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***Conference of
Caribbean
Key Financial
Management Officers***

Summary Report

***April 11-12, 1991
Miami, Florida***



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Key Financial
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*Agency for International Development
Latin America and the Caribbean Regional Financial Management
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CARIBBEAN KEY FINANCIAL MANAGEMENT OFFICERS**

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I. INTRODUCTION

I. INTRODUCTION

A. I Conference of Caribbean Key Financial Management Officers

On December 7 through 9, 1989, the *I Conference of Caribbean Key Financial Management Officers* was held in Miami, Florida under the auspices of the Agency for International Development (A.I.D). Twenty-eight financial managers from the following thirteen countries participated in the conference:

Antigua	Barbados	Belize
Dominica	Guyana	Haiti
Jamaica	St. Lucia	St. Vincent
Suriname	Trinidad & Tobago	United States

The purpose of the conference was to encourage dialogue among participants on common problems encountered in public sector financial management, to reach possible solutions and to present recommendations to improve financial management in those countries receiving funds from A.I.D.

The *II Conference of Caribbean Key Financial Management Officers*, held April 10 through 12, 1991 builds on the cornerstones laid by the first participants. To compare and contrast the findings and recommendations of the first conference with those of the second, brief reviews relating to the findings and recommendations made in auditing—audit follow-up, compatibility, mandates and independence—government accounting, planning and budgeting, cash and debt management, information systems and human resources from the first conference follow.

AUDIT

Audit reports do not receive adequate attention. Audit recommendations are not implemented. Poorly equipped and undertrained audit personnel reduce the effectiveness of audits. There is a lack of audit independence and the audit mandate is weak.

Recommendation: *Managers whose operations are subject to audit should be educated on the value of the audit function. Increase audit resources and strengthen the audit mandate.*

GOVERNMENT ACCOUNTING

Commercial accounting standards are not generally accepted by central governments. Salaries of government accountants cannot match those paid in the private sector.

Recommendation: The Institute of Chartered Accountants of the Caribbean should consider supporting a regional training facility, and it should develop more harmonized arrangements for accounting standardization and training within the region.

PLANNING AND BUDGETING

The Ministry of Planning and the Ministry of Finance are often out of step. The Planning Ministry concentrates on the Public Sector Investment Program which underpins the capital budget while the Ministry of Finance typically addresses the recurrent budget.

Line-item budgeting and accounting, analyzed by input, are still essential features of reporting and analysis. There is, however, greater need for reallocation and analysis of these items to programs and services.

Recommendation: The capital and recurrent budgeting process should be integrated by using some form of program or performance budgeting. The budget process should be strengthened to coordinate public sector investment programs with macro-economic requirements. Budgets should be oriented more toward the efficient and effective use of economic resources and away from merely managing receipts and payments.

CASH AND DEBT MANAGEMENT

The most pressing concerns in this area are raising short- and long-term loans; the need to raise temporary loans to cover temporary shortfalls in funds for operating expenses; the relatively short-term view taken by politicians regarding the mismatch between long-life (capital) assets and the short-term loans financing them—with consequent debt-service problems; and, the use of debt to finance projects of dubious priority, economic viability and affordability—leading to concerns over project appraisal; the effect of increasing internal government debt (e.g., borrowing from the central bank) upon a country's macro-economic situation.

INFORMATION SYSTEMS

Timeliness of reporting can be a problem. Recording and reporting systems are sometimes inefficient. This problems is exacerbated by poorly trained staff.

Year-end "rush spending" occurs annually to use up allocated funds and to protect the level of future budgetary allocations.

Recommendations: *The use of automation to facilitate prompt reporting and the more efficient comparison of actual with budgets is recommended. The enhancement of computer usage will likely address the overall training concerns. With routine book-keeping automated, emphasis will focus more specifically upon higher level accounting and the management of financial data.*

HUMAN RESOURCES

The motivation and attitude of appointed and elected public officials towards their roles need to be improved so that the public is served with dignity and respect.

While confident in the structure of their financial systems, there is significant concern about the ability to operate them. Training is typically provided outside the country because of the small size of most Caribbean nations. This is often expensive and disruptive.

Recommendations: *Establish one or more professional associations and groups within the Caribbean to promote the exchange of ideas and experiences.*

Review staff compensation and performance to maximize value-for-money from staff output and to attract and retain well-trained and motivated officials. This should be linked to wider issues of personnel management, including:

- *Overall relationships between productivity, performance and reward*
- *Professional development of both younger and more mature officials to bring a greater harmonization of "cleverness with wisdom"*
- *Removal of impediments to productivity, performance and motivation, by the inappropriate and arbitrary exercise of power and authority by an ill-informed or uncaring senior management*

Training tailored to Caribbean systems and requirements is needed. It should be directed both towards acquiring new skills and enhancing existing skills. Particular areas of concern include:

- *Evaluation, implementation, supervision and follow-up*
- *Macro-economic planning and its relationship to development of public sector investment programs, program budgeting and performance measurement*
- *Computerization skills—including the acquisition, installation and operation of appropriate equipment*

- ***Communication skills among staff at all levels and with politicians and public.***

Procedural manuals are necessary, particularly to orientate newcomers to the financial management process and to maintain continuity and consistency.

Guidelines should be prepared for politicians and senior lay administrators on their roles and responsibilities within the financial management process.

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II. WORKING GROUP ABSTRACTS

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In order to stimulate frank and participative discussion of pertinent problems and new approaches to solving them, a significant part of the conference's time was dedicated to small group discussions on these topics:

- Group 1: How to combat corruption in government
- Group 2: Problems in government financial management and possible solutions
- Group 3: Problems in government internal control and auditing in the Caribbean and possible solutions

The topics addressed in Groups 2 and 3 were discussed in the *Caribbean Key Financial Managers Conference*. The findings and recommendations presented by the groups in this first conference were used as a starting point for current discussions.

A moderator was independently assigned to each group to maintain the technical quality of the discussion, to keep the group focused on appropriate themes and to guarantee that the group's opinions, conclusions and recommendations were accurately recorded and documented. Mr. Aulous Madden, President of the Institute of Chartered Accountants of the Caribbean, served as the moderator for Group 1. Ms. Lynnette M. Asselin, Price Waterhouse Office of Government Services (OGS), moderated Group 2. Group 3 was steered by Mr. Regis Cunningham, (OGS).

HOW TO COMBAT CORRUPTION IN GOVERNMENT

Moderator: Aulous Madden

Participants: Aubrey Barry
 Juan Herrera
 Michael Hobson
 David Kelsick
 Orvin Nicholas
 Isaac Solomon
 Gilbert Williams
 Lauriston Wilson, Jr.

Assistant
 to the Moderator: Caryl Garcia

I. Discussion

To form a common ground for discussion, participants began the session by refining their understanding of how "corruption" would be used in the day's exchange. Therefore, in the context presented here, "corruption" may be construed to mean

An action taken by any individual for his own benefit or private gain which is against the interests of the state or contrary to public interest.

Participants began the discussion with a quick anecdotal summary of examples of corruption in their own countries. It became clear quickly that the examples discussed could be arranged into five broadly defined ranges.¹ These ranges are not meant to be all-inclusive:

A. Employment/Personnel-related Practices

This category embraces corrupt acts that are employment and/or personnel-related: Numerous examples were cited by group members of instances in which an individual is not paid according to his or her qualifications, many times for political reasons. This was broadly labeled *improper remuneration*.

¹An expurgated version of the group's discussion is presented here. Identifying particulars, names and citations of specific instances of corruption have been removed.

The improper use of travel allowances through fraudulent claims, reimbursement fraud and personal use of official telephone or telephone privileges were other examples of abuse of employment.

Nepotism and padded payrolls also exemplify corrupt acts falling into this category.

B. Revenue Fraud

The range of malfeasance included in this category includes customs duty undervaluation; smuggling; contraband; tax evasion; overvaluation of invoices for remittance of foreign exchange; and illegal exportation of foreign currency.

The ramifications of fraud and corruption in this area are particularly distressing as they rob the state of precious resources and hinder it in its ability to effectively serve the public.

C. Procurement Fraud

Procurement fraud also dangerously undercuts the state's ability to efficiently use resources to secure the highest quality/least cost goods and services. Common examples mentioned included improper award of contract; subversion of the tender (bidding) process to influence procurement awards; and a lack of proper secrecy in the bidding process which exposes it to risk.

D. Abuse of Political/Administrative Authority²

Influence peddling; improper sale or lease of government assets; interference in revenue collection process; engineering loans and guarantees from public institutions for friends or relatives; bribery; gerrymandering; misuse of government funds; manipulation or subversion of the press; abuse of insider information; improper use of government employees; and kickbacks, here understood to mean a return of a part of a sum received due to a confidential agreement or coercion, are all ways in which political and administrative authority are abused.

E. Conflict of Interest

Included in this area are cases in which public servants engage in private work or businesses or when ministers or high officials work or operate private businesses.

²An area of weakness in the system requiring further analysis is the privilege of immunity enjoyed by members of Parliament regarding speeches made before that body. The group noted that, in some instances, this privilege is irresponsibly used, yet those outside of Parliament cannot take legal action.

II. Recommendations

The participants agreed that under almost every circumstance, three responses to corruption were uniformly required:

Beginning at the grade school levels, the public should be instructed in ethics and morals in politics and government.

Existing rules and regulations must be fully and conscientiously applied and promulgated in those countries where lacking; checks and balances must be in place so that the avenues and opportunities for corruption are minimized.

Public officials must be ethical and above reproach.

In addition, more specific possible solutions to those areas broadly defined in Section I were discussed.

- A. For corruption in employment and personnel-related matters, both direct and indirect:

Personal responsibility for applying regulations must be assumed by the officer in charge.

- B. For revenue fraud:

All public officers and revenue collection agents must submit a statement of affairs to disclose their assets and liabilities. This should be done at the time of original appointment and on a yearly basis thereafter.

The unannounced rotation of customs and revenue collection staff was recommended in country-specific situations.

Rationalization of tax structure and reforms to include decreasing tax rates and simplifying reporting procedures was recommended.

In cases of over- and undervaluation, government independent valuation procedures must be strengthened.

- C. For procurement fraud

Public officials should fulfill their duties within the requirements of the job. However, in a democracy, the public becomes the final judge and arbitrator.

D. For abuse of power

It was most emphatically recommended that salaries commensurate with position held should be paid.

As appropriate, train or make high public officials aware of the responsibilities and regulations commensurate with their positions.

E. For conflict of interest

Civil servants should not engage in private work or business.

A minority view was recorded in this area to the effect that a minister should not own or actively operate a business while in office.

III. Actions to be taken

The group established that the following actions must be taken in an effort to combat fraud and corruption. These actions are equally applicable across all broadly defined areas.

A project must be undertaken to develop generic rules, regulations, policies and procedures for personnel management, accounting, internal control, procurement and stores (inventory) policies. Existing rules, regulations, policies and procedures must be revised and updated. The group specifically highlighted the institution of a proper system of personnel classification.

Apply existing rules and enforce penalties provided for by law.

Restore respectability to the public service as a career. Provide the proper salary incentives and establish a standard of qualifications to attract the highest quality individuals to the profession.

Demand full disclosure and accountability across the board.

Invite Caribbean heads of government to address fraud and corruption at their regular annual conference. Invite them to establish a task force to develop a curriculum for teaching of ethics and civics in school.

PROBLEMS IN GOVERNMENT FINANCIAL MANAGEMENT IN THE CARIBBEAN AND POSSIBLE SOLUTIONS

Moderator: Lynnette Asselin

Participants: Agnes Adonis
Jaime Alpuche
Jagdeo Coonjah
Richard Duncan
David Griffith
Max Griffith
Joan McCalla
Ambrose Sylvester
Monique P. Thébaud

I. Discussion

This session covered topics related to government accounting, planning and budgeting, cash and debt management, information systems, and human resource management. The findings from the First Conference of Caribbean Key Financial Management Managers held in December 1990 were used as a starting point for discussion.

A. Government Accounting

For the most part, "generally accepted government accounting standards"—defined as accounting systems which are used by all the departments within a government—are applied in individual countries. However, "generally accepted government accounting standards for the Caribbean region" for region-wide application are not in existence.

In the Caribbean region, the Treasury is responsible for consolidating accounts, designating standards and providing training courses in government and commercial accounting. Government accounting is based on an historical and cost basis. Because it was established to meet statutory requirements, it may not be really applicable. Government accounts depict the amount allocated, the amount expended and any variations therein. The accounts do not always provide the information needed.

Government accountants should look at what is required for their reports, i.e., exactly what is to be presented. Accounting should provide a meaningful depiction of operations, so that decision makers can use the information to make better

decisions. To this end, accounting information should be accurate, timely, reliable and useful.

There is a need to establish standards which facilitate the operation of government and streamline the type of information which should be presented. Executives in accounting should look at issues and come up with appropriate standards. Once the type of information required is examined and defined, necessary accounting standards can be established. Furthermore, since many smaller countries have only one central bank serving several territories, meaningful regional accounting standards would be very helpful.

Although generally acceptable accounting systems are in place in most countries, governments share common communication and operational problems. These problems are most often encountered in loans and grants-in-kind resources from external agencies.

Although a system may be in place, the improper use and policing of that system can cause it to fall apart and, ultimately, will make it meaningless. This is a twofold problem. First, a system may be in place, but it may not be reviewed regularly to ensure that it is meeting actual needs. An example common to many of Caribbean countries is the problem of capturing information on loans and grants in kind. Necessary documentation does not reach the department recording the information. Second, guidelines on procedures to be followed are not issued to departments and agencies. Mandatory guidelines should be issued and mechanisms put in place to ensure compliance. Penalties for non-compliance must be applied.

B. Planning and Budgeting

The degree of coordination between the Planning Ministry and the Finance Ministry varies from country to country. Some countries have a Planning and Budgeting Division, others have separate but well-coordinated ministries. A basic problem in this area continues to be defining the roles of the financial and program officers. Traditionally, finance officers keep the books and approve and prepare vouchers. They do not necessarily know what the plans and programs are for other departments within ministries. Program officers, on the other hand, do not necessarily have the technical skills needed to prepare financial statements; therefore, the budgets they submit may not be appropriate.

Again, the issue of accounting for projects funded by external sources was recognized. Two countries identified the use of government project monitoring units for accounting and coordinating purposes. Generally, individual government agencies and departments budget for capital projects, but they may not inform the

Ministry of Finance about acquiring capital assets. The Ministry of Finance's control mechanism occurs in the budgets following acquisition. Because the recurring cost budget reflects maintenance of the assets, recognition of the asset is implied.

The use of a computerized project monitoring system was discussed. The United Nations Development Programme (UNDP) has a software program called Development Cooperation Information System which will be implemented in the Eastern Caribbean States. However, to date, no country can report successful and comprehensive use of the system.

The problem of year end "rush spending" still exists but to a lesser degree because more controls are in place and budgets are tighter. In those cases in which year end "rush spending" persists, it does so because people do not understand transactions or concepts. This is largely a management problem.

One control which has proven to be effective in monitoring the budget is the shadow budget. The shadow budget is a series of computer spreadsheets which are prepared once the budget is approved. The actual monthly receipts of revenue and expenditures are posted to the spreadsheet. Items are reviewed and compared on a monthly and accumulated basis to what has been approved by Parliament. After three months, if revenues are not performing as expected, the situation is assessed, new forecasts made and expenditures decreased.

C. Cash and Debt Management

Recurrent deficit and fiscal problems challenge the principals of public finance and management in a small economy. Sheer necessity to survive is more important.

All Eastern Caribbean states have been installing a computerized debt recording and management system with assistance from the Eastern Caribbean Central Bank. This data base will provide comprehensive information on all external loans and grants. It will include lists of all borrowers, government guarantees, repayment terms, grant elements, loan calculations, repayment schedules, arrearage and other information. However, the ability to have this information available was not felt to be the most important ingredient. The most important element is not technical, but rather political will. Although repayment schedules are known or cash is accumulated to make payments, politics can intervene and interfere in carrying out the project payments.

As one participant remarked, "We can have all the computerized information in the world, but unless there is a conscientious effort to ensure that politicians are well

informed by our technical projections about ability to repay, then debt management will not be improved."

Although most countries have statutory limitations on the amount of debt which can be incurred, these ceilings can be increased by Parliament. The technical controls in place will then fail. Nevertheless, overall, cash and debt management do not appear to have as many important problems as in the past.

D. Information Systems

There is a greater capability for using automation to facilitate prompt reporting than in the past. Automation also is widely used in the budgeting processes, as well as for tracking revenues and expenditures.

The Eastern Caribbean Central Bank has been providing assistance through the Commonwealth Secretariat Debt Recording and Management System which is a computerized data base of all domestic and external loans and grants.

E. Human Resources

The problem is retention, not recruitment. Retention is a combination of training, motivation and adequate salary. Several countries have embarked on administrative reforms of salaries and incentives to address the problem of retention. Unfortunately, these increases are long overdue. Furthermore, if the government increases salaries, then the private sector also increase salaries. This indicates that the flight of skilled employees from the public to the private sector is not retarded as it ought to be.

In some civil service departments, supervisors or managers do not manage. They may ensure that work is done, but do little to expose the staff to other aspects of the department's work. Personnel remains unmotivated, staff development does not occur and workers are not mobilized to achieve certain goals and objectives. Managers operate in this way to protect their own territory and ensure that they hold the position they occupy for a long time. To counteract this tendency, a management culture and career path need to be brought to the public service.

Currently, the only form of training is on-the-job training. As a result, middle management is weak and there is no financial management expertise. Heads of departments should identify training which could be provided in-house. It is imperative that employees feel they are part of a team. They should be able to see the relationships between everyone in the department and understand how each's work affects the others.

II. Recommendations

Establishment of a Caribbean Association of Government Accountants mandated to establish generally accepted region-wide standards

An association of people involved in government accounting and finance in the Caribbean should be formed to convene to establish standards which would be accepted in Caribbean countries. By centralizing accounting and reporting, economies of scale can be achieved in harmonizing principles, pooling experienced personnel and producing publications (there is no reference material for government accounting in the region). Regional emphasis also provides cross-fertilization, training opportunities, transparency, accountability and easier reporting for individual countries and multiple donors.

Promotion of the use of a regional training center such as the Jamaica Institute to provide training to other Caribbean territories so that there is common training and common standards are tied

Many territories have the same type of problems in terms of management and administration of resources. Therefore, the use of a common training center would promote generally accepted accounting standards and provide accountants and managers with the opportunity to make cross-country comparisons and learn from other experiences.

Establishment of penalties for non-compliance with proper accounting procedures by those financial managers responsible for revenues

A common system for accounting for loans and grants in-kind from international agencies in the Caribbean region does not exist. Although this is a communication problem rather than an accounting problem, generally, information about this type of revenue is not documented and the government accounts do not correctly represent revenues and expenditures.

Promotion of appropriate actions necessary to retain qualified personnel in the public service. The three areas which should be focused on are training, motivation and adequate remuneration

Retention is one of the most difficult and serious problems in government financial management today. Middle management training in supervision and motivation techniques should be offered at the Jamaica Institute. Heads of departments should be encouraged to identify courses which can be organized in-house. Staff meetings should be held regularly so that people feel they are part of a team, recognize the relationship between everyone in the department and how each

person's work affects the goals and operations of the department. Continue to support adequate salary levels for government employees.

Establishment of inter-agency committees in each country to meet on an on-going basis during the fiscal year to review work done on capital projects and funds required and to ensure that the project is going according to plan

Generally, there appears to be good coordination at the planning phase of budgeting in most countries. Communication breaks down during the execution stage. Therefore, controls should be set in place to monitor capital projects.

Establishment of a data bank on a region-wide basis to assist in monitoring public sector investment programs and to help the budgeting and planning process

Encourage the implementation of the UNDP Development Cooperation Information System in all OECS countries. Although currently usage is not widespread and the system appears cumbersome, it should result in easily accessible information for monitoring public sector investment programs.

Encouragement of the use of short-term loans to cover current budget deficiencies. Recognition of the importance of political will and emphasis of long-term implications for government financial management.

Financial managers need to exercise restraint in spending and to put mechanisms in place which will minimize the debt burden all countries carry today. Good financial management controls can help the Minister of Finance and the Parliament make informed decisions. Coordination between monetary and financial policies must be strengthened if progress is to be made in this area.

III. Recommendations for the III Caribbean Key Financial Management Officers Conference

The next Caribbean Key Financial Management Officers Conference should last three days. More time should be allowed for exchanging ideas and discussing common problems.

There should be a balance among speakers, specific functional groups and general financial management discussions. Prominent speakers from the Caribbean should be invited.

Each participant should bring copies his or her country's final accounts so comparisons with those of other countries can be made and other participants can

see how they are related, how they are different and what lessons can be learned.
Final accounts include:

- Abstract of Accounts
- Statements of Assets and Liabilities
- Statement of Public Debt
- Statement of Loans Repayable
- Statement of Sources and Applications

**PROBLEMS IN GOVERNMENT INTERNAL CONTROL AND AUDITING
IN THE CARIBBEAN AND POSSIBLE SOLUTIONS**

Moderator: Regis Cunningham

Participants: Anand Goolsarran
Beatrice Robateau
Norman King
Satchel Edwards
Leopold Henry
Albert Edwards
Emma Hippolyte
Meryl Forsyth
Evelyn Jackson

**Assistant
to the Moderator:** Patricia Parera

I. Discussion

The *1 Caribbean Key Financial Managers Conference* featured lively discussion on internal control and auditing. A summary of the findings and recommendations made by the participants in that conference are provided in Section I. Group III reviewed those findings and offered their comments on the topics and on how things had changed or remained the same.

A. Audit Follow-up

This year's conference delegates responded in ways that varied significantly. However, in general, the lack of management appreciation of the value of the audit function persists to this day.

Nonetheless, in St. Kitts, the current Finance Secretary previously served as the Director of Audit (Auditor General). Consequently, the government is implementing audit recommendations. In Barbados, prompt responses to audit reports are usually received. The Parliament of Grenada has been interested in improving accountability since the change of government in 1984 and greater recognition of the importance of the audit function has been shown. Both Jamaica and St. Lucia have had mixed results with overall improvements.

However, the situation in other Caribbean countries has barely improved or has deteriorated. In Guyana, the Auditor General has not issued his report since 1981 because the Ministry of Finance has not submitted financial statements. Antigua and Belize have not shown improvement.

The arrival of new officials, some from other countries, in the Finance Ministry or Office of Auditor General has sometimes helped to improve the situation. In some cases, the press has given audit findings greater visibility and made financial managers more sensitive to the impact of audit reports.

In some countries, the audit function has little visibility, receives little respect and has little effect in convincing management to implement audit recommendations. Also, the work of the Public Works Commission (PWC) is not felt.

B. Audit Capability, Mandates and Independence

The problem of recruiting and retaining skilled audit professionals and providing audit personnel with adequate resources (e.g., training budgets, vehicles, computers and travel budgets) continues in most countries; although, in the past year, some countries benefitted from INTOSAI Development Initiative (IDI) and the Commonwealth Training Initiative (CTI).

In almost all countries there is little, if any, political interference in the execution of the audit function. Independence is not a concern in this regard. However, the lack of an independent source of financing creates difficulties in all countries. The operating and capital budgets of the Auditor General are subject to revisions and reductions by the Finance Ministry. Consequently, most countries suffer to some extent from poor remuneration, lack of vehicles, computer equipment and other office equipment, and have inadequate travel budgets which combine to limit the scope and effectiveness of the audit function. This is also common in other government entities.

Independence is curtailed when other government entities intervene or become involved when audit staff is selected and when promotions and pay raises are decided. Some believe that promotions and pay raises are denied and training withheld as retribution for negative audit reports.

In some cases, a clear mandate does not exist to carry out performance audits or brief the press about audit reports. Consequently, those audited question audit scope and limit the ability of the Auditor General to perform operational audits and contact the press. Many Caribbean countries, however, perform value-for-money audits and use the news media effectively.

C. Internal Audit

The situation has not improved significantly over the past year. In one country, any agency may create an internal audit unit. The *Finance and Audit Act* is being revised in Jamaica, and the position of Inspector is being created to oversee, among other things, internal audit. The existing law in Jamaica does not refer to the internal audit function.

Generally, there is no resistance to internal audit. However, most *Finance and Audit Acts* do not mention internal audit. Given the scarce resources and the low priority assigned to audit in general, internal audit units have been established in very few government institutions.

D. Government Audit

The Auditor General is appointed by the Governor General or President without Parliamentary approval. Parliamentary approval is required in most cases to remove the Auditor General from office. In most countries, audit reports are sent to the Minister of Finance. In three of the ten countries represented, audit reports are sent directly to Parliament.

The primary responsibility of the Auditor General is to perform financial audits. Audit reports include an opinion on the accounts and financial statements of individual public sector institutions and the consolidated accounts of the country. A few of the countries have not issued statements of accounts for many years (in two cases, since 1982) limiting the ability of the Auditor General to audit the financial statements.

The mandate to perform operational audits is mixed. It exists in some countries and not in others. Personnel is not specifically trained to carry out fraud audits. A few countries consider investigating accusations and irregularities an important function. When irregularities in the use of financial resources are discovered, the case is generally turned over to the police or to the Public Service Commission. In exceptional cases, an inquiry is set up. Inquiries are led by a highly respected individual in the community.

Pre-control is not a function of auditor generals except in the case of retirement benefits.

There are some electronic data processing (EDP) audits in Guyana, Barbados and Jamaica. They generally consist of EDP center reviews. Computer assisted auditing tools are not used.

In most countries, audit work is programmed by the Auditor General. Little audit work is requested by Parliament or others.

The *Finance and Audit Acts* of the various countries are being updated. Laws in St. Kitts, Belize and St. Lucia have been updated in the last three years. However, those in several other countries date from the late 1950s to the 1970s.

E. Internal Controls

Internal controls are established primarily by the Accountant General or Financial Secretary (Director of Finance). The *Financial Instructions and Stores Rules* contain most of the financial and administrative procedures and standards regarding internal controls. Like the Financial and Audit Acts, some are updated, being updated, or are out-of-date.

The responsibility of the Auditor General with regard to internal control is to audit financial statements and financial accounting systems to ensure that internal control structure is functioning.

Where they exist, internal auditing standards are included in an accounting manual. There are generally no standards on internal audit.

II. Recommendations

A. Audit Follow-up

To overcome the obstacles noted, conference participants suggested financial management training for non-financial managers. They noted that although the permanent secretary (PS) is a career position, many do not have adequate backgrounds in financial management and do not appreciate the benefits to be derived from the audit function. They also noted that the political directorate and permanent secretaries need to better appreciate their roles as they relate to financial management. There is a tendency for some ministers to get involved in day-to-day administrative matters.

Many of the conference participants also stated that there is a need to provide technical assistance in finance and accounting to strengthen financial management skills, systems and procedures.

Training, however, was not seen as a panacea. In some cases, attitudinal changes are required. Where government officials continue to ignore audit reports with impunity, no solution will be seen until changes occur in the attitude of the administration.

B. Audit Capability, Mandates, and Independence

Provision of a higher pay scale for the Auditor General and other key financial management positions than applies to the rest of the public sector, as achieved by the General Accounting Office of the United States of America (GAO), should be considered.

For those countries affected by control over the promotion process, it was felt that the Auditor General should request promotions directly from the Public Service Commission, bypassing the Office of Personnel and Establishments. Creative solutions are needed where budget limitations are a factor. One possibility is loaning Auditor General staff to private accounting firms to fulfill training objectives.

Future conferences and other events should be conducted separately from Latin American countries. Caribbean countries are significantly different in terms of financial management, government auditing, culture and tradition.

C. Internal Audit

One solution proposed was the reassignment, with training, of current staff to the internal audit function; however, most *Finance and Audit Acts* would need to be updated.

III. Actions to be taken

The Audit Office should have independence of action in regards to the recruitment and promotion of audit personnel. Similarly, the Audit Office would be more independent if permitted to submit its annual budget request directly to the Parliament. In recognition of the importance of the government audit function and in order to ensure that it is able to recruit and maintain professional audit personnel, the Audit Office should be authorized to establish a separate salary scale. This has been done in other countries and has proved effective in improving the quality of audits.

The *Financial and Audit Acts* should be updated to include mandates to perform internal auditing and comprehensive or performance auditing. In recognition of the importance of internal audit in ensuring the proper functioning of the internal control structure, *Finance and Audit Acts* should be updated to provide for adequate internal audit coverage.

The Auditor General should be authorized to provide information on tabled audit reports, on request, to the press in order to clarify issues.

Internal control standards promulgated by professional or regional organizations should be adapted to local needs. Generally accepted government accounting principles promulgated by professional or regional organizations should be adapted to local needs.

Conference participants and their audit organizations should continue to solicit IDI and CTI training materials and assistance.

Financing of audit training activities should be included in Audit Office budget requests submitted directly to the Parliament.

Coordination with private accounting firms should be increased to assist in achieving training objectives.

Country and regional conferences and other events should be conducted on topics such as the importance of government audit in the democratic process. This concept should also be promoted through the news media, technical publications, newsletters, brochures, orientation and training sessions.

Similarly, country and regional conferences and other events should be conducted on topics such as the importance of internal audit in the democratic process. This concept should also be promoted through technical publications, newsletters, brochures, orientation and training sessions. Conference participants should seek support from the Institute of Internal Auditors (IIA) in establishing IIA Chapters in their countries where they do not already exist.

Conference participants and their audit organizations should seek new sources of financing for technical assistance and training in financial, comprehensive and EDP audits, audit supervision, the development of generally accepted government auditing standards, and other similar topics.

Importantly, conference participants and their audit organizations should seek assistance from relevant international agencies on technical assistance and training in financial management for non-financial managers.

Participants also suggested that the *III Conference of Caribbean Key Financial Management Officers* should be held in a Caribbean country with speakers from the region. Also, representatives from each financial management area (accounting, budgeting, cash management, and debt management) should be invited.

III. GUEST SPEAKER SYNOPSES

III. GUEST SPEAKER SYNOPSES

A. Virginia Robinson: *Emerging Issues in U.S. Government Joint Financial Management Improvement Program (JFMIP)*

I see some issues in government that we, as accountants and auditors, can affect, and about which we can make a difference.

I feel very optimistic about recent improvements in financial management. Good things are going on in government right now. Nonetheless, when emerging issues in government are discussed, some attention must be given to fraud and corruption. It is important to remember that while we can control some things, politicians are responsible for other things. In fact, not just politicians, but everyone in and out of our government is involved.

I see some issues in government that we accountants and auditors can affect, and about which we can make a difference. To this end, I want to emphasize the importance of establishing something similar to the Joint Financial Management Improvement Program in the Caribbean. I really would like to see you give that some thought because it is an effective way of sharing information about the best things that are going on in government.

Federal employees in the United States have an image problem. We who are in accounting and auditing are in a good position to do something about it. We have professional credentials; we work on challenging problems. I want to talk about some of the ways we are approaching these problems in the United States.

The Joint Financial Managers Improvement Program (JFMIP) began in 1948. It received official recognition in 1950 when the legislative underpinning of the program, the Accounting and Auditing Act, was passed. The Secretary of the Treasury, the Director of the Office of Management and Budget, the Director of the Office of Personnel Management and the Controller General of the United States head up JFMIP. All work must be done in coordination with them.

Five major pieces of financial management legislation passed in 1990 address the major problems confronting financial management in our government today. Work on the Chief Financial Officer's (CFO) Act began in 1983. What makes the CFO legislation so important is that it is sometimes very difficult to distinguish between program accounting activities and administrative accounting activities in an agency. A summary report must be submitted to Congress in 1993 on the manner in which the legislation has been implemented, including costs and benefits of carrying out the programs. If benefits do not outweigh the costs, the program will be terminated.

Legislation on M Accounts relates to expired appropriations or "slush funds". In the past, outstanding contracts and purchase orders could be manipulated and used for longer periods of time than intended and for purposes for which they were not intended. M Account legislation seeks to close the loopholes in the appropriations process. The legislation requires that a designated fund or appropriation be canceled after 5 years. Contracts extending beyond 5 years have to be renegotiated and in some instances are financed out of current appropriations.

Credit reform legislation was passed in response to difficulties that the government encountered in acting as a "lender of last resort." The legislation attempts to improve efficiency in managing credit and loan processes. For example, program managers are responsible for determining how the loan programs are carried out. The new credit legislation also has automatic deadlines built into

it. The legislation stipulates that specific parts of the program must be up and operating by October of this year.

The Cash Management Improvement Act requires that the federal government pay interest to state and local governments if funds needed to carry out their activities are delayed; by the same token, state and local governments will pay interest to the federal government if the Treasury has to borrow extra funds in order to operate because they have withdrawn money before they need it.

The Debt Collection Act gives some federal officials in charge of certain types of debt programs additional authority to collect funds. In some instances, salary offsets, tax offsets and other matching programs may be used.

All new legislation enacted will force Congress and the executive branch to work together to ensure that some of these problems are remedied.

Another emerging issue in government financial management deals with audited financial statements for government agencies. These statements, while highly beneficial, also have some limitations. Producing audited financial statements is a great challenge. Numbers used in estimates are furiously debated among accountants and economists. Before developing an opinion on audited financial statements the contents of statements must be determined so that they will be useful for program managers, general public and Congress.

Federal accounting standards also have a bearing on which financial statements are prepared and audited. Federal accounting standards are still an issue because, to this date, we still do not have generally accepted accounting principles for the Federal government. Standards for the private sector were developed and updated by the Financial Accounting Standards Board. There is no similar Board for the Federal government. The *Title Two* policy and procedures manual, developed by the GAO, is not generally accepted. It was developed by the legislative branch for the executive branch to execute. The executive branch has different ideas about "due process" related to standards. The executive branch wants to implement standards on which they have had some opportunity to provide input.

Recently, the Secretary of the Treasury, the Director of the Office of Management and Budget, the Director of the Office of Personnel Management and the Controller General of the United States agreed to set up a standards advisory board. To keep it independent, and to make sure that it would develop standards acceptable to the entire community, the composition of the board was carefully considered. Current members include one senior executive from the GAO, a representative from Office of Management and Budget, one from the Congressional Budget Office, one from civilian agencies of the federal government, one from the Department of Defense, and three representatives from the private sector. The chairman is from the private sector (currently Elmer Staats, former Controller General of the United States). Ideally, standards should be developed and put into place before financial statements are made; however, there is no time to wait until all standards are developed. Nevertheless, professional associations and other sources will have the opportunity to present their ideas and input to the board.

There are over 300 different accounting systems in the federal government. A reduction in the number of systems has been one of the goals of central accounting agencies and JFMIP, as well as to eliminate redundancy, minimize duplication and overlap, disseminate information and share items relating to improvements. Standardized terminology is a key. A first draft of the standardization document has been developed.

Considering that there are over 1500 data elements in the budget area alone, it was quite a substantial effort. There are fewer elements in proprietary accounting. We are trying to integrate external reporting requirements for the Department of the Treasury and the Office of Management and Budget since both need essentially the same information for dealing with the deficit and controlling finances in the United States government. There is no reason for the Secretary of the Treasury and the Director of the Office of Management and Budget to deal with different figures, especially at the macroeconomic level. The major objective, therefore, is to move toward a single, common electronic data base that will contain all of the information requirements of those two agencies. If we can achieve that, the amount of time that the operating agencies have to spend providing and reconciling information would be decreased significantly. The draft document has been sent to the Department of the Treasury and the Office of Management and Budget for review; it will be sent to the operating agencies for their review shortly.

We have issued reports on all aspects of financial systems. The federal government spends a lot of money on systems. A single agency could spend hundreds of millions of dollars and many years developing a financial system. The agencies deal in large volumes of data, and they certainly have to have decent systems before they can produce decent reports. We developed a primary accounting system foundation so that agencies would have a common and uniform framework for developing their systems. The thrust today is to have contractors and commercial vendors assist us in developing the systems.

Documenting the requirements of the primary accounting systems has provided us with a framework. Contractors now know the minimum requirements that they must meet when developing a system for the federal government.

After issuing the core document, it was decided that we would provide uniform subsidiary systems requirements for all agencies. We issued payroll requirements and travel systems requirements documents. We will be issuing uniform requirements for federal property. We hope to consolidate a number of systems and institute long term improvements.

Lastly, JFMIP is working towards mandatory requirements for 40 hours of continuing professional education for government accountants. However, funding is difficult. We're beginning to see some movement towards pay reform and decent wages for federal employees. The Director of the Office of Personnel Management has met with secretaries of various department and stressed the importance of human resources and training.

In summary, accountants, auditors, budget analysts, financial analysts, economists will work together to improve financial management.

B. Richard Gagné: *Caribbean INTOSAI Development Initiative (IDI) Program*

IDI is about sharing resources...people, information, materials, methodologies, technologies...and facilitating the transfer from those who have them to those who need them.

In most countries of the world, national audit institutions, referred to as **supreme audit institutions (SAIs)**, perform independent audits of government activities and operations. Reporting to the legislature or the highest levels of government, these supreme audit institutions are empowered to examine the accounts of government ministries, agencies and state corporations and gather, through their audit work, evidence on which to judge whether public funds have been spent properly. Audits typically include a review that determines whether obligations and costs comply with the relevant laws of the country and whether assets are safeguarded against waste, loss, unauthorized use and misappropriation and, lastly, whether revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared.

Generally, government financial management control systems emphasize compliance with legal and regulatory mandates. But in today's world of resource-scarce economies, SAIs are playing a significant role in helping governments use the public revenues at their disposal as economically, efficiently, and effectively as possible.

Consequently, SAIs constitute a powerful instrument for ensuring government accountability. Strengthening SAIs will reinforce accountability—a prerequisite for preventing abuse of authority and for ensuring, instead, that this authority is directed toward the achievement of broad national goals.

In 1953, supreme audit institutions around the world joined to form INTOSAI to promote the exchange of ideas and experiences among legislative auditors of all member-nations. Today 158 countries, of which 100 are considered developing, belong to INTOSAI.

Training activities presented by INTOSAI have been enthusiastically received—the level of support and commitment has been uniformly high. Indeed, the degree of interest and international and national support from technical cooperation agencies has also been significant. IDI sponsored 31 training activities attended by almost 700 participants from 105 member countries and developed an information program in five languages.

INTOSAI Development Initiative

A growing body of evidence seems to point out that the benefits derived from foreign assistance to the Caribbean have been reduced by a shortage of qualified staff and a lack of suitable auditing and accounting standards and practices. To counterbalance this, it was determined that the following measures should be taken in the area of training: develop an effective personnel management policy to recruit and keep qualified staff and formulate a comprehensive refresher training program at the regional and national level. At an institutional level, more effective accounting, control and

auditing practices must be developed for the public sector so that integrated, reliable, useful and timely financial information will be available to expedite and facilitate the decision-making process.

The INTOSAI Development Initiative (IDI) was created to help INTOSAI member institutions advance public accounting and auditing; to develop an information exchange program for audit practitioners and trainers of SAIs, especially in developing nations; to collaborate with regional and sub-regional groups to determine needs and develop and deliver training programs and provide follow-up assistance to help SAIs adapt IDI programs and set up their own training functions. IDI receives generous financial support from national and international development agencies as well as invaluable contributions of time, materials and facilities from more than 60 SAIs.

Its goal is to upgrade the technical and managerial capabilities of SAIs through the training of senior audit managers, supervisors and training managers. More precisely, the ultimate goal of the program is to improve public financial administration and control.

CAROSAI

On August 7, 1988, English-speaking Caribbean countries organized CAROSAI to achieve the following goals: Promote understanding and cooperation among member-institutions through the exchange of audit ideas, techniques and experiences; promote the internal audit function in the public sector; provide opportunities for training and continuing education for public sector internal and external auditors; encourage dialogue with regional training institutions to get assistance with research personnel; serve as an information center and regional link with INTOSAI and other international and regional organizations; to promote cooperation among public sector auditors; to make the public aware of the role that audit plays in helping institutions perform their duties; promote the unification of principles, procedures, standards and financial terminology; promote harmonization of standards and policies among member-institutions; promote comprehensive auditing; promote the exchange of audit personnel within and/or without the Caribbean region.

CAROSAI has held 4 training events in the region. The Human Resources Management Seminar in St. Lucia in March 1989, studied personnel management methods and identified related problems. A Training Managers Workshop in the Bahamas in March 1990, evaluated the training needs of CAROSAI members. The Senior Government Auditors Course in Trinidad and Tobago, held November/December, 1990, dealt with the use of the *Public Audit Manual* developed under the Commonwealth Audit Training Initiative. An Audit Testing Workshop in the use of sampling techniques was held April 8 through 19, 1991 in Trinidad and Tobago.

Other seminars will be held to provide auditing workshops on programming, sampling, financial auditing, performance auditing, audit reporting; electronic data processing auditing, etc. The seminars will be geared to various levels, including the heads and deputy heads of supreme audit institutions.

C. John Competello: *New A.I.D. Guidelines for Auditing*

(A.I.D.'s new) requirements will meet or surpass Generally Accepted Government Auditing Standards.

Accountability is the duty of anyone who handles money or goods to publicly respond to others for the manner in which the duties have been performed. Financial accountability is the simplest to describe. If you are given a sum of money to spend for certain purpose, you achieve accountability when you report back, giving proof, that you have spend all the money, or have spent part of it and are returning the remainder. Your accountability can be made much stronger if some other person such as an auditor examines a paid invoice for the expenditure and counts the money returned. A publicly presented or independently verified report can be made of the matter for which one is accountable.

A.I.D. provides assistance to both governmental and nonprofit organizations in foreign countries. The Inspector General Act of 1978, as amended, and the Office of Management and Budget (OMB) Circular A-73 of 1983 describe the responsibilities of the A.I.D. Inspector General related to non-federal recipient audits. The Inspector General Act provides that each Inspector General (IG) shall establish guidelines for determining when it shall be appropriate to use non-Federal auditors and take appropriate steps to assure that any work performed by non-Federal auditors complies with U.S. Government Auditing Standards. OMB Circular A-73 provides that primary responsibility for audits of federally assisted programs rests with recipient organizations and that federal agencies will rely on recipient audits, provided they are made in accordance with U.S. Government Auditing Standards and otherwise meet the requirements of the Federal agencies.

While all of the following guidelines have not yet been approved by A.I.D. and some changes may still be made, requirements will meet or surpass Generally Accepted Government Auditing Standards (GAGAS).

The A.I.D. Inspector General has revised the standard audit provisions to be included in A.I.D. agreements with foreign recipients and developed audit guidelines to explain how the audits are to be performed (*Guidelines for Financial Audits Contracted by Foreign Recipients*). The revised standard audit provisions now call for annual audits to be performed in accordance with U.S. Government Auditing Standards as required by U.S. laws and regulations.

The revised standard audit provisions also establish that recipient audits can be performed by independent auditors acceptable to the A.I.D. Inspector General. The audit guidelines define independent auditors as professional auditing firms or the country's principle government audit institutions or supreme audit institution (SAI). The guidelines define the criteria that independent auditors must meet to be eligible to perform audits for A.I.D. recipients. These criteria are:

- Professional Auditing Firms must be able to perform audits in accordance with U.S. Government Auditing Standards including the continuing education and internal and external peer review requirements.
- Supreme Audit Institutions must be independent, maintain a professionally prepared and competent staff, and routinely comply with INTOSAI Auditing Standards, IFAC International Auditing Guidelines, and/or nationally promulgated generally accepted auditing standards. SAIs must maintain a continuing program of staff training and

not participate in any way in pre-control or transaction approval or other activity which is incompatible with the audit function.

The revised standard audit provisions also establish that the scope of audits encompass financial statements for the organization as a whole, financial statements for each A.I.D. agreement showing project revenues, expenditures and cash balance (Fund Accountability Statement), the review of Internal Controls and Compliance (including questioned costs) related to each A.I.D. agreement and follow-up status of prior years audit recommendations.

Concerning the roles of A.I.D. and the Inspector General in program implementation, the revised provisions require that A.I.D. Missions maintain a universe of foreign recipients, assist the recipients in contracting independent auditors such as the preparation of the scopes of work and approval of work and approval of the audit contracts; monitor the receipt of the audit reports for submission to the appropriate Regional Inspector General for Audit; finance the cost of the audit through the project or grant agreements; provide any other assistance to the foreign recipients and their independent auditors; and follow-up on IG audit recommendations concerning material internal control and compliance deficiencies contained in the reports. Concomitantly, the guidelines stipulate that the Regional Inspector General for audit should maintain a universe of foreign recipients, monitor the receipt of the reports from the A.I.D. Missions ; provide technical assistance to A.I.D. Missions, independent auditors and the recipients concerning the implementation of the program, determine the eligibility of independent auditors to participate in the program, desk review all audit reports to determine compliance with GAGAS and to make recommendations to A.I.D. Missions for material internal control and compliance deficiencies identified in the reports; prepare letter reports to the recipients in memorandums to the A.I.D. Missions to documents the results of the desk reviews; maintain a recommendation follow-up system to tract recommendations made to the A.I.D. Missions; and perform Quality Control Review (QCR) of the workpapers of the independent auditors to determine compliance with GAGAS.

D. Juan Herrera: *Facing Up to Corruption in Government*

Let us demand from our leaders the firm determination to do away with corruption.

What is corruption and why, precisely, must we face up to it?

Corruption is the collapse of the moral standards that guide and direct our actions. Corruption is theft or stealing. To steal is to take what is not rightfully yours. All forms of corruption meet this definition.

Corruption in government can take many diverse forms. In general, corruption occurs whenever a position is used for self-serving purposes. The most common examples involve taking money or those instances where public servants do not receive money, but use their influence and position to promote their own commercial interests or those of their family and friends. When public servants ask for a handout in order to speed up a bureaucratic process—a common practice—they are taking what is not rightfully theirs in order to do what they have been hired to do.

Sadly, in most Latin American countries, corruption is frequently considered normal, inseparable from the act of governing. Gaining a position in government means economic fulfillment. Appointments to government posts are considered rewards to the most politically active followers of the President. Individuals are routinely appointed based on their political merits and not their ability, further they make use of their terms in office to accumulate such personal wealth as will allow them to live comfortably once they leave office. This tends to confirm the notion that the State is the political booty of the winners.

Corruption, then, must be fought and confronted as a wrongful act, punishable by God and society at large. Once we begin to consider that a certain degree of corruption is normal, necessary or even good, we have taken the first step towards the total collapse of our mores.

How can we fight corruption?

Financial management, which includes everything related to strategic planning, management of operations and financial controls, cannot do away with corruption, but can help reduce it through internal controls and the good offices of the Controller or Auditor General.

Assuming that most forms of corruption include an economic factor, all handling of money and, more important, the entire process of determination and management of government revenues, must be subject to the strictest system of internal controls. Although this and other basic precepts of internal control are well known, reforms are often not carried out due to the inflexibility of governments and disinclination of high officials to introduce changes.

Many countries have an Office of the Auditor or Controller General. In most cases, though, the office is wanting in authority because of a lack of independence and inadequate financing. Often the Controller General is not an accountant or skilled in business administration, or worse, may have been appointed on purely political grounds.

Controllers or Auditors General should be public accountants. Only public accountants have the proper training and experience to act as auditors. Moreover, the Controller General should be totally independent of the executive branch and any other branch of government. An ample budget

should enable the Controller or Auditor General to provide training to sharpen skills and salaries that attract top quality professionals.

Another effective tool in combatting corruption is through effective, independent internal auditing. Unfortunately, a great many departments of government have internal auditors who are ineffective, again, because they lack independence. Internal auditors should be appointed and paid by departments separate from the ones in which they work.

Bureaucracy feeds corruption. The slow pace, senselessness and complexity of administrative processes, the lack of organization and apathy among the staff, and administrative measures which slow processes and make them more tortuous all make corruption more attractive. If corruption is to be reduced, the state must simplify and modernize its systems.

It is highly recommendable that a career public service track be established that will define positions, education, experience, qualifications, career paths, adequate salary levels, competitive fringe benefits, promotion incentives, and retirement plans. Only Cabinet positions and certain high level department heads should be politically appointed. There must be a clearly defined difference between political appointments and technical positions which must be occupied by professional public servants.

It is clear that what contributes the most to the occurrence of corruption and to its expansion to all levels of society is impunity. As long as people perceive that it is possible to commit a corrupt act with impunity, society will continue to be corrupt. Without fear of punishment—and at the highest levels—nothing will stop crime. Offenders should have a fair trial, otherwise they will be looked upon as victims of a political vendetta.

The most important bulwark against corruption is political will. In order to end corruption in government, top executives must have the political will to do so, and the wish, the desire, the unswerving purpose to accomplish it. Let us demand from our leaders the firm determination to do away with corruption. It is imperative that the best men and women in each of our countries close ranks and take part in political activities that will allow them to reach positions of influence from which they will be able to implement remedies against corruption. It is up to us to stop corruption.

E. Mortimer Dittenhoffer: *New Accounting and Auditing Standards in the Public Sector*

The general structure of audit standards revolves around a three-fold classification. The first relates to personal qualifications of the staff such as independence, proficiency, skill, objectivity and professional attention.

There are two types of standards: those which identify what should be done if the operation is to achieve a prescribed level of excellence and those which codify what is currently being done in the field.

Some of the purposes served by standards are:

- To be a measure as to reasonable and optimum performance
- To serve as a motivational objective for individuals and organizations
- To guide others who rely on the work of professionals
- To serve as a basis for planning and budgeting
- To serve as an ideal, a model to be achieved

Audit standards were developed by the American Institute of Certified Public Accountants (AICPA) during the late 1940s. There were originally nine standards; others were added several years later. These standards have served as a guide for many subsequent audit standard-setting activities.

The general structure of audit standards revolves around a three-fold classification. The first relates to personal qualifications of the staff such as independence, proficiency, skill, objectivity and professional attention. The second includes how the audit is conducted, the examination itself, and evaluation concepts such as planning, supervision, testing, review of controls, and the collection of evidence. The third concerns communication of the audit results.

The AICPA standards served as a guide for standards developed by the U.S. General Accounting Office (GAO), published June 1972. The GAO standards used the general framework of the AICPA standards. Although they were revised twice, in 1981 and 1988, the GAO standards still bear a striking resemblance to the AICPA's. The GAO audit standards have served as a basis for government audit standards in other parts of the world.

The impetus for the GAO audit standards was pressure brought to bear on the GAO by both Congressional committees and U.S. state audit officials. The latter testified to the Congress and later met with Elmer Staats (then Comptroller General) during the late 1960s to complain that : (1) auditing in the states needed guidance; (2) federally assisted programs were not being conducted efficiently and effectively, or in some cases, even honestly, and federal and state auditing was not able to discern this; and (3) federal audit operations required considerable improvement. The GAO in 1969 empaneled a work group to research and develop a body of audit standards that would serve in auditing federal programs and for the guidance of federal audit agencies.

The GAO standards included reference to the applicable AICPA standards, thus taking the best of both worlds. After publication of the GAO standards, the AICPA recommended their use to its members and published a booklet on broadening the audit to include the operational aspects emphasized by the GAO.

Although the GAO standards were the first body of written standards that emphasized the broadened scope of the audit, operational audit concepts practiced by members of the Institute of Internal Auditors (IIA) influenced GAO standards. The working group that developed the GAO standards included several members who were active in the IIA and who had operational audit experience in industry and in federal agencies, and whose audit activities had been broadened through the impact of audit personnel recruited from industry.

It was in this environment that the IIA started to prepare a body of standards for internal auditing. Its working group, a committee of the IIA's prestigious Professional Standards Board, under which the certified internal auditor program as well as other professional activities functioned, was drawn from many constituencies. It brought to the project a wealth of backgrounds and practical experience, from academics, professionals and members who had had previous involvement with the rigors of a similar task.

The GAO standards served as a model when the IIA developed internal audit standards; moreover, the GAO provided considerable support to the IIA while the IIA developed its standards. However, the organization of the IIA standards, though they contain all of the GAO elements, was considerably different. Also, the IIA standards added a class on the management of the audit operation, a topic that had been indirectly included in or at least inferred from the "due care" element of the AICPA and GAO standards.

Internationally, several broad trends have manifested themselves. In some countries, IIA Standards have been accepted or approved by the appropriate professional group or standards board. For example, in Malaysia, the Institute of Internal Auditors has adopted the IIA Standards and made them binding on its members (although the mechanisms for monitoring the Standards have not been developed). New Zealand's very active and forward-looking Institute of Internal Auditors has recommended IIA Standards for use in public and private sectors. Likewise, although no formal internal auditing standards have been developed and promulgated by the Internal Audit Institute of South Africa, IIA Standards are generally accepted and used in both the public and the private sectors.

In some countries, such as Israel, IIA Standards provide the foundation upon which country-specific standards are based. Israeli Professional Standards Committee aver that Hebrew language standards are basically similar; however, the English version dominates.

These developments should have beneficial results in internal auditing. Nonetheless, there is some controversy in the use of the International Institute of Internal Auditors' Standards in three areas: the problem of translation and the imprecision of semantics and lack of comparable terms in some languages; the modifications introduced by some countries in their standards publications; and mandatory requirements for general standards, specific standards and guidelines.

F. **Luisa Rains: *A Case Study on Financial Management Projects in Guyana***

The Economic Recovery Program is designed to create an economic environment conducive to sustainable growth. This includes measures to encourage the participation of the local and foreign private sectors as well as to restore the country's standing with the international financial community.

After more than a decade of economic stagnation, the Government of Guyana recognized the need for an urgent resuscitation of the economy through the implementation of extensive economic reforms. Following discussions with the International Monetary Fund (IMF) and the World Bank (IBRD), a program for structural adjustment referred to as the Economic Recovery Program (ERP) was formulated in 1988.

The ERP is designed to create an economic environment conducive to sustainable growth. This includes measures to encourage the participation of the local and foreign private sectors as well as to restore the country's standing with the international financial community. Some of the key objectives of the ERP are to reverse the decline in economic growth and to establish a rapid rate of increase in Gross Domestic Product (GDP) and real per capita incomes; effect an improvement in public sector fiscal performance by improving the efficiency of public enterprises and by more careful management of central government resources; restore productive capacity, particularly in the export sector; diversify the economic base; improve the state of the physical capital stock; provide the basis for a viable balance of payments in the medium-term; eliminate the external payments arrears; reduce the levels of inflation; reincorporate the parallel market into the official economy; and normalize the country's financial relations with external creditors.

The commitment of the Government to carry through the adjustment program is reflected in the positive initiatives it has taken, including two exchange rate devaluations, an initial one by 70% in U.S. dollar terms and a recent one (June 15, 1990) by 26.6%; increases in prices subject to controls and in public sector tariffs by 100-225%; conversion of some specific taxes to ad valorem; raising interest rates from 30% to 35%; intensifying tax collection efforts; and the release of a State Paper, the *Guyana State Policy*, which states:

"The Government therefore welcomes foreign investment, both public and private, and is prepared to offer and facilitate arrangements which allow for the security of investment, and for equitable returns to investors while contributing to the economic development of the country. There are in general no restrictions on the proportion of private ownership of any enterprise...a foreign investor could choose to invest alone, or in partnership with other foreign investors, or with local investors and entrepreneurs."

This investment policy-measure is intended to create private sector confidence, smooth the way for reintegrating domestic private enterprise including the parallel economy into the mainstream of economic development, and induce foreign investor to inject foreign exchange resources, management and modern technical "know-how" into the economy.

Implementation and monitoring of the ERP requires the cooperation and coordination of certain key government units of which the Ministry of Finance has a central role, including that of managing public finances. However, the migration of Guyanese professionals from the country has severely weakened the Ministry and has limited its ability to carry out its functions expeditiously and efficiently. Moreover, office machines and other equipment required to enhance the functioning of staff have fallen into a state of disrepair and obsolescence.

In recognition of the need to strengthen and develop the institutional capacities of key governmental agencies responsible for implementation and monitoring of the ERP, the Government of Guyana has identified the Ministries of Finance and Planning, related units, departments, and agencies which are likely to make substantial contributions in achieving the policy objectives of the ERP.

In view of its scope and comprehensive nature, the ERP will require substantial external technical assistance if the program is to succeed. The Government of Guyana, recognizing that the success of the ERP depends crucially on its capacity for macro-economic, financial and fiscal management, decided to address deficiencies in these areas which involve drastic improvement in its information, analysis, policy-formulation and monitoring capabilities. Thus, the strategy is to seek technical assistance to help in the provision of much needed expertise, equipment and training in the areas of macro-economic, financial and fiscal management.

Towards the end of August 1988, a technical cooperation mission visited Guyana to discuss a list of technical assistance ideas for institutional strengthening needs within the context of the structural adjustment framework, as well as other proposals for technical cooperation. As a consequence of the discussions, a tentative pipeline of technical cooperation projects was prepared which included among others, proposals for: improvement of the tax administration systems and budgetary agencies, and institutional strengthening of the environmental agency. It was also proposed that short-term consultants should be contracted to help the authorities to define the projects and prepare terms of reference for full-scale technical cooperation projects.

During March 13 to 17, 1989, a technical cooperation pre-programming mission further discussed with the Ministry of Finance the proposals for Bank assistance through technical cooperation for the strengthening of the Inland Revenue and Customs and Excise Department as well as the Office of the Budget and the Office of the Auditor General. However, during these discussions the Ministry indicated that it did not wish to make a decision on the Bank's offer of short-term consultancies until it had an opportunity to assess a UNDP report which would identify areas of institutional support to the government's ERP, as well as the international organizations through which such assistance should be requested given the diversity of projects and the magnitude of the total funding package likely to be sought. Consequently, the short-term technical cooperation projects referred to above were deferred.

The Bank's contribution would be used to strengthen public sector institution's, specifically the Ministry of Finance, in the areas of tax administration and budgetary process and the Office of the Auditor General's operational capability.

IV. ACKNOWLEDGEMENTS

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Belize
Dominica
Dominican Republic
Grenada
Guyana
Haiti
Jamaica
St. Kitts
St. Lucia
St. Vincent
Trinidad and Tobago
Canada
Sweden
United States