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**AGENCY FOR INTERNATIONAL
DEVELOPMENT**

**LAC Regional Financial Management
Project**

**Assessment of Audit Functions of the
Guatemalan Controller General's Office**

**Executive Summary
and
Terms of Reference**

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Price Waterhouse



July 27, 1989

Mr. Gary Byllesby
LAC Controller
U.S. Agency for International
Development
Washington, D.C. 20053

Dear Mr. Byllesby:

Enclosed please find the English version of the Executive Summary on the Assessment of Auditing Functions of the Guatemalan Controller General's Office and the Terms of Reference to Provide Assistance to the Controller General's Office.

The Spanish version of the report has been bound separately.

Please do not hesitate to contact Mr. Paul Lohneis or Mr. Regis Cunningham at 296-0800 if you have any questions regarding the enclosed reports.

Very truly yours,

Price Waterhouse

Enclosures

ASSESSMENT OF AUDITING FUNCTIONS OF
THE GUATEMALAN CONTROLLER GENERAL'S OFFICE
AND TERMS OF REFERENCE

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I. EXECUTIVE SUMMARY

ASSESSMENT OF AUDITING FUNCTIONS OF THE GUATEMALAN CONTROLLER GENERAL'S OFFICE

EXECUTIVE SUMMARY

I. INTRODUCTION

Price Waterhouse's assessment of auditing functions of the Guatemalan Controller General's Office (Contraloría General de Cuentas or CGC) was made under the LAC Regional Financial Management project. Its objective was to gather information on the current audit activities of the Guatemalan Controller General's Office (CGC) in order to:

- o determine activities needing improvement
- o identify critical areas
- o formulate recommendations to solve problems and modernize government auditing systems

Our work focused on the evaluation of audit activities carried out by the CGC and the internal audit units.

II. ANALYTICAL AND DESCRIPTIVE ASPECTS OF THE CGC EVALUATION

The 1985 Guatemalan Constitution establishes the CGC as a decentralized technical institution and that Congress is responsible for appointing the Controller General for a term of four years. Notwithstanding the legislative provisions which grant significant operating independence to the CGC, it is financially dependent upon the Ministry of Finance for operating and capital budget resources. It is also subject to the codes and regulations of the Civil Service Office in regards to human resource management. We believe, these two situations diminish CGC's overall independence.

The Guatemalan Constitution establishes the broad framework for budget and financial management in the public sector. In practice, CGC's Organic Law and Regulations,

issued more than 30 years ago, authorize it to carry out (a) desk audits", or detailed reviews of accounts presented to it, and (b) field audits. Since CGC's legislation is outdated, these two approaches have historically resulted primarily in the formulation of deficiency findings ("reparos") rather than recommendations. Furthermore, existing legislation makes no reference to internal audit as part of the internal control system.

The desk audits" or account reviews made at CGC headquarters and in its 64 branch offices consist mainly of a detailed review of legal documentation and numerical accuracy of the documents that support the financial transactions of the public institutions, without field examinations or other type of audit tests. The CGC dedicates 42% of its staff to this low-benefit activity.

Field audits consist of general audits and public works audits. In performing general field audits, the auditors ("controllers") develop audit programs, internal control questionnaires, etc. Nevertheless, the audit work performed is technically deficient as it does not comply with professional auditing standards relating to competency or training of audit personnel, supervision and quality control reviews. Audits of public works are carried out by civil engineers and is not coordinated with the work of the CGC auditors, despite the common objectives pursued. CGC dedicates 18% of its staff to these two review activities.

Except for some administrative and technical policies and procedures informally developed by the Public Works Review Section, audits are performed without audit guides, instructions, manuals and other necessary guidelines. This situation results in part from the lack of an organizational unit responsible for researching and developing technical audit tools. Audit work is further weakened by the absence of adequate supervision.

Of the 448 auditors ("controllers") in the Fiscal Control Department, 19 (4%) have university degrees in accounting, 25 (5.5%) have degrees in other disciplines, 58 (13%) are currently enrolled in university programs in accounting, 90 (20%) are studying other

disciplines and 256 (57%) have high school diplomas (160 general and 96 commercial studies). These statistics show that the CGC does not have the highly-trained staff required to successfully carry out professional audit activities. This deficiency has not been overcome by the CGC's Government Auditing School as a result of the School's inadequate organization, limited number of teaching personnel, weak curricular structure, lack of teaching materials and shortage of equipment.

III. GENERAL CONCLUSIONS

Antiquated CGC methodologies result in unproductive and ineffective accounting reviews and audits and a general negative impression of the CGC since the reviews and audits produce deficiency findings ("reparos"), rather than recommendations to improve operations and prevent the occurrence of similar errors in the future.

As a result of (a) the lack of specific policies, standards, systems and procedures, (b) deficient professional development of audit personnel, (c) insufficient training programs, and (d) inadequate facilities, vehicles and computer hardware and software, review activities carried out by CGC auditors ("controllers") and government internal auditors are deficient in regards to the observance of professional auditing standards.

IV. SPECIFIC CONCLUSIONS

A. New Control Strategies and Methodology

CGC fiscal control activities mix antiquated desk audits or account reviews with certain review activities that are consistent with modern audit practices. However, the overall approach and impression of the CGC is negative, given its objective of merely formulating deficiency findings ("reparos"). A positive approach should focus efforts on assisting management in the detection and correction of errors on a timely basis.

Review activities are not designed as an integral system whose components include

internal control (a managerial responsibility, in which internal audit is a fundamental part), and external audit, a CGC responsibility.

Existing legislation includes a legal mandate to perform audits. However, there are many inconsistencies within this legislation which contribute to a significant ambiguity in terms of audit strategies and methodology. This results in the coexistence of new audit concepts with traditional practices which have been replaced, or are in the process of being replaced, by most of the Supreme Audit Institutions in Latin America.

Fiscal control methods and procedures currently applied by the CGC, as well as those applied by the internal audit units are oriented at pre-control over expenditures (preaudit). Thus, they do not adhere to the precepts of generally accepted auditing standards and practices.

B. Human Resources and Training

The lack of CGC human resource management policies and procedures and CGC inclusion in the public personnel management system administered by the Civil Services Office, a part of the Executive branch of the government, potentially reduces the independence of the Guatemalan Supreme Audit Institution.

The inadequacy of the human resource management system produces serious deficiencies in the recruitment and selection of personnel and the development of career professionals within the organization. The most evident effect of this is the lack of competent professionals with the required training and experience to supervise and perform audits.

Structural and methodological deficiencies in the School of Government Auditing and the absence of adequate training programs represent a serious limitation on the professional development of CGC officials and employees.

C. Organization and Coordination

As a result of informal changes made in the CGC's organization, its present structure does not satisfy the current needs of a modern governmental auditing system. Significant modification to the CGC organizational structure is necessary.

The lack of a separate unit responsible for research, planning, preparation and implementation of policies, standards, systems, and procedures for both internal and external use, as well as for the design and implementation of its administrative systems, represents an important obstacle to improving CGC audit effectiveness.

V. RECOMMENDED GOALS

The following are our recommendations on the short and long-term goals for the CGC.

- o Design and implement a new approach for government fiscal control, consistent with the professional practice of internal and external audit and the operation of reliable internal control systems within each public agency.
- o Review legislation and other secondary regulations to ensure that they are consistent with the new orientation approach and audit practices.
- o Strengthen supervision of government audits, including a system of audit quality control reviews, through the selection of audit supervisors with professional audit experience.
- o Establish a modern, adequate and attractive system of human resource management that includes the design and implementation of a career development plan. This plan should include mandatory requirements in terms of training and practical experience, and a massive training, specialization and professional development program. Training should begin with CGC staff, and later be extended to internal audit unit personnel.
- o Operate a technical advisory unit reporting to top level management, responsible for research activities, policy preparation, planning, internal and external regulations, internal administrative development, technical assistance and institutional coordination.

VI. ACTIONS TO BE TAKEN

A. Short-term

- o Develop a plan of institutional reform for the modernization and improvement of the CGC, including the definition and adoption of new policies and methodologies to carry out government fiscal control, based on professional audit practices.**
- o Prepare and issue policies and technical standards that will provide a basis for the design and implementation of internal control systems and procedures as well as for the performance of government audits.**
- o Implement temporary emergency measures to ensure adequate supervision of audits, by contracting the services of audit supervisors for the period of time needed. After the training phase, audit supervision will be carried out by CGC audit supervisors.**
- o Develop an annual audit plan and perform financial and compliance audits.**
- o Orient activities of the internal audit units by means of policy guidelines that define their objectives, their relationship with the CGC, and their functions and responsibilities.**
- o Develop policy guidelines and procedures for the management of CGC human resources and the creation of a professional career development system.**
- o Design and implement a basic training program oriented at providing CGC and internal auditors the skills necessary to begin performing government audits.**
- o Establish a technical planning unit responsible for policies, standards, systems and procedures. This unit should serve as advisor and coordinator of CGC activities.**

B. Medium-term

- o Continue strengthening the present Fiscal Control (Audit) Department by issuing audit guides covering the principal audit phases, as a preliminary step toward the preparation of audit manuals.**

- o Provide advice to internal audit units in the planning and execution of their activities.
- o Prepare a CGC Job Classification Manual.
- o Extend training to officials responsible for financial management in the public sector and develop courses and seminars on specialized audit areas.
- o Continue the organizational improvement process in the CGC by preparing an organizational manual and CGC policies and procedures.

C. Long-term

- o Extend the scope of audits to include operational and information system audits.
- o Design and implement appropriate mechanisms for CGC and internal audit unit quality control reviews.
- o Develop courses in operational and information system audits.
- o Continue the internal administrative development of the CGC by preparing institutional plans, annual operational programs and administrative and financial procedure manuals.

D. Coordination with other public sector financial management activities

Though only one element of the Guatemalan public sector financial management system was included in this diagnostic, our experience gained in providing technical assistance to Supreme Audit Institutions throughout Latin America and our knowledge of the close link that exists between audit practices and the other components of public financial management (Budgeting, Cash Management, Debt Management, Accounting) has shown us that the analysis and improvement of these other components is equally important.

A project is currently underway to improve Guatemalan budget administration, tax administration and fiscal policy. A project to improve the CGC activities should

consider all other public sector financial management reform initiatives including those mentioned above.

II. TERMS OF REFERENCE

**TERMS OF REFERENCE FOR THE PROJECT
TO PROVIDE TECHNICAL ASSISTANCE TO THE
GUATEMALAN CONTROLLER GENERAL'S OFFICE**

I. BACKGROUND

The Guatemalan Controller General's Office (Contraloría General de Cuentas or CGC) is the decentralized public institution constitutionally assigned "the function of official state review of revenues, expenditures and the other financial interests of government agencies, municipalities, decentralized and autonomous entities,..."

The CGC is headed by the Controller General and Deputy Controller General. The Controller General reports to the Legislative branch of the government. Responsibility for operations is divided between the Administrative Department and the Fiscal Control Department. The CGC Organic Law of 1956 and especially the 1958 CGC Regulations assign audit functions to the CGC, as well as other functions incompatible with auditing, resulting in a major obstacle to the performance of professional audits.

As of June 23, 1989, the CGC had 742 employees of whom 448 were assigned to the Fiscal Control Department. Within the Fiscal Control Department, 300 employees perform desk audit reviews of accounts at headquarters and branch offices, 135 perform audits and reviews of Public Works and 13 were assigned to the Establishment of Administrative Responsibilities. Only 10% of the employees performing audit and review activities were professionals, and only 4% held university degrees in Public Accounting. CGC personnel have very little formal training, in spite of the existence of a "School of Government Auditing". The school has organization and curricula weaknesses.

The principal CGC weaknesses to be strengthened in a project to provide technical assistance to the CGC are: a) the CGC's lack of capabilities to carry out its constitutional mandate to perform audits in the Guatemalan public sector; b) the lack of coordination between internal audit units and the CGC, and preaudit of expenditures

by internal audit units in most public sector areas; and c) inconsistencies in legal provisions. While amendments to these provisions is important, given the new and widely accepted trends and methodologies in government auditing, these amendments are not a prerequisite to improving the CGC audit and review functions.

There are several reasons why CGC is a weak audit institution. First, clearly defined institutional objectives, standards for the design and application of effective systems and procedures for internal control are lacking. Also, standards for the professional performance of internal and external audits, methods and procedures for each audit phase, especially communication of results, are absent. Second, there is a lack of personnel trained in accounting and auditing, as well as a lack of capabilities to hire individuals with highly specialized skills. Third, equipment required for the implementation of the above mentioned activities is missing. Finally, antiquated laws and regulations were generally issued in Latin America when there was little understanding of the role of professional auditing in government fiscal control. This situation applies to the CGC.

II. OBJECTIVES

The objective of this project is to provide technical assistance and training to the CGC in order to improve its policies, standards, organization, personnel, systems and procedures thereby enabling the CGC to perform government audits in compliance with generally accepted auditing standards and to effectively perform the role of a modern Supreme Audit Institution.

III. SCOPE OF WORK

The scope of work of this project includes development of standards, organization and training.

A. Standards

The following general activities should be carried out:

1. Definition of basic policies for the audit of public resources, consistent with guidelines and principles of the International Organization of Audit Institutions (INTOSAI).
2. Preparation of legal reform projects and/or the amendment of current legislation on government audit, in accordance with the new CGC policies.
3. Preparation and promulgation of internal control and government auditing principles.
4. Preparation and disclosure of specific technical standards of public sector internal control and audit, including criteria and standards required by the Public Accounting profession.
5. Preparation and promulgation of a Code of Ethics that regulates the professional activities of government auditors.
6. Definition and regulation of the relationship between private audit firms and the CGC in regards to audits of public entities.

B. Organization and Administration of the CGC

1. Design a new CGC organizational structure which support its general and specific policies and internal regulations. This should include the definition of its structure, functions, authorities, responsibilities, chain of command and lines of communication. It

should also include the establishment of an office responsible for the preparation of policies, standards, institutional and audit plans, work procedures, and the creation of mechanisms for the coordination of CGC activities, and the reorganization of the School of Government Auditing, according to the requirements and needs of the training program.

2. Establishment of a modern system of human resource management, including the preparation of basic policies and procedures governing all personnel administrative activities, the classification of positions, salary ranges, procedures, records and reports.
3. Development of systems, methods and procedures for the administration of the assets of the organization, including procurement, use, maintenance, transfer and/or destruction. It should also include the operation of libraries and the management of documents and files.
4. Development of systems, methods and procedures to manage the financial resources of the entity, including the chart of accounts and description and use of accounts, records and reports for budget management, cash flow forecasting and accounting. Systems and procedures developed should anticipate the use of microcomputers to support these activities.
5. Standardization of CGC audit procedures, including the preparation of guidelines and instructions. These documents will serve as the basis for the development of an audit manual.

C. Training

1. Design and implementation of a training, specialization and professional development program that will provide CGC staff members with skills, knowledge and abilities required to perform their duties in an efficient and effective manner. The program includes the development of the following types of courses:
 - o An overview of modern government auditing
 - o Teaching techniques for training instructors
 - o Government Accounting
 - o Financial Auditing
 - o Project Control and Audit
 - o Information System Auditing
 - o Operational Auditing
 - o Special seminars in supervision, communication of audit results and statistical sampling.

The training program will also include supervised, on-the-job field training for auditors.

IV. LEVEL OF EFFORT

The level of effort required for the implementation of the technical assistance project, in person/months, is as follows:

	<u>MONTHS</u>
Standards	7
Organization	28
Training	52
Project management and administration (Note 1)	<u>13</u>
Total (Note 2)	100

Note 1: The consultant responsible for project management and administration should also be responsible for part of the work in the areas of standards and organization. The total level of effort for this consultant would be approximately 30 months.

Note 2: The estimated elapse time for the project is approximately 30 months.

V. CONSULTANT PROFILE AND TIMETABLE

The number of consultants, the required professional experience for each consultant and their estimated level of effort is as follows:

<u>NO.OF PEOPLE</u>	<u>REQUIREMENTS</u>	<u>MONTHS</u>
	<u>Training Specialist</u>	
(1)	The consultant should be a specialist in the organization of training activities, with a degree in Education or Public Accounting and at least 5 years of practical experience in the administration of training activities in a supreme audit institution. Alternatively, the consultant should have 10 years of experience in the organization of training activities in supreme audit institutions in Latin America.	2.5
	<u>Accounting and Audit Specialist</u>	
(2)	The consultants should be specialists in government accounting and auditing, with university degrees in Public Accounting and at least 10 years of professional experience teaching courses in Accounting and Auditing, supervising and training audit teams in supreme audit institutions or internal audit units of Latin American public entities.	33.5
	<u>Project Control and Audit Specialist</u>	
(1)	This position requires a consultant who is a specialist in project control and audit, with a university degree in Engineering, Economics, Business Administration or Public Accounting, 10 years of experience in project management training, audit supervision and training of technical teams for the audit of public works in supreme audit	

institutions and internal audit units in public entities in Latin America. 1.5

EDP Audit Specialist

- (1) The consultant should be a specialist in Information System Auditing, with a professional degree in Public Accounting and studies in Electronic Data Processing (EDP) or a degree in Management Information Systems with studies in Accounting and Auditing, at least 5 years of experience in teaching courses on information system auditing, training and supervising audit teams in supreme audit institutions and internal audit units in Latin America.

4.0

Legal Specialist

- (1) This consultant should be an specialist in law, with a Law degree and 10 years of experience in the preparation of judicial standards and in providing legal counsel to supreme audit institutions in Latin America.

2.0

Assistant Consultants

- (4) The Assistant Consultants should be specialists in Accounting and Auditing (two), EDP (one) and in project control (one), with degrees or studies in Public Accounting, EDP Systems, Engineering, Economics or Business Administration. They should have at least 5 years of experience in training and supervision of audit field work preferably in supreme audit institutions. These consultants will provide assistance to the principal specialists in classroom training and in the supervision of the audit teams.

17.5

Team Leader

- (1) The Project Manager should have a university degree in Social Sciences, Law, Economics, Business Administration or Public Accounting, 15 years of experience in consulting to supreme audit institutions in Latin America, and in project management, organization and design of administrative and/or financial standards, systems and procedures.

30.0

Contingency	<u>9.0</u>
Total Person-Months	100.0
	=====

In order to convert the above mentioned figure to person/days, the corresponding calculations should be made on the basis of 22 days per month. All consultants should speak and write fluent Spanish, have excellent interpersonal and team work skills and be able maintain good working relationships with top level government officials.