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SUMMARY OF REPORT ON THE PRESENT SITUATION ON THE OFFICE OF THE CONTROLLER GENERAL OF THE REPUBLIC OF HONDURAS

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CONTENTS

EXECUTIVE SUMMARY

INTRODUCTION — Page

Background 1
Historical Review 1
Organization and Functioning 4
Terms of Reference 4

SCOPE OF THE STUDY AND PROCEDURES USED 5

Work Methodology 5
Agency not Included in the Study 7

PRESENT SITUATION OF GOVERNMENT AUDIT AND THE COMPTROLLER GENERAL'S OFFICE 8

Legal Framework 8
Fiscal Control Structure in Honduras 13
Pre-Control (Pre-Audit) 17
The Concept of "Preventative Control" 18
Structure of the Office of the Comptroller General 19
Budget of the Comptroller Generals Office 22
An Overview of Government Auditing 23
- Internal Auditing 24
- Central Government 25
- Audit by Other Agencies 36
- Audits of International Loans and Assistance 40
Annual Report to the Sovereign National Congress 42
The Annual Report on Accounts of Management of Public Finances Presented by the Executive Branch 44

ORGANIZATIONAL AND FUNCTIONING OF STATE FINANCIAL MANAGEMENT 47

Secretariat of Planning, Coordination and Budgeting (SECPLAN) 47
General Directorate of Budget (DGP) 47
General Treasury of the Republic (TGR) 47
General Accounting Office of the Republic (CONT) 48
General Supply Office of the Republic (PGR) 51
Directorate of Public Credit (DCP) 51
National Computer Center (CENI) 51
Attorney General's Office (PRGR) 52
General Directorate of Municipal Advice and Technical Assistance (DGAATM) 53

CONCLUSIONS AND RECOMMENDATIONS 54

ANEXES

(Included only in the Spanish language report)

1. Organizational Chart of the Comptroller General's Office According to Article 3 of the Regulations of the Organic Law

2. Actual (Informal) Organizational Structure of the Comptroller General's Office.

3. Description of the Organization and Main Functions of the Comptroller General's Office's Organizational Units.

4. Analysis of the Process of Determination of Responsibilities.

5. Comparative Budgets of the Comptroller General's Office, 1981-86.

6. Comparison of the Salaries of the Comptroller General's Office Staff with Certain other Autonomous Control Agencies.

7. Comparison of the Main Legally Established Control Functions of the Central Control Agencies of the Government.

8. Summary of Audit Observations Rejected and Confirmed from Provisional Reports.

9. Summary of Audit Observations Rejected and Confirmed from Final Reports.

SUMMARY OF ACRONYMS USED IN THE REPORT

AIC	Interamerican Accounting Association
AID	Agency for International Development
BID	Inter-American Development Bank
BIRF	World Bank
CENI	National Computer Center
CGR	Comptroller General's Office
CONSUPLANE	Secretariat of Planning, Coordination and Budget (now SECPLAN)
CONT	General Accounting Office
DCP	Directorate of Public Credit
DGP	General Directorate of Budget
IFAC	International Federation of Accountants
ILACIF	Latin American Institute of Auditing Sciences
INTOSAI	International Organization of Supreme Audit Institutions
ONU	United Nations Organization
OSC	Supreme Audit Institution (Comptroller General's Office, Auditor General's Office or Court of Accounts)
PGR	General Supply Office of the Republic
SECPLAN	Secretariat of Planning, Coordination and Budgeting
TGR	General Treasury of the Republic

SUMMARY OF REPORT ON THE PRESENT SITUATION OF THE OFFICE OF THE COMPTROLLER GENERAL OF HONDURAS

EXECUTIVE SUMMARY

(Translated from original Spanish language report)

The Office of the Comptroller General of the Republic of Honduras (CGR) was established in 1957 when the old Superior Court of Accounts was abolished. In spite of the apparent legislative intent to set up an institution responsible for performing fiscal control by observance of "general accepted standards of current audit practice" and the recognition of important professional aspects such as the need for audit programs, follow-up of prior audit findings and recommendations, use of sampling techniques, etc., the present fiscal control methodology applied by the CGR consists of a mixture of antiquated and obsolete reviews of accounts (as previously done by the Court of Accounts) with some verification and inspection activities typical of auditing. Its focus is completely negative being oriented almost exclusively toward reporting deficiencies. It is concerned with reporting errors, but not with correcting their causes in order to avoid similar errors in the future.

Present fiscal control methodology is antiquated and inefficient and its cost does not justify its results. Fiscal control is untimely, ineffective and of very little practical utility, due primarily to obsolete procedures which are not consistent with modern audit methodology used in many other Latin American countries, nor with generally accepted standards and practices of the accountancy profession. Only one of the generally accepted auditing standards is appropriately observed.

Internal auditing in public agencies almost exclusively consists of precontrol and approval, instead of auditing and cannot be relied upon by the CGR. Improvements in public entity internal control and financial and administrative systems have not been fostered so as to permit the CGR to perform professional audits using testing techniques and to review and evaluate such systems making recommendations for improvements in them.

Existing constitutional and legal provisions pertaining to the CGR are generally adequate but confusion exists regarding audit responsibilities of other central control agencies and also regarding the internal audit function in general. The CGR's functional and administrative independence appears adequate except as regards financing of its activities. Annual budgets have not been sufficient to meet its needs and are subject to approval by audited officials. At times travel expenses have been financed by audited agencies thus compromising the CGR's independence.

The major recommendations presented are as follows:

- Establish new institutional objectives and a new methodology based on professional auditing.

- Eliminate delays in the audit process.

- Implant a program of supervision and quality control over audits.

- Guarantee the independence of both CGR and internal auditors.

- In coordination with other appropriate agencies stimulate the creation of an Integrated Financial Management and Control System in the public sector.

- Establish a modern, adequate and attractive personnel management system in the CGR including a career path requiring both training and practical experience, and initiate a massive technical staff training program.

- Set up a Department of Auditing Standards, Systems and Procedures responsible for planning and documenting the new professional audit methodology and eventually establish an auditor training unit.

- Elevate the low status and image of the CGR in the eyes of the public administration.

SUMMARY OF REPORT ON THE PRESENT SITUATION OF THE OFFICE OF THE COMPTROLLER GENERAL OF HONDURAS

(Translated and summarized from original Spanish language report)

INTRODUCTION

Background

This report summarizes work done between March 26 and May 6, 1987 in performing a diagnostic survey of the functions and responsiblities of the Office of the Comptroller General of the Republic of Honduras (CGR) including review the legal provisions governing its operations. The consulting work was requested by the Comptroller General in 1986, financed by the U.S. Agency for International Development (AID), and performed under contract by Price Waterhouse.

One of the basic purposes of our work was to formulate conclusions and recommendations directed toward modernizing audit functions. Our work was limited in scope and basically oriented toward obtaining a broad view of the present situation of CGR and of its present activities as Supreme Audit Institution in Honduras.

Historical Review

According to the Constitution CGR is the only agency within the legislative branch "charged exclusively with a posteriori audit (fiscalizacion) of public finances". The Comptroller General and his Deputy Comptroller are solely responsible for their acts before the Congress and "may only be removed by it". Therefore it is clear that CGR is the Supreme Audit or Control

Institution of the State. To this end the Constitution gives CGR "functional and administrative independence" and similarly in the general budget CGR's program is located in second place following that of the National Congress and called "a posteriori audit of the public administration".

Prior to the establishment of CGR the former Supreme Court of Accounts according to its 1928 law had responsibily for both pre-control (pre-audit) and post-audit. It approved payment orders and examined accounts of fund managers. In addition it performed the traditional judgement of accounts. An additional interesting faculty of the Court was to "Procure, in accordance with the Office of Centralization of Accounts, the unification of the accounting system in all of the offices which present accounts to the Court."

When the Superior Court of Accounts was abolished by the 1957 Organic Law of the Office of the Comptroller General of the Republic, which is still in force, it is obvious that the legislature's intent was to create a Supreme Audit Institution with a modern approach to professional post-auditing. Even though neither the Constitution nor the Organic Law used the term "audit" it is clear that even in 1957 the "state post examination" (fiscalizacion a posteriori) was expected to be performed using professional audit techniques, both because provisions of the Organic Law made such an audit possible and guaranteed its independence, access to documents, and the collaboration of public servants, etc., as well as by the use within the law of the term "auditor" to describe the CGR official responsible for performing the work.

The Regulations to the Organic Law, also issued in 1957 and still in force, define "auditor" as "Official of the Comptroller General's Office charged with the performance of state review (fiscalizacion) activities" and establish four Audit Departments covering specific areas "for purposes of creating, to the extent

possible, specialization and uniformity in auditing systems". They further indicate that "The systems, methods and examination procedures followed by the auditors should ...be in in accordance with generally accepted standards in current auditing practice" (emphasis added).

The emphasis both in the Law as well as its Regulations regarding the role of CGR as "organism created for the purpose of post-auditing public treasury administration" indicates that the intention of the Congress was to create a Supreme Audit Institution exclusively responsible for post control in the public sector. In the decade of the 1950's this concept was very modern.

It is worthy of mention that the legislative philosophy still prevailing with few changes over the years is even today quite modern and practical. In our opinion said legislation is much better than similar legislation in a number of other Latin American countries. Of course, there are possible improvements which will be discussed in more detail. However, we believe that the present Constitution and legal provisions are adequate in general for a modern Supreme Audit Institution. Unfortunately the work mentality of CGR has not been as positive as its basic legal provisions.

The legislative intention to create a sound external control institution for the public sector has never been fully carried out during the 30 years of existence of CGR. For this reason, in spite of a good legal base, CGR is a relatively insignificant audit institution possessing limited human, financial, and material resources which has little impact on morality and sound financial management in the Honduran public sector.

Organization and Functioning

CGR has maintained a basically conservative though adequate administrative structure without significant changes since the Regulations to its Organic Law were issued in 1957. In Anexo No. 1 to our Spanish language report we present the structure which has prevailed since 1957. CGR does not have manuals which describe the activities and responsibilities of its various operating units nor the procedures they carry out.

Terms of Reference

The terms of reference of the AID financed study performed by Price Waterhouse are stated in detail in our Spanish language report and are not repeated here in the interest of brevitiy.

Our work was carried out principally in CGR's offices between March 26 and May 6, 1987.

SCOPE OF THE STUDY AND PROCEDURES USED

The basic purpose of our work was to analyze the present situation regarding functions and responsibilities of CGR including review of the legal provisions which govern its operations and to present conclusions and recommendations for modernizing the audit function in the public sector.

Work Methodology

A brief description of our procedures follows:

- We obtained from the Comptroller General and the Deputy Comptroller General a general overview of the present situation of CGR as Honduran Supreme Audit Institution (SAI), including problems, limitations, and actions presently carried out by the agency. Since both officials recently assumed their posts they were able to provide us an objective view of the situation they found along with their principal concerns based upon their first few months of service.

- Based upon interviews with department heads we obtained information on the organizational structure of CGR and the functions and procedures of each unit.

- We reviewed constitutional, legal, and regulatory provisions pertinent to CGR, fiscal control, general public administration and especially relative to financial management.

- Based upon the foregoing we prepared a plan for performing the diagnostic study including a Work Plan to guide the consultants' detailed work.

- We visited the principal agencies involved in financial management and conducted interviews with their key officials in order to become familiar with their functions and responsibilities and evaluate the degree of coordination existing between CGR and other agencies. The names of the agencies visited are indicated in our Spanish language report.

- We interviewed officials of international organizations to obtain information on their utilization of CGR's audit services, their opinion of them, and their view regarding the quality of work and the degree of confidence they placed in it, as well as their own interest in possible improvement of the quality of government auditing both by CGR, as well as internal audit units.

- We visited several internal audit units in a number of public agencies interviewing the persons responsible for them in order to evaluate the nature, scope, and possible degree of confidence which might be placed in these activities.

- In CGR itself, we carried out the greater part of our work of analysis and evaluation through interviews with its staff at all levels, especially chiefs of Audit Departments, audit team leaders, and auditors with different levels of experience. We reviewed supporting documents and audit reports of various agencies audited by each department. We discussed audit results with the auditors themselves by visiting several audit teams during their field work in order to obtain a true feeling for the nature, scope and quality of work and the degree of confidence which might be placed in the results of CGR audit work.

- We visited two autonomous institutions to familiarize ourselves with their general activities and the degree of internal and external control over them.

- We discussed the contents of this report with the Comptroller General, the Deputy Comptroller General, and two chiefs of Audit Departments who had long years of experience in CGR.

Agency Not Included in the Study

Toward the end of our work we learned of one additional agency which have not been included in our terms of reference and was not known about in time to plan a visit. This is the Controllership of Projects which is under the General Budget Directorate which we understand is responsible for controlling execution of various projects.

It would be recommendable that CGR study its relationship with this agency in order to coordinate actions and avoid possible duplications.

PRESENT SITUATION OF GOVERNMENT AUDIT

AND THE COMPTROLLER GENERAL'S OFFICE

Legal Framework

The legal framework which sets out fiscal control in Honduras is found in the 1982 Constitution, in Organic laws of CGR of 1956, of Budgeting of 1976, of the General Accounting Office of 1980, in the General Law of Public Administration of 1986 and in other legal provisions. Based on this proliferation of fiscal control legislation over 30 years we found that in Honduras fiscal control is considerably fragmented and responsibilities in several areas are not very clear. In this section we discuss the legal framework of CGR and in the following section the overall framework of fiscal control in the public sector.

The Constitution of the Republic establishes that CGR as the only constutionally established fiscal control agency "is a staff agency of the Legislative Branch with functional and administrative independence, charged exclusively with a posteriori audit of public finances". The two previous constitutions of 1957 and 1965 respectively, maintained the same concepts of independence and exclusive dedication to post-audit. (Translation's Note: The word "fiscalizacion" is here translated as "audit" although this is not necessarily a full and faithful translation of that word which implies a state review to determine fiscal responsibilities rather than a professional independent examination for purposes of giving faith to third parties regarding matters audited).

The constitutional functions of CGR are as follow:

- "Verify management of public funds and goods and determine irregularities in accounts...
- "Audit (fiscalizar) financial management..."
- "Examine State accounting and the accounts of public financial management which the Executive Branch presents to the National Congress, sending an appropriate report to the the Congress."
- "Carry out such other functions as the organic law may indicate"

The Comptroller and Deputy Comptroller General are elected for a term of five years by the National Congress and are responsible to it. They can only be removed from office by the Congress for reason due to proven commision of serious iregularities or crimes. The term of the Presidency in Honduras is four years. Over the years the term in office of the two principal fiscal control officials has varied according to different constitutions from six years for the members of the old Superior Court of Accounts, increasing to eight when CGR was created, and being lowered to six by the Constitution of 1965 and to five in the Constitution of 1982. Is clear that the Consititution intends to strengthen the independence of CGR by establishing a period longer than that of the Chief Executive and stipulating that removal from office may be made only for justified cause.

In addition to the report already mentioned regarding accounts presented by the Executive Branch the present Constitution also requires an annual report by CGR "setting forth the labor performed during said year, and presenting opinions and suggestions which are considered necesary to <u>achieve greater efficiency in the management and control of public funds and</u>

goods" and also authorizes the presentation of other reports (emphasis added).

The CGR's Organic Law, which has been in force for over thirty years, agrees substantially with the Constitution which has only been in force for five years. Some four articles of this law do not coincide with the Constitution and the Constitutional provisions prevail. The most important of these refers to the period of service of five years of the two top officials of CGR which we have already discussed.

Perhaps the most important article in the CGR Organic Law is Article 2 which defines the basic purpose of post audit, "which is to be carried out in the agencies themselves", in the following terms:

> "...determine if in managing public funds and goods there was correct application of law, principally to determine if there is waste or loss in managing state patrimony, recommending adequate measures to correct the irregularities found and establishing, at the same time, in a definitive manner pecuniary responsibilities and reporting to the appropriate responsible officials other matters and which may derived".

In order to achieve this purpose the Organic Law authorizes CGR to:

- Conduct inspections and verifications;
- Monitor custody and movements of goods;
- Cite witnesses and conduct investigations;
- Exercise discretion in order to avoid interrupting activities;

- Issue its reports publicly;
- Regulate its internal organization and;
- Others inherent to its purposes.

It is noteworthy that the two basic Honduran provisions regarding CGR (the Constitution and Organic Law) reflect a total dedication of its forces to post-audit (fiscalizacion) and do not authorize the institution to carry out any function or activity inconsistent with, or which might affect its independence, as external auditor of the State. Nor is any duty prescribed which distracts the Honduran SAI from its principal and exclusive mission of conducting post-audits. These aspects of prevailing legislation are very favorable and we consider that the Organic Law of CGR is one of the best such laws today in force in Latin America in this sense.

The Regulations of CGR's Organic Law, in force since August, 1957 without substantial modification, principally set up (1) its internal organization; (2) basic provisions regarding staff appointments, requirements and prohibitions; (3) provisions regarding fidelity guarantees, their amounts and processing; and (4) some more detailed provisions regarding auditing, the liquidation of accounts and general provisions. The only content of the Regulations which does not appear to have a firm foundation in the Organic Law relates to fidelity guarantees. While it is important to fiscal control to have the security that fidelity guarantees or fidelity bonds are in force, it is not necessary that CGR manage this function and this apparently was not contemplated in the Organic Law. Management of fidelity guarantees tends to deviate the attention of CGR from its principal function and at present is the only activity CGR performs outside that principal function.

Regulatory provisions with respect to auditing by CGR in general as still are valid today as they were in 1957. Certainly the requirement to observe "generally accepted standards in current auditing practice" merits special mention as a very laudable objective included in the Regulations, especially for its inclusion since 1957, since many SAI still do not recognize these basic and indispensable provisions relating to professional auditing. Unfortunately it appears that CGR has never been able to achieve this objective due to reasons to be discussed later in this report.

The Regulations also recognize aspects of professional auditing which are very important such as the need of audit programs, follow up of findings and recommendations of prior audits, and performance of selective testing instead of detailed examination of all transactions. It has likewise not been possible during the last thirty years to take advantage of the benefits of these important auditing elements contemplated by the authors of the Regulations . The twenty auditing procedures specifically set out in the Regulations to be performed during audits continue to be valid audit procedures today.

Of course, it is certainly possible to improve the contents of the Regulations, the Organic Law, and the Constitution. A major improvement would be the use of the word "audit" (auditoría) instead of the word "fiscalización" which would provide a more positive interpretation of this function as a means of avoiding irregularities and improving management. Other improvements could relate to systematizing fiscal control, by placing emphasis on sound internal control systems in each entity and to strengthening the financial independence of CGR as the country's SAI. Our recommendations will deal with such aspects of possible legal reforms. However we recognize the continued validity of almost the entirety of prevailing legal provisions. <u>The important thing is that they be observed</u> to permit professional auditing in the public sector.

We conclude that the efforts carried out in 1956 and 1957 which resulted in the present legal provisions applicable to CGR constituted truly an enormous step forward for that epoch. We suggest that it would be well to continue to move forward seeking to achieve the ambitious goals sown in these provisions by their authors in search of accountability in the Honduran public sector.

Fiscal Control Structure in Honduras

In spite of the existence of valid legal provisions covering CGR, the fiscal control structure in Honduras in general is very fragmented and the responsibility for it is not clearly defined in certain aspects. Various duplications of responsibility are contained in other legal provisions as well as loopholes or real lack of control. In addition, the internal audit function is considerably misunderstood and needs to be clearly communicated as a function of the post audit, not of pre-control. There is no logical systemized approach to fiscal control in the Honduran public sector. We consider that there are various reasons for this phenomena.

In the first place, CGR has never achieved the goal of being a truly strong and professional audit agency as the 1956-57 legislation and regulations contemplated. Logically other public agencies also had interest in, and have been concerned with, strengthening control over public resources. The weakness of CGR, without doubt, has resulted in other well intended provisions which have not been systematically developed which establish control mechanisms in other agencies without appropriate coordination with the Supreme Audit Institution, for example:

- The Constitution itself in some of its final articles includes the following regarding control of public resources:

  - "For control and monitoring of state property, whether personal or real, there will be an office of national properties

  - "Preventative review (fiscalizacion) of budget execution will be carried out by the Executive Branch"

  - "Preventative review of the centralized institutions and municipalities will be performed in accordance with what is determined in the respective laws"

- The Organic Budget Law authorizes the General Budget Directorate (DGP) of the Secretariat of Finance and Public Credit to conduct preventative review (fiscalizacion) of budget execution indicating that "In the exercise of these functions visits may be ordered for purposes of control, monitoring and audit of any ..." public agency (emphasis added). The law refers to the "auditors" of the Directorate in one article and in the following article speaks of reports of each audit visit (intervencion fiscalizadora) and "the corresonding observations (reparos)". In a subsequent article interventions on the part of disbursing officers from the Special Disbursement Offices (Pagadurias Especiales), are mentioned and another refers to interventions by audit organisms (organismos fiscalizadores), apparently referring to DGP and the Special Disbursing Offices.

- The Decree which approves the General Budget of Revenues Expenditures of the Republic for the fiscal year 1987 provides for "a priori review" (fiscalizacion) of revenue collection offices by DGP which in carrying out its

"pre-intervention" may perform "periodic preventive audits" of said offices. The purposes enumerated for these preventive audits are typical post audit activities indicating that the term "preventive audit" refers to the prevention of deviation in the due application of law and of irregularities in recording and depositing revenues, a normal function of post audit. The Decree also authorizes DGP to "perform special audits".

- The Organic Law of the General Accounting Office of the Republic contains a complete chapter on "The Internal Audit Services" which apparently establishes said Service, an organizational unit of the General Accounting Office, as a post audit agency covering all public entities except for the Legislative and Judicial Branches and with the authority, among others, to issue "opinions" on accounting books of central government agencies and "verify" accounting statements presented by the General Accounting Office itself, applying "generally accepted auditing standards, and procedures". In addition it is to coordinate and establish standard procedures and instructions for the internal audit services of the central government.

- A new general law of Public Administration provides that "preventive audit (fiscalizacion) of financial operations of autonomous institutions is the responsibility of their internal audit units"; that the auditor in charge of said offices shall be designated by CGR but will receive remuneration from the institution and shall not hold his post for more than two years; that reports shall be simultaneously presented to the chief authority of the entity, CGR and the National Congress; and that the auditors shall be jointly held responsible along with the persons who made decisions which are objected to by CGR "if they in the preventive audits have not" taken an exception

to the decisions, thus implying that preventive "fiscalización" is a function of precontrol or approval by the auditors of these decisions.

As may be seen, in the prevailing legal provisions regarding fiscal control the variety of terms used produces certain inconsistencies with their technical meanings and the diversity of organizations with fiscal control functions and lack of coordination of provisions, have contributed to create confusion regarding the agency really responsible for different aspects of fiscal control. The function of external control has been confused with the function of internal control. Precontrol has been associated with post control, which should be independent, and the concept of preventive control has been introduced with two different meanings in two different laws. The General Accounting Office and CGR have similar authority to perform professional audits with the only difference being that the General Accounting Office may not audit the Legislative and Judicial Branches, in effect constituting it as the internal auditor of the Executive Branch.

In reality no organization is faithfully complying with the fiscal control provisions which we have cited. DGP and the General Accounting Office apparently are not performing audits like those of CGR. Internal audit units are not performing internal audits, only precontrol and authorization. And CGR is not performing professional audits. In summary fiscal control is quite confused and weak.

In addition to the foregoing there are various other agencies responsible for control of specific resources or institutions such as the Office of Administration of National Properties which is a unit of the General Accounting Office; the Directorate of Probity, a staff agency of the Legislative Branch; the Superintendencies of Banks and of Autonomous Institutions; and the Directorate of Advice and Technical Assistance to

Municipalities. These agencies, with some exceptions, have well defined duties and activities and at the moment do not have conflicts with the activities of CGR. It is evident that there is no communication or coordination among all the agencies mentioned in this section so as to avoid possible duplication or interference in their respective legal functions.

Pre-Control (Pre-audit)

In Honduras CGR has no legal authority to perform pre-control. (sometimes called erroneously "pre-audit" in English). The intention of the Constitution and Legislation to establish CGR as a post-control (or post-audit) agency is strongly emphasized. Therefore pre-control remains as, and should be, a duty of each public agency, with the exception of provisions for centralized pre-control by the Executive Branch.

The principal function of pre-control at the central level consists of approval of payment orders by DGP. There are other centralized forms of pre-control such as that exercised over contracting and borrowing processes. These kind of centralized controls frequently cause delays in public activities which are very costly compared to their true benefits.

Exclusion of CGR from any pre-control function is professionally and technical correct and should be maintained and jealously guarded to avoid involving this Supreme Audit Insitution as the principal instrument available to the State to assure adequate control over the public resources. Professional auditing, whether be internal or external is a post-control action. There should be two post-control levels in the public sector, that of CGR and that of the internal audit units located within the public agencies. This approach permits CGR to maintain a small but select body of professional auditors who may concentrate their limited audit efforts upon the most critical areas of public administration. In addition it avoids converting

CGR into a large bureaucracy difficult itself to control. CGR auditors should review work done by internal auditors in such a way that CGR may rely in large measure on their work. This relation between internal and external audit presently exists in the majority of Latin American countries and is recommended in policies of the Latin American Institute of Auditing Sciences (ILACIF).

Unfortunately the internal audit function in Honduras has been confused with the pre-control function. Almost all of the internal auditors in the public sector perform pre-control activities and do not perform professional audits. Because they are involved in approval of actions they are not independent to perform audits and consequently cannot be relied upon by CGR. Is urgent that the internal audit function be established as a professional function exclusively responsible for post-control or audit.

The Concept of "Preventative" Control

The provisions which speak of "preventative" state review (fiscalizacion), intervention or audit confuse the concepts just described. If the term "preventative" refers to some act or disapproval which may directly void execution of an administrative act before it takes effect, it describes a pre-control which is totally incompatible with professional auditing. On the contrary, if recommendations are adopted resulting from audit which result in improving internal control the purpose of avoiding future specific irregularities there is no incompatibility with auditing. Notwithstanding, in professional auditing literature the term "preventative auditing" is not utilized precisely to avoid confusing persons who might think that the auditor reviews and approves in advance authorizing some acts. We consider it very important that the present confusion regarding preventative control be cleared up . The best way to do so is to avoid the term utilizing the term "pre-control" for prior actions and "audit" for actions of post-control.

Structure of the Office of the Comptroller General

The Regulations to CGR's Organic Law establish its organization in an inflexible manner due to the requirement of the Law itself that the National Congress must approve the Regulations. Because of this the same official structure has lasted for over thirty years. The structure is that considered basic for an SAI and the inflexibility of the Regulations has the advantage of avoiding structural changes based on spur-of-the-moment decisions which often increase bureaucracy by establishing unnecessary units. On the other hand over the years an informal organizational structure has grown incorporating other units not contemplated in the Regulations.

The units established by the Regulations include in addition to the offices of Comptroller and Deputy Comptroller General, four Audit Departments with defined areas of responsibility so as to "create, as much as possible, specialization and uniformity", a Legal Department and a Department of Secretariat and Administrative Services.

In practice there are presently two additional units which exist outside the Regulations-the Supervisory Commission of Analysis of Objections (Impugnaciones) and the Section of Statistics and Accounting of Observations (Reparos) with a total of three professional staff members and three secretaries between them. These units carry out repetitive and untimely functions as demonstrated by the accumulation of more than 400 objections (impugnaciones) not processed by the Commission at the date of our report. We believe that these two units might well be incorporated into the Legal Department in order to create interdisciplinary teams be familiar with the objections to audit findings and at the same time maintain complete statistical information regarding audit observations.

Presently the personnel and financial management functions are directly under the Comptroller General. It would be convenient to formally establish such units so as to recognize their functional importance.

There are only two officially issued provisions in addition to the Organic Law and its Regulations: the Personnel Regulations of 1960 and the Manual of Classifications of Positions and Administration of Salaries. These have not been updated and are complied with only partially. There are no other types of provisions such as procedural manuals to guide the functions assigned to the different administrative units, nor any other types of normative provisions.

Certainly the greatest vacuum we noted in the organizational structure of CGR is the absence of a unit responsible for the preparation of an anual audit plan, fiscal control policies, internal control standards, professional auditing standards, internal administrative manuals, professional auditing manuals, internal control questionnaires, model audit programs and other such provisions related to planning and coordination as well as for providing continuing training for auditors.

Due to the actual size of CGR, we believe that a single unit with a staff composed of experienced professional auditors could carry out these functions. Eventually the training function could be separated, especially if it is extended to internal auditors and eventually to financial managers and others responsible for internal control in the public sector.

To be Chief of an Audit Department, according to the Regulations, one must have a degree in Public Accounting, (a High School level degree) and professional experience. Auditors must meet the same requirements. We consider that the requisites established for these posts are not appropriate to present needs, especially due to the fact the autonomous institutions and public

enterprises carry out complicated business activities and some 90% of them have modernized their financial management systems and presently use electronic data processing equipment. A similar situation exists in the banking sector which according to the Constitution also should be audited by the CGR, although it has not entered this area due to its technical limitations. In general the techniques of auditing and systems technology have evolved so much in recent years that a higher level of education and professional training is required of auditors together with continuing professional education.

The area of auditing assigned to each Audit Department according to the Regulations which was probably adequate in 1957, has not been studied in recent years. We consider that the number of entities and the volume and complexity of operations and of accounting and internal control systems today certainly result in disproportionate and unbalanced distribution of responsibility.

Presently 104 auditors are assigned to the Central Government Audit Department, although a total of 122 actually work in that unit. In the departrment of Governmental Establishments 73 auditors are assigned, but 80 are actually on the job. In the Judicial Branch Audit Department similar staffing is 25 and 17 and in the Municipal Audit Department 34 and 17 respectively.

It appears that two Audit Deparments should be set up for the Central Government and the Departments of Judicial Branch and Municipal Audits should be merged into one single department. Staff management and audit coverage in the area assigned to each Department has become complex due to lack of equal distribution of work and poor technical rotation of personnel. Without doubt the situation has had its effects on problems of audit coverage of the agencies for which the Departments are responsible which we shall discuss in following sections.

Budget of the Comptroller Generals Office

In spite of constitutional and legal provisions favoring CGR's independence as the agency responsible for external auditing in the public sector, in reality CGR does not possess the most important factor-the financial independence necessary to carry out its mission. The functional and administrative independence given to CGR is not sufficient because CGR depends financially upon the amounts appropriated in the general budget of the Republic. It receives just as any other agency quarterly budgetary transfers from DGP through TGR. In effect a unit subject to audit by CGR (DGP) is responsible for determing the amount of its budget. In the last few years DGP has reduced CGR's budget requests by more than 50% of the amounts requested for public sector audits.

Budgetary increases from year to year have been directly related to staff increases in such a way that there have been no effective salary increases in CGR over many years. Thus auditors' salaries are very low when compared with those of auditors in the banking sector, internal auditors, and auditors employed by autonomous institutions. This is demonstrated in Anexo 6 to our Spanish language report. We also noted that when auditors have to travel outside Tegucigalpa they collect per diem and travel expenses from the agencies audited due to the fact that funds budgeted for this purpose are inadequate, thus absolutely limiting their professional independence. When it is not possible to obtain this type of financing from the agencies audited, the amounts paid by CGR to its auditors for travel are less than those established in the General Regulations for Travel Expenses for the public sector.

The CGR capital expenditure budget is less than 1% of its total operating budget, a situation which appears to be inadequate to finance normal needs for replacement of damaged and worn out equipment. The building where CGR is located is distant

from most of the agencies subject to audit. Its neighborhood is composed of bars and other activities which are not the most recommendable to create an environment for professional work. Physical space is inadequate for work and there is no space for staff meetings, training classes, etc. The building, without a doubt, is one of the poorest buildings of an SAI in all of Latin America. Transportation equipment, and office equipment and vehicles in almost their entirety are obsolete, damaged or inadequate.

As might be expected in view of its low budgetary resources, CGR has a poor image in the public sector. Its auditors are demoralized and the best of them cannot be retained. It is logically difficult to recruit higher level professionals to work for CGR.

One possible cause of the situation in the past is that CGR itself has been passive and has not insisted with sufficient firmness and documented support upon its real needs. It has not communicated the technical role of the institution to efficiently and effectively perform its important duty according to the Constitution and the Law. Nor have any other alternative legal reforms have been suggested which might make it possible finance CGR independently of the Executive Branch, the principal object of its audit activities.

An Overview of Government Auditing

In spite of a good legal framework for the performance of governmental auditing, neither CGR nor internal audit units have achieved compliance with the constituional and legal provisions presently in force, nor with generally accepted auditing standards promulgated by the accountancy profession, or the standards published by the Latin American Institute of Auditing Sciences (ILACIF), the standards of the Institute of Internal Auditors (IAI), or the International Auditing Guidelines of the

International Federation of Accountants (IFAC). In fact the lack of university level professional training and the absence of continuing education programs for auditors impedes compliance with the cited professional standards resulting in the failure to recognize the importance of auditing in the public sector, on the part of the various levels of government and on the part of international financial institutions.

Internal Auditing

Autonomous Institutions

Based upon our visits to various internal audit units in autonomous institutions and other information obtained from CGR, we evaluated ten internal audit units selected as representative. In each case we found said units to be adequately located within the organizational structure at the staff level between the board of directors and the chief executive. As regarding appointment, prior to the issuance of the General Law of Public Administration, internal auditors were named by the boards of directors, a practice which is recommended by the Standards for the Professional Practice of Internal Audit of IAI. In the spirit of strengthening internal audit independence, the new law contains an article which provides that beginning in 1987 the chief internal auditor shall be named by CGR.

In order to be an internal audit chief of an autonomous institution according to the law one should hold one of several possible university degrees enumerated in our Spanish language report. The law does not establish requirements for the rest of the internal audit staff. We found that the ten chiefs of internal audit units did hold appropriate university degrees. At other levels we found that 77 auditors had only high school level education and 24 held university degrees. As regards functions carried out by internal audit units, nine performed only pre-control and concurrent control functions and only one

conducted any work related to post-auditing. Pre-control is done through review of pertinent documentation supporting payment orders and revenue vouchers and is documented by means of placing the auditor's initials on the documents. Usually goods received are also verified as entering inventories.

Central Government

So far we have discussed internal audit only in the autonomous entities. Its situation is not very different in the central government. In three Secretariats of State visited we found internal audit functions to fundamentally consist of pre-control. Internal audit units are usually located at the operating level, generally within the financial area. Special mention should be made of the Ministry of Finance and Public Credit which has three different internal audit units thus making it impossible to establish the function at the top level.

In addition, it is strange that an internal unit exists in the General Accounting Office which in effect is legally constituted as the internal auditor of the Executive Branch covering the entire central government and the autonomous institutions in frank competition with provisions of the Constitution which establish CGR as the Government's post-auditor and possibly duplicating its functions. In practice this unit has not carried out the functions assigned it by law, but the possibility that it could operate and create confusion still exists. Only one of its ten auditors holds a university degree in accountancy and the others have high school education in accounting. Because of its limited staff, in number as well as background, this unit is not in a position to carry out the functions accorded it by law. In addition, since the General Accounting Office is the administrative unit responsible for the government accounting system we consider it inappropriate that it perform internal audit activities.

Coordination between CGR and internal audit units has been scarce or nonexistent. CGR auditors do not review internal control, nor do they review the validity and reliability of internal audit. Collaboration is limited to communicating to CGR only the observations made by internal auditors so that they may be included in its respective reports.

Internal audit reports are generally limited to periodic descriptions of activities, setting out the numbers of payment orders and revenue documents which have been reviewed. Exceptionally audit findings and recommendations and observations are communicated in reports.

In summary the internal audit function in the public sector is not performed in accordance with internationally accepted professional practices, since it practically entirely consists of routine documentary reviews prior to the execution of operations. Thus internal auditors, instead of performing audits, are performing non-professional pre-control and approval functions which should be the responsibility of financial management employees of the agencies. If this situation cannot be changed the term "internal auditor" should not be used to describe such functions since they are definitely not appropriate for internal auditors.

External Audit by the Comptroller's General Office

Since the Regulations to the Organic Law provide that CGR audits should be in accordance with "generally accepted standards in current audit practice" we have arranged our analysis of the audit function according to these indispensable guidelines for the professional performance of auditing:

Professional Training and Experience

CGR audit do not comply to this standard due to the lack of requirements of university degrees in accountancy for chiefs of audit departments and auditors. Some 92% of CGR audit staff does not have university training in the basic discipline of accountancy. Nor has staff received training through specialized formal training programs or continuing professional education courses for purposes of updating knowledge. It will be very difficult to have a qualified staff to perform audits in the absence of a massive internal training program for auditors combined with the opportunity to gain practical experience in field work under adequate supervision. Said supervision will have to be obtained externally while auditors from CGR gain experience.

Independence

The provisions regarding administrative and functional independence the location of CGR under the Congress, the term of office of five years for the Comptroller and Deputy Comproller General, the exclusive limitation of work to post-auditing, the prohibition from of participation in political activities, and the absence of other activities and functions which compromise institutional independence give CGR an advantage as compared to many other SAI in Latin America in this aspect. Notwithstanding compliance with this standard is especially affected by the budgetary limitations we have commented upon.

Professional Care

CGR auditors are not in condition to apply the due professional care expected of the professional auditor due to lack of training and discipline in their work. Some of the most elemental and indispensable requirements of due care which are also required in the regulations to the Organic Law are not

observed. These include constant visits by Department Chiefs to auditors in the agencies audited (Art. 26), the preparation of frequently updated professional audit programs (Art. 51), the utilization of the today indispensable practice of selective testing (Art. 54), the presentation of recommendations for significant improvements (Art. 62 and Art. 10 of the Law), and the preparation of working papers presenting audit evidence in a professionally and orderly manner. These practices disclose the generalized lack of compliance with the standard relating to due professional care. The lack of motivation resultant from low salaries, the poor physical environment and poor logistic support, the low prestige of the institution, the absence of non-financial motivation such as continuing education, a career path, opportunity for foreign studies and other aspects of professional pride which might act to revitalize their dedication to the institution cause the audit staff to contribute only a small part of its potential, affecting performance and resulting in frequent delays in work.

Planning and Supervision

These very necessary aspects for any professional work do not exist in audits performed by CGR and this standard is not complied with. The following deficiencies are so serious that they alone destroy the effectiveness of audit work in CGR:

- There is no annual audit plan which establishes policies and criteria for selection of agencies to be audited in such a way that the most important areas are audited first, while other areas are not excluded from audit over long periods of time. Some agencies have never been audited and others have not been audited for over twenty years. Personnel staffing requirements and other resources are not duly anticipated. There is no coordination with internal audit units.

- Specific audit plans and programs which orient best use of human resources and establish audit techniques do not exist, not even in the formats which have been utilized in the auditing profession for decades. Audit objectives are not established, nor are the most effective methods for performing work.

- Supervision by other auditors with more experience does not exist. Department chiefs do not perform field supervision. Their time for supervision in the office is very limited resulting in superficial supervision at the highest level. Two of the department chiefs supervise numbers of audit teams beyond their possible span of control. There is no audit staff category for audit supervisor or manager, a post traditionally indispensable in professional auditing. There is no sufficient degree of supervision to serve to assure the quality of audit, nor to guide auditors in improving their work.

Evaluation of Internal Control

The concept of internal control appears to be little known in the Honduran public sector especially in the Central Government. Provisions do not utilize this term. The old system of presentation of accounts to the Superior Court of Accounts was based upon a single person who performed functions of collection, custody, accounting, disbursing and reporting through presenting accounts on public resources in his power. Modern financial management requires that internal control systems exist in financial units composed of various persons. It is basic to internal control to divide the functions previously enumerated in such a way that no one individual is responsible for the flow of financial operations from beginning to conclusion. Reports consist of financial statements which report all of the resources of the agency which are in the custody of various persons, are recorded by, others collected by others, deposited by others, and

accounted for by others within a financial management system designed especially for the agency.

Financial manangement in the public sector of Honduras is still in the evolutionary process between the old system of presenting accounts with emphasis on one person's responsibility without internal control and the modern system with its emphasis upon responsibility of the chief executive of the entity for the entire internal control system and responsibilty of each official and employee for the resources and functions directly under their custody or related to their functions. Due to the centralization of many of the financial activities in Honduras the concept of internal control apparently is not applied in many agencies, thus they rely on individual responsibilities of custodians. It is principally in the decentralized institutions where internal control systems may be found.

Due to the reality of this general situation, CGR auditors do not perform reviews and evaluations of internal control in the Central Government. Some of them, however, due to their own interest do have uniform internal control questionnaires which they partially utilize. However, even in these cases the result of review of internal control is not used to determine the scope and depth of audit testing and the design of specific audit procedures. The tradition is to examine 100% of supporting documents reviewing legality and arithmetical accuracy. Recommendations presented by auditors rarely are directed to improving internal control of the agencies examined, a very important purpose of modern auditing.

In summary the purpose of the generally accepted auditing standard regarding review of internal control is not complied with in performing CGR audits.

Obtaining Sufficient Evidence

It is fundamental to support audit results that sufficient, competent, and pertinent evidence be gathered the nature of which is convincing to audit report users and serves to support the process of determining responsibilities. Compliance with this standard is demonstrated by a low volume of successful objections to audit observations or deficiency findings. It is clear from the fact that around 50% of all audit observations reported are successfully objected to that CGR auditors are not gathering sufficient evidence. Audit workpapers generally consist of photocopies of records or documents accumulated to demonstrate the reason for the observation. Other documentation has little valid information and does not contain the elemental and basic requirements of professional audit working papers such as adequate title of the workpaper, reference to other workpapers, audit tick marks, explanations of work performed, summary workpapers, etc. At times voluminous files of copies of numerical data and other information are compiled without relating them to audit objectives, nor to the other working papers.

CGR auditors have in general a very little knowledge of audit techniques and practices and do not receive orientation and training regarding them. Therefore is not really to be expected that they be able to comply with the audit standard regarding evidence. In itself alone the failure to comply with this standard invalidates the entire activity and purpose of CGR's existence.

Reporting Standards

There are four generally accepted auditing standards relating to audit reports which are designed to present professional opinions on financial statements of agencies audited. Normallly the autonomous institutions which are self financed in great

measure by sales of products or services have independent audits by firms of public accountants. Therefore, CGR does not perform audits of their financial statements. Central government agencies do not prepare financial statements, nor in general other types of financial reports which might be subject to CGR opinion.

From 1980 through the end of 1986 CGR only issued opinions on financial statements on nine occasions, each of these at the request of international lending organizations. These organizations require the observance of generally accepted auditing standards. We examined three of the reports issued. As regards the structure of presentation, the three reports appear to comply with professional standards relative to reporting, notwithstanding, the evident lack of compliance with the other standards already discussed. Representatives of two international organizations in Tegucigalpa indicated that they are not satisfied with CGR audit work.

ILACIF Audit Standards

To this point we have used the standards issued by the public accountancy profession as criteria to evaluate the performance of the audit function by CGR, especially because they are specifically cited in the Regulations CGR's Organic Law. Due to the lack of applicability of said standards to government audit reports prepared for purposes other than presenting opinions on financial statements we will discuss in the following sections CGR audit reporting in comparison with two auditing standards published by ILACIF in its Latin American Manual of Professional Auditing in the Public Sector:

Report Content

ILACIF's standard requires a written report which contains comments, conclusions and recommendations by the auditor, sets

out evaluation criteria utilized, opinions obtained from interested parties and any additional aspect pertinent to overall understanding. The presentation suggested is similar to that of this report giving emphasis to chapters by areas or sections which contain comments, conclusions and recommendations giving special emphasis to the recommendations. Desirable characteristics of such audit reports are set forth in more detail along with the structure suggested by ILACIF and that used by CGR in our Spanish language report. CGR report format usually follows the order of audit work performed setting out the procedures followed by the auditors in carrying out the examination with the principal purpose of supporting the audit observations for deficiency findings presented. Very little importance is given to the presentation of recommendations to improve financial management, accounting and internal control. Recommendations usually refer to compliance with the legal provision or ceasing to repeat the act cited in the observation.

The audit report resultant from CGR audit work therefore strictly follows a fiscal control orientation reviewing legality and arithmetical accuracy of financial operations. Its focus is to disclose and report deviations or irregularities which are legally called "reparos". That is, the audit report has a negative focus with all its content directed toward disclosure and punishment for deviation, instead of toward suggestions for corrections to the systems to avoid future deviations such as is those contemplated in the ILACIF standard.

The cause of the negative focus in audit reports is the tradition since the era of the Superior Court of Accounts where emphasis is placed upon isolated errors and irregularities instead of deficiencies in financial management and internal control systems. It is a focus oriented more towards punishing the guilty than towards preventing the irregularity so as to avoid the need for punishment. This focus is so profound that the CGR report is called "provisional" until time is given to

object to its contents. The "final" report consists of a document which basically lists those deficiencies which have been confirmed and those which have been successfully objected to setting forth the cause in each case. This document is prepared by the Legal Department and not by the auditors. It also indicates if the recommendations are confirmed.

Regarding compliance with the ILACIF standard, the difference of focus both in the legislation as well as in the actual practice of government audit by CGR, present inevitable obstacles until such time as the audit function is modernized so that all efforts are not centralized in reporting irregularities. Aspects meriting special mention regarding noncompliance consist of the absence of positive recommendations, objectivity, and presentation of the points of view of persons audited (which is left for the objection process), documented evidence and focus upon future improvements.

Timeliness

ILACIF requires that audit results together with recommendations be communicated as soon as firm conclusions have been reached both during the execution of the work as well as at its conclusion. The basic idea is to achieve open and permanent communication with the staff of the entity audited at all times without waiting for the drafting of the report. In addition the written report should be presented within as few days as possible after concluding field work in the entity.

Open communication and substantiated evidence of irregularities should eliminate the phenomenon of objections to them. If the auditor observes all of the professional standards including open communication offering to persons involved the opportunity to explain the presumed irregularity during the course of field work and not after presenting the provisional report, the entire audit process will be less costly for the

state and a much less heavy burden on responsible officials. Of course, to achieve this level of professional auditing it is necessary to have a professional audit staff with absolute integrity, well remunerated and motivated.

In reality it is rare that CGR auditors communicate with officials whose activities are being examined to obtain their points of view, reach an understanding with them, offer them opportunity to resolve observations by presenting more documentation, and present and discuss recommendations for improvements. It appears that the auditors believe it is better to present more irregularities in their report, even though they know that half or more will be successfully objected to, than to take care in limiting irregularities reported only to those significant ones which are sufficiently supported.

In CGR there is no planning which includes deadlines for presentation of reports. Therefore it is impossible to evaluate whether audit reports are presented on a timely basis. In comparing the last day of field work with the date of issuance of the provisional reports to the Comptroller General we found a normal delay of six months and in some cases up to two years. The 60 day additional period to object to the provisional report, plus the ninety days provided for issuance of the final report confirming observations and recommendations results in the product of the audit being of little or no utility to the agency examined, to the State or to the CGR. The causes explained by audit department chiefs for the great delay in issuance of audit reports are as follows:

- Lack of supervision of field work results in the first independent review of the draft report being made by the department chief himself.

- Report drafts presented by audit team leaders contain many deficiencies.

- Department Chiefs have little time to review reports, especially the Chiefs of the Departments of the Central Government and Government Establishments who respectively supervise 40 and 17 audit teams.

- There are many difficulties in reproducing audit reports since the quality and number of typewriters are inadequate and the final draft must be produced on mimeograph stencils for reproduction.

In our opinion the entire deficient process followed to perform and report work, plus the lack of trained human resources and appropriate physical resources, and the inadequate distribution of Audit Department areas result in problems of timely presentation of reports. The two time periods during which objections can be made to audit reports increases delay in their eventual issuance.

Audit by Other Agencies

Various agencies in addition to CGR and internal audit units have authority to perform audits or similar examinations in the public sector as indicated in the section of this report regarding fiscal control structure. Happily many of them do not perform such activities. Anexo 7 to our Spanish language report presents a comparison of the principal audit and control functions of the central control agencies of the government. Some of these have already been commented upon and are not discussed in more detail here though our Spanish language report does provide some additional information.

The Superintendency of Banking and Insurance Institutions performs audits of public and private sector banks. In accordance with the Constitution its responsibility for post-audit of credit institutions which receive public funds

extends to the application of such funds in strictly banking operations or business and audit in other cases shall be by CGR. The Superintendency principally is concerned with solvency and liquidity, financial management and credit, and general banking administration. The responsibility of CGR apparently is limited in cases of private banks to any public funds received and not utilized for banking purposes. However, in cases of state owned banks CGR's audit scope extends to all activities except for the Central Bank where the scope of CGR's post-audit is limited by the Constitution to the handling of state funds.

Based upon our brief visit to the Superintendency we conclude that the nature of its reviews is so substantially different that there does not appear to exist any duplication of functions with CGR. There is no coordination of functions between the two institutions. The Superintendency appears to be the strongest institution both technically and financially in spite of the fact that it is much smaller than CGR. It has about fifty auditors with nine team leaders. About thirty percent of the staff hold university degrees. The rest have high school degrees in accounting but are required to pursue university studies. Salaries appear to be much more favorable and realistic in the Superintendency. In addition it carries out a program of professional development in such a manner that it does not have problems with frequent changes of personnel, demoralization and poor image similar to those of CGR.

The General Directorate of Probity has functions similar in some respects to fiscal control but it does not duplicate functions with CGR nor other institutions. In its functions of handling competitive bids, prequalifications, and public sales it operates on an a priori basis, whereas CGR makes a posteriori verifications. There is no coordination with CGR.

The Superintendency of Decentralized Institutions supervises, controls and evaluates the economic management of such entities.

Principally it dedicates its efforts to aspects of budgetary formulation and control. Occasionally it performs studies called "audits" but principally it performs analysis of budgetary preparation and of reports comparing budget execution. There is no coordination with CGR. It would appear that collaboration could be useful in the sense that follow up by CGR on recomendations made by the Superintendency which has no follow up power could be useful. Almost all of the staff hold university degrees and the staff is better paid than that of CGR.

Based on our review we conclude that in spite of various jurisdiction conflicts in present legislation there are not any major duplications of functions among those carried out by CGR and the other agencies mentioned. Our conclusions are based on the following comments:

- The focuses of responsibilities and activities of the institutions are quite distinct.

- Audits by CGR are exclusively a posteriori, whereas many of the functions of control of the other institutions are a priori.

- The work of CGR auditors is more detailed regarding financial transactions whereas the analysis by most of the other institutions goes into more detail in the specific areas of its interest which are not necessarily financial.

Notwithstanding, we consider CGR and the other central control institutions in the public sector could achieve a much better degree of coordination than that existing presently to the common benefit of the government.

In addition to the activities realized by the other public sector control organizations we reviewed the preparation of staff who perform control functions and their corresponding salaries.

In general we found that the General Directorate of Probity has lax criteria similar to those of CGR for recruiting personnel. The two institutions also coincide in having relatively low levels of remuneration and lack professional development programs. We believe that these factors influence the difficulties both organizations face in achieving their objectives.

We were informed in the General Directorate of Probity that 60 to 70% of public officials do not present their declaration of goods to that institution for verification. The Directorate has not taken any action against public servants based on illicit enrichment. We consider that these results show a similarity to the uninspiring achievements of CGR.

The Superintendency of Decentralized Institutions and the Superintendency of Banks coincide in having higher criteria for recruitment of staff. Their remuneration levels are also higher. The Superintendency of Banks may be distinguished for being the only institution which has a program for professional development. We also noted a clear degree of professionalism in this institution.

In summary, we consider that the criteria for selection of personnel, their remuneration and the existence of a professional development program influences the performance of the institution. CGR would receive poor grades in all of these categories. The deficiencies of CGR set out in this diagnostic study in comparison to the other institutions mentioned are considered to be in part a function of deficiency in the recruitment, remuneration, and training of its staff. This is especially noticeable in comparison to the two Superintendencies.

Audits of International Loans and Assistance

To determine the role carried out by CGR in auditing development programs financed by international institutions we interviewed representatives of these institutions. We reviewed selected reports prepared by CGR and reviewed the operations of one autonomous institution which receives funds from AID and the Interamerican Development Bank (BID).

The international financial institutions such as AID and BID would like to utilize the CGR as an audit mechanism for their assistance programs in the country. In the interviews with representatives of these institutions we were informed that they do not request audits of their programs by CGR for the following reasons:

- Auditors of CGR do not have adequate education.
- Supervision of audit work of CGR is not adequate.
- Audits are not done on a timely basis.
- Audits by CGR take too much time in preparation.
- Audit methodologies utilized are not modern.
- Audit objectives are not appropriate.

In order to have confidence that CGR audits provide adequate control the representatives we interviewed told us that they would expect the following requisites:

- Auditors with university degrees.
- Auditors with various years of experience, preferably in external auditing.

- Changes in mentality and work methods of the CGR auditors.

Our conclusion regarding the quality of audits performed by CGR is based on our review of selected audit reports by CGR of programs financed by international institutions. We coincide with the representatives of these institutions who believe that it would be difficult to them to rely on audits made by CGR.

The reports we reviewed included audits of operations concluded years ago making the reports untimely and of little usefulness. The reports also evidence clear deficiencies in presentation of financial statements and other data, thus the reader cannot rely upon the information reported.

The World Bank does not maintain permanent staff in Honduras and staff of the United Nations have not had any contact with CGR. Therefore the points of view of these two international organizations were not available during our work . However we did obtain a copy of a letter from the World Bank to the former Comptroller General of the Republic dated February 13, 1986 which contains the following observations regarding CGR based upon a visit by an official of said bank:

- "The number of technical personnel...is clearly insufficient.."

- "The operating budget...does not permit maintaining a permanent staff of technicians with competitive remuneration not only in comparison with private sector enterprises but as compared with other public sector agencies. This circumstance has resulted in continual separation of staff with certain experience to jobs in other public offices".

- "The offices themselves...are not located adequately nor do they possess adequate space, distribution, and equipment for the efficient performance of control functions."

- "...the auditors...even though they may be carrying out an adequate labor of documentary proof, arithmetical verification, and review of vouchers and expenditures, urgently need to elevate their technical performance, adopting work standards which are internationally recognized as appropriate for supreme audit institutions".

- "The adoption...supposes a precondition of improvement in notable degree of the actual level of education and experience of practically all the technical personnel...and the need to incorporate gradually college graduates in public accountancy and related disciplines".

- "...we recommend...a broad review of institutional objectives maintaining the present characteristic of a posteriori audit organization...(to)...incorporate into the objectives...modern financial auditing...preceded by adequate evaluations of internal control systems...".

Based on these observations we conclude that the opinion of the World Bank is similar to that of the other international roganizations interviewed.

Annual Report to the Sovereign National Congress

We compared the latest annual report for the year 1986 with constitutional provisions. Information presented regarding performance is complete and in some cases too detailed (for example the names of each team member of each audit team and of each official of agencies audited, as well as many statistics of little usefulness). We do not believe that its content conforms to the Constitutional obligation to include "disclosure of

opinions and suggestions which are considered necessary to achieve greater efficiency in the management and control of public funds and goods". Even though in each audit report issued there is a section entitled "most important recommendations", our review of these recommendations revealed that practically none of them are really significant in the sense indicated in the Constitution.

As we indicated previously the recommendations in audit reports are very weak and are almost always related directly to negative audit findings or observations. In effect no recommendation which we found is sufficiently important to be communicated to the Congress. In the general presentation the only notable suggestion is to establish a new unit to coordinate internal audit based on provisions of the General Public Administration Law of 1986.

To our way of thinking the constitutional intention is that the annual report of the CGR present, based on its practical experience, substantial suggestions to improve public financial management and internal control in the public sector. It is precisely the positive approach found in Article 226 of the Constitution which is absent from all the audit reports of CGR and consequently is also absent from its annual report.

In order to be able to fulfill the requisite of the opinions and suggestions to achieve better efficiency in public financial management and control of the State as a whole it will be necessary that CGR reformulate its fiscal control focus toward modern audit, directed not toward punishing and criticizing, but toward achieving an improving. It is clear that a constitutional basis exists to carry out this important change.

The Annual Report on Accounts of Management of Public Finances presented by the Executive Branch

The second part of article 222 of the Constitution includes the duty of the CGR to "Examine State accounting and the accounts regarding management of public finances presented by the Executive Power to the National Congress and present to it the appropriate report...". Presently CGR does not carry out this function nor has it apparently carried it out in the past.

The only documents which we could identify which appeared to meet the descriptions of accounts over management of public finances are (1) the Integrated Balance Sheet of the Government, and (2) the Consolidated Financial Situation of the Public Sector, both presented to the Secretary of Finance and Public Credit by the General Accounting Office of the Republic in accordance with Article 55 and 56 of its Organic Law. In the absence of other documents more appropriate it appears that CGR should carry out its constitutional duty by examination of the accounting system of the General Accounting office as well as that of the other institutions which furnish it data for the purpose of presenting the appropriate report to the National Congress.

To this end the long range goal of CGR should be to issue a professional audit opinion bas d upon general accepted auditing standards covering the two sets of documents mentioned which constitute financial statements of the government and of the public sector respectively.

Other Aspects

CGR has assigned two employees to work on a permanent basis in the Central Bank and the National Technical Center of Typo-lithography. In addition on a weekly basis an auditor is assigned to be present as an observer at the National Lottery

selections. Participation in these three functions unnecessarily compromises the independence of CGR, does not provide any real benefits to the institutions, does not have any legal basis, and constitutes a priori or concurrent control measures which are outside the faculties of CGR according to the Constitution and the Organic Law.

The amount "Observations Receivable" (Reparos a Cobrar) at December 31, 1986 is L.47.440.00 an amount which has been accumulated since the creation of CGR in 1957. The possibility of collecting the majority of the amounts resulting from these audit observations is very doubtful in our opinion. This is especially so if we note that the amount of observations formulated in 1986 is about five million lempiras compared with payments received which reached only L.265.000 or 5.3% of the original observations. Additionally observations objected to successfully totaled L. 2.291.000 or about 60% of the objections presented in this same year. This data demonstrates the little evidence which supports the observations as well as the lack of communication of results during audit field work. In summary the validity of the entire process of establishment of responsibilities is obviously questionable.

Fixation and qualification of fidelity guarantees are responsibilities imposed on CGR by the Organic Law. Custody of documentation is imposed by its Regulations. These constitute the only legal functions of CGR which do not consist of post audit activities. Records of fidelity guarantees are not maintained on an updated basis due to the fact that complete information is not received regarding new employees or employees who cease in their functions of custody of funds or public resources. Even audit reports themselves frequently mention the lack of fidelity guarantees. A large part of the responsiblity for this lack must be assumed by CGR in case the process is evaluated.

For this reason either the individual institutions should be designated to carry out the responsiblity for fidelity guarantees subject to audit by CGR or, even better, a global fidelity bond should be purchased from an insurance company for each entity or for the entire public sector in substitution for the process of fidelity guarantees which obviously is not effective, efficient economical, nor can be justified by its cost.

ORGANIZATIONAL AND FUNCTIONING OF STATE FINANCIAL MANAGEMENT

Secretariat of Planning, Coordination and Budgeting (SECPLAN)

SECPLAN was created by the Planning Law which took effect on January 1, 1987. It replaced CONSUPLANE which had previously prepared national development plans and strategies. We were told that development plans have not been observed at the different levels of government over the years. The planning function is discussed in more detail in our Spanish language report.

Article 43 of the Planning Law states that CGR is responsible for formulating observations regarding cases where budget execution is not in accordance with approved operating plans. CGR needs to make plans to fulfill successfully this new statutory function.

General Directorate of Budget (DGP)

DGP has 220 employees, does not have an organizational chart and has not defined in writing the functions of each of its departments or sections. Our Spanish language report discusses in more detailed the process of budgetary execution and evaluation.

General Treasury of the Republic (TGR)

This Department does not have a specific law which defines its functions. About ninety percent of its employees are high school level graduates and the remainder are university students or graduates.

TGR is responsible for the centralized administration of cash, revenues and disbursements. As regards revenues, it receives directly and daily from the Central Bank information classified by collecting unit and source of revenues which is used to prepare a manual record of cash receipts similar to that also maintained by the General Accounting Office.

Disbursements for any purpose are summarized in a manually maintained cash disbursement register classified according to object of expenditure. Based on these two records a daily cash report is prepared and sent to the General Directorate of Budget, the General Accounting Office and the Directorate of Public Credit for their respective use.

Checks are drawn in the General Directorate of Budget and distributed to beneficiaries through the cashiers offices of TGR. On three ocasions when we visited these offices we found many long lines of persons who sought to receive their checks. Salary checks are delivered to one employee for distribution to employees. Therefore the lines mentioned consist of suppliers of goods and services, not employees seeking pay checks.

In addition to this mechanism, on a smaller scale payments are also made through departamental collection offices to which are sent checks, usually for small amounts, so that may be distributed to local suppliers. Other forms of disbursement and other items related to TGR are discussed in more detail in our Spanish language report.

General Accounting Office the Republic (CONT)

This office's Organic Law was approved in 1980. CONT has about eighty employees, some 90% of whom have high school level education. The remainder hold university degrees or are students at the university level. According to its organizational chart CONT has three operating departments-Integrated Accounting

Systems, Internal Audit Services and the National Property Office. The functions of each of these have not been set out in writing beyond that provided in the Organic Law.

The Integrated Accounting System is guided through the application of an accounting manual designed and implemented on a double entry basis which includes the entire accounting cycle through basic financial reports. The process is manual and only encompasses the central government. In order to prepare summary accounting entries information is received monthly from DGP regarding revenues and expenditures already classified by it. Based on this information budgetary execution is recorded as well as variations in assets and liabilities. However, original documentation supporting expenditures is filed in TGR and copies are kept by the agencies. CONT also receives other data from the Central Bank and TRG which is used to verify and reconciled with data from DGP.

At the end of each period an atttempt is made to prepare consolidated financial statements for autonomous and mixed enterprises and public financial institutions but not including municipalities. This is made difficult due to the lack of timely presentation of financial information by the aforementioned entities.

Annual reporting is usually delayed, especially we were told due to delay in receiving the budget liquidation from DGP. For example, 1984 financial statements were published in March, 1986 reducing considerably their usefulness.

Another problem is the lack of reliable information on fixed assets owned by the Central Government. Their composition is unknown and amounts reported are upon an initial undocumented balance which was furnished by the National Office of Property.

CGR has not performed any examination of CONT designed to issue an opinion on the reliability of the accounting information which it produces.

The Internal Audit Services Section is composed of thirteen persons of whom only two hold university degree (one in law). The others have high school level education in accounting. Since its creation this unit has been concerned with review of revenue documents which are issued by the offices which collect taxes and customs. These documents are remitted together with deposit slips which serve to support bank deposits.

The internal audit staff make visits to revenue and customs offices to verify receipts and deposits and present related reports. Auditors from the Central Bank also perform similar functions and the two groups have held meetings to coordinate their activities. It is planned that during 1987 some examinations will be made of hospitals and other types of agencies.

Based on our review of work done by the Internal Audit Services Unit we found that it is not properly carrying out a professional audit process, and that its activities are limited to numerical verifications based on documents which support operations.

In summary, even though accounting at the central level is based on double entry recording, the information produced is neither reliable, nor timely, due to lack of information from DGP and the National Property Office. The internal audit unit is not located at the appropriate level reporting to the Minister and it does not perform professional audit functions.

General Supply Office of the Republic (PGR)

This office has 108 employees. It receives an annual apropriation from which it makes global acquisitions of property and goods.

Its aspects and operations are discussed in more detail in our Spanish language report. PGR also has an internal audit unit composed of eight auditors all educated at the high school level who perform reviews of legal compliance and arithmetic accuracy of purchase orders and invoices. The Chief Auditor participates as a member of bid awards committees. No postaudit functions are performed.

Directorate of Public Credit (DCP)

DCP has forty five employees. It enters the public debt process after contracts have been signed proceeding to record the execution of the loan, the utilization proceeds, and the amortization of the debt. Processing of information is based on a computerized system.

National Computer Center (CENI)

This center provides computer services to the Ministry of Finance and Public Credit and provides services or opinions regarding requests from other institutions for purchase of equipment and services in the computer area.

CENI has 79 employees, about 33% of whom are educated at the university level. It provides computer services to five units of the Ministry as well as other agencies. Neither CGR nor any other central institution has had a relationship with CENI in regard to the use of its information or equipment for purposes of auditing the users of computer services or reviewing the computer process.

CENI is a valuable source of data which could be used by CGR to make its audits more efficient. For example, it processes the following operations:

- o salary payrolls for the central government
- o TGR checks
- o details of public debt operations
- o analysis of sources and application of external debt
- o external debt service
- o tax collections
- o budgetary execution

The General Accounting Office is a user of some of CENI's computerized information. Aplications necessary to produce the accounting reports required by law are not computerized, although much of the information the General Accounting Office produces is based on information which CENI prepares for other agencies such as DGP, the Central Bank and DGCP.

Attorney General's Office (PRGR)

Among other functions, this office is responsible for carrying out "civil and criminal actions which result from activities of CGR with the exception of those related to..."local governments.

It has 33 lawyers and 33 support staff. In the opinion of the Attorney General salaries are low and there is a lack of stability in the institution. Under present law its employees may be removed at will, a situation which occurs every four years when Attorney Generals are changed.

According to PGR's annual report, during 1986 CGR issued 73 final reports with audit observations totaling 57 million lempiras an amount quite different from the 3.8 million lempiras reported in the annual report of CGR itself. We found no explanation for these differences.

Of these funds only L.9.882 were collected for 1986 observations or less than 1% of the observations established according to CGR's report. For all prior years only L.754.000 were collected.

The causes of this extremely low amount of collections, in the opinion of the Attorney General, are due to:

- lack of personnel in PRGR.
- many persons found responsible for losses of public funds do not have goods which may be embargoed and sold because they are low level employees.
- the Supreme Court does not function on a timely basis regarding matters referred to it by persons subject to observations.
- CGR audits of the institutions are very late.

The results of control actions of CGR have little effect on collections, therefore the cost-benefit of this activity is a matter of concern and the efficiency of the process of control is questionable, affecting the image of both institutions which have responsibility for safeguarding public resources.

General Directorate of Municipal Advice and Technical Assistance (DGAATM)

This organization primarily serves municipalities in an advisory capacity including certain financial areas. Its director feels that it would be desirable to coordinate activities with CGR for the purpose of following up on audit recommendations to municipalities to assure their implementation.

CONCLUSIONS AND RECOMMENDATIONS

The following conclusions and recommendations resultant from our diagnostic study are directed to the princpal problems observed in studying the Honduras Comptroller General's Office and the environment in which it carries out its principal and sole mission of performing government auditing in the public sector. We fully agree with the need to modernize Honduran public sector auditing, the purpose for which this diagnostic study has been performed. At the same time we are convinced that it is not really possible to modernize government auditing in Honduras unless modern management systems exist to be audited.

Consequently an important part of this chapter is dedicated to general conclusions and recommendations pertinent to modernizing financial management in the public sector. This will permit CGR to apply modern techniques and practices of selective auditing in a timely manner based on systems, as opposed to the present methodology of exhaustive eventual examination of every single document which supports each financial transaction. This methodology, due to its own nature, can never expect to produce timely and useful results due to the growing volume of transactions in the public sector.

Government auditing must be useful to the Government itself to justify its cost. Is for this reason that modern and professional auditing is directed toward the most critical areas, the most high risks, the most productive opportunities in seeking to improve honesty, efficiency, economy and effectiveness of the State.

The Honduran Comptroller General's Office is at a crossroads. It may decide in favor of constant mediocrity as an institution "stagnant for years" as cited in CGR's own 1980 annual report,

obscure and ineffective among the masses of the bureaucracy. Or it may seek to convert itself into a true Supreme Audit Institution offering a dynamic action as agent of change in the adequated systems and traditions of the public administration.

Our recommendations are presented in the form of recommended goals for future growth of CGR in the coming years together with actions to be taken over the short, medium, and long term in each case. A decision to substantially improve fiscal control on the part of CGR should be made, if possible, in parallel with motivation of the entire public sector seeking at the same time to strengthen the financial management and internal control systems of the public agencies.

The size and the complexity of the public sector make it impossible for CGR to unilaterally audit on a detail basis all its diverse activities and transactions. The only alternative today available to the modern State is to decentralize audit in a systematic matter to each of its defined components agencies. Each of these as an entity responsible for one or more defined public actitivities must establish self-control systems and mechanisms, under the monitoring of, and observing the standards established by, the Supreme Audit Institution which delineates responsibilities for internal control and verifies compliance according to an annual audit plan applied in a selective manner giving greater attention where there are greater opportunities to achieve important improvements in management. Review and evaluation of internal control in a systematic professional manner permits the SAI to direct its limited professional resources toward the most problematic, most important, and most risky areas.

In the following pages we present the path to follow if CGR opts to convert itself into a true Supreme Audit Institution. We suggest the application of the actions to be taken as follows:

- short term = two years (1988-89)
- medium term = three additional years (1990-1992)
- long term = the rest of the century

New Audit Methodology

The present audit methodology applied by CGR is a mixture of the adequate and obsolete function of the desk review of accounts typical of the old courts of accounts, but performed in the field together with certain verification and inspection activities typical of auditing. Its focus is eminently negative, that is oriented almost exclusively toward reporting the maximum number and amounts of audit observations or irregularities, without considering the true validity thereof, the cost-benefit of the process of subsequently revalidating all observations, and the importance of formulating positive recommendations to avoid in the future the same errors which will produce future similar deficiency findings.

In other words, the present methodology is concerned with reporting the incorrect but not in eliminating the causes of the problems so as to avoid similar errors in the future. The incentive to the CGR auditor is to disclose all that might be possibly be wrong, but he has no incentive to help the agency to correct the situation.

Worst yet, in spite of provisions in the Regulations to CGR's Organic Law oriented toward modern audit methodology based on generally accepted auditing standards (Art. 50) and the use of selective testing instead of detailed examination of each transaction (Art. 54) CGR has followed the same methodology since it was created without modernizing its techniques. In effect,

even though it was established in 1957 as a Comptroller General's office, it has continued over the years with few modifications to carry out the methodology of the old Superior Court of Accounts.

It is clear that the present fiscal control methodology has fallen into disuse, is inefficient and its present cost does not justify the results produced. This antiquated methodology has been abandoned by the majority of SAI in the Western Hemisphere, and those which have not yet abandoned it are in the process of considering reforms.

We conclude that the methods and procedures of fiscal control presently used by CGR to control the administration of public funds and resources result in untimely and inefficient control, of little practical utility. This is principally due to the obsolete procedures applied which are not concordant with modern methodology applied with much success by other Latin American countries, nor with standards and practices generally accepted by the accountancy profession.

In addition the internal audit function in public entities consists almost exclusively of pre-control activities instead of audit and does not warrant the confidence of CGR. Said functions are not in accordance with internationally accepted professional practices of internal auditing. No effort has been made to foster improvements in the internal control and financial and administrative systems of public agencies thus permitting CGR to perform professional audits on a selective basis through review and evaluation of said systems and the preparation and formulation of recommendations for improvements in them. In summary, the institutional objectives of CGR have not contemplated improvements in management being limited exclusively to the goal of disclosing irregularities or deficiencies.

Recommended Goal

Establishment of new institutional objectives based on fundamentals of modern professional auditing and development, based thereon, of a plan of action to modernize the methodology of both internal and external government auditing. Development of internal control systems within each public agency making possible CGR examination and evaluation of said systems in order to plan the nature, timing, scope and depth of CGR external audits thus directing its principal audit efforts toward larger fund flows and areas of greater risk.

Related Secondary Goals

- Compliance with all obligations and functions related to audit without delay.

- Implantation and maintenance of an intensive program of governmental audit supervision and quality control by using audit supervisors with broad professional experience in auditing in accordance with generally accepted auditing standards in order to assure due professional care, on-the-job training, gathering of sufficient, competent and pertinent evidence, and evaluation of auditors based on their ability to present and achieve acceptance of recommendations to improve systems, as well as to formulate non objectable audit observations.

- Development of a strategic plan to guarantee the independence of the internal auditors and strengthen their activities as an a posteriori control function carried out in coordination with CGR audits, without compromising the independence of CGR.

Actions to be Taken

Short Term

Determine based on prevailing legislation and realities of the institution and the public sector, institutional objectives for CGR to be achieved during the remainder of the present century. Prepare a plan for institutional reform which includes the modernization of the methodology of fiscal control based on professional auditing applying modern techniques. Provide the Audit Departments with the human and material resources necessary to perform such audits.

In setting up mechanisms and processes for audit, assure timeliness in each phase, especially in communicating results.

Implant interim measures to assure adequate supervision of audits performed by contracting on a part-time basis experienced audit supervisors until CGR's own supervisors can be trained.

Provide adequate technical assistance and supervision to the Audit Departments to assure that the performance of audits is in accordance with Generally Accepted Auditing Standards.

Prepare an annual audit plan and perform financial and legal compliance audits of key entities of the central government, the most important municipalities and some other selected agencies.

Strengthen internal auditing through provisions which increase its independence and facilitate observance of Standards for the Professional Practice of Internal Auditing. Extend basic training to internal auditors in the public sector. Establish close collaborative relationships between internal auditors and CGR.

Medium Term

Continue strengthening of Audit Departments through technical assistance in more specialized auditing areas. Strengthen the mechanisms of annual planning of audits by CGR and internal audit units in collaboration so that CGR may rely to the maximum extent on internal audit, thus concentrating its own audit efforts on the most important and problematic areas of public administration. Provide advice to internal audit units regarding planning and performance of work.

Monitor timely reporting of audit results both verbally during work performance and through written reports presented according to schedules.

Long Term

Broaden scope of audits toward operational auditing (efficiency, economy and effectiveness). Assure appropriate mechanisms of quality control of Government audits including objective reviews of the Audit Departments of CGR and internal audit units presenting recommendations for improvements.

Modern Financial Management for Modern Auditing

Financial systems are fragmented, uncoordinated, and characterized by an absence of consistency in decisions and procedures. The use of different criteria without due collaboration has resulted in duplicating work and vacuums of information.

Recommended Goal

Stimulate through a leadership role the establishment, in coordination with the other appropriate agencies having central control functions, of an Integrated Financial Management and

Control System in the public sector improving and integrating present budgetary, accounting, treasury, and public credit systems at the central level and within each entity and assuring the soundness of financial and internal control systems as the responsiblity of each executive or maximum authority.

Actions to Be Taken

Short term

Prepare a study and compilation of all legislation and other provisions applicable to financial management and control in the public sector determining the adequacy of its content in the present circumstances. Prepare a strategic plan for modernization and systematization of all provisions based on collaboration with the participation of all central agencies responsible for financial management and control.

Prepare, with experienced technical assistance in legal aspects in the impact of such types of reforms, a draft Organic Law of Financial Management and Control for the public sector to be presented to the Legislative Branch.

Develop in parallel plans for improvements in systems of budgeting, accounting, treasury, and public credit to be implemented based on the new legislation.

Medium Term

Once the new legislation is in force, install the new Integrated Financial Management and Control System according to plans. Assure appropriate coordination, communication, staff training and design of functions and activites.

Formulate secondary provisions for each component of the system: policies, technical standards, manuals, etc., and utilize such provisions as texts in training courses to communicate and explain the purpose and functioning of the integrated system.

Long Term

Continue strengthening the integrated system increasing and broadening the continuing training of staff members, responsible for financial management. Strengthen each of the component systems of budgeting, accounting, treasury and public credit at the central level and in the public agencies.

Independence

In spite of present legal provisions which provide for functional and administrative independence of CGR, said institution does not have the financial independence which permits a high degree of real independence. Annual budgets have not been sufficient to cover necessities and are subject to the approval of officials who are audited by CGR. It has been necessary at times to accept travel and lodging funds from entities audited due to lack of sufficient funds,thus compromising CGR's independence before the agencies audited.

Recommended Goal

Preparation and implementation of a strategy to achieve the maximum degree of independence from the Executive Branch in financial and operational aspects, based on financing of the annual budget of CGR without the involvement or participation of the Executive Branch. Prohibition of CGR officials from being located permanently in agencies or participating in their operational processes in any way which might compromise institutional independence.

Actions to be Taken

Short term

Study possible alternative methods which might be taken to achieve true financial independence for CGR through (1) excluding the approval of its annual budget from review and approval of Executive Branch leaving this function solely to the legislative branch based upon the budget request presented directly to it by the Comptroller General; and (2) design a of mechanism by which each public agency might pay the cost of its own annual audit either directly to CGR or based upon a global budgeted amount calculated annually as a percentage of the annual budget of each agency. Assure that CGR is in condition to pay all the costs of its operations without recurring to audited agencies to pay travel or other expenses.

Medium Term

Concrete in legal provisions the mechanisms necessary to assure appropriate financial independence of CGR. Study in more detail CGR's budgetary needs to finance a modern building, office furniture, equipment, vehicles, etc., in accordance with its status Supreme Audit Institution.

Long Term

Assure that no financial necessity or other measure interferes with CGR's independence.

Personnel and Training

Some 92% of the staff of CGR do not have university training in the basic discipline of accountancy nor they have received formal specialized training or continuing education programs. CGR personnel provisions have not been updated are only partially complied with.

Recommended Goal

Establishment of a modern, adequate, and attractive system of personnel management which includes design and implementation of career path with mandatory requirements for training and practical experience. Evaluate compliance as a condition of continued employment and promotion. Implementation of a massive continuing professional training program for auditors of CGR and internal auditors as is necessary to achieve implantation of the new audit methodology.

Actions to be Taken

Short Term

Organize basic training programs for auditors of CGR auditors to establish the capability to perform financed audits of public agencies. This should include a basic orientation course presenting the new approach in 40 hours for all CGR staff, plus basic courses in government accounting and government financial auditing for audit staff. Update internal personnel provisions.

Medium Term

Extend the basic courses in accounting and auditing to financial officers of public agencies and to internal auditors. Add seminars and advanced courses in specialized fields including audit supervision and quality control. Establish an attractive career path for government auditors at all levels.

Long Term

Initiate a basic operational auditing course, oriented to improving the economy, efficiency, and effectiveness of public activities.

Organization and Coordination

The organization of CGR as officially established in the Regulations to its Organic Law has remained in force for 30 years requiring an informal real structure including units not contemplated. There is no unit responsible for planning organization, documentation, systematization and technical training. The area of audit assigned to each Audit Department has not been updated considering the number of entities, volume and complexity of operations, and degree of development of systems and is presently unbalanced.

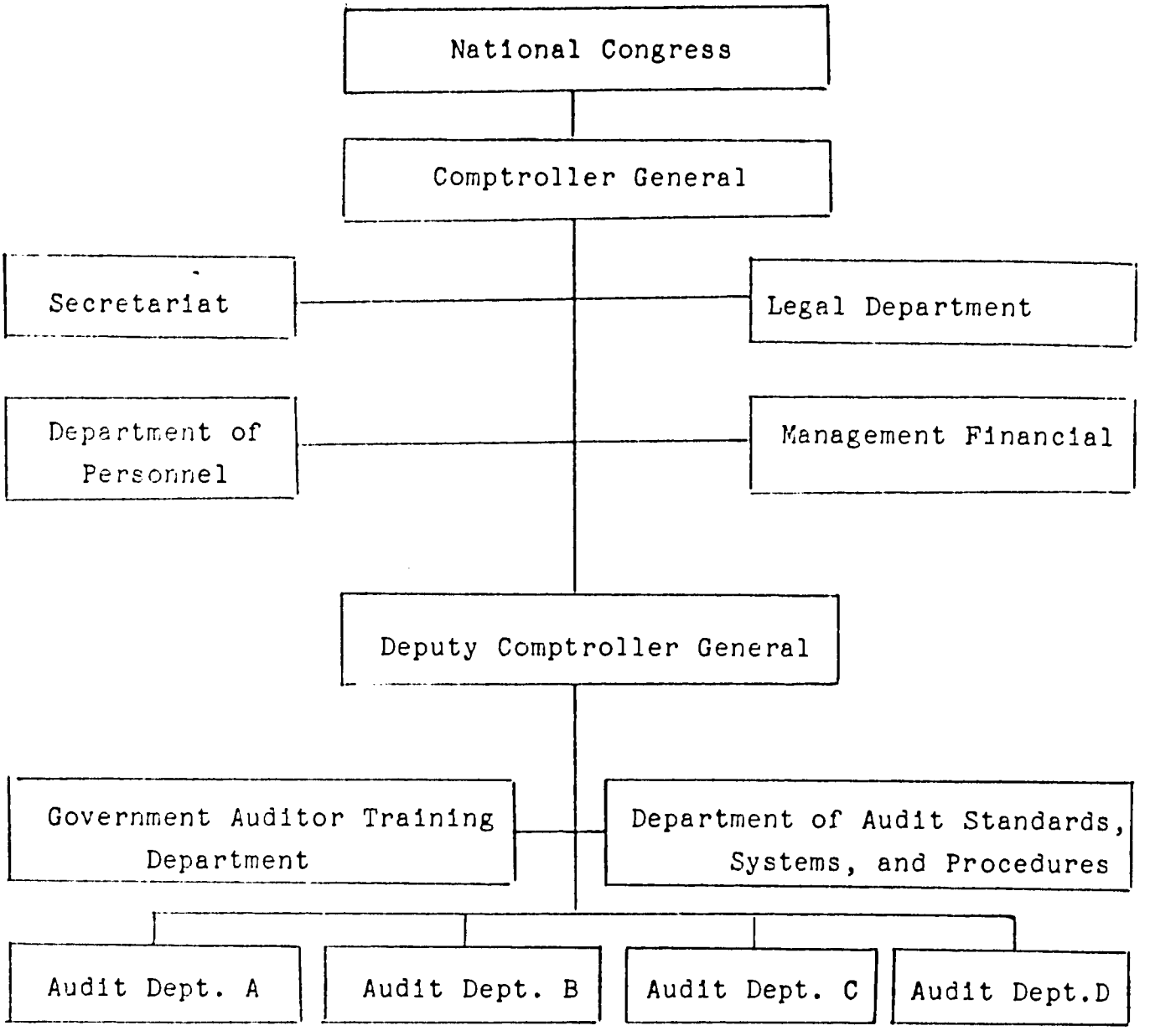
Recommend Goal

Establishment of a new Department of Audit Standards, Systems and Procedures as a technical advisory unit reporting to the Deputy Comptroller General with the same status as an Audit Department. Its functions would include serving as technical coordinator of the institutional modernization activities, providing technical and professional training, planning, establishing standards, and coordinating internal and external technical assistance in order to assure the implementation of the plan of action for the new audit methodology and to balance and refine the institutional organization.

Actions to be Taken

Short Term

Create, even in an informal manner if necessary, a Department of Audit Standards, Systems and Procedures as planning and technical coordination organ for all professional audit activities. Prepare an Annual Audit Plan for the next year and an Annual Auditor Training Plan. Initiate basic training courses for audit staff. Take measures to balance the responsibility areas for the Audit Departments. The new organization of CGR could be along the following lines:



The above assumes that the present units for the "Commission on Objections" (Comision de Impugnaciones) and "Section of Statistics, and Accounting of Observations" would be merged into the Legal Department. The Department of Audit Standards, Systems, and Procedures might be initially responsible for training and later this function may be separated into its own department.

Formulate and issue technical standards of government auditing and technical standards of internal control applicable in the public sector.

Medium Term

Concrete the new organizational structure in new Regulations (see following section). Develop and promulgate a Government Auditing Manual for the public sector. In collaboration with other competent organizations formulate secondary provisions relating to accounting, budget, treasury, and public credit and manuals for each system. Systematize and strengthen the internal audit function in the entire public sector.

Long Term

Continually update the secondary provisions pertinent to financial management through constant review in coordination with the appropriate organizations. Update internal CGR provisions in accordance with its real necessities.

Legal and Normative Provisions

The legal provisions in force over 30 years contemplate fiscal control based on professional auditing and with few exceptions may be considered adequate. The exclusive dedication of the efforts of CGR to a posteriori audit contained in the Constitution of the Republic and the Organic Law of CGR are especially commendable. Unfortunately, it has not been possible to fully achieve the performance of professional auditing by CGR in accordance with Generally Accepted Auditing Standards. The only incompatible function presently carried out by CGR is the handling of fidelity guarantees. The systematization of the function of government auditing has not been contemplated in legal provisions with the exception of certain provisions of the new General Law of Public Administration which intends to coordinate through CGR, the internal audit of autonomous institutions. It would be preferable to establish a National

Control System to coordinate all audit functions in the public sector, whether internal or external, in the Central Government or in decentralized agencies, establishing CGR clearly as head of the system and Supreme Audit Institution.

Recommended Goal

Updating as considered indispensable of legal provisions, perfecting them in accordance with the most modern professional and technical criteria in order to permit complete introduction of the new audit methodology as an interim measure pending the eventual design and implementation of a National System of Governmental Control duly integrated and coordinated with other components systems of financial management of the State.

Related Secondary Goals

- Repeal of the requirement for approval by the National Congress of the Regulations to the Organic Law of CGR leaving this faculty to the Comptroller General of the Republic.

- Formulation of a new mechanism more appropriate to protect the interests of the State instead of the present function of handling fidelity guarantees by CGR, thus protecting its independence.

Actions to be Taken

Short Term

Prepare and present to the National Congress a draft amendment to the organic law of CGR which substitutes the word "audit" for the word "fiscalizacion" in all its content and which authorizes the Comptroller General to prepare and promulgate the Regulations to said law. Once approved by the Congress promulgate new

Regulations to the Organic Law which among other things-(1) designate the institutions themselves as responsible for fidelity guarantees subject to audit by the CGR giving them the option to obtain fidelity bonds from an insurance company, and (2) establish the new organizational structure of CGR.

Medium Term

Prepare a draft law to establish a National System of Control, coordinating and systematizing internal audits with external audits by CGR and audits performed by independent private auditing firms throughout the public sector.

Long Term

Periodically review legal provisions to assure their compliance and full applicability presenting when necessary modifications necesary in accordance with circumstances to assure modern, technical, and efficient fiscal control.

Infrastructure

The CGR building as well as its furnishings and office and transportation equipment are inadequate for a true Supreme Audit Iinstitution and this situation contributes to the low esteem held for the institution by the public and its difficulty in recruiting and maintaining a corp of professional auditors.

Recommended Goal

Acquire a building worthy of, and adequate for a Supreme Audit Institution and furnishings, office and transportation equipment appropriate in accordance with needs in parallel to the development of modern auditing activities.

Actions to be Taken

The government should provide CGR with a building, furnishings and equipment adequate to carry out its professional auditing duties in an efficient manner. CGR should prepare a realistic capital expenditure budget covering several years, in order to improve its infrastructure gradually in parallel to improvements made in its professional auditing functions.

Annual Reports

The Annual Report to the Sovereign National Congress for the year 1986 contains too much detail regarding work done and little content pertinent to the Constitutional obligation of CGR to include "presentation of opinions and suggestions considered necessary to improve efficiency in the management and control of public funds and goods". CGR does not comply with section 2 of Article 222 of the Constitution regarding examination and report to the Congress on accounting of the State and the accounts presented to the National Congress by the Executive Branch.

Recommended Goal

Issue a professional audit opinion in accordance with Generally Accepted Auditing Standards on the financial statements of the government prepared by the Executive Branch. Present in CGR's Annual Report a summary of the principal audit findings and conclusions together with significant recommendations for improvements made during the year.

Actions to be Taken

This goal maybe achieved over the long term based upon the actions to be taken already indicated in this report, if the appropriate improvements in financial systems are carried out in parallel with those recommended for CGR. The execution of an annual professional audit plan by CGR combined with the ability to rely upon the work of internal auditors will permit CGR eventually to issue its opinion on the financial statements of the Government.