

# **AUDIT PRACTICE MANAGEMENT AND REGULATORY MECHANISMS**



Selection of Clients,  
Contracting, and Reporting  
(Public Sector Perspective)  
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## **OVERVIEW OF PRESENTATION**

- Introduction
- Environmental Factors
  - Accountability Framework
  - Macro-economic Environment
- Public Bodies management and Accountability Act
  - Existing and Proposed Provisions
- IPSAS

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## **INTRODUCTION**

Public Bodies – Any statutory body or Authority or any Government Company.

A Govt Comp - GOJ by the holding of shares is in a position to direct policy of that company

Implication – PBs must conform to provisions of all legislation that are relevant to its area of business and policies issued by MFPS

- PBMA Act - Governance
- Contractor General Act
- Corruption Prevention Act

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## **ACCOUNTABILITY FRAMEWORK**

Oversight by Officers of Parliament

### 1. Auditor General (AuG)

- Acts on behalf of Parliament, authorised by constitution FAA and PBMA Acts
- Charged with auditing all Govt bodies incl Executive Agencies and approx 200 PBs
- Task monumental – relies on sampling and prioritization than on census approach
- Institutional capacity is stretched

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## **ACCOUNTABILITY FRAMEWORK**

### **2. Contractor General and National Contracts Commission (NCC)**

- Office of the CG is well established and exercises significant authority
- Its existence along with that of the NCC has brought much transparency to the procurement and contracting processes
- Regulations governing procurement now developed – greater accountability

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## **ACCOUNTABILITY FRAMEWORK**

- Procurement Guidelines / Regulations
- The public sector procurement policy applies to the acquisition of goods, works and services:
- Key Principles: Value for money, fairness, transparency, economy, efficiency, equity and reliability
- objectives of:
  - maximizing economy and efficiency in procurement;
  - fairness, integrity and public confidence in the procurement process;
  - sustainable development through minimizing negative impact on the environment; and
  - fostering national growth and development.

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# **ACCOUNTABILITY FRAMEWORK**

## Implications

- The oversight provided by the Contractor general and the NCC through the CG Act and the procurement regulation does not compensate for weak audit systems or inadequate capacity
- Irregularities in PBs internal controls still take us by surprise from time to time
- RPAs must be mindful of this in designing audit prog.

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# **FISCAL/MACROECONOMIC CONTEXT**

- Empirical evidence shows that the presence of large, persistent budget deficits in any economy are associated with significant macroeconomic problems, including:
  - high interest rates;
  - crowding out of private investment;
  - inflationary pressure; and
  - a slowdown in growth
- Countries with persistent budget deficits often show high (unsustainable) Debt/GDP ratios

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## **FISCAL/MACROECONOMIC CONTEXT**

- Jamaica currently has one of the highest Debt/GDP ratios in the world(129% 2010)
- This unacceptably high level of debt suggests that there are serious weaknesses in the country's fiscal framework
- Jamaica needs to reduce its debt to sustainable levels in order to release sufficient funds for developmental purposes

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## **FISCAL/MACROECONOMIC CONTEXT**

- The most viable way to achieve this is by reducing & eventually eliminating fiscal deficits
- Eliminating fiscal deficits requires
  - **generating additional revenues** and/or
  - **reducing expenditures** from their current levels or
  - **achieving higher economic growth rates** which enable the country to do both

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## **FISCAL/MACROECONOMIC CONTEXT**

### Fiscal Responsibility Framework (FRF)

- In 2009 Jamaica consciously decided to adopt a FRF, in an effort to improve fiscal outcomes
- FRF not a new concept - approach used successfully by New Zealand, Australia and UK to combat similar difficulties - **introduction of a Fiscal Responsibility Law (FRL) requiring Government to act in a fiscally prudent manner**
- Objectives: (1) responsible fiscal management and (2) greater fiscal transparency

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## **FISCAL/MACROECONOMIC CONTEXT**

- The FRF will operate as the centrepiece of a series of reforms being undertaken to improve the management of public finances, including, inter alia:
  - 1) institution of a Medium-Term Expenditure Framework (MTEF);
  - 2) establishment of a centralized system of Treasury Management;
  - 3) enhancement of Debt Management legislation

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## **FISCAL/MACROECONOMIC CONTEXT**

- The institution of a FRF in Jamaica required the enactment of legislation
- Rather than introducing new legislation, the FRF was appropriately integrated into the Financial Administration and Audit (FAA) Act as a new Part, while the Public Bodies Management and Accountability (PBMA) Act was amended to ensure consistency with the FRF

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## **FISCAL/MACROECONOMIC CONTEXT**

- Strengthen accountability to Parliament in several important areas including Parliamentary approval of the corporate plans and budgets of public bodies thereby providing for increased oversight on overall fiscal policy
- Establish quantitative ceilings/targets on the debt stock, fiscal balance and wages, in proportion to GDP, within specified time frame (March 2016)

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## FISCAL INDICATORS

FRF requires that appropriate measures be taken by HMFP to achieve the following fiscal targets\* within the next 5 Years:

Fiscal Indicators	Projection 2010/2011	Target 2015/2016
Fiscal Balance		NIL
Total Debt to GDP		100% or less
Wages to GDP		9% or less

\*Provision is made for Targets to be exceeded on grounds of national emergency, national security or other exceptional grounds as specified by HMFP in an Order subject to affirmative resolution.

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## AMENDMENTS

- Amendments to FAA and PBMA Acts were passed in the Houses of Parliament on March 22, 2010 and came into effect on **October 1<sup>st</sup> 2010.**

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## **AMENDMENTS TO FAA ACT**

- Section 48B
- The Auditor General to audit the Fiscal Policy Paper (FPP) as soon as it is practicable to do so after it has been laid before the Houses of Parliament.
- The AG will provide a Report to the Houses on whether the conventions and assumptions of the FPP comply with the principles of prudent fiscal management.

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## **AMENDMENTS TO FAA ACT**

- **Section 48D**
- **The Minister to act in conformity with the fiscal principles by ensuring :**
  - Maintenance of the total debt at a prudent and sustainable level;
  - prudent management of guarantees and contingent liabilities;
  - borrowings are geared towards productive purposes; and
  - expenditure is managed in a manner that is consistent with the level of revenue generated.

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## **AMENDMENTS TO PBMA ACT**

- Annual Estimates and subsequent modifications to be debated and approved by Parliament
- PBs shall not without prior written approval of Minister (1) exercise borrowing powers or (2) enter into negotiations to issue bonds or other debt instruments
- HMFPS to report to Parliament on contravention of rules for borrowing
- BOJ exempt from approval of Minister to borrow in relation to monetary policy
- Boards to enter into performance contracts with CEOs (Strengthen Accountability Framework)

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## **APPROVED AMENDMENTS**

**submitted to the**

**CHIEF PARLIAMENTARY  
COUNCIL (CPC)**

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## **AMENDMENTS TO PBMA ACT**

### **(Proposed)**

- **Accounting Standards**

Public Bodies will be required to apply accounting standards promulgated by the ICAJ.

- **Fees for Government Guarantees**

Imposition of the relevant fees for Government guarantees for Public Bodies' borrowings.

- **Limits on the Granting of Guarantees**

Amendment to indicate that Government guarantees for the borrowings of Public Bodies must be consistent with the fiscal targets for total debt.

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## **AMENDMENTS TO PBMA ACT**

### **(Proposed)**

- Development of criteria for the creation of public bodies, as well as for the evaluation of existing public bodies, to include cost-benefit analysis.

- Development of sanctions so that individual accountability for budgetary actions is enforceable.

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## **AUDITOR GENERAL'S DEPT.**

- Under the new dispensation the AuG has been assigned expanded responsibilities and additional functions. This will result in the independence of the AGD being given more meaning in the overall context of governance.
- Additional Responsibilities:
  - review the Fiscal Policy Paper and report to Parliament on whether there is compliance with the principles of prudent fiscal management as specified in the FAA Act (independent verification)
  - undertake a comprehensive public sector payroll audit

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## **PBMA ACT (EXISTING PROVISIONS)**

### **14. General duties of auditors.**

- (1) In auditing the accounts of a public body, an auditor shall ascertain whether in his opinion:
- (a) the provisions of this Act, the relevant enactment or any other enactment relating to the administration of money and property of the public body have been complied with;

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## **PBMA ACT (EXISTING PROVISIONS)**

### **14. General duties of auditors (Contd)**

- b) the rules and procedures framed and applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue and other receipts of the public body; and
- c) essential records have been made and proper practices have been observed in the compilation of the accounts.

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## **PBMA ACT (EXISTING PROVISIONS)**

### **14. General duties of auditors (Contd)**

- (2) The auditor shall comply with any code of audit practices for the time being in force in respect of the public body.
- (3) The auditor shall report in writing to the board whenever he-
  - (a) has reasonable grounds for believing that the public body's circumstances have changed, are changing or are likely to change in such a manner as to-

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## **PBMA ACT (EXISTING PROVISIONS)**

### **14. General duties of auditors (Contd)**

(3) The auditor shall report in writing to the board whenever he-

- (a) has reasonable grounds for believing that the public body's circumstances have changed, are changing or are likely to change in such a manner as to-
  - (i) materially and adversely affect the viability of that PB; or (ii) otherwise impair its ability to carry out its functions;

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## **PBMA ACT (EXISTING PROVISIONS)**

### **14. General duties of auditors (Contd)**

- (b) becomes aware of an occurrence or transaction that affects or might reasonably be expected to affect the public body as described in paragraph (a);
- (c) becomes aware that the board or any member thereof or any officer of the public body has contravened a provision of a relevant enactment or this Act or a regulations made hereunder.

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## **PBMA ACT (EXISTING PROVISIONS)**

### **14. General duties of auditors (Contd)**

- (4) The auditor may prepare separate auditor's reports on the public body's financial statements if, in the auditor's opinion, separate reports would be more appropriate.
- (5) The auditor shall submit such other reports respecting the public body or any subsidiary thereof as the Auditor-General may require.

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## **PBMA ACT (EXISTING PROVISIONS)**

### **Code of Audit Practices**

- 10 (1) The Financial Secretary shall, after consultation with public bodies, the Auditor-General, the Institute of Chartered Accountants of Jamaica and such other suitably qualified persons as may be expedient, prepare and keep under review, a code of audit practices prescribing the way in which auditors are to carry out their functions under this Act.

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## **PBMA ACT (EXISTING PROVISIONS)**

### **Code of Audit Practices Contd**

(2) The code shall conform with generally accepted auditing standards.

- The Code is currently being prepared and should be ready by the end of December 2010

### **S 11. Consultation with AuG**

The auditor or examiner of a public body may at any time consult the Auditor-General on any matter relating to his audit or special examination

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## **PBMA ACT (EXISTING PROVISIONS)**

### **S 25 - Enforcement**

If the Court is satisfied on an application by the Attorney-General that any person has contravened any of the provisions of-

- S 14 – General duties of Auditors and
- S 15 – Failure of Officers to furnish information to auditors

Court may order the person concerned to pay such fine not exceeding \$1 million

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## **IPSAS**

- The Government's vision and Strategy Paper of 2002, identified the transitioning to accrual based accounting by year 2012
- Much of the ground work related to the ICT infrastructure has been done
- Some 12 ministries, Depts and Executive Agencies are using an accrual based software

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## **IPSAS**

- Transition to accrual will support intro of IPSAS
- Legislative framework has been reviewed
- Gap analysis has already been done between IPSAS and other standards being used in the sector
- Programme slowed with the focus on the IMF and other multilateral organisations
- Efforts will continue to meet 2012 date

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**THANK YOU!**

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