

**SECTION 6 IMPROVING THE MANAGEMENT OF FINANCE**

6.1 Strengthening audit systems

6.2 Reforming financial management

## 6.1 Strengthening audit systems

### The context for change

Accountability is a key factor that influences the level of trust that citizens have in the government which serves them. It involves not only compliance with financial accounting procedures but a commitment to keep the public informed of its policies and performance. Public sector auditing systems should support this thrust.

### *Enhancing the internal audit function*

The Auditor General's Department recognises the need to shift from purely financial audits to comprehensive or value for money audits. Apart from the legislative amendments required to effect this change there is a need to enhance the internal audit function in the public service. Internal auditing is a useful tool which provides management with information on the progress of the organisation towards the achievement of its objectives within an approved budget. Top management must have the assurance that a mechanism exists within the organisation which can supply them with timely, accurate, relevant and complete information. The internal audit can give this assurance and is the link between top management and management at operating levels. Internal audit can also assist line management by assuring them that adequate financial and management controls have been established and are operating effectively. If not, the internal auditor can advise as to weaknesses in the system of internal control and recommend appropriate remedial action.

Internal audit in the Trinidad and Tobago Public Service has encountered several problems. A comprehensive report done by the Auditor General's Department on the internal audit function in government ministries/departments and Statutory Boards in 1987 noted that:

- (i) Most senior managers were not aware of the specific functions to be carried out by the internal audit staff. Consequently, their services were often under-utilised and/or mis-used as they were assigned duties outside the scope of internal auditing.
- (ii) Many of the internal audit units in the public service were not staffed by appropriately qualified personnel. Staffing requirements were not based on well-defined audit plans.
- (iii) Audit plans did not include all areas of the entities' operations.

- (iv) Periodic audit reviews and updating of programmes were not undertaken.
- (v) There was a lack of audit manuals.

The report therefore concluded that great reliance could not be placed at that time on the work of the internal audit, in providing Attest and Certification audits. To date, while there has been some improvement, there is need for institutional strengthening of the internal audit function in the public service.

### ***Establishment of Audit Committees***

In the private sector, Audit Committees act as advisory bodies to the Board and/or senior management on issues relating to internal and external audit and on financial and other accountability responsibilities. An Audit Committee complements the relationship between internal audit and the Chief Executive Officer, further safeguarding the independence of the internal audit. They also oversee internal audit's activity, thereby helping to increase the effectiveness and value to the organisation of the internal audit.

Audit Committees are a recent development in the public sector. They have been used in the conduct of comprehensive audits, however they could perform a useful role with respect to the internal audit function. Internal auditors at present report to the Permanent Secretary/Accounting Officer, but it is conceivable that they could report to an Audit Committee. The Committee would supervise the implementation of recommendations made by the internal auditor and provide liaison with external auditors. Membership of that Committee could include suitably experienced and qualified persons from outside the ministry/department, thereby providing an independent perspective.

### ***Introducing Computer Audits***

Bearing in mind the increasing use of computers in government organisations, it is recognised that data emanating from these systems is used as a basis for preparing information for management, thereby influencing the decision-making process. Consequently, greater emphasis needs to be placed on controls surrounding the computer system to ensure reliability of information. As computer systems change and develop, the controls associated with the systems must evolve. It is also necessary that management and auditors understand the technology of the controls to perform effectively. The auditor should have the necessary tools in order to exercise reasonable and prudent judgement when evaluating existing controls. This aspect of computer auditing relates to security. There is also the use of computers as an audit tool, that is the ability to use a software application to assess and verify

accounting procedures and ultimately verify financial data. Currently, the Auditor General's Department has limited capability to audit in the area of computer security and is lacking both in the area of equipment and technical knowledge to undertake a computer application audit.

## **Implementing change**

### ***Enhancing the internal audit function***

It is increasingly accepted within government that:

- (i) the internal audit function in the public service should be clearly distinguished as a separate career path;
- (ii) training in the latest methodologies, techniques and procedures of internal audit should be provided;
- (iii) new recruits must meet minimum educational requirements relative to the internal audit function;
- (iv) senior positions within the career path of internal audit should require the holders to be Certified Internal Auditors or have a similar qualification.

### ***Establishing Audit Committees***

Further consideration should be given within the Trinidad and Tobago Public Service to the establishment of Audit Committees. The proposal should address terms of reference, membership and guidelines for operation.

### ***Introducing Computer Audits***

It will be necessary to:

- (i) train staff in information systems and technology and computer audit software applications;
- (ii) acquire the necessary hardware; and
- (iii) develop guidelines for computer security.

## **6.2 Reforming financial management**

### **The context for change**

If Permanent Secretaries are really to manage their ministries and be fully accountable for their organisations, they need to have greater financial flexibility. Public service managers need to become more acutely aware of the financial implications and/or repercussions of the decisions they make.

### **Implementing change**

It has been recognised that the reform of financial management in the public service, must undergird any other aspect of reform. However, in the current climate of economic recession and decreasing revenues, the Ministry of Finance has not been able to adopt the bold and sweeping measures necessary to achieve that objective. However, discussions have been conducted around some initial, incremental steps which may be taken towards achieving reform in financial management. The areas being explored at present are:

- achieving an output orientation, i.e. encouraging ministries and departments to focus on outcomes rather than procedures in getting the job done;
- accrual accounting as opposed to the cash-based accounting methods which are used at present;
- activity-based costing which identifies the cost of each activity performed by the organisation and allows securely based decisions to be made concerning activities which may be eliminated;
- improving procurement procedures; and
- improving estate management.

It should be noted, however, that it is uncertain how the shrinking revenue base will be able to meet the demands of an accrual accounting system.

Discussions and, where necessary, training sessions with the Permanent Secretaries and other key personnel will be planned. Particular discussions will be necessary with the Ministry of Finance concerning appropriate delegation to ministries.