

Vision Statement

Our vision is aimed at:

"Promoting a better country through effective audit scrutiny of Government operations."

Mission Statement

Our Mission is to:

- Conduct independent audits and make reports to improve the use of public resources;
- Conduct independent audits of a consistently high quality in accordance with acceptable, professional, auditing, accounting and ethical standards, and issue appropriate reports;
- Ensure that public sector financial transactions and other operations comply with the wishes of Parliament, relevant laws and regulations, and are conducted with due regard to economy, efficiency, effectiveness, the environment and the avoidance of fraud;
- To recruit, develop and maintain qualified, competent staff.

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Section 1:
Auditor General's
Overview

I am pleased to present my Annual Report for the financial year ended March 31, 2012. This report is divided into eight sections. It highlights the operational performance of the Department and provides a summary of the major findings for audits conducted.

The summary of performance targets and actual outcomes summarises our accomplishments as against our projections. As stated in my last report, we embarked on streamlining our operations in pursuit of our vision of ***"promoting a better country through effective audit scrutiny of government operations."*** In that regard, I engaged the services of PricewaterhouseCoopers (PwC) to conduct a comprehensive review of the AuGD's business processes and proffer capacity building recommendations. PwC has since completed its exercise, and the recommendations are grouped in three main categories: Devolution and Legal Independence, Organisational Restructure and Information Technology Support. The recommendations will form a part of a proposal, which I will be submitting to the relevant authorities for approval.

In the interim, I continue to leverage the experience of other Supreme Audit Institutions (SAIs), and maintain a close working relationship with other international bodies such as INTOSAI and ACCA. My Department remains active and committed to participating at this level. This participation has enabled us to access several training opportunities including the ability to share and learn from other SAIs best practices and new methodologies. Such participation is important to maintain, as it provides sources of indirect financial assistance that do not impose a cost on the Jamaican taxpayers.

The international community of SAIs continue to repose a high degree of confidence in the AuGD. As a consequence we received tremendous benefit of experience from international participation. Namely, four officers of the AuGD were selected by INTOSAI to participate in the development capacity building curriculum, which will be rolled out internationally. Additionally, INTOSAI, through the IDI, selected six members of the AuGD to be extensively trained in international standards for performance, compliance and financial statements audits. As required by INTOSAI, these officers all hold professional designations and will receive a diploma in the respective areas of training at the end of the exercise. Further, the officers will be responsible for the implementation of the standards in the AuGD and can be called upon to lend support regionally.

In addition, the AuGD was charged with the responsibility of developing a guideline themed *"Enhancing SAIs Effectiveness through Cooperation with the Legislature, Judiciary and Executive"*. The AuGD partnered with France, Canada and Peru to develop this guideline. The draft will be ready for exposure in the first quarter of 2013.

Locally, I move ahead earnestly with the plan to reallocate the audit resources to areas deemed relevant to garner a greater level of efficiency and effectiveness in the use of public resources. Consequently, going forward more performance audit reports will be tabled on an annual basis and there will also be an increase in the number of Financial Statements certified annually. The aim is to provide information deemed necessary for Parliament to address policy deficiencies, system weaknesses and cauterise waste and losses.

The results of my audits are outlined in sections 4-8. In some instances, I have commented that they revealed a generally satisfactory state of affairs. Of course, I cannot guarantee that all instances of breach or malfeasance were identified as our scope is limited to the sample selected for review. However, the audits were planned in such a manner to reasonably identify instances of breaches and irregularities. All audit findings were communicated to the respective Ministries, Departments and

Agencies (MDAs). I take this opportunity to commend the MDAs for their acceptance and responsiveness to the issues, backed by the will to correct many of the deficiencies highlighted in my reports and the steps taken to implement same.

My investigations revealed that generally some MDAs were placing greater emphasis on ensuring that the systems of internal controls were strengthened. I am still however concerned that we have historic deficiencies in some entities.

The 2012 audit year has not been without significant challenges. However, I am excited as I anticipate 2013 and the subsequent years to see the outcome of our endeavours especially as it relates to the employment of several new initiatives and technological solutions. I must also commend my staff for their commitment, contribution, and support despite the many challenges and changes. This report would not have been possible without their zeal and efforts, which is greatly respected and appreciated. I must also thank Heads of Departments of the various MDAs for the courtesies extended to my staff, other stakeholders for their invaluable input, and the taxpayers for their demands and frank expressions of concern.

**Pamela Monroe-Ellis F.C.C.A., F.C.A, C.I.S.A.,
Auditor General
20th DECEMBER, 2012**

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Section 2:
Executive
Summary

EXECUTIVE SUMMARY

- 2.1.1 The Report of the Auditor General of Jamaica is submitted to the Speaker of the House of Representatives in accordance with Section 122 of the Constitution of Jamaica and Section 29 of the Financial Administration and Audit Act. My annual report embodies the results of the examination of the accounts and financial transactions of various entities. It contains the findings arising from my audits of the accounts and financial transactions of Accounting Officers and Principal Receivers of Revenue for the financial year ended 31st March, 2012. Reference is also made to the accounts and transactions of subsequent or previous financial years, as well as the accounts of local government agencies, other statutory bodies and government companies where considered necessary for the information of Parliament.
- 2.1.2 Examination of the accounts and financial transactions of the Government is conducted in conformity with Section 122 of the Constitution and Section 25 of the Financial Administration and Audit Act. Section 25(1) of the Act states as follows:

“The Auditor General shall, in performing his functions under Section 122(1) of the Constitution ascertain whether in his opinion-

- a) the accounts referred to in that section are being faithfully and properly kept;*
- b) the rules and procedures framed and applied are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenues and other receipts of the Government;*
- c) all money expended and charged to an appropriation account has been applied to the purpose for which the provision made by Parliament was intended and that any payment of public money conforms to the authority which governs it, and has been incurred with due regard to the avoidance of waste and extravagance”...*

Public Accounts Committee

- 2.1.3 The Public Accounts Committee of the House of Representatives is a standing bi-partisan committee chaired by the opposition spokesman on Finance. Under the Standing Orders of the House, all accounts of government agencies and annual reports of the Auditor General tabled in the House are automatically referred to the Committee. In examining the reports of the Auditor General, the Committee calls upon Accounting Officers, other heads of agencies and their support staff to explain their stewardship of the public affairs and resources assigned to them. It seeks to identify the causes for weaknesses mentioned in the Auditor General's reports, obtain information on what is being done to rectify the situation, and

makes recommendations as to the corrective measures which should be pursued.

- 2.1.4 The Committee therefore plays a critical role in helping to ensure that appropriate action is taken on the findings of the Auditor General. During the period March to December 2012, the Committee examined the Auditor General's Annual Report for the financial year 2010-2011 as well as other special and performance audit reports.

Scope of the Audit

- 2.1.5 The AuGD's major aim is promoting accountability, transparency and efficiency in government operations. This will necessitate a change in stewardship and how public officials manage government resources. Our subsequent recommendations are aimed at providing management with information to enable them to address weaknesses and improve their systems.
- 2.1.6 The audits of most Ministries, Departments, Executive Agencies and public bodies for the 2011-2012 financial year consisted of examinations, inquiries and investigations to enable assessment of the adequacy of the systems of internal control over the major areas of revenue and expenditure. It also included obtaining the information and explanations considered necessary for certifying financial statements submitted. Additional audit emphasis was applied to those areas of governmental activity where the internal control was weak, others which had been prone to problems in the past, new programmes and areas of general public interest. Follow-up work was also done to ascertain what action had been taken on previous audit observations and recommendations.
- 2.1.7 Several programmes and projects were selected for special audits aimed at assessing whether adequate planning had been done, proper management control systems instituted and whether the programmes and projects were achieving their intended objectives. A number of performance and information systems audits were also conducted during the course of the year. The computer systems were audited to determine whether they were proving to be effective management tools. In all instances a risk based audit methodology was applied. The overriding intent of the audits was to contribute to improvement in the management of the public sector and to promote savings for the taxpayers.

Contents of this Report

- 2.1.8 This report summarizes several matters of concern emanating from our 2011-2012 review. More detailed comments on the points mentioned, and recommendations as to the corrective measures considered necessary, were communicated to Accounting Officers, Principal Receivers of Revenue and other heads of agencies by way of audit queries, reports, and other memoranda. Where appropriate the comments and reactions of those officers to my findings are indicated.

Although not detailed in the body of this report, there are financial matters which I have noted in the respective appendices.

- 2.1.9 In a number of instances, mention is also made in this report of the findings of internal auditors. The heads of government agencies were supplied with a draft of the points I intended to make in this report on their respective portfolios and given an opportunity to comment thereon.
- 2.1.10 In keeping with the statutory responsibilities mentioned at paragraph 2.1.1 above, the Auditor General is duty bound to bring to the attention of Parliament important instances in which the requirements of the Constitution, Financial Administration and Audit Act, other Acts of Parliament, the Financial Regulations and Instructions, as well as good financial, accounting and management practices have not been observed. The report therefore, tends to emphasize the shortcomings and unsatisfactory features disclosed by the audits.

Generally Satisfactory Audit Findings

- 2.1.11 The audits for the period under review, disclosed that the financial affairs of some Ministries, Departments and other Government entities were conducted in a generally satisfactory manner with only minor breaches of the Government's financial and accounting rules.

Improper Payments

- 2.1.12 The audits identified five entities where payments amounting to JMD\$ 836,928 and US\$122,261 [Appendix E] were made in breach of the stipulated rules and guidelines or without the requisite approval.

Unapproved Payments

- 2.1.13 The audits identified 15 entities with unapproved expenditure totalling \$194.3 million, GBP 1.1 million, and US\$1.7 million [Appendix Ei].

Overpayments

- 2.1.14 The audits also identified several instances of overpayments amounting to \$31.05 million. The MDAs, during the year have recovered a total of \$3.78 million. An analysis of the past four years revealed an unrecovered balance \$130.5 million [Appendix Jiii].

Advances

- 2.1.15 The Financial Administration and Audit Act, Instructions 5.39(3) and 5.42 stipulate that advances made from public monies for travelling and subsistence expenses should be accounted for immediately on return. Good financial practices should ensure the prompt recovery or clearing of advances made for goods and services, on delivery of the goods and the satisfactory completion of such services. Additionally, salaries paid in advance to officers proceeding on vacation leave should be recovered on the first pay day following the salary-in-advance disbursement.
- 2.1.16 Failure to account for advances within the stipulated time frame will misrepresent actual expenditure for that period and create uncertainty as to whether funds were used for the intended purposes. The audits identified outstanding advances totalling \$3.09 billion [Appendix L].

Dishonoured cheques

- 2.1.17 The audits identified several instances where cheques received by entities were dishonoured. This amounted to \$12.8 million [Appendix Lv].

Internal Control Weaknesses

- 2.1.18 Internal controls are designed to provide reasonable assurance that Government's policy directives are enforced and that its general objectives are being achieved. The Minister of Finance is charged with the responsibility of issuing policy guidelines to regulate the day to day activities of the Government.
- 2.1.19 Accounting officers of MDAs are charged with the responsibility of ensuring that all policy directives, as well as the provisions of the relevant Laws, are observed; guidelines issued by the Ministry of Finance are implemented and an effective system of internal control exists.
- 2.1.20 Internal control incorporates all systems instituted by management to ensure the organization:
- achieves its objectives in an economical and efficient manner;
 - is provided with prompt and reliable accounts and other relevant information;
 - has properly safeguarded its assets; and
 - has the necessary checks and balances to prevent and detect errors and fraud.
- 2.1.21 Management's demonstration of commitment to the system of internal control is critical in fostering a supportive and positive attitude towards internal control by public servants.

- 2.1.22 Failure by several entities to comply with the Government's financial rules continued to result in inadequate control over stores, furniture and equipment, the custody of blank cheques, the preparation and payment of salaries and the purchase of petrol, thus undermining the objective of safeguarding Government's resources.

Breaches of Procurement Guidelines

- 2.1.23 The audits identified breaches of the Government's prescribed rules for the procurement of goods and services costing approximately JA\$287 million [Appendix M] involving 12 entities. These include failure to obtain the requisite approval from the NCC as well as to invite the required competitive price quotations before awarding contracts for less than \$10 million. I was therefore often unable to determine how those organizations satisfied themselves that the prices paid were fair and reasonable.

Financial Statements

- 2.1.24 Section 6 of this report details the findings of the financial statements unit, and provides information on the financial position of MDAs, which cumulatively provide information on the financial condition of the government. These audits are conducted in line with international auditing standards.

Arrears of Annual Financial Statements

- 2.1.25 Government entities are required under relevant Acts of Parliament to submit for audit annual financial statements within four months after the end of each financial year. Many of the Ministries, Departments and Agencies (MDAs) were in varying degrees of arrears, as depicted at [Appendices A-C] of this report. However, there was marked improvement in the MDAs submission of the appropriation accounts, financial statements and receipts and payments statements when compared to previous years.
- 2.1.26 In the case of Ministries and Departments, which should submit Appropriation Accounts, up to December 20, 2012, we had not received 36 accounts for 2011-2012, 16 for 2010-2011, 6 for 2009-2010, five for 2008-2009, five for 2007-2008 and one for 2005/2006. A schedule of the outstanding appropriation accounts is shown at [Appendix A] of this report.
- 2.1.27 Some statutory bodies were also in arrears with the submission of their financial statements. Details of outstanding financial statements are shown at [Appendices B and C] of this report. Delays in the submission of the annual financial statements undermined the public accountability process, prevented a proper assessment of the entities financial performance and their state of affairs, and increased the risk of errors and fraud going undetected.

Section 3:
Introduction

Summary of Performance and Actual Outcomes

3.1.1 Our audits are designed to provide reasonable assurance that management's stewardship meets both GOJ's and internationally accepted standards and procedures. In pursuit of our vision of *promoting a better country through effective audit scrutiny of government operations*, we aim to, through our robust audits and reports; facilitate transparency and accountability and promote efficiency and effectiveness in government operations. We intend to achieve these through the five audit units that are established in the AuGD.

Compliance Audit Unit

3.1.2 Compliance audits are conducted at least once per year in accordance with auditing standards issued by the International Organization of Supreme Audit Institutions (INTOSAI). They are conducted to determine whether the MDAs comply with the relevant Acts and Regulations that govern their operations and the guidelines issued by the Ministry of Finance.

3.1.3 The table below illustrates planned and actual number of audits conducted by the Compliance Audit sections, during the period January to September 2012. The table does not include the audits of Appropriation Accounts done by the Compliance Audit sections, but are included in the report on the Financial Statements Unit.

Table 1: Number of Entities Audited and Reports Dispatched

Audits Conducted	2011		2012		No. of Reports Dispatched
	Planned	Actual	Planned	Actual	
Ministries	15	15	17	16	16
Departments	56	54	19	15	15
Executive Agencies	10	10	11	10	10
Statutory Bodies	49	45	36	32	27
Parish Councils & KSAC	10	9	14	8	8
Others – Educational Institutions, Projects, High Commissions, Foreign Missions	17	16	17	17	17
Total	157	149	114	98	93

Financial Statements Audit Unit

3.1.4 The Public Bodies Management and Accountability (PBMA) Act, requires that annual reports and audited financial statements of all public bodies be tabled in the Houses of Parliament as soon as possible after the end of each financial year, but not more than four months thereafter.

Table 2: Number of Statements Audited and Status

Statements	Number Received		Certified		Returned		In House to be Audited		Work in Progress	
	2011	2012	2011	2012	2011	2012	2011	2012	2011	2012
Appropriation Accounts:										
<i>Ministries and Departments</i>	153	59	77	59	21	32	0	33	55	11
<i>Executive Agencies</i>	23	6	6	6	1	0	12	17	4	0
Total MDAs	176	65	83	65	22	33	12	50	59	11
Financial Statements:										
<i>Public Bodies</i>	55	20	23	21	2	6	16	0	21	25
<i>Parish Councils</i>	40	11	3	5	0	0	17	28	20	20
Others as required by law:										
<i>Accountant General's Dept.</i>	5	7	4	0	0	8	1	0	0	0
Projects	8	9	7	6	1	3	0	0	0	0
Total	284	112	113	97	25	50	46	78	101	56

A certified statement is one that is examined, signed and issued by the Auditor General. A report is issued with the statements indicating whether they are qualified or unqualified.

Performance Audit Unit

3.1.5 Our performance audits are conducted in accordance with the Government Auditing Standards and the Standards and guidelines for performance auditing issued by the INTOSAI. The planning process involved gaining a thorough understanding of the audited entity and developing an issue analysis which focuses on the main functions and operations of the entity. The aim of performance audit is to aid in influencing and improving efficiency and effectiveness in government's operations and promoting economy in procuring resources.

- 3.1.6 The Unit planned to undertake six audits for the period; two new audits, and four brought forward from 2011. Of the six; three were completed, and three are work in progress. Table 4 shows the status of all audits undertaken by the unit during the year.
- 3.1.7 Performance audits are designed to assess how well entities are executing their mandate, managing and evaluating their operations. It is targeted to improve business processes, reduce waste, and enhance governance structures. Our overall aim therefore, is to assess whether GOJ is obtaining commensurate value for its investment in the entity. The audits are selected based on materiality of the amounts stated in the budget and the significance of the subject to the Parliament and taxpayers, our main clients.
- 3.1.8 Section 48 B (6) of the Financial Administration and Audit (FAA) Act requires the Auditor General to examine the components of the Fiscal Policy Paper and provide a report to the Houses of Parliament indicating whether –
- a) The conventions and assumptions underlying the preparation of the Fiscal Policy Paper comply with the principles of prudent fiscal management specified in section 48D; and
 - b) The reasons given pursuant to subsection (5) (d) (ii) are reasonable having regard to the circumstances.
- 3.1.9 Consequently, the Economic Assessment Audit Unit was established on May 1, 2011. The Unit examined the Fiscal Policy Paper for 2012-2013, which was tabled in the Houses of Parliament on May, 24, 2012.

HUMAN RESOURCE MANAGEMENT AND DEVELOPMENT

Institutional and Capacity Building

- 3.1.10 We continue to develop and implement a sustained professional and technical development programme aimed at ensuring that the staff remains sufficiently competent to realise the strategic objectives of the department and is adaptable to change in keeping with Vision 2030 Jamaica - National Development Plan. *See Table for listing of training undertaken and planned for the coming Financial Year (2012-2013).*

- 3.1.11 We continue to ensure that the Organisation is staffed with competent personnel that will add value to each Unit and that the organisational structure is sufficiently robust to meet the changing demands of the Department. As a result, the Department engaged the services of PricewaterhouseCoopers (PwC) to do a comprehensive organisation review (processes and people) to establish the type of staff complement and organisational structure that would best suit the Department to meet its mandate, annually. The Department has reviewed (is currently reviewing) all the findings and recommendations from the PwC report and have submitted these findings to the Cabinet Office for their approval so that it can be implemented in 2013-2014. As a consequence, the recruitment process was put "on hold", pending the completion and assessment of the review by PwC and the approval from the Cabinet Office for implementation. Few persons were assigned additional acting opportunities to strengthen the Department's capacity to meet its obligations and to provide much needed developmental opportunities for the respective employees.
- 3.1.12 We recognise that trained employees are likely to apply information learned, think more critically and act more logically. They are better able to adapt to a changing environment and to work across job functions. Training tends to motivate employees as they are more equipped with the necessary skills to perform their jobs competently. Transfer of organisational knowledge by in-house training is one way of tapping the tacit knowledge of more experienced employees. Our aim is to continue to train such experienced employees to transfer their knowledge to others.
- 3.1.13 With this, we continue to make an investment in our human resources by ensuring that the majority of our staff obtain continuous professional development through workshops, formal training courses, informal training programmes and mentorships., - This is as stipulated by the professional bodies to which our members belong such as the Association of Chartered Certified Accountants (ACCA), Institute of Internal Auditors (IIA) and Information Systems Audit and Control Association (ISACA). During the year, the audit staff members were exposed to technical training in Auditing Techniques, International Public Sector Auditing Standards (IPSAS), SWOT and Risk Analyses, IDI Training in Financial, Performance & Compliance Audits. In addition, the Administrative Staff members attended courses in Pensions Management, Government Accounting, Records and Information Management (Table 3).
- 3.1.14 As recognition of the Department's work, three staff members were selected to participate at the international level in the field of audit training, mentoring and the development of audit resource materials.

Section 3:
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Table 3: Training Undertaken During the Year

STAFF TRAINING				
Operational Strategies	2012		2013	
	Planned	Actual	Planned	Actual
Induction Courses (Internal)		1	8	
Information Technology				
<ul style="list-style-type: none"> Internal – Microsoft Office suite (Word, Excel, Outlook) 			2	
<ul style="list-style-type: none"> External – Microsoft Office – Powerpoint & Access 			All Staff	
<ul style="list-style-type: none"> TEAMMATE training 			All Staff	
<ul style="list-style-type: none"> IDEA Data Analysis Training Workshop 				
Auditing Techniques (external)		1 person		
Financial Statements Audit		25 persons		
Risk Management		21 persons		
International Training Programme in IT Auditing - India		1 person	1 person	
International Training Programme in Environmental Auditing – India			1 person	
Financial Management Information System (FINMAN) for Accountants		2		
Management / Supervisors				
<ul style="list-style-type: none"> Internal, with internal facilitators 	12 persons per month at EMM	12 persons per month at EMM	12 persons per month at EMM	
<ul style="list-style-type: none"> Internal, with external facilitators 			40 persons	
<ul style="list-style-type: none"> External training 		1		
<ul style="list-style-type: none"> Supervisory Management 			15	
<ul style="list-style-type: none"> Professional Certificate course in Industrial Relations 			2 (JCSA Reps)	
Government Accounting		4	5	
Introduction to Government Procurement Procedures			6 +	
<ul style="list-style-type: none"> Training for Telephone Operators 			4 (Registry/Temp)	
<ul style="list-style-type: none"> Public Speaking & Presentation skills 		4 persons	10 Supervisors	
<ul style="list-style-type: none"> Records & Information Management 			4 Registry	

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• Conflict Resolution (included in Supv Mgt)				
• E-census training for HR Management		4 (HR) – start	4 (HR) - continue	
• Delegation of function by Office of Services Commission Workshops		all staff	All staff	
• Devolution of authority			All staff	
• Public Sector Skills Training				
• Human Resources Management for Sector Officers			All Team Leaders	
• Customer Service (Internal facilitator)			All Staff	
Professional Training				
• IDI – E-Learning programme a Risk based approach to Financial Audits		3 persons x 6 weeks		
• ISSAI Certification Programme for Financial Audits		2 persons x 3 months	2 persons x 3 months	
• ISSAI Certification Programme for Compliance Audits		2 persons x 3 months	2 persons x 3 months	
• ISSAI Certification Programme for Performance Audits		2 persons x 3 months	2 persons x 3 months	
International Audit Fellowship Programme (Mar - June 2012)			1 person	

Section 3: Introduction

- 3.1.15 As part of the Government's rationalisation of the public service, the AuGD is one of 12 entities to be conferred with devolution and de-concentration of authority status. This means the AuGD will be granted autonomy over its operations, human and financial resources, which will involve significant changes in our operations and mind-set. No progress has been made in this area to date as the Department awaits further instructions from the Public Sector Transformation Unit (PSTU).
- 3.1.16 In order to manage the change processes, the Department has established its Human Resource Executive Committee (HREC) to handle all the relevant matters pertaining to the 'delegation of authority' and as a consequence of the PwC's report has established a Communications Committee to ensure that all staff members are provided with information and can give their feedback to the recommendations from the report. A number of meetings were successfully held with all staff in which the reports were shared and their feedback obtained as the Department prepared its final submission for consideration by the Cabinet Office.
- 3.1.17 We intend to ensure that there is continuous evaluation of the change process to accommodate new developments, whether as policy directives from the Government or as actions which arise from the interaction with the relevant stakeholders.
- 3.1.18 This year, staff welfare took a prominent part in our activities and the Sports & Social Committee engaged all staff in a number of activities. In addition to the regular birthday socials, fun day, sports celebrations, the Department staged a very successful 'Jamaica Day' in recognition of "Jamaica50"- the Country's celebration of its fiftieth anniversary of independence.