

Contribution by the
Rt. Hon. Hubert A. Ingraham, M.P.
Prime Minister
during Parliamentary Debate
of the Financial Administration and Audit Bill, 2010
Wednesday, 28th July, 2010

Introduction

Good governance is critical both to secure the vibrancy of democracy and to underpin vigorous and sustained economic growth and rising standards of living. A country's reputation and attractiveness to international investment depend on it.

Sound financial management is a crucial component of good governance. It, in turn, is founded on the key pillars of accountability and transparency.

The Oxford English Dictionary defines "accountable" as "required or expected to justify actions or decisions" and "transparent" as "open to public scrutiny".

There can be no doubt that these are crucial requirements in relation to Government actions in a modern democracy such as The Bahamas.

My Government has relentlessly pursued the strengthening of governance in this country. We now seek to further bolster those efforts through the proposals in the Financial Administration and Audit Bill, 2010.

Rationale for Modernization of the FAAA

The economic, social and financial context has changed significantly since the FAAA was first enacted some 37 years ago:

- government expenditure and revenue have grown in relation to the size of the economy;
- the economic and social roles of Government have evolved; and
- new information technologies have revolutionized our

lives and the ways in which we do business.

The Government thus believes that the FAAA is in need of modernization to bring it into line with new realities. The modernization proposals in the Bill focus on enhancing accountability and transparency at all levels of Government by making those responsible for decisions on public expenditure and revenue, and those who manage those funds in implementing Government decisions, clearly and personally accountable for their actions.

The proposals are inspired by the IMF “Code of Good Practices on Fiscal Transparency (2007)” and by relevant provisions in other countries. At the same time, those parts of the existing Financial Administration and Audit Act that are still relevant will be retained.

The overriding objectives of the Bill's proposals, in line with the IMF Good Practices Code, are four-fold, namely:

- roles and responsibilities must be clear;
- the budget process must be open;
- public financial information must be readily and openly available; and
- integrity must be assured.

Proposals to Strengthen Accountability and Transparency

These objectives translate into a number of proposals to enhance accountability and transparency in public financial administration in The Bahamas. These may be characterized as measures to:

- Improve administration;
- Enhance accountability and reporting; and
- Strengthen control.

Administrative Improvements

To improve administration:

1. References to “hardcopy” are to include data held in electronic form. It is specified that ledgers and cash books may be held electronically in a database file.
2. In relation to advances made to officers, where such advances are in the public interest and are made in accordance with the powers of the Minister to make regulations, it is specified that any accountable advance or overpayment or portion thereof that are not repaid, accounted for or recovered in accordance with the regulations may be recovered out of any moneys, including salaries, payable by the Government to the person to whom the advance was made or, where the person is deceased, out of any moneys, including

- salaries, payable by the Government to the estate of that person.
3. In respect of the power of the Minister to designate Principal Accounting Officers, it is clarified that this would be after consultation with the Financial Secretary and that the power extends to both the designation of appointments or, where necessary, the revocation of appointments.
 4. As well, provision is made to allow for the removal of any dormant book accounts of the Government from the General Ledger of the Government and the writing off, in whole or in part of any debt or obligations due to the Government or any claim by the Government.
 5. The provision for the Contingency Fund is modified such that it cannot exceed five per cent of recurrent expenditure rather than an absolute dollar amount.

6. As for the responsibilities of the Treasurer, these are expanded to require the Treasurer to prepare directions for the improvement of financial administration for the Financial Secretary.
7. As well, there is an obligation on the part of the Treasurer and the Director of Internal Audit to report apparent lapses in financial administration to the Minister of Finance, the Financial Secretary and the Auditor General.

Enhancing Accountability and Reporting

To enhance accountability and reporting:

1. It is proposed to clarify that the Financial Secretary is the principal financial officer of the Government.
2. The primary responsibilities of the Financial Secretary are spelled out as the care and management of the Government's financial resources, including: the

development and management of the budget; providing support and advice on the most appropriate fiscal, tax and economic policies; and ensuring that those policies maximize sustainable economic growth having regard to equity and social policies.

3. Further, it is stated that all senior officials of Government with direct responsibilities in the above areas shall report to the Financial Secretary, including the Treasurer and the Comptroller of Customs.

4. It is also proposed to introduce the new designation of “Principal Accounting Officer” to replace both “accounting officer” and “principal receiver of revenue” and clarify that the Principal Accounting Officer means any person designated or deemed to have been designated as such and charged with the duty of controlling expenditure and/or collecting and

accounting for revenue.

5. The role and responsibilities of the Principal Accounting Officer are further clarified as follows:

- The designation of an officer as being the Principal Accounting Officer in respect of any head or part thereof shall be deemed to be a designation of that officer as being the officer responsible for the collection of revenues and the payment thereof into the Consolidated Fund Account and/or for the control of such expenditure, as the case may be.
- The Principal Accounting Officer shall be responsible for the financial administration of the department specified in a designation and shall be accountable to the Minister for:

- (a) The assessment and collection of, and accounting for, all moneys lawfully receivable by his department;
- (b) Ensuring that the purpose for which an appropriation is approved by Parliament is accomplished;
- (c) Processing any claim required to be processed in relation to such appropriation;
- (d) The custody and proper use of all materials, equipment or other public property administered by him;
- (e) The administration of any fund for which he has been assigned responsibility;
- (f) The discharge of any other financial responsibility assigned to him under this or any other enactment.

6. In order to clarify how disputes between the Principal Accounting Officer and the Minister are to be dealt with, the following is proposed:

- If a difference of opinion arises between a Principal Accounting Officer and the Minister responsible, the Principal Accounting Officer shall inform the Minister in writing of his view and of the reason for it and recommend a consultation with the Minister of Finance.
- If, notwithstanding this, the Minister gives contrary directions in writing that are lawful, the Principal Accounting Officer shall comply with them and inform the Minister of Finance in writing.

- Once the directions have been carried out, copies of the correspondence set out in the two points above shall be forwarded to the Auditor General.
- A difference of opinion between the Financial Secretary and the Minister shall be referred to the Prime Minister.

7. To address the need to include in the budgetary documentation relevant information on all aspects of the operations of the Public Sector, it is proposed to specify that “Public Sector Entity” includes Public Corporations (including those not financed from the Consolidated Fund), the companies which Government owns or in which Government has a majority or significant holding (more than 25%), and all other bodies for which Government is responsible.

8. It is also specified that Every Public Sector Entity shall present to the Minister an annual report and audited accounts within six months of the end of the fiscal year for tabling in Parliament.

9. To clarify the timing and enhance the information provided in the Budget Communication, it is stated that:

(1) the annual Budget Communication, together with the annual Forecast of Revenues and Estimates of Expenditure shall be laid before the House of Assembly on the last Wednesday of May;

(2) The annual Budget Communication shall include:

➤ fiscal policy objectives for the period of the budget and the following two years;

- a review of macroeconomic developments (including fiscal and monetary) as well as the forecast and assumptions for three years ahead used to prepare the budget;
- estimates of revenue and expenditure for the period of the budget and the following two years;
- a discussion of the risks that may have a material impact on the economy and public finances;
- if a deficit is anticipated, the details of the plan to eliminate it; and
- information on contingent liabilities.

10. The estimates of revenue and expenditure shall be referred to Committees of Parliament for review.

11. As well, a requirement is added that the Government shall lay before the House of Assembly, each year in February, a Mid-year Budget Statement setting out any changes necessitated to the current Annual Budget. Provision is made for the Mid-year Statement to contain amendments to the annual Appropriation Act and annual Revenue Forecast to increase selected expenditures and/or revenues, or to reduce selected expenditures and/or revenues. As well, the amendments shall take the form of Supplementary Estimates of Expenditure and, if resulting in a net increase in overall expenditure, the Supplementary Estimates of Expenditure shall indicate the source of financing of the net increase. If an amendment to the Revenue Forecast results in a net reduction in overall

revenue, the means by which the shortfall shall be met shall be stated.

12. To make financial reporting more timely, it is proposed to require the Treasurer to transmit the annual statements of account within three months after the close of each fiscal year.

13. As a means of enhancing the monitoring of the Government's fiscal position, a requirement is added for the Treasurer to prepare and submit to the Financial Secretary periodically, as determined by the Minister, statements of account containing the elements specified for the annual statements.

14. To further enhance accountability and reporting, it is specified that the annual statements of account, when examined and certified by the Auditor General, shall be laid by the Minister on the table of the House of

Assembly on or before December 31 next following the end of the fiscal year or, if the House of Assembly is not then sitting, on any of the first fifteen days next thereafter that the House is sitting.

15. These statements shall be accompanied by a report by the Financial Secretary confirming that financial administration in relation to expenditure and revenue has been conducted in accordance with the Act.

16. There is a requirement that independent external auditors undertake, every three years, an audit of the liabilities of the various Government pension plans.

17. Finally, as a means of further clarifying the accountability of Principal Accounting Officers, it is stated that every Principal Accounting Officer shall present a written report to the Financial Secretary within two months after the end of the fiscal year and

the latter shall submit such reports to the Auditor General.

Strengthening Control

To strengthen oversight and control of public financial administration:

1. Provision is made for the establishment of an Internal Audit Department in the Ministry of Finance to enhance efficiency, accountability and transparency in the management of Government resources which shall:

- provide assurance to Permanent Secretaries/Heads of Departments in Government Ministries and Departments on the adequacy of various systems and procedures employed for sound financial management and to achieve

economic, efficient and effective utilization of Government resources;

- provide Permanent Secretaries/Heads of Departments with professional and impartial opinions on systems of risk management, control and governance and furnish them with analyses, practical advice, recommendations and pertinent and timely comments concerning activities reviewed;
- monitor compliance with recommendations arising out of audit reports;
- have full, free and unrestricted access to records, property and personnel necessary for the performance of its duties;

- be headed by a Director appointed by the Minister who shall report to the Financial Secretary;
- send audit reports to the Financial Secretary as well as to Permanent Secretaries/Heads of Departments so audited.

2. As well, provision is made for Internal Audit Units to be established in Ministries and Departments, as determined by the Financial Secretary, and they shall:

- Form part of the Internal Audit Department and report to the Director of Internal Audit;
- Submit reports on the internal audits conducted to the Principal Accounting Officer and the Director of Internal Audit.

3. A number of proposals are put forth to strengthen the powers of the Auditor General, including:

- The power to raise any audit query addressed to the appropriate Principal Accounting Officer and copied to the Financial Secretary and Treasurer, and the Principal Accounting Officer shall respond in writing within seven working days of receipt of the communication;
- The power to audit all accounts on a current basis in order to expedite the finalization of his audit at the end of the fiscal year;
- The power to initiate, at his discretion, audits without prior notification.

4. Finally, it is proposed to empower the Minister to call for independent external auditors to undertake audits of any public body, as directed by the Minister.

Conclusion

As I stated at the beginning of my remarks, the further strengthening of good governance requires a fundamental reform of the Financial Administration and Audit Act to bring it into line with today's realities. More specifically, it is vitally important to bring a greater degree of accountability and transparency to public financial management. I trust Honourable Members will agree that the proposed reforms contained in this Bill are appropriate to that end.