

**The Ministry of Finance**

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Ministry of Finance Headquarters

**PRESS RELEASE**

**Minister of Finance – Report of the Auditor General For the Financial Years ending March 31, 2009 and March 31, 2010**

The Premier and Finance Minister the Hon. Paula A Cox, JP, MP, today commented on the release of the Report of the Auditor General For the Financial Years ending March 31, 2009 and March 31, 2010.

In general the Auditor’s Report covers transactions of the Consolidated Fund and the systems and procedures associated with this Fund for the year-ended March 31, 2009. The Report also includes commentary on a range of subsidiary funds and public sector entities.

Premier Cox said, “The Reports prepared by the Office of the Auditor-General provide Parliament with an independent review on the adequacy of accountability and resource management practices in Bermuda's public sector. These Reports are also a valuable input for the Government to identify ways to enhance the delivery and efficiency of a range of services for all residents of Bermuda. It is important to note that audit reports are historical documents, in this case relating to financial years that occurred 2 and 3 years ago respectively.

“Accordingly the Auditor-General plays a significant role in the accountability process within Government. It is not the role of the Auditor-General to report on the very many things that are right in the financial affairs of the public sector. The Audit Act requires her reports to focus mainly on observed problems and deficiencies. Accordingly her reports identify deficiencies in accounting and accountability systems.”

The Government notes that the overall tenor of the current Report has been restrained when compared to previous years, and welcomes constructive criticism that will lead to improvements in the stewardship of the public purse.

This is the first Annual Report published by the current Auditor General and the Government looks forward to working with her to improve Government’s financial reporting. While these statements are not current for this fiscal year it does highlight the work that has been done and improvements made since the statements were reviewed by the former Auditor General.

The Auditor General has advised that in order to provide as timely information as possible, she has decided to change the focus of the Auditor General’s annual report.

For the financial year beginning April 1 2011, the annual report will focus only on the work of her Office for the prior financial year, and will include the findings from any audits completed during that year. This change of focus will allow her to report reasonably quickly after the financial year is over. Her target is to have her annual report ready for submission to the Speaker of the House of Assembly, the Governor and the President of the Senate by November 30 each year.

The Government has always been committed to effecting ongoing improvements in its Public Accounts and its reporting mandate therefore the Government supports this initiative of the Auditor General.

The Government is also very supportive of the Office of the Auditor General and the Department of Internal Audit joining forces to promote good governance. This ensures fairness and equity and helps to instill confidence in the processes of Government.

Premier Cox said, “This partnership definitely bodes well for the Government as good governance has been a priority of mine since I was appointed Premier in November 2010. As Minister of Finance, I have spent a considerable amount of my time fighting for Bermuda's credibility around the world, and we have made good progress.

“The introduction and passage of the Good Governance Act 2011 and, now, the Good Governance Bill 2012, underscored our commitment to enact measures geared to strengthen financial accountability in Government and to enhance our governance framework. We wish to communicate a strong and clear message to the public that Government has zero tolerance for behavior and practices that do not accord with the highest standards of good governance.

“This is the end of our press statement, however we have provided a summary below some of the progress that the Government has made, thus fur, in improving the financial and accountability framework relating to Public Financial Management.”

**Ministry of Finance**

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**Supplementary information for completeness and transparency to accompany the**

**release Minister of Finance – Report of the Auditor General For the Financial Years ending March 31, 2009 and March 31, 2010.**

The Ministry of Finance has noted that most of the themes from the Auditor-General's Report have been previously identified and are issues that the Government is already tending to. Other items of special importance that have been signposted to require attention are:

* Consolidated Financial Statements for Bermuda;
* Financial statement discussion and analysis;
* International Financial Reporting Standards;
* Working with the Parliamentary Committee on the Public Accounts;
* Concern regarding the appropriate value of certain development projects;
* Recommendations outstanding;
* Late financial reporting and qualified or denied audit opinions;
* Pension Contributions and Taxes in Arrears.

While the tabling of the Government Response will properly follow the Report of the Public Accounts Committee, I should like to affirm the Government's continuing focus on transparency and accountability, and its continuing commitment to effecting improvements in resource management. We note the work that continues to be done and Government will not stop at the recent legislative initiatives on accountability and good governance.

The Government’s formal response which will be provided in the proper sequence will provide an opportunity for individual Departments to inform the Parliament and the public on issues and actions taken in respect to the 2009-10 Auditor-General's recommendations. However it is my responsibility as the Minister of Finance to provide a balanced perspective to the report in order to highlight some of the progress that the Government has made in improving the financial and accountability framework relating to Public Financial Management in the interim.

* Consolidated Financial Statements for Bermuda:

While legislative changes are required to effect consolidated reporting, they are simply one aspect of a complex approach that would be required to achieve this accounting objective. As an update, the Accountant General has identified a dedicated resource to lead this initiative. The Government intends to use our best efforts to achieve a target date of March 2012 for the issuance of Consolidated Financial statements.  So progress is being made on this important initiative, but it should be emphasised that consideration must be given to resources, accounting systems, management roles and other factors that are critical in the accomplishment of this task.

* Financial statement discussion and analysis:

To increase transparency the Government supports this recommendation and can advise that The Accountant General’s Department has resumed production of the Annual Accountant General’s Department Report. The 2010 draft is currently being reviewed and going forward (FYE 2011 and beyond) this report will be produced when the audited financial statements are issued into the public domain.

* International Financial Reporting Standards:

The Government confirms its support of the adoption of IFRS as generally accepted accounting standards and will work with the Auditor General to ensure a smooth transition to this new standard.

* Working with the Parliamentary Committee on the Public Accounts:

The Government appreciates that this process is an important component of the financial reporting accountability cycle within Government. We take this role serious as evidenced by the Government’s swift responses to the PAC’s Report for the Years ending 2007 and 2008 and the Report on the Motor Vehicle Safety and Emissions Testing Programme.

For the sake of good order and completeness it must be noted that the PAC Report for the years ending 2007 and 2008 have been completed and tabled. The Minister of Finance provided a detailed response to the House of Assembly on the 2007 and 2008 Annual Reports in July 2010.

* Concern regarding the appropriate value of certain development projects:

In March 2010, the Ministry of Finance retained KPMG Advisory Ltd. (KPMG) to conduct a systemic review to diagnose how the Government of Bermuda’s development and implementation of capital projects compares with international best practice.

In addition to Government’s Financial Instructions and the more rigorous procurement manuals used by the Ministry of Public Works, we determined that there was a need to further enhance the system of controls in order to ensure we were aligned with international best practice standards with regard to the assessment, procurement, management and implementation of capital projects.

Our independent agent KPMG made a number of recommendations that have been adopted by the Government. The Government has accepted all of these recommendations and have either implemented them fully or have aggressively begun the implementation process.

* Recommendations outstanding:

The Government has placed great emphasis on the need to address the numerous recommendations made by the Auditor over the years and on making continued improvements to Government’s accounting and financial control systems and practices. The Accountant General’s Department continues to work with Controllers in Ministries to ensure audit recommendations that have been noted in prior years are addressed expediently.

* Late financial reporting and qualified or denied audit opinions:

The Government understands that to facilitate sound financial management and planning, reliable and timely information is required. To achieve efficient management - flexible and responsive management requires an ongoing flow of management information.

I note the Auditor General’s ongoing and longstanding concerns with regard to late financial reporting. As the Minister of Finance I consider it critical that all public sector entities use their best efforts to prepare annual financial statements on a timely basis.

At the outset let me advise that the Consolidated Fund Financial Statements (the Fund where Government conducts the majority of transactions) have been completed, audited, published and tabled in the House of Assembly during the recent budget session. This is a clear example of Government’s commitment to a sustained programme of fiscal discipline and prudent management.

Whilst we acknowledge there are still obstacles to overcome with regard to late financial reporting for some Government entities and public funds, these obstacles are being addressed and will be resolved. Departments have been encouraged to further strengthen public accountability through internal processes that will further improve quality and timeliness in financial reporting.

We should also like to note at this time that management accounts have been prepared for a significant portion of the unaudited accounts listed in the report.

* Pension Contributions and Taxes in Arrears:

Another concern noted by the Auditor General in her annual report and shared by the Government is the matter of pension contributions and taxes in arrears. As previously illustrated with the establishment of the Debt Enforcement Unit this Government places a high priority on collecting outstanding amounts owed. The Debt Enforcement Unit has had a significant impact on the ability of the Office of the Tax Commissioner and the Department of Social Insurance to collect outstanding receivables. The timely processing of and publicizing of writs has seen a significant increase in collections.

The Government must continue to take an aggressive stance in recouping tax and pension arrears in order to establish the settlement of Government debt as a priority.

* Consolidated Fund Financial Statements for the Year ended March 31, 2009:

The majority of the commentary in the report covers transactions of the Consolidated Fund and the systems and procedures associated with this Fund. The Consolidated Fund is established by the Bermuda Constitution and is the single most important Fund in the public sector.

**Qualified Audit Opinion:**

The Ministry notes that the annual accounts of the Consolidated Fund of the Government of Bermuda were given a qualified audit opinion for the second consecutive year. The qualification was based on the Auditor General’s opinion that there were deficiencies in internal controls in the management of various capital development projects.

Even though the Government did not fully agree with the qualification on the accounts, this Government will take the required steps to ensure that this qualification is removed in the future; in the same manner that actions were taken when the accounts were qualified in 2000 and on other previous occasions.

The qualification on the accounts of the Consolidated Fund should in no way reflect on Government’s ability to manage the fiscal and economic affairs of the country. I would like to unequivocally state that the current Government is capable of running the financial affairs of this Country ; Bermuda’s high credit ratings attest to this.

Timeliness and quality of information presented to the Auditor:

It is pleasing to note that the 2009 audit saw a significant improvement in the timeliness and the quality of the information prepared by the Accountant-General’s Department, however as noted by the Auditor General there is still room for improvement. The Accountant-General’s Department has confirmed that it will continue to look for ways to improve its quality control procedures prior to the submission of draft and final Financial Statements to the Office of the Auditor General.

**The Statement of Operations of the Consolidated Fund - CICA Public Sector Handbook:**

The Accountant-General’s Department will implement the changes needed for the presentation and disclosure of the annual financial statements of the Consolidated Fund to be in compliance with the CICA Public Sector Handbook with the launch of the Enterprise One accounting tool for the Bermuda Government for what will be the fiscal year end ("FYE") 2012 as it is not feasible to amend the AS400 general ledger tool for FYE 2011.

**Bank Reconciliations:**

The regular reconciliations of the Governments’ bank accounts, continues to be a high priority.  The ever increasing number of Government bank accounts, coupled with the volume and types of transactions flowing through each account makes this a time consuming and, at times, a complex process. Therefore it is pleasing to acknowledge the improvement in the timeliness of bank reconciliations compared to prior years, noted by the Auditor General.  Meanwhile the Accountant General’s Department will continue to make bank reconciliations a high priority and work toward reconciling all accounts on a timely basis.

The upgrade to Enterprise One (E1) should assist with this as it will reduce manual efforts of reconciliation thereby increasing efficiency.

**Budget Control and administration:**

The Ministry notes that Budgets are dynamic funding plans that are subject to change and variation according to actual circumstances associated with the pricing of resources (including labour and materials) and other factors that impact programme implementation or service delivery.

The Ministry of Finance continues to emphasize to ministries and departments the seriousness of over-spending appropriations. The Ministry of Finance is satisfied that the modernised set of existing expenditure controls is suited to the general requirements of managing approved budgets. Lapses where they do occur, are in the realm of management performance, rather than in the space of sufficiently robust controls.  This factor is being addressed by the Civil Service Executive in the annual review of performance in the performance appraisal process. Also in 2011\_12 as part of the Ministry of Finance’s enhanced on-going budget monitoring and control exercises, the Ministry will be reporting to Cabinet on a monthly basis on the overall financial performance of the Government’s expenditures and revenues. The aim of this exercise is to detect potential under-budgeted and/or additional expenditures that may arise during the year and take the necessary remedial measures immediately. There is also the threat of sanctions against those which exceeded their spending limits.

The Ministry of Finance can also report that the detailed work of gathering the supplementary explanations for fiscal year ends 2001-02, 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 2008-09 and 2009-10 has been completed and the relevant supplementary estimates  were debated in the House in March 2011.

**Audits of Government controlled organizations and Public Funds:**

As the Minister of Finance I consider it is important that all agencies prepare and publish high quality, timely financial information in fulfilling their public accountability obligations. Government understands the importance of timely financial information across the entire public sector and recognizes much more needs to be done and is required by all of us who are accountable for actions that need to be accelerated across the board.

In general relevant government entities, such as Parish Councils, school boards and countless others are also keen to address any backlog and to deliver outstanding accounts in an auditable state to the Office of the Auditor General.

In closing, the Ministry of Finance acknowledges that there is still much work to do to raise the standard of Government’s financial reporting and to its optimal level. The Government will remain focused on this goal and will continue to launch several initiatives to meet this objective.

As the Minister of Finance I stand ready to formally reply to the Public Accounts Committee in more detail when the Committee presents its report to the House of Assembly on the Report of the Auditor General For the Financial Years ending March 31, 2009 and March 31, 2010, in due course.

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