

## ISSUES, OBSERVATIONS AND RECOMMENDATIONS

### PERVASIVE ISSUES

(Extracted from pages 15 to 21 and 31 to 33 of the PAAC Report)

#### Question 1

##### **Internal Audit**

The role of Internal Audit is to provide independent assurance that an organisation's risk management, governance and internal control processes are operating effectively. Internal Audit serves a critical function in all Ministries and Departments. However, based on the Committee's examination, the Internal Audit function appeared to be:

non-existent; or understaffed; or under-resourced; or lacking the capacity to assist in the mitigation of risks, for example, the general strengthening of the internal control processes.

The Internal Audit staff of many Ministries and Departments were occupied with administrative duties such as checking payments of salary arrears, overtime and other similar routine tasks. This was especially the case in larger Ministries such as the Ministry of Health, Ministry of Education and Ministry of National Security in which there were a large number of persons employed in various categories of service. This coupled with the general insufficiency of persons working in the Internal Audit units reduced the capacity of those units (where they exist) to focus on larger issues of risk management, governance and internal control processes.

##### **Recommendations:**

- *The Head of the Public Service develops a training programme to strengthen the Internal Audit function throughout the Public Service, which must include continuous training to ensure knowledge and practices remain up-to-date with International Financial Reporting Standards (IFRS)/IPSAS.*
- *Consideration may be given to the use of the resources of the Treasury and the Auditor General to assist with the delivery of the programme. Through the strengthening of Internal Audit departments, many issues can be rectified in a timely manner. Records*

*will be properly maintained, issues will be identified and dealt with and there will also be a higher sense of accountability, transparency and value for money.*

- *The Public Service Commission and the Chief Personnel Officer review the job descriptions and the terms and conditions of employment for all levels of Internal Audit staff, with the objective of making Internal Audit a professional stream in the Public Service.*
- *The Public Service Commission and the Chief Personnel Officer take all requisite steps to fill all vacant positions after the review mentioned above, in a timely manner.*
- *The Public Service Commission and the Chief Personnel Officer must devise and implement retention strategies to minimise loss of Internal Audit personnel in the Public Service.*

### Comments

The Ministry of Finance has initiated reform to strengthen the financial management capacity in Public Service. To this end, a comprehensive Public Financial Management (PFM) Strategy was approved in 2014 and consultancies were engaged; including those for the Internal Audit Function. Work completed to date is as follows:

In financial year 2015, a consultant was engaged to examine the robustness of the Internal Audit Function of the Public Service. The consultant's Report identified the weakness of the Internal Audit and made recommendations on the way forward which included a revised Internal Audit structure.

The following documents were prepared: - An Internal Audit Charter, Draft Internal Audit Practice Guide (Manual) and Internal Audit Standards. These documents were sent to all Permanent Secretaries for comments.

Further, in December 2016, an IADB loan was taken to finance the continuation of PFM reform; one (1) of the components being Internal Audit.

It should be noted that the Treasury Division does not currently have the capacity to provide training as recommended on its own. However, training will form a large component of the Internal Audit Reform agenda.

### Question 2

#### **Fraud**

According to the Association of Certified Fraud Examiners, fraud can be defined as a knowing misrepresentation of the truth or concealment of a material fact to induce another to act to his or

her detriment. Consequently, fraud includes any intentional or deliberate act to deprive another of property or money by guile, deception, or other unfair means.

Based on the Committee's examination, there appeared to be no distinct mechanism to distinguish between fraud and error in the Public Service, rather, most instances of misrepresentation appeared to be classified as errors.

**Recommendations:**

- *The Ministry of Finance develops and implements a mechanism to:  
identify; and  
prevent fraud  
which is to be applied to all Ministries, Departments, State Enterprises and Statutory Authorities. This will ensure that accountability is maintained.*
- *Penalties should be introduced to penalise persons found guilty of committing fraud within Ministries, Departments, State Enterprises and Statutory Authorities.*

**Comments:**

- **The Ministry of Finance is in the process of developing a Fraud Policy.**
- **Further, in accordance with Regulation 127 (1) (a) – (b) of the Exchequer and Audit Act, Chapter 69:01:-**

*“(1) If it appears to the Minister that any person who is or was in the employment of the State,  
(a) has failed to collect any moneys owing to the State for the collection of which he is or was responsible;  
(b) is or was responsible for any improper payment of public moneys or for any payment or such moneys which is not duly vouched; or  
(c) is or was responsible for any deficiency in, or for the destruction of, any public moneys,... and if satisfactory explanation is not, within a period specified by him, furnished to the Minister with regard to the failure to collect improper payment, payment not duly vouched, deficiency or destruction, the Minister may surcharge against the said person the amount of any such amount not collected, payment deficiency, or loss or the value of the property destroyed as the case may be.”*

**This surcharge provision can be used as a deterrent once enforced.**

- **The Service Commissions Department should ensure that steps for disciplinary action are clearly outlined and communicated to all Heads of Ministries/Departments.**

### **Question 3**

#### **Monitoring and Evaluation**

Monitoring and evaluation refers to the process that helps improve performance and achieve results with the aim of improving current and future management of outputs, outcomes and impacts. Monitoring and Evaluation Units ensure that economies of scale are achieved in projects and that there is no resource wastage.

Based on the Committee's examination, a number of Ministries and Departments did not have a Monitoring and Evaluation unit or where units existed, they were found to be severely understaffed. Instances of wastage were identified within various Ministries and Departments, for example, the project to outfit the New Office Building for the Personnel Department. Steps should be taken to ensure that projects are completed while avoiding cost overruns and ensuring that resources are distributed efficiently and effectively.

#### **Recommendations:**

- *Ministries and Departments must familiarise themselves with the National Monitoring and Evaluation Policy of Trinidad and Tobago<sup>9</sup> which outlines the system for monitoring and evaluation during the execution of projects, focusing on accountability, transparency, credibility, objectivity, ethics and utility.*
- *The Ministry of Finance and Ministry of Planning and Development must ensure there is a clear distinction between the functions of the Internal Audit Units and the Monitoring and Evaluation Units.*
- *Ministry of Planning and Development develops training to ensure the Monitoring and Evaluation Units perform at optimum capacity.*
- *Ministry of Planning and Development develops Standard Operating Procedures (SOP) for the Monitoring and Evaluation Units.*

### Comments:

There are clear lines of distinction between the Internal Audit and Monitoring and Evaluation Units. The Internal Audit operate at a micro level whereas the M&E at a macro level, dealing with all projects and the line agencies.

### Question 4

#### **Exclusion of Projects from the PSIP**

According to the Annual Call Circular for the Preparation of the Estimates of Revenue and Expenditure, annual/legacy (long-standing) projects, i.e. multi-year programmes and projects for which there are no discernable end dates and which are deemed to be annual must be excluded from capital expenditure funding.

Based on the Committee's examination, there were a number of projects including computerization, health programmes and maintenance and upgrades which were identified to be removed from capital expenditure funding.

#### **Recommendations:**

- *The Ministry of Planning and Development identifies and removes long-standing projects and programmes from capital expenditure funding.*
- *The Ministry of Finance through its Budgets Division, must ensure that programmes transferred to recurrent expenditure from capital expenditure receive adequate funding.*

### Comments:

The Budget Division reviews all requests for funding by Ministries and Departments in preparation of the annual Draft Estimates of Revenue and Expenditure of Ministries/Departments, Statutory Boards and Similar Bodies and the THA. Recommendations for funding under various areas of Recurrent Expenditure will be based on Cabinet approval as well as costings which are considered economical and sustainable. Programmes/Projects which are transferred to recurrent expenditure would be provided with adequate funding provided that government's overall revenue position is significantly favourable. In the case of deficit budgets the fiscal targets which are set for any particular year may require severe cuts to ensure expenditure ceilings are maintained.

## **Question 5**

### **Project Management**

Project management, is the application of knowledge, skills, tools, and techniques to project activities to meet the project requirements.<sup>10</sup> Effective project management can assist Ministries and Departments in carrying out projects while receiving value for money.

Based on the Committee's examination, project management is required as a specialty skill used by Ministries and Departments. Ministries and Departments such as, the Trinidad and Tobago Police Service and the Ministry of Public Utilities appeared to have effectively functioning Project Management Units, while others such as, the Ministry of Sport and Youth Affairs needed to strengthen its capacity.

### **Recommendation:**

- *The Ministry of Planning and Development standardises the project management function across Ministries and Departments. The Ministry may wish to consider identifying existing model Ministries and Departments which can be used as benchmarks.*

### **Comment:**

**Recommendation duly noted.**

## **Question 6**

### **Non-profit Institutions**

Non-profit Institutions form an important part of the Government service delivery mandate as they ensure the welfare of citizens in specific areas such as, sporting, community development, gender and healthcare.

Based on the Committee's examination, controls over the use of Government's funds in Non-Profit Institutions appeared to be weak. For example, in the Ministry of Sport and Youth Affairs, the Committee discovered a duplicate transfer of funds to a Non-Profit Institution. The Committee also identified that there may exist the risk of Non-Profit Institutions receiving funding from

multiple Ministries and Departments because there were no checks across Ministries and Departments.

**Recommendations:**

- *The Ministry of Finance establishes and maintains a register of all Non-Profit Institutions receiving funding from the State including the quantum, the source of funding and the purpose. This register should be made accessible to all Ministries and Departments providing funding to Non-Profit Institutions.*
- *The Ministry of Finance develops specific rules for expenditure control in Non-Profit Institutions. These rules should clearly outline the terms and conditions for the release of funds to Non-Profit Institutions and for the accountability for the expenditure of the funds.*

**Comments:**

**I agree with the recommendation and measures will be put in place to implement same.**

**However, I am not of the view that the Ministry of Finance should develop specific rules for expenditure control in NPI's. The complexity of issues which may have to be considered due to the peculiar nature of some of these institutions may require case by case analysis. Therefore, these controls should be set and monitored by the relevant line Ministries. The Ministry of Finance can then play a role in verification of adherence to expenditure rules.**

**Question 7**

**Sub-Accounting Units in Small Departments**

In the Public Service, the Accounting Unit may be divided into the main Accounting Unit and the Sub-Accounting Unit. This division may occur depending on the number of sections under the control of the Accounting Unit. An Accounting Unit is a section where vouchers are passed by its own check staff and vote control division for the preparation of cheques. A Sub-Accounting Unit is a section of a department where the placing of orders is undertaken and where payment vouchers are prepared and certified.

Based, on the Committee's examination, there were a number of weaknesses in the use of Sub-Accounting Units by smaller Departments. For example, the Tax Appeal Board and Environmental

Commission were Sub-Accounting Units of the Industrial Court. This caused delays in payments and created gaps in expenditure control. The use of Sub-Accounting Units may usurp the authority of the Accounting Officer to which the Sub-Accounting Unit has been assigned. In Sub-Accounting Units, the Internal Audit function would be shared by both the Sub-Accounting Unit and the main Accounting Unit which further burdens the limited resource capacity of the Internal Audit Unit.

**Recommendation:**

- *The Ministry of Finance discontinues the use of Sub-Accounting Units within Ministries and Departments.*
- *In the interim, where Sub-Accounting Units exist, the Ministry of Finance must ensure there are clear lines of authority for each Accounting Officer.*
- *The Public Service Commission must ensure that main Accounting Units be adequately staffed both in persons and with the skill sets to properly service all Divisions within the Ministry.*

**Comments:**

**In accordance with Regulation 13 (1) of the Financial Regulations to the Exchequer and Audit Act, Chapter 69:01:-**

*“A department may be divided into accounting and sub-accounting units according to the number of sections under its control”*

**This allows for better internal controls such as segregation of duties as well as greater efficiency.**

**While it is the norm that each Ministry/Department has its own accounting and sub accounting unit, there are cases where certain entities share *Accounting Unit* services only.**

**Where it is determined by the Ministry of Finance in consultation with the Public Management Consulting Division (PMCD) that it is not cost efficient or practical to establish Accounting Units because the volume of transactions to be processed may not be substantial;**

**the Accounting Unit Services are shared. Since this is the exception, an arrangement is agreed to between the relevant Accounting Officers.**

**It is proposed that the Ministry of Public Administration develop a Memorandum of Understanding that can be used by the Accounting Officers to ensure that the work of the sub-accounting unit is processed in a timely and equitable manner by the main Accounting Unit.**

**PMCD usually reviews the adequacy of staffing in the Accounting Units.**

### **Head 18 – Ministry of Finance**

Based on the written submission, the Committee noted that:

54 percent of the entities listed under Current Transfers and Subsidies for fiscal 2016 were Non-operational entities and were in different stages of liquidation;

The Investments Division was in the early stages of developing Performance Indicators and Benchmarks that could be used to assess the level of effectiveness attained by each Enterprise in its different sectors;

Cabinet, by Minute No. 142 of October 22, 2015, agreed to the establishment of a Committee to conduct a review and assessment of the operations and performance of all existing Special Purpose/Wholly Owned State Enterprise or entities controlled by the State. It was the intention that findings and recommendations coming out of the report would be used to inform the revision of the State Enterprises Performance Monitoring Manual.

The Ministry did not have a direct role in detecting or investigating fraud in State Enterprises. The Ministry, through the officers of the Central Audit Committee sitting in the Audit Committees of State Enterprises, monitored the Audit reports of the Internal Audit Department for instances where fraud was detected.

The Tender Procedures were closely followed to prevent, detect and investigate fraud in projects (under Development Programme).

The focus of Internal Audit of Ministries and Departments had always been on compliance checking rather than governance and risk management, which would also determine the level of transparency and accountability.

In the Treasury Division, audit reports were prepared up to March 2015, however, Current Transfers and Subsidies were not included in the Internal Audit Work Programme for fiscal year 2016 and as such no reporting was done. Additionally, it was indicated that although there were eleven (11) Internal Audit staff members on the establishment, there were only for (4) audit staff members. A difficulty to source persons who were willing to fill these vacancies was cited.

**Recommendations: Ministry of Finance**

- *Provides a status update on the Performance Indicators and Benchmarks and indicates whether this resource will be shared with the rest of the Public Service by December 2016;*

**Comment:**

**The Ministry is currently reviewing the Performance Indicators and Benchmarks for State Enterprises and Statutory Authorities.**

- *Provides a status update on the review and assessment of the operations and performance of Special Purpose/Wholly Owned State Enterprises or entities controlled by the State by December 2016;*

**Comment:**

- **The review of State Enterprises was conducted during the period April to June 2016. A Report was finalised and presented to the Prime Minister in July 2016.**
- *Provides a timeframe for the revision of the State Enterprises Performance Monitoring Manual by December 2016;*

**Comment:**

- **The State Enterprises Performance Monitoring Manual will be revised by June 30, 2017.**

- ***Takes immediate steps to implement a fraud policy, this policy should include mechanisms for distinguishing between fraud and error.***

**Comment:**

**Recommendation is noted and action to be taken.**

- ***Should widen the Internal Audit scope (if not already in place) to include:***
  - a. Analysis of strengths, weaknesses and threats;
  - b. Identification and assessment of risk;
  - c. Identification of conflicts of interests; and
  - d. Evaluation of the achievement of economy, efficiency and effectiveness in service delivery.

**Comment:**

**See response to Question 1**

- ***Ensures that Current Transfers and Subsidies is included in the Internal Audit Work Programme for fiscal year 2017;***

**Comment:**

**Current transfers and subsidies will be included in the Internal Audit Work Programme for fiscal year 2017. However, with the reform initiative the scope of work will be expanded in future years.**

- ***Takes urgent steps to fill the existing vacancies in the Internal Audit Department while also ensuring that proper training is provided;***

**Comment:**

**Every effort is being made to have the positions filled.**