

TREASURY MEMORANDUM



TREASURY MEMORANDUM DETAILING RESPONSES TO THE REPORT OF THE PUBLIC ACCOUNTS COMMITTEE OF THE NATIONAL ASSEMBLY

ON

THE PUBLIC ACCOUNTS OF GUYANA

FOR

2004 - 2005

**FINANCE SECRETARY
MINISTRY OF FINANCE**

TREASURY MEMORANDUM

TO: The Speaker and Members of the National Assembly

FROM: Finance Secretary, Ministry of Finance

DATE: June 8th, 2010.

FILE NO: FS 60/1/1

SUBJECT: **Treasury Memorandum Pursuant to Resolution No.114 dated 11th March, 2010 of the National Assembly on the Public Accounts of Guyana for the years 2004 and 2005.**

1. This Treasury Memorandum details the comments and actions that the Government has taken, or intends to initiate, in response to Resolution No.114 dated March 11th, 2010 which was passed by the National Assembly adopting the report of the Public Accounts Committee on the Public Accounts of Guyana for the years 2004 and 2005.
2. The issues will follow the same format in which they were presented in the Report of the Public Accounts Committee for the years 2004 and 2005, as specified in the same three (3) broad categories:
 - a. **General Problems Observed in Government Financial Management.**
 - b. **The Public Accounts Statements**
 - c. **Specific issues relating to Ministries, Departments and Regions.**
3. The Ministry of Finance has always recognised that many of the issues raised by the Auditor General in his reports, as well as the concerns highlighted in the reports of the Public Accounts Committee of the National Assembly can be reduced; (i) through the proper use of Information Technology, (ii) closer monitoring of the activities within the Agencies by conducting frequent inspections, and (iii) conducting ongoing training programmes.
4. With the introduction of IFMAS, the Public Sector saw a new beginning, in that, for the first time the Government of Guyana (GOG) was able to operationalise its business through the use of Information Technology. One significant control mechanism within the IFMAS is the prevention of over expenditure against allotments approved by the Parliament. Other benefits derived through the use of this computerised system which confirms with *best practices* are as follows:

- **Simplification of the Budget Process**
- **Simplification of the Payment Process**
- **Revenue Recording**
- **Improved Financial Accounting**
- **Improved System Security**
- **Internal Control**

- **Simplification of the Budget Process**

The previous system of obtaining funds was one that was done manually and which entailed a series of processes, beginning with *Requests for Withdrawals* from the Consolidated Fund and finally Requests for Remittances from the General Account to the Ministry/ Department/ Region's main bank account. Thus, there was more time spent on obtaining the monthly releases than the time available to execute Programmes. Since the introduction of IFMAS in January 2004, releases of budgetary allocations are now done on-line, thus simplifying the process in a significant way. The Budget Module also contains a comprehensive list of appropriation reports and enquiries, thus enabling managers at all levels of the organisation to make crucial spending decisions with confidence.

- **Simplification of the Payment Process**

The GOG now operates a Single Main Bank Account (Official Consolidated Fund) which is as a result of the abolition of the General Account and the main bank accounts of Ministries/Departments / Regions which previously formed an integral part of the General Account. The elimination of multiple bank accounts has reduced the tedious tasks associated with reconciliation.

All cheques are now issued through an automated process from the Official Consolidated Fund Bank Account, thereby eliminating the burden of having to manually prepare cheques. All Chart of Accounts are updated automatically by the software as part of the payment process.

Despite the fact that all transactions of Agencies are effected against a Single Main Bank Account, the reconciliation process is being done with greater efficiency utilising the Treasury Management Module within the Freebalance system in a timely manner.

- **Revenue Recording**

Revenue recording is now done at the point of collection, thus resulting in the timeliness of information available for informed decision making.

- **Improved Financial Accounting**

Today the GOG is no longer reliant on the use of manual records for the preparation of the Consolidated Financial Statements. These statements are now generated by utilising various reporting functions inherent within the varying modules within IFMAS. The timely submission of these statements during the past three years is indeed an astonishing improvement.

- **Improved System Security**

In order to maintain the integrity of the financial data and to deter unauthorised entries within IFMAS, the following were introduced:

- User Identification
- Functional Access Classes

This allows for the segregation of duties at all levels of the process.

- **Internal Controls**

The intended resuscitation of the Inspectorate Division within the Accountant General's Department on the other hand, would help to facilitate compliance with the laws, regulations and circulars. Upon completion of each inspection carried out at an Agency, a report will be submitted to the Head of that Budget Agency apprising him/her of the findings of that inspection. Thereafter, follow up action will be taken to ascertain whether the recommendations of the Inspectorate Division are being implemented. In the event of non compliance, the Accountant General's Department will be instrumental in initiating sanctions against any recalcitrant Agency.

In an effort to sustain best practices throughout the organisational realm of Government, the Ministry of Finance considers it necessary to conduct regular training programmes in an effort to support and enable the efficient and effective functioning of all Ministries, Departments and Regions.

5. Future Initiatives

Some of the improvements targeted include the :

(a) Decentralisation of the cheque printing function which is dependent upon improved connectivity through enhanced networking among other factors.

(b) Implementation of additional Modules within IFMAS which would include the Purchasing and Asset Modules respectively, along with upgrading as appropriate.

GENERAL PROBLEMS OBSERVED IN GOVERNMENT FINANCIAL MANAGEMENT

6. Overpayment to contractors

Steps would be taken further to strengthen the mechanisms in place for the verification of the completion of projects.

7. Breach of Tender Board Procedures

The observations made by the Public Accounts Committee in relation to Tender Board limits would be examined.

8. Lack of maintenance of Log Books.

The Ministry of Finance will issue shortly a reminder circular to all Accounting Officers pertaining to the maintenance of log books.

9. Non-compliance with the stipulated timeframe for the clearance of cheque orders.

The Ministry of Finance is currently reviewing this matter with a view to making recommendations for the improvement of the system.

10. Capital expenditure being met from current allocation

The Fiscal Management and Accountability Act is quite specific as to the distinction between current and capital expenditure. Steps will be taken to ensure compliance in this regard.

11. Wrongful payment of salaries and consequential deductions paid to Agencies

All Personnel and Accounting Departments within all Ministries/ Departments/ Regions will be urged to ensure that all changes/amendments to their respective payrolls are done in a timely manner.

12. Outstanding Police Reports.

The Finance Secretary will be meeting with both the Permanent Secretary of the Ministry of Home Affairs and the Commissioner of Police to address outstanding issues as well as expediting police reports relating to current matters in an effort to bring closure to this issue.

THE PUBLIC ACCOUNTS STATEMENTS

The figures reflected on the bank statement represent the bank's cash position whilst those on the statements submitted by the Ministry of Finance represent the the cash book position. Only upon reconciliation between the bank account balance and the cash book balance can the existing differences be established.

The Auditor General's findings on the Public Debt are not accurate, and supporting documentation in this regard has been submitted to the Audit Office of Guyana.

SPECIFIC ISSUES RELATING TO MINISTRIES, DEPARTMENTS AND REGIONS

Office of the President

- 13. The Auditor General's view in relation to the retention of \$0.522M by the Guyana Office for Investment is not agreed with.
- 14. Efforts have been made to ensure that the National Communications Network adheres to all procurement procedures in accordance with the Procurement Act.

Ministry of Finance

- 15. The \$15.949M as reported in the Auditor General's Report represented fees that were paid by persons who submitted applications for the Renewal of Spirit Shop Licences during the period 2004. However, it should be noted that the Guyana Revenue Authority (GRA), whilst performing the functions of Clerk to the Liquor Licensing Board in ensuring that all applications meet the stipulated requirements, cannot issue the Licensing Certificates unless the Board approves of these Applications. This situation has also led to a reduction in control visits by GRA, and thus the inability to provide information on the status of some businesses within the Regions. Since the appointment of the Demerara Liquor Licensing Board in 2008, the Enforcement and Investigations Division of the GRA has been tasked with responsibility, through controlled visits, to ensure full there is compliance with the laws pertaining to liquor licensing.

16. The management of the Lotto Fund is in accordance with the Laws of Guyana and is subject to an audit by the Audit Office of Guyana.

Ministry of Foreign Affairs

17. The Ministry of Finance is currently reviewing the issue of non-operational overdrawn bank accounts with a view to recommending closure of these accounts.
18. According to the records at the Guyana Embassy in Caracas there were twelve cheques totaling US\$ 12,118.79 which were unrepresented as at January 31, 2005 and which were all stale dated. At the moment, of the twelve cheques only one cheque amounting to US\$ 698.76 was presented on the bank statement. The Ministry of Foreign Affairs is currently pursuing this matter with the Guyana Embassy in Caracas with a view to ascertaining the status of the remaining cheques.
19. The Ministry of Foreign Affairs has since addressed the issue of segregation of duties issue through the recruitment of staff to fill vacancies within the Accounting Units of the Missions.
20. The Ministry of Foreign Affairs has acknowledged improvement of the system of remitting funds to the overseas missions. Simultaneously, consultations are being held with the Ministry of Finance aimed at enhancing this system.
21. The two outstanding advances totaling US\$3,901.38 have since been cleared.

Ministry of Agriculture

22. The Administration of the Ministry of Agriculture has been advised that in future all Financial Returns for Inter Departmental Warrants issued in a particular fiscal year must be brought to account in that same year.

Ministry of Tourism, Industry and Commerce

23. The Ministry of Tourism has noted the observation made. Steps would be taken to improve the monitoring of expenditure by this Agency.

Ministry of Education

24. An amount of \$4.850M was expended to purchase one thousand (1,000) copies of the Book entitled *"What's cooking in Guyana"*. All these books were received. At the time of audit, 391 books were distributed to schools, leaving a balance of 609 Books. Regrettably, the Bin Cards and Stock Ledger were not updated and reflected higher balances than the physical count. Efforts are being made to implement a Stores Management System within the Ministry of Education.
25. Funds totaling \$136,637.00 were misappropriated in 1997, for which two officers were interdicted from duty. The Ministry of Education has since made representation to the Ministry of Finance for this amount to be written off as a Loss.

Georgetown Public Hospital Corporation and Ministry of Health

26. Efforts will be made to ensure that the methods of procurement are most appropriate in accordance with the Procurement Act, and its Regulations.

Ministry of Labour, Human Services and Social Security

27. A policy decision will be taken shortly as it relates to those bank accounts which reflect negative balances.

Ministry of Legal Affairs

28. The Ministry of Finance acknowledges receipt of the Losses Report in relation to the reconciling balance on the State Solicitor's Bank Account No. 120. A policy decision will be taken shortly as it relates to those bank accounts which reflect negative balances.

Guyana Defence Force

29. The GDF has taken cognisance of the recommendations of the Public Accounts Committee and has since computerised its payroll to effect payments of wages and salaries through the banking system. This system has been implemented for the refund of all unpaid emoluments within seven days commencing from the stipulated pay date.
30. The practice of encashing cheques from cash reserves for the payment of salaries has ceased .

The Salaries Account No. 0621004120 is no longer operational.

Supreme Court

31. The practice of utilising single faced carbon has been discontinued. Moreover the receipt books used by the Georgetown and Berbice Magisterial Districts have since been withdrawn.
32. The Registrar has indicated that the list of Magistrates who were in receipt of duty free concessions has been submitted to the Auditor General for onward transmission to the PAC.

Ministry of Local Government and Regional Development

33. In an effort to ensure there is full compliance of the Municipal and District Councils Act Chapter 28:01 by the Municipalities and District Councils, the Ministry of Local Government and Regional Development conducted training Programmes targeting both Overseers and Town Clerks from the National Democratic Councils and Municipalities respectively. Resulting from those training programmes, there was noticeable improvement in the preparation of the financial statements. Efforts would be made to ensure that the outstanding Financial Statements of those National Democratic Councils are brought up to date.
34. It has been proposed that in the reform process of Local Government, provision will be made for disciplinary action to be instituted against those Heads of of Municipalities and District Councils who are found in default of the law.

Ministry of Public Works and Communications

35. The practice of executing labour contracts and purchasing spare parts separately with respect to repairs undertaken to the Ministry of Public Work's fleet of vehicles has ceased with effect from September 2008. The Ministry now executes one contract for the supply of labour and materials for these works.
36. The Mechanical Section deals mainly with the repairs to heavy duty equipment used for road building. This was the main objective for the establishment of the Section, upon the closure of the Plant Maintenance and Hire Division. There are only four mechanics in this Section who are responsible for maintenance of the fleet in an effort to ensure that the equipment remain functional at all times in order to facilitate works in many areas of the country through the Force Account Unit. Two crews are presently at Karasabai in Region 9 and at Ituni on the Linden/ Ituni / Kwakwani road project. The said mechanical staff is also required to visit these outlying areas from time to time in order to execute repairs.

Ministry of Culture, Youth and Sports

37. This matter would be further examined.

Ministry of Housing and Water

38. The unspent amount as reported by the Auditor General has since been refunded to the Consolidated Fund. Cheque No. 592230 dated 2008-05-19 in the sum of \$23.796M refers.

Ministry of Home Affairs

39. The Ministry of Home Affairs has acknowledged the comments in the report of the PAC and has given the assurance that a proper system of internal control has been put in place to prevent similar occurrences as highlighted in the report.

Region No. 1

40. The Administration of Region No.1 has indicated its intention to utilise the 300 electrical meters in the Communities of Wauna and Santa Rosa.
41. The Regional Administration took cognisance of the advice offered by the PAC and has since taken corrective action regarding the safe custody of revenues earned through the sale of electricity.

Region No. 2

42. The matter regarding the alleged shortage of cash totalling \$3.692M at the Anna Regina Multilateral School is currently engaging the attention of the Director of Public Prosecutions.
43. The Regional Administration has since been able to recover the entire sum which was overpaid. Government Receipt No. 610252 dated 2010-03-15 for the sum of \$198,936.00 refers.

Region No. 3

44. The observations made by the PAC have been noted. The Regional Administration has been advised that in future the criteria to be used for the evaluation of contracts must be clearly stated in all bid documents.

Region No. 4

45. In 2010, the Regional Administration has instituted a system to avoid any overpayments to contractors. The mechanism includes remeasuring works before effecting the final payment.
46. In 2010, the Regional Administration has commenced the process of pre-qualification of contractors and public notification of Engineer's Estimates for respective projects being undertaken in that Region.
47. All the Tender Board records were destroyed by the fire of 2006 and hence no evidence could be provided to substantiate that a variation was approved.

Region No. 5

48. The Regional Administration has taken note of the observation made in the report of P.A.C. Based upon the Committee's recommendation, the Regional Administration has now made efforts to ensure that the minutes of all Regional Tender Board Meetings reflect clearly all reasons for the award of contracts made to any contractor, with attention being paid to the ranking of any contractor in the evaluation process.
49. The Regional Administration has noted the observation made in the PAC's report and has given the assurance that the Stores Regulations are now being adhered to. The Administration has sought to ensure that there is segregation of duties for both the Expeditor and Storekeeper in order to avoid any breach of the Stores Regulations.

Region No. 6

50. The Regional Administration has been unable to recover the sums owed as commuted travelling allowances and has already indicated its intention to refer this matter to the relevant authorities without further delay.
51. All fuel tanks are now calibrated

Region No. 7

52. The employment issue has since been resolved as is evident in the Auditor General's Report on the Public Accounts for the year 2007.
53. The Regional Administration has indicated that they are in process of complying with the observation made by the PAC.

Region No. 8

54. The Regional Administration has taken note of the observation made by the PAC. The Regional Administration has now made efforts to ensure that the minutes of all Regional Tender Board Meetings reflect clearly all reasons for the award of contracts made to any contractor, with attention being paid to the ranking of any contractor in the evaluation process.

Region No. 9

55. The concern raised by the PAC has been duly noted. The maintenance costs associated with the Regional Guest House would in future be effected from the Line Item 6242- Maintenance of Buildings as reflected in the Estimates.
56. The Regional Administration has given the assurance that there would be no such reoccurrences in the future regarding instances where retention bonds were not withheld on contracts, and liquidated damages were not instituted against defaulting contractors.

Region No. 10

57. The concerns raised by the PAC have been duly noted. This matter will be further investigated

CONCLUSION

This Treasury Memorandum is an integral part of the Government's systematic drive and on-going efforts to improve Public Financial Management in general and in particular, transparency and accountability in the conduct of Government's Business. It provides succinct, but cogent response to the comments, observations and recommendations that were made in the Report on the Public Accounts by the Public Accounts Committee for the years 2004 and 2005 which were adopted by National Assembly. In preparation of the Government's responses, the opportunity was taken to apprise the National Assembly of the significant and substantial improvement to Public Financial Management in the country that have been achieved since the examination of the 2004 and 2005 Public Accounts.

As mentioned earlier in this Memorandum, the introduction of IFMAS in 2004, the progressive application and use of information technology, and the implementation of training programmes to boost public sector management are initiatives introduced to improve Government accounting and financial management. These initiatives have had qualitative impact on accounting, record keeping, preparation of accounts and financial statements. There has been a significant reduction in the number of queries emanating from the Auditor General's Report.

It is noteworthy that the level of compliance by the Heads of Budget Agencies, regarding the queries in the report under review, has been satisfactory. There remains room for improvement in some areas. These issues will be addressed as the benefits of the modernization process and the employment of *best practices* continue to accrue within the public financial management system.