily operations of BMCs. They comprise the sale of drugs and hospital fees collected from in-patients and out-patients. MoH requires that a percentage is paid into the consolidated fund.

- Donor Pool Fund (DPF): This is part of the support given by donor partners for health services in Ghana. As part of the accountability process for the use of donor funds for procurement, MoH has commissioned an external auditor who conducts procurement audits every year. Figure 1 shows the average percentage contribution from the various sources of funding towards procurement in MoH. Internally Generated Fund is the preferred source used in funding procurement in BMCs.
Current developments

New Public Procurement Act to reduce corruption in public procurement

14. Parliament has passed Act 663, the Public Procurement Act that seeks to streamline and make procurement more open and competitive so as to reduce the perceived corruption in public procurement. The provisions in the Act have affected the purchasing and processing control framework used in MoH to regulate procurement practices. In response, MoH has revised its procurement manual by incorporating the good practices in the new Act.

Government’s bid to provide equitable and universal access for all residents of Ghana to essential health service

15. The Government of Ghana is in the process of implementing a National Health Insurance system of healthcare to replace the current system popularly called “cash and carry”. The new strategy of financing healthcare is social in nature in that, rich people are required to pay more
than the poor to support cross-subsidization. It is believed that when the system is in full operation, the number of people seeking healthcare will increase as well as the number of ailments needing attention at the hospitals. Consequently, more generic drugs will have to be included on the Essential Drug List prepared by MoH. The volumes of drugs and other medical items procured by BMCs will rise to meet the increased demand for healthcare. BMCs would have to position themselves in order not to be overwhelmed by these developments.

16. Healthcare facilities that will join the scheme will only be accredited after meeting stringent criteria set by the National Health Insurance Council. One of the criteria is that, BMCs will be required to operate computerised systems to aid stock management and general administration of the insurance scheme. This means that capacity of BMCs to operate and maintain computer systems would be tested. Opportunity therefore exists for BMCs to overhaul their management information systems.

17. The Scheme has already prepared a National Health Insurance Drug List (NHIDL). BMCs participating in the insurance scheme can only prescribe drugs on the NHIDL. Only the cost of drugs listed on the Drug list will be reimbursed to the participating BMC. In order to benefit from such arrangements, procurement in BMCs has to be done to achieve economy.

**Key players and their main activities**

**Organisation of procurement in MoH and its BMCs**

18. There are two levels of key players involved with procurement transactions in MoH. On a higher level, there are MoH and Ghana Health
Service (GHS) who together provide leadership, guidance and overall oversight of procurement management. The lower level operators are the key players within BMCs.

**Higher level key players**

**Ministry of Health**

19. MoH through the Procurement and Supply Division has the responsibility for managing the supply chain in the public health sector by:

- Formulating and developing policy, standards and rules;
- Monitoring compliance and performance of the procurement function of BMCs;
- Disseminating information relating to procurement; and
- Building capacity of procurement staff at all procurement levels.

20. The Policy, Planning, Monitoring and Evaluation Directorate is, however, responsible for planning for capital goods including vehicles, civil works, plant and equipment by co-ordinating and monitoring MoH national investment plans.

**Ghana Health Service**

21. The Stores Supply and Drug Management Division of the GHS is responsible for coordinating, collating and monitoring procurement plans from BMCs. GHS provides technical support and also monitors and supervises procurement activities in BMCs under GHS. The organisational structure for procurement in MoH is shown in Figure 2.
Lower level key players

Key players and their responsibilities in BMCs

22. At the BMC level the key players are:

- Procurement committee
- Medical superintendent
- Procurement officer
- Stores department
- Accounts department
- Suppliers to the BMCs

23. The responsibilities of the BMC key players are shown in Figure 3.
Figure 3: Structure and responsibilities of key players in BMCs

**Procurement Committee**

Responsibilities:
1. Review and approve procurement plans
2. Confirm the range of acceptable cost of items to be procured and match them with available funds
3. Facilitate contract administration
4. Ensure that stores and equipment are disposed off in accordance with regulations
5. Make decisions of awards
6. Endorse every intended purchase before implementation

**Medical Superintendent**

Responsibilities
1. Approve all procurement spending
2. Chairs procurement committees

**Procurement Officer**

Responsibilities
1. Collates requirements of user departments into annual plans
2. Member secretary to the procurement committee
3. Manages supplier database
4. Organises procurement information system

**Supplier**

Responsibilities
1. Supplies quotation when called upon to do so
2. Supplies goods to the required specifications, time and cost
3. Submits invoice for payment

**Stores**

Responsibilities
1. Take charge of goods supplied
2. Inspect and check quantities of goods supplied
3. Prepare necessary document for payment to supplier

**Accounts**

Responsibilities
1. Check invoices
2. Prepare books of accounts for goods
3. Prepares cheque for payment to supplier

Source: Compiled by GAS team from interviews

National Level Procurement

24. National level procurement is done to stock CMS. The sources from which commodities are procured are:
Manufacturers of pharmaceutical and medical goods on the international markets;

Private suppliers on the local market;

International organizations; and

Local manufacturers of pharmaceuticals and medical goods.

25. The procurement committee at the national level has authority to approve spending up to €15 billion when it adopts International Competitive Bidding for procuring goods. On the other hand, it is limited to spend €2 billion at a time when National Competitive Bidding is the preferred method of procurement.

**Regional Level Procurement**

26. At the regional level, procurement is done to stock the regional medical stores in order to service hospitals and clinics under the jurisdiction of Regional Health Administration. The Regional Medical Store (RMS) is required to first source its supplies from CMS. When goods are not available at CMS, they are then sourced from the open market.

**Lower Level BMC Procurement**

27. Hospitals and clinics have the option to procure their goods from local markets when RMS is unable to supply them. The main clients of these lower BMCs are patients. Figure 4 shows the flow of commodities in MoH among the various levels of procurement.
Figure 4: Flow of commodities matrix in MoH

Source: Summary from interviews from sampled BMCs

Stages in the procurement chain

28. There are nine identifiable stages in the procurement chain that BMCs go through to conclude a procurement transaction. At each stage a document is produced as evidence of the transaction and also for record keeping. The stages together with who is responsible for the stage as well as the document produced are shown in Table 1.
Table 1: Stages in the procurement chain in BMCs

<table>
<thead>
<tr>
<th>Stage</th>
<th>Activity</th>
<th>Who Responsible</th>
<th>Document produced</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preparation of Annual plan</td>
<td>PO, Procurement Committee and dept heads</td>
<td>Annual plan document</td>
</tr>
<tr>
<td>2</td>
<td>Requisition from user departments</td>
<td>Department heads and PO</td>
<td>Completed requisition forms, list of requirements from all departments</td>
</tr>
<tr>
<td>3</td>
<td>Decision to procure</td>
<td>Procurement Committee</td>
<td>Committee meeting minutes</td>
</tr>
<tr>
<td>4</td>
<td>Request for quotations</td>
<td>PO and suppliers</td>
<td>Request for quotation letters and quotations from suppliers</td>
</tr>
<tr>
<td>5</td>
<td>Opening and evaluation of bids</td>
<td>Procurement committee, evaluation panel</td>
<td>Tender opening report and evaluation report</td>
</tr>
<tr>
<td>6</td>
<td>Award of supply contract</td>
<td>Medical Superintendent/PO</td>
<td>Award letter</td>
</tr>
<tr>
<td>7</td>
<td>Preparing goods/service/works</td>
<td>Supplier/Consultant/Contractor</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Delivery and inspection</td>
<td>Supplier/Stores/Internal audit</td>
<td>Waybill/SRA/LPO</td>
</tr>
<tr>
<td>9</td>
<td>Payment</td>
<td>Accounts/Medical Superintendent</td>
<td>Invoice/Cheque/receipt</td>
</tr>
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</table>

PO= Procurement Officer, SRA=Stores Receipt Advice
Source: GAS Team compilation

Performance audit of the Auditor-General on procurement of drugs and other items in the ministry of health
CHAPTER THREE
FINDINGS

Introduction

29. The audit showed that basic systems are in place for achieving efficiency in procurement but these need to be properly developed to achieve an appreciable level of effectiveness. The areas we noted for further improvements were:

- Management information;
- Supplier relationship management;
- Quality and training of procurement officers;
- Self assessment of BMCs; and
- Unwholesome drugs

Management information

30. The efficiency of the procurement function in MoH depends largely on how procurement information is utilised in forecasting, planning and accelerating procurement transactions. Being abreast with technology will enable BMCs communicate procurement information at less cost. The audit showed in broad terms that:

- Management information systems are undeveloped in BMCs;
- BMCs have low usage of software in managing procurement business; and
- Non-utilisation of the internet and limited use of Local networks.

Performance audit of the Auditor-General on procurement of drugs and other items in the ministry of health
Management information systems are undeveloped in BMCs

31. Quality management information is an essential element of effective procurement. It enables a BMC to:³

   ✦ Adopt a strategic approach to securing better prices and improving quality;
   ✦ Easily analyse and compare prices in the market and share information with other BMCs;
   ✦ Assess the performance of the purchasing function, and monitor the achievement of efficiency gains; and
   ✦ Aid strategic management in decision-making.

32. Management information can take a variety of forms, that is, from high level financial reports showing expenditure against budget to detailed information on individual product and services. Basic management information should cover:

   ✦ How much is spent with whom and on what goods and services;
   ✦ The number of suppliers and the profile of expenditure with each of them;
   ✦ The type of arrangement under which goods and services are purchased and the amount of purchasing that takes place outside CMS or RMS; and
   ✦ Information about suppliers and the quality of goods and services received from them.

33. Management information systems can help build knowledge on products, markets, suppliers and their behaviour.

³ Procurement in the higher education sector in Wales, 2004

*Performance audit of the Auditor-General on procurement of drugs and other items in the ministry of health*
34. We found that information systems in all BMCs were only able to provide basic information on procurement, and this was often generated from their accounting records. All BMCs were able to monitor expenditure against budget for different parts of their operations, and most had a supplier list and the capacity to report payments made to suppliers. But few had systems that routinely collected the information listed in paragraph 48, and in no BMC was all the information collected. Generally, BMCs relied on manual review to collect such information as and when it was needed rather than as part of planned procurement activity. For example, it was only when we requested such information that, time was spent in generating them for us with varying degree of difficulty.

35. The effect of the undeveloped nature of management information in BMCs was experienced when procurement and accounting officers who had been at post for about two years were unable to provide any useful information on procurement transactions prior to their postings. Data processing is limited to the transaction processing level. Thus, the compilation of summaries, comparisons and trends to aid management in decision making was not visible.

36. We also found out that BMCs have not built reliable databases over the years to help them plan effectively. In the absence of effective databases very little procurement knowledge had been built over the years to support the procurement system of BMCs.

Low usage of software in managing procurement business

37. The use of software helps to reduce processing time and also to effectively analyse procurement data. Software supports capturing of data,
storage, processing and retrieval for decision making. It is also beneficial in summarising information to aid top level management in monitoring and supervising the procurement function.

38. The software in use in MoH is the “Procurement Management System” (PMS). This software is not widely used in the BMCs we visited. Only 3 out of 20 procurement officers we interviewed had knowledge in the use of the software. Some of the procurement officers do not even know of the existence of procurement management system software in MoH. Others who knew of the PMS application did not have the capacity to use it to enhance their work.

39. The low usage of software in BMCs has affected the quality of output culminating in:
   ✷ Poor analysis of procurement data for forecasting, planning and monitoring;
   ✷ Poor organization of procurement data resulting in poor accessibility;
   ✷ Over-dependence on paperwork – large volumes of paper document stacked and not used;
   ✷ Poor retrieval of data/information for decision making; and
   ✷ Accuracy of information produced is doubtful because of laborious methods used in processing procurement data.

Non-use of internet and limited use of local network

40. The internet is now considered as a cost effective way of transmitting and sharing information faster and efficiently. The internet provides instant global access to a number of organizations, individuals and
information sources. It enables trading partners to collaborate and provide visibility in a manner that is relatively easy to implement. It can enable BMCs to access markets and suppliers around the world that were previously inaccessible. Lastly, the internet can make it easier for BMCs to deal with many more suppliers in order to get lower prices and better services. This has the advantage of reducing paper and processing cost of procurement transactions.

41. The use of local area network (LAN) also allows people on the local network to communicate and share information thereby reducing movement and paperwork.

42. We found out that though BMCs were aware of the benefits of the internet and LAN, none of the BMCs visited had a LAN in operation. Five of the BMCs said they were in the process of building a LAN. We noticed a lot of physical interactions between procurement officers and other staff because all information on procurement had to be carried to a recipient on request or for discussion. This has the potential of reducing the procurement officer’s productive time as well as getting him tired on unproductive movements.

43. None of the procurement officers had access to the internet; hence they were limited in obtaining information of global relevance for use. We were aware that local suppliers of BMCs may not have developed their capacity to be visible on the internet; therefore, the use of the internet to transact procurement business may be limited. However, benefits could be obtained from getting diverse procurement information from the internet.
Supplier relationship management

44. BMCs want the commodities and services necessary to achieve their objectives to be delivered on time, of high quality and low cost which is the responsibility of their suppliers. The relationship between a BMC and its suppliers are of utmost importance in the procurement function. A BMC should select suppliers that share its commitment to quality and lowering costs. To be effective, BMCs should demand a high level of performance from their suppliers. This requires:

- BMCs to refine their supplier databases and improve on project management; and
- BMCs should measure the performance of their suppliers.

BMCs to refine their supplier databases and improve project management

45. Good management of a BMC’s suppliers can lead to better value for money. Effective management of suppliers will require the maintenance of a list of approved suppliers – this will provide BMCs with a dependable number of suppliers who have been properly assessed for reliability.

46. Within the limited resources of a BMC, there should be a controlled and structured procedure to achieve its procurement objectives. Hence project management of the supply chain could help the realization of the procurement objective. Characteristics of good procurement management include:

- A thorough understanding of the key stages of the supply contract which are critical to its success;
A detailed knowledge of the risks associated with the supply contract and reliable contingency arrangements to manage them;

An up to date plan for the execution of the supply contract and regular monitoring of progress against key milestones; and

Effective coordination of all those involved in the supply chain.

47. All BMCs have database on their suppliers. The databases consisted of files containing documents relating to suppliers of the BMC. They did not show the history of purchases with suppliers. Only 20% of our sample had summarised and prepared a list of their suppliers. Ten percent of the respondents had prepared their supplier list by going through prequalification procedures. The rest prepared their supplier list by compiling a list of suppliers who had been doing business with the BMC. New suppliers were listed when they apply requesting to do business with the BMC often without vetting.

48. Eighteen BMCs out of 24 visited did not vet new entrants. New entrants were asked to provide quotations alongside old suppliers when the opportunity for procurement arose. We heard of cases where suppliers who had won contracts were not on the supplier list, thus, they had not been vetted to ascertain their capabilities to execute supply contracts.

49. The problems that resulted from non-scrutiny of new entrants were that, suppliers after being awarded supply contracts on the bases of their invoices turned round to request for upward review of the contract prices. Other suppliers had provided unreliable addresses and could not be
contacted for possible inclusion in a tender. Others whose quotations were successful failed to honour the supply contract because they could not pre-finance the supplies.

50. All procurement officers showed varying degrees of an understanding of the key stages of the procurement function, but none had prepared or showed the risks associated with the supply chain or had any prepared a contingency plan to mitigate the occurrence of a risk. No procurement officer had a plan as a basis for monitoring the activities in the supply chain. Actions taken during a procurement transaction were done on ad hoc basis.

51. In coordinating activities of those involved in procurement, we found that more time was spent by procurement officers on suppliers during quotation time but less time during the supply period. We also learnt that there was much interaction between the BMC head and the procurement officer on issues of meeting the needs of user departments. However, in 44% of our sample, procurement committees seldom met to approve procurement decisions. The BMC head as the spending officer was left to decide on all procurement matters. In such cases the procurement officer was left to implement decisions of the BMC head. For the other players involved in the supply chain, procurement officers did not show much influence on their activities because they were part of the BMC and had their job description to follow.

BMCs should measure the performance of their suppliers

52. When services or goods are supplied to a BMC, the BMC should be able to indicate its level of satisfaction with the service or goods supplied.
The time and cost of the service or product supplied should be recorded. The level of satisfaction can be assessed so that non performing suppliers could be eliminated from dealing with the BMC.

53. The performance of suppliers can be measured against the following:
   - Adherence to contract instructions;
   - Responses to progress enquiries;
   - Time of completion or delivery; and
   - Quality of job done.

54. We found that no BMC had developed any system or procedure to measure and/or appraise the performance of its suppliers. Three procurement officers said if a supplier performed abysmally he/she was not contacted for future contracts, but no records were kept. No BMC had kept records of performance on suppliers and therefore unreliable suppliers could be re-engaged in the near future when staff at post changes.

55. None of the BMCs could show any formal system of appraising the performance of their suppliers except that non-performing suppliers are not contacted again.

MoH has not recruited professionally qualified or trained its procurement officers for efficient procurement

56. Improving procurement in MoH requires the recruitment and training of qualified and competent staff to manage the procurement function at various levels of BMCs. We found that majority of procurement
officers are not professionally trained whilst training programmes have not been vigorously pursued.

57. A professionally qualified and experienced procurement officer is likely to have the key skills for economical purchasing and how purchasing should be structured to best meet the needs of the BMC. For effective and continuous improvement in the procurement function, officers who do not meet the skills required to perform efficiently should have the opportunity to upgrade themselves in a mix of internally structured training and a pursuit of training outside the institution. Continuous improvements in all aspects of business makes it expedient to have a system in place that will continually update and improve skills of staff with new trends in the purchasing and supply industry.

58. We found that more than 50% of MoH procurement officers were not highly trained. Only two out of 22 BMCs had procurement officers who had professional qualifications in purchasing and supply (MCIPS). Organisation of procurement in these two BMCs was more orderly and the procurement officers showed a lot more commitment to the procurement function. They exhibited knowledge in contract law, procurement regulations and were also conversant with the use of the procurement management software of MoH.

59. The qualifications of procurement officers showed that 68% had not been professionally trained in purchasing and supply. Thus, we expected a well structured training on the principles of procurement for them, but the best the MoH had done was a one-month training course at GIMPA which the procurement officers agreed should be augmented.
60. In nine BMCs, the procurement officer’s job had been taken over by other staff members because there was no substantive procurement officer. See details in Table 2. The procurement function in these BMCs were not as organised as the BMCs that had qualified procurement officers. MoH will benefit more if procurement officers are more qualified or highly trained.

61. We recognise that, not every BMC can afford to maintain a highly qualified procurement officer, but depending on the size of the BMC and the volume of purchases undertaken outside the RMS or CMS consideration should be given to the quality of procurement officers engaged.

62. In all the BMCs visited it was KATH that was able to show us a comprehensive training programme for the year. This was because KATH is autonomous and capable of financing its own training programmes. The other BMCs had no training programmes of their own and depended on the Ministry’s master training programme which is not likely to address the micro needs of procurement staff.
Table 2: Procurement expertise in BMCs

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<tr>
<th>BMC</th>
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<th>Professionally trained PO</th>
<th>BMC</th>
<th>PO</th>
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<td>Keta Govt Hosp</td>
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<td>√</td>
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<td>Tema Polyclinic</td>
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<td>Bekwai Dist Hosp</td>
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<td>La Polyclinic</td>
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<td>Nana Hema Deyi Hosp</td>
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</tr>
</tbody>
</table>

Source: GAS Team compilation from data gathered from BMCs

Notes

√    Procurement officer in office

√√   Officer promoted from Stores department

X    Procurement officer not available

63. Training is important in developing and maintaining up to date skills among both qualified and non-qualified procurement officers.

64. Forty-five percent of the procurement officers had a one month training programme in Procurement at GIMPA. Apart from a few in-house seminars on procurement that procurement officers had benefited from none had any further structured training in procurement.

65. The competences of the procurement officers reflected in a number of Procurement plans we reviewed. Some of the BMCs could not produce any plan for us to review. We found that much effort had been devoted to preparing a list of items to be purchased. The annual plans were deficient in the important aspects of indicating contract packages, estimated cost of
each package, the procurement method to be adopted for each package as well as the processing steps and times as required by the Public Procurement Act, Act 663 of 2003.

66. Problems encountered from poorly prepared annual plans included:
   - Frequent procurement under emergency which involved setting aside rules and regulations;
   - Procurement of goods and services not planned for which does not directly contribute to the realization of the hospital's main objectives;
   - Annual plans were prepared to meet a requirement and not as a tool for planning and executing the procurement function; and
   - Tendency of annual plans being set aside.

67. We noted that actual training of staff in procurement had been in existence for about a year. Untrained procurement officers showed less interest in gathering and analysing procurement information. They showed less interest in the use of the Ministry's procurement management system software.

Self assessment of BMCs

BMCs do not measure their performance in procurement

68. An efficient procurement system must be underpinned by a strong performance measurement system. This means setting clear objectives for the procurement function, identifying suitable indicators and monitoring achievements against them. Appropriate performance measures provide the institution's management with a formal means to assess procurement
performance and to assure themselves that the procurement process is contributing to the institution’s overall aims. In order to fully assess the performance of the procurement function, both financial and non-financial indicators are needed, and they should cover the whole range of procurement activity.

69. Also BMCs that fall short of laid down rules and regulations are to be sanctioned as indicated in the MoH Procurement Manual of 2004. The manual provides that BMCs that indulge in mis-procurement will have to self-finance the transaction or have the cost deducted from the BMC’s allocation.

70. We found that none of the BMCs had any performance measurement system. Two BMCs reported that they use a variety of measures including savings achieved but could not show any evidence to support the claim.

71. In the absence of competition, performance measurement against targets can serve as a yardstick for measuring efficiency and thereby improving the procurement function. This could be done by measuring activities against:

- Targets set in the annual plan;
- Previous years’ performance;
- Financial audit reports;
- Procurement audit reports; and
- Yearly review reports.

72. Procurement officers did not consciously compile data that could help them check targets and estimates set out in the annual procurement plan. Not a single Procurement officer interviewed could compare his
previous year’s performance to the current year’s performance. In the absence of such data it was difficult for any of the procurement officers to indicate whether there had been any improvement in the procurement function over a period.

73. We reviewed the annual Review reports by the Regional Directorate of Health of Greater Accra region with the view to finding out the importance the directorate attached to procurement in the region. Only a single paragraph had been devoted to procurement in the report. Procurement officers in other regions also indicated that though they supplied information on procurement for the annual reviews, virtually nothing was said about procurement in subsequent reports issued.

74. We also asked Procurement Officers about the action they took on findings of the Auditor-General’s report concerning procurement in their BMCs. They indicated that, they were not privy to the contents of such reports.

75. MoH through its external procurement auditor conducts audits into procurement practices in sampled BMC’s with the view to determining compliance to laid-down regulations. Our review of 2003 and 2004 reports showed that the same problems concerning; method of sourcing for goods, training of personnel in the Procurement Procedure Manual and preparation of annual plans featured in both reports implying that no corrective action had been taken to forestall the re-occurrence of such problems.

76. We found out that MoH has not developed any means to monitor, track and identify BMCs when they mis-procure. There was evidence of
procurement that had not passed through the procurement committees. Top of the reasons cited was that, faced with an emergency, they could not go through the procurement process because of the time it took to complete a transaction. We were of the view that, if well thought out annual plans had been developed together with implementation plans or strategies, such emergency buying could have been reduced.

Unwholesome drugs
Steps taken by BMCs to reduce instances of unwholesome drugs
77. Instances of unwholesome drugs result in waste to BMCs. Their occurrences are mainly due to expired drugs, poor storage and poor quality of drugs procured. In this regard, BMCs are to procure drugs of acceptable quality and fit for the purpose of treating specific ailments. The drugs procured should be properly stored under the right environment to prevent deterioration and also enhance their shelf life. The expiry date of drugs is very important to ensure that their efficacy is maintained over an acceptable period of time. To complete the procurement cycle, doctors are to prescribe drugs procured by BMCs to ensure continuous usage. Drugs procured by BMCs are mainly drugs maintained on the Essential Drug List (EDL).

78. We found out in our audit that BMCs have put in place measures to reduce instances of unwholesome drugs. A variety of factors had resulted in some drugs going waste and therefore unusable.

79. One problem faced by BMCs regarding unwholesome drugs is through drugs donated by philanthropists and NGOs. All BMCs that had benefited from such donations confirmed that the drugs were nearing their
expiry dates before they were donated to them. Often the donated medicines were not of much use to the BMC and therefore left unutilised.

80. The lower BMCs accused CMS and RMS of not giving them the chance to inspect drugs prior to supply. Thus, CMS and RMS were able to dump drugs nearing their expiry date on them. The RMS counter accused the lower BMCs that, they take the advantage of the absence of drugs at the medical stores to procure larger quantities of drugs than they had on their requisition forms from the local markets. By the time the RMS is stocked with the outstanding drugs, the lower BMCs no longer needed them.

81. Also, the lower BMCs are able to obtain medicines at cheaper cost than obtained at the medical stores because of their access to the open market and to the same suppliers to RMS. Apart from the lower BMCs obtaining competitive prices from the open market, they also think they get better quality medicines in the open market.

82. Our visit to the storage facilities of the CMS and the five regional medical stores showed that facilities for storing drugs needed improvements. At CMS and Western Regional Medical Store, renovations were on-going to improve the storage facilities. At the medical stores in Northern, Ashanti and Volta regions, the complaint was about inadequate facilities for storing drugs that required cold ambience. There were also complaints of leakages and inadequate shelving.

83. Leakage of water from the roof of the Medical Stores destroys packaging of items and contaminates drugs. Additionally, storage space is reduced because, to protect items from rains, the areas exposed to leakage have to be freed. The lower BMCs had problems of storing drugs that
needed cold temperatures. Some of the facilities for storage had broken down. Domestic refrigerators were used in these places.

84. We also heard from doctors that they sometimes prescribe drugs that were not stocked by the BMCs to patients. The doctors were of the view that such drugs were more potent though expensive for the BMC to stock. The change in prescribing behaviour of doctors stalls the turnover of drugs stocked by the BMC.

85. We again noted that BMCs have initiated measures to reduce the incidence of expired drugs. These included BMCs procuring quantities of drugs that can last for a period not more than 3 months. For this to be successful and effective, the information system of the BMC should be dependable to support the usage profile of individual drugs. Also, BMCs have resolved to buy drugs with expiry date of 18 months minimum.

86. Furthermore, to continually remind doctors of the medicine in stock, some BMCs notably Komfo Anokye and Tamale Teaching hospitals prepare monthly bulletins of medicines available. Doctors are then mindful of the medicines in stock and match them to the type of sicknesses that are encountered in the hospitals.

Summary and conclusions
87. MoH as far back as 1999 had identified procurement as one of the key areas for capacity building and therefore organized its procurement using specific procedures. This was complemented by the coming into law of the Public Procurement Act, Act 663 which is aimed at reducing waste in public sector procurement.
The audit, however, revealed that even though the parameters for achieving the best in procurement had been set by the Ministry, the best was yet to be achieved. The audit has identified the following conditions that were hindering MoH from realizing maximum benefit from its procurement function. These conditions were:

- Procurement information system and management is weak. The basic levels of capturing information are not fully developed. Thus, information is not readily available for decision making, managing suppliers and for measuring performance;

- There is room for managing suppliers to achieve reduction in cost and increase speed of delivery. Very little procurement management is undertaken to ensure timely delivery of commodities. No appraisal of BMC’s suppliers is made to record their performances;

- In the absence of competition BMCs have not developed systems to ensure constant improvement of the procurement system – there is no procurement performance measuring system in place;

- There is no systematic programme aimed at training and developing the capacity of procurement officers in commercial skills. The few highly trained procurement officers were often engaged in work of low strategic value;

- Less attention is devoted to developing strategies for implementing annual plans; and

- BMCs have taken measures to reduce the incidence of wastage from expired drugs
CHAPTER FOUR
RECOMMENDATIONS

Management information to be improved

89. BMCs have limited management information and its use is often constrained by inadequate systems to collate and analyse data. This hinders strategic procurement activity for example monitoring prices, sharing information and identifying opportunities for saving.

90. Improved management information would facilitate the monitoring and reporting of savings within the MoH. We recommend that BMCs ensure that management information is sufficiently developed to provide basic information on suppliers, purchase transactions and process cost. This in turn will facilitate the setting, achievement and monitoring of savings over time within MoH.

91. We further recommend that MoH facilitate the building of local area networks in BMCs to enhance work efficiency and communication within the organisation. Also the use of the Procurement Management System software should be widely promoted in BMCs.

Supplier management to be improved

92. The large volume of procurement by lower BMCs is undertaken outside established arrangements i.e. the CMS. Supplier management is underdeveloped in most BMCs with some BMCs not following best procurement practices in maintaining a list of approved suppliers, vetting new suppliers and formally recording supplier performance. We recommend that BMCs maintain or develop a suitable supplier management system. This should include a database of approved suppliers, proper
vetting of new suppliers and a formal system for monitoring the performance of suppliers.

**MoH to insist on performance measurement of BMCs**

93. None of the BMCs has a robust performance measurement system that encompasses clear objectives, comprehensive indicators and regular reporting to the BMC head. Such a system is most likely where procurement has been centralised and is supported by a well integrated management information system. We recommend that MoH develop a robust and balanced performance measurement system with time related, measurable targets, including explicit savings targets for the BMCs. Performance against objectives should be reported regularly to the head of the BMC. The system should be able to generate management information required to produce scores that can measure value for money gains. In this regard, BMCs should provide adequate training for their staff responsible for compiling and reporting procurement performance information.

94. We further recommend that regional health directorates:

- Agree with the BMCs under their jurisdiction a strategy for achieving the savings targets
- Monitor the implementation of strategy and hold the BMC to account for their procurement performance; and
- Develop a system for identifying and tracking instances of mis-procurement in order to apply the required sanctions to defaulting BMCs.
Improve quality of procurement expertise

95. There were two out of 13 procurement officers with professional qualifications in purchasing and supply. At the time of our audit procurement officers had benefited from one month structured training in procurement. We recommend that MoH improves its training programmes for Procurement officers and also encourages them to acquire professional qualification in purchasing and supply. MoH should demand from its BMCs quality procurement plans. This will require the Ministry to strengthen the BMC’s capacity to develop annual plans that meet the requirement of the MoH Procurement Manual of 2004.

Reduce unwholesome drugs

96. All the BMCs visited had quantities of unwholesome drugs that were due to a number of factors. To minimize unwholesome drugs in BMCs, we recommend that before donations are accepted by BMCs, the drugs should be inspected to ensure they conform to medicines on the Essential Drug List and that their expiry dates are within acceptable limits.

97. CMS should be restructured to be able to stock medicines at all times to reduce excessive buying of medicines by lower BMCs from the local market.

98. MoH should continue to rehabilitate the medical stores to ensure that medicines are properly stored to maintain their efficacy at all times.

99. Lastly, MoH should encourage their doctors to prescribe medicine maintained on the Essential Drug List to reduce the drug turnover.
Responses from MoH

100. On the issue of management information systems, the Ministry has developed a logistics management information system and is in the process of computerizing the Central Medical stores, the ten Regional Medical Stores, two Teaching hospitals as well as selected procuring entities. Already procurement officers have been trained on the use of the Procurement Management System installed at the major procurement units. BMCs without computer systems will be trained on the proper management of information manually.

101. MoH has developed a procurement training strategy consistent with the needs of its programme of work. The training strategy is designed to train procurement practitioners to apply the processes and procedures to their daily work schedules.

102. MoH intends to review and strengthen existing monitoring structures in accordance with the internal audit and financial administration laws.
## BMCS SAMPLED FOR THE STUDY

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LIST OF DOCUMENTS REVIEWED/BIBLIOGRAPHER

(a) Report of the Auditor General on the Public Accounts of Ghana for the year ended 2002

(b) Report of the Auditor General on the Public Accounts of Ghana for the year ended 2003

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(h) Ex-post procurement audit for the year 2003 under the five (5) year programme of work, October 2004

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Mission Statement

The Ghana Audit Service exists

To promote

- good governance in the areas of transparency, accountability and probity in the public financial management system of Ghana

By auditing

- to recognized international auditing standards the management of public resources

And

- reporting to Parliament