



National Assembly of Seychelles

FINANCE AND PUBLIC ACCOUNTS COMMITTEE

**EXAMINATION OF THE AUDITOR
GENERAL'S REPORT 2009 AND 2010**

**FIRST REPORT OF THE 5TH ASSEMBLY
2012**

FOREWORD

In 2012, for the first time in the recent history of the Seychelles, the Finance and Public Accounts Committee (FPAC) convened a series of Hearings where members of the Executive were required to explain and account for actions that resulted in the mis-management of public funds in the financial years 2009 and 2010. The key outcomes of these Hearings are described in this report.

The FPAC is a fundamental component of the governance framework for public accountability as its Annual Report recommends to the Government those changes required to improve the governance culture in the Executive.

In recent years global economies have suffered trauma on a scale that is un-paralleled in fiscal and economic history. The impact of this has been far reaching and Seychelles has not been immune to this crisis. It is therefore important that the management of scarce public funds and public assets are effective and efficient and provide quality and timely services to the people of the Seychelles.

The eminent British political historian Professor Peter Hennessy, described a Public Accounts Committee as the *'Queen of Select Committees which, by its existence, exerts a cleansing effect in all Government Departments'*. He used these words to stress the importance of such committees in exercising oversight and scrutiny and holding the Government of the day publically accountable for its management of public finances.

Politicians and public officials need to recognise the significance of the proper handling of public funds; the need to combat fraud and corruption and the importance of getting the most from tax revenue. These themes should be at the heart of relationships and Parliamentary debates between the Legislature (The National Assembly) and the Executive (The President, the Cabinet, Government Departments and the Civil Service).

The FPAC also has a moral responsibility to the people of the Seychelles for overseeing Government expenditures to ensure that they are managed on their behalf effectively and honestly.

Finally, many people have contributed to the compilation of this report and specifically I extend my thanks and gratitude for the assistance and advice received from my FPAC colleagues, the Auditor General and his team, the National Assembly Secretariat, the FPAC Advisor and the public officials who participated in the 2009 and 2010 Hearings.

Hon. David Pierre
Chairperson

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DEFINITIONS

For the purposes of this Report, the following words shall have the meaning provided below except where explicitly indicated otherwise:

“Accountant” or “Chief Accountant” means the Public Officer responsible for the control and operations of Treasury.

“Accounting Officer” means any Principal Secretary, Head of Department or other Public Officer whose duties involve overall departmental responsibility in connection with public moneys, stores and all other assets.

“Assembly” means the National Assembly of Seychelles referred to in the Constitution.

“Auditor General” means the Office of the Auditor General (OAG) mandated to audit the accounts of the Cabinet Office, the National Assembly, all Government Departments and Offices, all courts and those related to moneys withdrawn from the Consolidated Fund, all the accounts of any statutory corporation or such other body as may be specified by or under an Act.

“Chairperson” means the person presiding over the Finance and Public Accounts Committee of the Assembly.

“Constitution” means the Constitution of the Republic of Seychelles.

“Executive” means the definitions provided in Chapter V of the Constitution of the Republic of Seychelles. In the context of this report the Executive means the President, the Vice President, the Cabinet, Government Departments and the Civil Service.

“Financial records” means all books of accounts, registers, accounting forms and any other financial documentation in hand form or magnetic media.

“MDA” means a Ministry, Department and/or Agency of the Government.

“Treasury” means the section of the Ministry of Finance responsible for the accounting functions of the Government.

1.INTRODUCTION

1.1 The Finance and Public Accounts Committee

In Seychelles, the Constitution and legal framework have established the Finance and Public Accounts Committee (FPAC) as the institutional mechanism for reporting on the effectiveness and efficiency of public financial management by the Government of the day. Article 104 of the Constitution of the Republic of Seychelles, the Rules of Procedure for Committees and Standing Orders 2009 provide the statutory and procedural authority for the establishment and functioning of the FPAC.

The FPAC is a key mechanism for ensuring transparency and accountability in government financial operations. In its oversight and scrutiny roles, the FPAC acts on behalf of and for the people of Seychelles in holding the Government of the day to account for the manner in which they have collected and spent public funds gathered through taxes and other sources.

The FPAC Annual Report is based on a rigorous examination of the annual report of the Auditor General. The Auditor General's report provides the basis for the FPAC to call witnesses from the Executive and seek their explanations for deficiencies reported by the Auditor General. Subsequent to these annual Hearings the FPAC will issue its report to the Government via the Speaker and the National Assembly.

1.2 Committee Composition

The seven-members of the Committee are appointed by the National Assembly as soon as practicable after the beginning of each session of the Assembly.

The current Committee appointed by the 5th Assembly is chaired by the Leader of the Opposition and its composition is as below:¹

- Hon. David Pierre – *The Chairperson*
- Hon. Charles De Commarmond – *The Vice- Chairperson*
- Hon. Marc Volcere
- Hon. Nichole Barbe
- Hon. Sebastien Pillay
- Hon. Lenny Lebon
- Hon. Jeniffer Vel

Committee business is supported and facilitated by National Assembly Secretarial and Advisory personnel and is further assisted through the advice and guidance of the Auditor General.

¹ Hon. Bernard Arnephy served as a Member of the FPAC for part of the examination and was replaced by Hon. Jeniffer Vel.

1.3 Role of the Auditor General

Organisations responsible for the external audit of government accounts and activities are known as Supreme Audit Institutions (SAIs). Typically these SAIs are headed by an Auditor General who reports directly to the National Assembly or its equivalent.

The post of the Auditor General is a Constitutional appointment established under Article 158 of the Constitution of Seychelles and is mandated to carry out the external audit of the Government.

The National Assembly relies on the Auditor General to provide independent assurance that Governmental activities are carried out, and accounted for in a manner consistent with the Assembly's intentions.

The role of the Auditor General is an important component in the governance framework as it provides the National Assembly and the public with an independent opinion on the assurance provided by the information contained in the annual financial statements of the Executive.

The Auditor General's Annual Report and Audit Opinion is the pre-cursor to oversight and scrutiny by the FPAC on the actions of the Executive.

1.4 Contact

All correspondence relating to this report or other matters within the scope of the FPAC should in the first instance be addressed to:

Committee Advisor
Finance and Public Accounts Committee
P. O. Box 734
Ile du Port, Mahe
Seychelles

Tel: + 248 4285600

Email: aappoo@nationalassembly.sc

2. METHODOLOGY

The Committee applied a rigorous methodology to:

- Ensure that it would produce a report highlighting the major findings contained in the Auditor General's 2009 and 2010 reports; and
- Make recommendations to Government to improve the Executives internal control and governance arrangements.

The methodology applied to achieve the above objectives is described below:

Step One: Analysis of the Auditor General's Reports

The content of the 2009 and 2010 Reports of the Auditor General were reviewed by a joint team from the Committee, the Office of the Auditor General, the National Assembly Secretariat, and the Committee Advisor. From this review, the key issues from the Reports of the Auditor General were identified.

Step Two: Formulation of Questions to be put to the Executive by the Committee

From the analysis in Step One the joint team formulated the questions to be put to the Executive by the Committee. These questions were developed in a way that would ensure that the Executive provided full and open answers to the issues raised.

Step Three: Notification to the Executive of Committee Hearings

The twenty-one MDAs selected by the Committee to attend the Hearings were notified in writing and they were also provided with a brief on the scope of the issues that would be addressed during the Hearings. This brief was for the purpose of ensuring that the Executive would be prepared when they attended the Hearings. Those MDAs invited to attend the Committee Hearings are shown at Annex I.

Step Four: The Hearings

Full Committee Hearings with the twenty-one MDAs took place in the period 20th August to 6th September, 2012 inclusive. In one case, the Department of Defence, the first hearing was adjourned and reconvened to allow the MDA more time to gather the evidence and explanations required by the Committee. A list of witnesses who gave evidence and explanations to the Hearings is at Annex I. The verbatim transcripts of the Hearings are lengthy and it is impractical to include them in this report. However, these can be viewed by opening the link at: http://nationalassembly.sc/index.php?option=com_content&view=article&id=360:finance-and-public-accounts-committee-fpac&catid=71:committees-of-the-national-assembly&Itemid=2

Step Five: Written Responses

The Committee determined that eleven MDAs did not have to attend the Hearings and instead they would provide explanations and evidence in written form. To expedite this process the Committee issued formal requests to these MDAs asking them to respond, within a set time frame, with explanations for the issues raised by the Auditor General's Reports and the Committee. A list of these MDAs is provided at Annex II.

In addition many MDAs who attended the Hearings did not have documentation or other relevant evidence to fully answer the questions put to them by the Committee. In these cases this supplementary documentation and evidence was forwarded to the Committee after the Hearings ended.

Step Six: Analysis of Responses

The purpose of this analysis was to identify:

- Generic systems, management and process deficiencies that resulted in public funds being spent, collected, managed or reported in a wasteful, inefficient and un-economical manner; and
- Specific and material findings to provide examples of evidence in support of the generic deficiencies.

The analysis was based on the content of the Auditor General's 2009 and 2010 reports, the verbatim transcripts from the Hearings and supplementary documentation and evidence received subsequent to the Hearings.

This analysis was done by a joint-team comprising the Committee Advisor, and representatives from the OAG. The team was provided with facilitation support by an international expert contracted by the EU to assist in the completion of this report and other Committee related activities.

Step Seven: The Report

The product from the previous steps is a Report by the Committee on the Auditor General's Report and Audit Opinion on the 2009 and 2010 Financial Statements of the Government. In arriving at his opinion the Auditor General carries out an assessment of the effectiveness of the underlying internal control arrangements and processes applied in the production of these Financial Statements.

3. OVERVIEW

The Committee concluded that in the financial years 2009 and 2010 the management of public finances in the Republic of Seychelles was not of a standard that would allow citizens to place reliance on the financial statements in providing assurance that public funds had been managed by the Executive in a wholly efficient, economic and effective manner.

The basis for the above conclusion are to be found in our review of the content and Audit Opinion of the 2009 and 2010 Auditor General's Reports, our examination of witnesses from the Executive and, our evaluation of documentary evidence provided by the Executive.

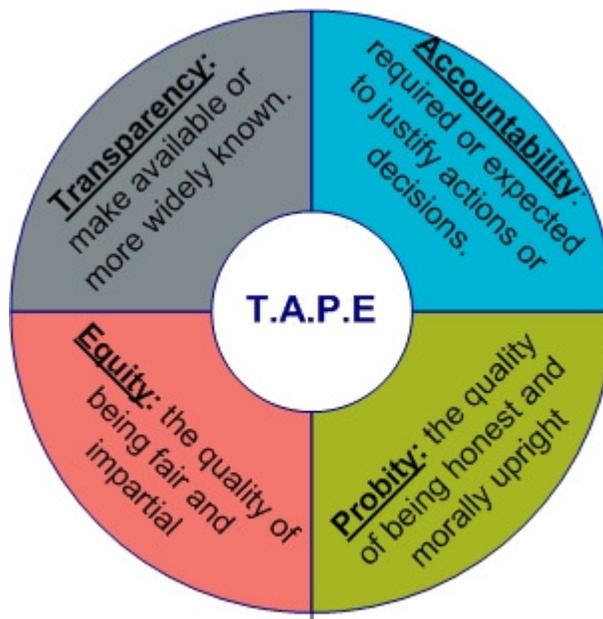
The Committee has identified common themes that are having a negative effect on the efficient management of public finances across the entire Executive. These are:

i. GOVERNANCE

Governance is concerned with direction, structure, process and control. It is also about the behaviour of the people who represent the Executive and the relationship the Executive has with citizens. Key elements of effective governance include honesty, integrity, transparency, openness, responsibility and accountability. Over and above these elements public administrations have an additional moral obligation to provide the best possible services efficiently and effectively to citizens.

Governance is the combination of processes and structures implemented by management in order to inform, direct, manage and monitor the activities of the organisation towards the achievement of its objectives.

Underlying these definitions of governance in the public sector is what is called the T.A.P.E. principles and, these are shown diagrammatically below:



Definitions: Oxford English Dictionary

The Committee concluded that the evidence presented to it described a situation where the governance arrangements – when compared to best practice outlined above - were significantly deficient in the Financial Years 2009 and 2010. The Committee also determined that these deficiencies extended across the entire Executive. The Committee also found that these unsatisfactory governance arrangements were likely to have had a profound and negative impact on the efficient, effective and economic management of public finances in 2009 and 2010.

The Committee obtained substantial evidence that the Executive – in its management and reporting of public finances roles - could be perceived to have acted with insufficient:

- Integrity
- Transparency
- Accountability

The Committee received substantive evidence that the Executive management was not proactive in its role of setting objectives and then monitoring and managing Executive personnel and financial management activities to achieve these objectives.

ii. THE LEGAL FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT

The legal framework for the accounting functions of the Executive are in the 1996 Public Finances Act. This primary legislation is supplemented by Financial Instructions and an Accounting Manual issued to all MDAs by the Ministry of Finance in 1997.

These were the primary, secondary and tertiary legal requirements against which the Auditor General conducted his 2009 and 2010 audits and these are also what were considered by the Committee in compiling its report.

The duties and responsibilities of Accounting Officers have been established in three places:

- i. Public Finances Act, 1996: Part III, Regulations and Repeal, Article 14;
- ii. Ministry of Finance Financial Instructions, 1997: Chapter 2; and
- iii. Ministry of Finance Accounting Manual, 1997: Chapter 2

The detailed roles and responsibilities of Accounting Officers in respect of public financial management and reporting are shown at Annex III.

The Committee reviewed The Public Finances Act, 1996 to assess its adequacy in providing a robust and coherent primary legal framework for the management and control of public finances. The Committee recorded a number of significant omissions in this 1996 Act. For example, the 1996 Act has no definition of an Accounting Officer and the roles and responsibilities of this post. In addition, the 1996 Act is silent on the need for an Internal Audit service that would typically add value to the budget

execution control processes. Finally, the 1996 Act financial reporting requirements are inadequate to reflect the fact that the Ministry of Finance is producing its financial statements and other financial reports in accordance with International Public Sector Accounting Standards (IPSAS) and on a cash or accrual basis of accounting.

Based on the above findings, the Committee concluded that:

The Public Finances Act, 1996 is inadequate to fully meet the requirements of a modern public financial management and governance framework.

The above state of affairs has been recognised by the Ministry of Finance and a new set of legal requirements is contained in the Public Finance Management Bill, 2012. This Bill will be adopted as Law effective from 1st January, 2013.

The Committee's review of the Public Finance Management Bill, 2012 leads it to conclude that its adoption and full implementation will provide the basis for improved public financial management and governance in the Executive.

The Committee is of the opinion that in Financial Years 2009 and 2010 many Accounting Officers were not fully meeting their duties established in the Ministry of Finance's Financial Instructions and Accounting Manual. The outcome of this situation resulted in failures by Accounting Officers to exercise adequate control over public expenditure and resources received.

This lack of control by Accounting Officers led to findings where public funds were misused and misapplied; value for money was not sought or obtained; public resources were not used for the intended purpose; and basic management and internal control processes and principles were either not in place or ignored.

Based on the 2009 and 2010 Auditor General's Reports; witness evidence from the Hearings and supplementary evidence, it is apparent that Accounting Officers did not, fully exercise their management, supervisory, monitoring, reporting, and record keeping roles and responsibilities.

The Committee concluded that in Financial Years 2009 and 2010 Accounting Officers did not fully meet their statutory and legal responsibilities with regards to public financial management. The impact of this is a high probability that these weaknesses had a profound and negative impact on the efficient, effective and economic management of public finances in 2009 and 2010.

iii. REPORTING REQUIREMENTS FOR PUBLIC FINANCIAL MANAGEMENT

The financial reporting requirements are in the Public Finances Act, 1996 at Section (11). This Section requires the Minister of Finance to transmit the following statements to the Auditor General within six-months after the close of each financial year:

- (a) The accounts of the Consolidated Fund, Contingencies Fund, Development Fund and other funds established under this Act giving full particulars of all

receipts and expenditure of moneys accounted for in those funds during the financial year;

- (b) A statement of outstanding guarantees and other financial liabilities of Seychelles at the close of the financial year; and
- (c) As far as practicable, a statement of assets and liabilities of Seychelles at the end of the financial year and the manner in which the assets are invested or held at the close of the financial year.

For financial years 2009 and 2010, the required financial returns and statements were submitted by the Minister of Finance to the Auditor General within the statutory deadline.

The Auditor General is then required by Article 158 of the Constitution to audit the accounts of the Cabinet Office, the National Assembly, all Government Departments and offices, all Courts and those related moneys withdrawn from the Consolidated Fund, all the accounts of any statutory corporation or such other body as may be specified under an Act and report to the National Assembly within twelve months of the end of the immediately preceding financial year drawing attention to irregularities in the accounts audited and to any other matter which in the opinion of the Auditor General should be brought to the notice of the Assembly.

The Auditor General's 2009 report was formally submitted to the National Assembly on 15th December, 2010 and the 2010 report on 6th December, 2011 both dates being within the statutory deadline for report submission.

The Committee is pleased that the statutory deadline requirements for financial reporting and audit are being met. However, the Committee believes that these deadlines should be reduced for both the time permitted to the Minister of Finance and the Auditor General to complete their statutory reporting mandate.

The Committee makes this recommendation based on two factors. First, the current time allowed of six months and twelve months for the Minister of Finance and the Auditor General annual reporting respectively is high in comparison to practices elsewhere. Second, the current arrangements result in the Committee reviewing, holding Hearings and reporting based on the Auditor General's reports at a minimum of fifteen months after the end of the financial year in question and a maximum of twenty seven months since the start of the financial year in question. This second factor is important if the findings of the Auditor General are to be dealt with and reported on by the Committee efficiently and within a reasonable time frame.

The Committee notes that the Public Finance Management Bill, 2012 includes provisions for reductions in time for the submission of Annual Financial Statements by the Minister of Finance and for the completion of audit by the Auditor General.

For Annual Financial Statements the proposal is to reduce the time for submission to the Auditor General from six months to ninety-one days from the end of the financial

year; and the annual audit by the Auditor General must be completed by the end of June. The Constitution continues to grant the Auditor General up to 12-months after the end of the preceding financial year to submit his report. However, it is anticipated that this reduced deadline for audit completion will enable the Auditor General to issue his report in August/September instead of the current pattern of December. If the aforementioned happens, the Committee will be able to report on the Auditor General's Report before the end of the financial year following the one under review.

The Committee concluded that the Ministry of Finance and other MDA had not given timely and adequate attention to the content of the 2009 and 2010 reports of the Auditor General. The Committee further concluded that the Ministry of Finance should, in future, lead in issuing guidance to all MDAs on how to respond to the Annual Reports of the Auditor General in a timely and meaningful manner. The Committee reports that the impacts of this and the time taken for the submission of the report results in: witnesses having no or limited knowledge or recollection of events that in some cases took place over three years ago; difficulties in retrieving the documentary evidence required to respond to enquiries; and audit findings being carried forward from one year to the next as unresolved.

iv. PUBLIC FINANCIAL MANAGEMENT COORDINATION

The Minister of Finance has the role of coordinating and overseeing all public financial management processes in the Executive. The Minister of Finance achieves these objectives by ensuring that systems are established throughout the Executive for planning, allocating and budgeting for the use of resources to improve the economy, efficiency and effectiveness of public financial management.

The Minister of Finance has two higher level responsibilities first, to develop and implement a 3-years national macro-economic and fiscal policy framework for Seychelles and second to establish an effective framework for the control and management of public finance across the Executive.

The Committee's interest lies in assessing the effectiveness and operation of the second of these responsibilities of the Minister of Finance.

The Minister of Finance and the Ministry of Finance team are key actors in ensuring that public finances are managed and reported in a transparent and accountable manner. The Minister of Finance is responsible for issuing guidance and regulations to the Executive to establish a framework of internal control that will prevent or detect material frauds, errors, misstatements or other actions that could lead to a loss or misuse of public funds or assets.

In addition to this technical role, the Minister of Finance has an Executive wide role in ensuring the effective implementation, monitoring and reporting on the guidance and regulations issued to establish the internal control framework. Where weaknesses are detected in the internal control framework – by internal or external audit – the Minister of Finance has a duty to ensure that the relevant MDA take appropriate and timely action to rectify identified weaknesses.

The Committee noted that the Ministry of Finance had not been proactive in dealing with the 2009 and 2010 Auditor General's Report nor had it encouraged other MDA to deal expeditiously with these reports. The evidence provided to the Committee by the Ministry of Finance strongly indicated that the Ministry of Finance senior managers had not, for example, reviewed the findings of the Auditor General until shortly before the Committee Hearings. This pattern was repeated by senior managers across the Executive, despite the fact that the Auditor General's 2009 Report had been a public document for almost two years and the 2010 Report for almost one year.

The Committee heard positive messages from the Ministry of Finance at the Committee Hearings and at subsequent meetings where they acknowledged the current shortcomings and undertook to lead in improving the management and responses to the Auditor General's Report. The Committee believes that if the Ministry of Finance honour these commitments, that responses will be: more timely; of higher quality; based on sound evidence; and witnesses to the Committee Hearings will be better prepared to respond to questions.

v. PROCUREMENT

The public procurement of goods, public works, consultancy services and other services is: expensive; important in providing the infrastructure for the economic and social development of the Seychelles; and open to abuse through poor tendering, lack of integrity and weak project monitoring arrangements.

Effective procurement need to provide value for money and create adequate support institutions. There needs to be a rigorous set of management and institutional arrangements to regulate the procurement cycle. In Seychelles the Public Procurement Act, 2008 is a modern and comprehensive legal framework to regulate all aspects of procurement at both the process and institutional levels.

However, the Public Procurement Act, 2008 by itself cannot act as a guarantor that all procurement will be managed in full compliance with the legal requirements.

In the Financial Years 2009 and 2010 the Auditor General reported a number of significant and material departures from the application of the basic principles for public procurement.

The 2009 and 2010 Auditor General's Reports highlighted breaches by the Executive of the Public Procurement Act, 2008.

Based on the evidence provided, the Committee concludes that:

There were procurements that were materially non-compliant with the Public Procurement Act, 2008. As a result, it is probable that public funds were lost, misapplied, misused and value for money was not obtained. This is likely to have had a profound and negative impact on the efficient, effective and economic application of public funds in 2009 and 2010.

vi. THE ANNUAL ACCOUNTS

In accordance with Section 11 of the Public Finances Act, 1996 the Minister of Finance submitted for audit the following statements of accounts of the Government for the years ended 31st December 2009 and 2010:

- Statement of assets and liabilities;
- Statement of receipts and expenditures of the Consolidated Fund and the Development Fund;
- Statement of outstanding public debt;
- Statement of outstanding guarantees;
- Statement of Government's investments.

The Auditor General audited these statements in compliance with the requirements of the Constitution and the Audit Act. In conducting his audit the Auditor General applied the standards and practices of the International Organisation of Supreme Audit Institutions (INTOSAI).

The application of these INTOSAI standards and practices lead to procedures that will result in an opinion by the Auditor General as to whether, in all material respects, the statements of accounts are in agreement with the accounts and records of the Treasury so that they properly present the financial transactions of the Government.

The Auditor General reported comments on the Accounts of Government. For example he expressed concerns on the Statement of Revenue Arrears, Centralised Payments, Suspense Accounts, Advances and Write Offs. The impacts of these were that the Consolidated Fund and other statements of account were in some cases understated and in others overstated.

The Committee sought explanations and solutions from the Ministry of Finance for these technical and accounting treatment issues that resulted in the Auditor General qualifying his Audit Opinion on the financial statements of the Government for 2009 and 2010.

The Committee reports that many of these matters remain largely unresolved between the Auditor General and the Ministry of Finance.

4. MATERIAL FINDINGS, IMPACTS, RESPONSES AND RECOMMENDATIONS

To amplify the overview situation reported in the previous section the Committee will now provide:

- i. Specific Auditor General's Report findings for five of the six themes;
- ii. The impact of these findings on public financial management;
- iii. The Executives responses to these findings²; and
- iv. Recommendations by the Committee to the Government.

i) GOVERNANCE

Section 3 of this report defined governance as the combination of processes and structures implemented by management in order to inform, direct, manage and monitor the activities of the organisation towards the achievement of its objectives.

The Committee concluded that effective governance structures were not in place across the Executive.

Evidence of this is presented by the following examples:

Finding One: Management of Transport

In MDA that had vehicles the findings of the Auditor General was that:

- *Vehicle log books not being maintained;*
- *Fuel consumption not being calculated;*
- *Poor management of claim for damaged hired vehicles;*
- *Mileage records not being satisfactorily maintained; and*
- *Fuel coupons not being recorded in vehicle log books.*

Examples in the report of the Auditor General for 2009 are from the Department of Environment, Ministry of Finance and the Ministry of National Development; and in the 2010 report, examples include the Department of Defence and the Department of Prisons.

² The responses from the Executive are shown in '*italics*' and this represents what was actually said at the hearings or at subsequent meetings. In some cases, the words of the executive vary slightly from the verbatim. This was done to improve the language however, the general meaning of the responses remains the same.

Impact

The lack of records for the management of transport results in weaknesses in the management and control of the utilisation of vehicles. The impacts of this are, misuse of vehicles, over expenditure on fuel purchases and no analysis of kilometres covered to fuel purchased. These impacts make it highly probable that the amount spent from public funds on fuel for vehicles was higher than it should have been in 2009 and 2010.

General and Specific Responses from the Executive

Many MDAs stated that they had no explanation why there was serious mis-management of Transport. Representatives reported that they were not in post when this mis-management took place and therefore they were unable to offer any management perspective. However, one of the causes reported was that vehicle registers were not being updated due to personnel not being in place to carry out this task.

Representatives of the Executive assured the Committee that they have or plan to introduce mechanisms to improve transport management. In some cases this will include the recruitment of a Transport Manager.

Committee Recommendations

The Government must produce a strategy to improve transport management within two-months of the approval of this report by the National Assembly.

Finding Two: Claim for Damages to Hired Vehicles

Department of Police

In September 2009 the Department received a claim for R10,035,237 from a car hire operator for damages to vehicles hired by the Department in 2007 and 2008.

In late 2009 the Department sent this claim to the Ministry of Finance who settled with the supplier in the amount of R8,539,630. This sum was charged against the Provision for Arrears in the 2009 national accounts.

Enquiries revealed that Internal Audit had seen a claim for the same case and from the same operator in July 2009 for R1,701,000.

Approximately 3 months later the operator submitted a revised claim of R10,035,237 some R8,334,237 or almost six times higher than the original July claim. The operator's justification for this upward revision was inflation and currency devaluation in the local economy. *However, this is a spurious argument by the operator as the claims related to 2007 and 2008 and therefore had no justification for applying 2009 exchange rates in this claim as the costs were in Seychelles Rupees.*

Impact

As no challenge was made to the reasonableness of this claim there is a strong possibility that a loss of public money arose from the processing and payment of this claim.

The absence of any formal contracts between the Department and operators makes it impossible to regulate the responsibilities and financial penalties of the Department in the event of hired vehicles being damaged when being used by the Department.

Responses from the Department of Police

The Department said they did not have sufficient funds to settle the cost of damage repairs as the costs arose in 2007 and 2008, 'we had a lot of damaged vehicles, and we didn't have sufficient funds to pay for the damage at that point in time'. Thus, the vehicles were left with the operator of the car hire firm for a number of years and accumulating rent per idle day. 'We have to admit, it was a complete mis-management of this situation and we lost a lot of money'.

Committee Recommendations

The Government will investigate this matter fully and establish why the Ministry of Finance accepted this claim without challenge. This investigation and report will be concluded within three-months of the approval of this report by the National Assembly.

Finding Three: Management of Fixed Assets and Stores

In MDAs that had Fixed Assets and stores the findings of the Auditor General was that:

- *Fixed Assets inventory incomplete and not up to date;*
- *No physical verification of fixed assets;*
- *Register of Land and Buildings not properly kept; and*
- *Weak management of stores.*

In 2009, examples in the Auditor General's report are the Department of Police and the Judiciary; and in 2010 the Ministry of Education and the Department of Information, Communication and Technology.

Impact

The lack of management control and supervision over fixed assets and stores presents a high risk that public assets and stores have been misused or stolen and as a result public assets have been lost in 2009 and 2010.

General Responses from the Executive

The situation reported was in part influenced through a lack of personnel to effectively manage fixed assets and stores. It was conceded that the higher level management

and supervision of fixed assets and stores had been ineffective and steps will be taken to improve the situation. In the intervening period between the publication of the Auditor General's Reports and the Hearings many had carried out physical fixed assets and stores verification and updating of records.

Committee Recommendations

The Government shall, within one-month of the approval of this report by the National Assembly, provide assurances that all necessary steps are being taken to ensure that all fixed assets and public stores are secured, properly recorded and that records are maintained in an up to date manner.

Finding Four: Management and Supervision

One of the key controls to ensure compliance with rules and regulations is rigorous supervision of MDA personnel by MDA Managers. The findings of the Auditor General were that:

- *Basic accounting records not being maintained;*
- *Insufficient segregation of duties;*
- *Lack of evidence on management checks;*
- *Bank Reconciliations not being carried out; and*
- *Deceased employees still on the payroll.*

Examples for 2009 can be found in the Concessionary Credit Agency and the Department of Police; and in the 2010 report is the Department of Defence.

Impact

The lack of management control and supervision over routine accounting procedures presents a high risk that control over revenues and expenditures is lost and accounting records and balances are inaccurate.

General and Specific Responses from the Executive

The responses included: a shortage of qualified accounting personnel; and manual record keeping that made it more difficult to carry out effective checks of receipts books and bank reconciliations.

The limits on the numbers that can be employed make it difficult to implement the 'perfect' scheme for segregation of tasks. However, the Executive did acknowledge that this needs to be looked at again and where possible improved.

It was acknowledged that management control and supervision needs to be improved to ensure that the routine accounting processes are delivered on time and accurately.

'The Department of Defence acknowledged that there were no checks in place to ensure that only bona fide personnel were included in the monthly payroll and that the absence of these checks had led to deceased employees still receiving their monthly salaries. To

stop this recurring, the Department stated, 'we now have a Director General, Director of HR and Administration, she does the verification of payroll before the payments are done every month'.

Committee Recommendations

The Government shall take the necessary steps to ensure that management fully and effectively exercise their supervisory and control roles with respect to public financial management. The steps proposed by the Government should be provided within one-month of the approval of this report by the National Assembly.

The finding above for payments to deceased personnel indicates a potential flaw in the management of the public payroll. Therefore, the Government shall, no later than three-months after the approval of this report by the National Assembly, commission a payroll audit across the Executive to establish that those being paid exist and are gainfully employed in the public service.

ii) THE LEGAL FRAMEWORK FOR PUBLIC FINANCIAL MANAGEMENT

Section 3 of this report provided our assessment of the current primary legal framework for public financial management and the proposed revised primary legal framework for public financial management. Our findings, impact, Executive responses and recommendations are based on these assessments.

Finding Five: The Primary Legal Framework

The current legal framework for public financial management is inadequate to meet the needs of a modern set of legal principles required to regulate and control public financial management. The proposed new legal framework for the regulation and control of public financial management provides an opportunity for improving the transparency, accountability and efficiency of public finances as well as enhancing public governance.

Impact

The current legal framework for public financial management is insufficient to reflect the changes that have and continue to take place in the reform of public finance both internationally and in the Seychelles. It does not wholly meet the current and planned public finance technical, institutional and organisational realities in the Seychelles.

Unless new legislation is adopted in the near future there is a risk that the planned actions of the Ministry of Finance for managing, controlling and reporting of public finance will be misaligned with the legal framework.

Responses from the Ministry of Finance

The Ministry of Finance has responded by presenting for adoption by the National Assembly the Public Finance Management Bill, 2012. This initiative by the Minister of

Finance is a correct and timely proposal to address the current weaknesses in the legal framework which relates to management, control and reporting of public finances.

Committee Recommendations

The Government will ensure that the Public Finance Management Bill, 2012 completes its legislative passage in time for it to be applied from the start of Financial Year 2013.

Finding Six: The Secondary and Tertiary Legislative Framework

Section 3 of this report provides our assessment of the Executives compliance with the Ministry of Finance Accounting Manual and Financial Instructions issued in 1997 to all MDA. In numerous instances there was non-compliance with these secondary and tertiary instruments. The results of this include:

- *Payments made against pro-forma invoices;*
- *Exam fees not collected;*
- *Incorrect account classification;*
- *Lack of accurate information on debtors; and*
- *Risk of duplicate payments.*

The Ministry of Finance, Ministry of Education and Ministry of National Development are examples in the Auditor General's Report 2009; and the Department of Prisons is an example in the 2010 report.

Impact

Revenues and expenditures could be under or over stated, wrongly classified and as a result render the overall financial statements of the Government misleading; wrong account allocations could impact on the presentation of the financial statements; insufficient information on debtors could under or overstate the amounts owed to Government; and the use of pro-forma invoices could lead to duplicate payments.

General and Specific Responses from the Executive

MDAs expressed concern that their accounts were being managed by an Accounts Officer located at an office remote from their Head Quarters. This made it difficult to manage and control the finance, accounting and payment processes.

'The Ministry of Education could offer no explanation for the high level of fee income not collected as these things have passed and maybe there was no mechanism in place'. 'I wrote to them personally to inform them that you have an outstanding debt with us, you sat the exam but you have not paid. But they refused to accept'.

Obtaining and reporting accurately on debtors balances has been a severe challenge for a number of MDAs because no effective computer based system has been developed to capture information on debtors. Currently, the accounting system has a module to capture creditor data but a similar module for debtors has yet to be

implemented. The Ministry of Finance has acknowledged this and has committed to launching the debtor module in 2013.

Committee Recommendations

The Government will put in place the institutional and organisational structures that are needed across the Executive to ensure that appropriate personnel are in place to manage public finances.

The Government shall, within one-month of the approval of this report by the National Assembly, provide assurances that in future no individual will be permitted to sit for an exam or receive any other chargeable public service without payment being made in advance.

The Government will provide the evidence that the debtors' module has been implemented by the Ministry of Finance for operation starting with the financial year 2013.

Finding Seven: Unreliable Debtors Balance

Example One: Seychelles Revenue Commission

The Seychelles Revenue Commission provided the Auditor General with a debtors balance as at 31st August 2010 amounting to R134,562,343. Subsequently, in July 2011 the Auditor General received a second debtor balance of R485,050,673. The Auditor General also reported that in four of the debtor cases examined the balance was overstated by a total of R64,666,727.

Impact

This non-compliance with Financial Instructions include: the Seychelles Revenue Commission does not have clear and accurate records of debts owed to the Commission by tax payers; the unreliability of debtors' information makes it difficult for the Commission to pursue debtors; and the unreliability of the 'true' debtors balance could render the overall financial statements of the Government misleading.

Responses from the Seychelles Revenue Commission

'The debtor reports are generated by the Department for Information and Communications Technology (DICT) and thus the Commission has no ability to directly update or amend these directly, in other words we have to wait for DICT to say ok look I feel comfortable enough to hand over A, B, C, D, E for you to handle within the system'.

'We are now actively pursuing debtors and have identified the causes of past non-recovery actions'.

'We have had a number of meetings with the DICT to try to find a solution to the problems and hopefully a long-term solution to these problems will emerge soon'.

Committee Recommendations

The Government shall within one-month of the National Assembly approval of this report, provide its plans to resolve the problems on debtor information currently emanating from the Seychelles Revenue Commission.

Example Two: National Human Resources Development Council

For unclear reasons, the debtors balance for breach of bonds decreased from R48,717,879 in September 2008 to R24,757,854 in December 2009. Audit was unable to verify if this decrease of R23,960,025 was due to debt recovery, write offs or corrections of errors.

Impact

This non-compliance with Financial Instructions include: the National Human Resources Development Council does not have a clear and accurate record of debts owed to the Council by individuals and/or guarantors for cases of breach of bond; the unreliability of debtor information makes it difficult for the Council to pursue debtors; it is likely that a significant sum of public funds will be lost through debts being written off as uncollectable; the unreliability of the 'true' debtors balance could render the overall financial statements of the Government misleading; the system for ensuring the full collection of these monies is inadequate and needs to be revised; historically the payment system was operating on the basis of 'trust'; and depriving Government of this income reduces the funds available to Government to support others with overseas training.

Responses from the National Human Resources Development Council

'We did not at the time of the audit have adequate or accurate records for debtors.

'We have subsequently constructed full records of debtors. The current debtors balance for breach of bonds is R36 million and this balance has accumulated over the last 6-years'.

The Auditor General has proposed writing off of some of this bad debt and the Council is seeking guidance from the Ministry of Finance to establish if in fact this can be done, *'I suppose now there will be a step where AG's office will sit with NHRDC, will sit with Ministry of Finance, Internal Audit and then discuss how to go about this'.*

Committee Recommendations

The Committee notes from the evidence that breach of bond is a serious and costly matter for the Government and that the current system is not efficient. It is likely that R36 million or most of this amount will at some time be written off as a loss of public revenue. The Committee also notes that in the absence of any legal or ethical requirement/appetite to invoke seizure of guarantor or graduates assets then this problem will never be resolved. The Committee therefore recommends that a more efficient system with a clearer legal and ethical framework should be put in place to

ensure that the funding and the process of providing overseas training to students is well regulated.

Finding Eight: Potential Loss through non-compliance with Financial Instructions

Example One: Department of Defence

Payments valued at R433,209 had no supporting documentation and thus it was impossible to verify if these goods or services had been received.

Impact

This non-compliance with Financial Instructions includes a possible loss of public funds through the lack of evidence to confirm the receipt of goods and or services.

Responses from the Department of Defence

The Department has subsequently retrieved the missing supporting documents and these were provided to the Committee. This problem had arisen through the documents being stored at another location and thus they were not found by the Auditor. The Department has now reduced the likelihood of this happening again through establishing a central Head Quarter that will manage finances and be the single repository for all documents.

Example Two: Department of Prisons

Nine purchases valued at R1,144,492 had no supporting evidence to confirm that the goods or services had been received in a satisfactory condition.

Impact

This non-compliance with Financial Instructions includes a possible loss of public funds through the lack of evidence to confirm the receipt of goods and or services.

Responses from the Department of Prisons

'The Department finance processing, recording and reporting is managed by the Ministry of Internal Affairs, and as a result the Department has no way of overseeing the financial management for the Department. All evidence to support procurements will be held by the Ministry of the Internal Affairs'. 'Pro-forma invoices will be sought and then I will approve payment and these goods will be procured and thereafter I will sign the document for final payment', which is done through the office of the Director of Administration. 'We are in the process of recruiting a proper Accountant, somebody that would do the procurement and a Financial Controller.'

Committee Recommendations

The Government will, within one-month of the approval of this report by the National Assembly, confirm that all Departments will in future ensure that sufficient, relevant and reliable supporting documentation is retained as evidence of the proper receipt of goods and services.

Example Three: Postal Services Division

2,000 parcel boxes were purchased for resale in May 2010. The cost of these was R195,000. By August 2010 only 7 of these boxes had been sold. The balance is being held as stock. Audit updated the situation to September 2011 where it was reported that 1,837 boxes remain in stock – the selling price of the boxes is 919 x R30 and 918 x R50.

Impact

This non-compliance with Financial Instructions include poor judgement and no business case has led to a significant loss of public funds and even in the best case scenario where all boxes are sold there will be a minimum loss of R110,000 of public funds. However, as it is unlikely that these boxes will be sold in any significant quantities then the loss to public funds is likely to be higher.

Responses from the Postal Services Division

'From the records, there was no assessment of whether this sale would be profitable'. 'The decision to proceed was at the initiative of the previous Director General and the other managers none of them were consulted'. 'It would be impossible to sell these parcel boxes because basically, nobody would, I mean who is going to buy a box for R125 to send a parcel? I mean it is, sorry I must say it is madness'. 'Yes that's true that the funds used for this purchase will be lost'. 'The Ministry of Finance have agreed to the write off'; 'well maybe R180,000 has been written off'. 'We accept that the requirements of the Public Procurement Act, 2008 had been ignored and we have no explanation for this'.

The Committee subsequently invited the ex-Director General of the Postal Services Division to shed more light on this matter. *He acknowledged that, 'this transaction could have been an error of omission from the Procurement Act, this I totally agree'.*

Committee Recommendations

The Government shall conduct an in-depth investigation into the transaction reported above to establish if any public officials are personally liable for the loss of public funds resulting from this transaction. The results of this investigation should be provided within 2-months of the approval of this report by the National Assembly.

Example Four: National Human Resources Development Council

All parents or guardians of Government sponsored students receiving training overseas are required to contribute to non-tuition expenses. This contribution is calculated using the household income of the parents or guardians. The total amount of this contribution should be paid before the student completes the course of study.

As at July 2009 NHRDC was owed R749,120 in respect of 78 students who had completed their studies.

Impact

This non-compliance with Financial Instructions include: a loss of public funds through write off; the system for ensuring the full collection of these monies is inadequate and needs to be revised; historically the payment system was operating on the basis of 'trust'; and depriving Government of this income reduces the funds available to Government to support others with overseas training.

Responses from the National Human Resources Development Council

'The only thing that we are capable of doing at NHRDC is to keep sending reminder letters to the parents, the guarantors.'

'This is a serious matter and we have sought the advice of the Office of the Attorney General but are still waiting for a response'.

Committee Recommendations

The Government shall propose a more robust scheme for ensuring that parental/guardian fully meet their obligations to contribute financially towards the cost of non-tuition costs. The response from the Government will be no later than two-months following the approval of this report by the National Assembly.

The Government will in future require all eligible parents and guardians to provide certified documentary evidence of their household incomes to determine the level of parent or guardian contribution to non-tuition costs. The response from the Government on this matter will be no later than three-months following the approval of this report by the National Assembly.

The Government shall, prior to any student embarking on publicly funded overseas training, require all parents or guardians to provide certified documentary evidence that they have set up a standing order with a bank to ensure the full repayment of the agreed contribution by the parent or guardian by the end of the period of study.

The Government will in the absence of certified evidence of household income and/or the setting up of a standing order withdraw the overseas study opportunity. The Government reactions to these last two recommendations shall be received within two-months of the National assembly approving this report.

iii) PUBLIC FINANCIAL MANAGEMENT COORDINATION**Finding Nine: Lack of Co-ordinated and Timely Responses to the Annual Reports of the Auditor General**

The MDAs had not responded in a timely manner to the Committee with regards to the findings of the Auditor General.

Impact

MDAs were not properly prepared to provide satisfactory and full explanations for the findings in the reports of the Auditor General. As a result, many issues remain partly resolved or unresolved. To obtain full value and impact from the Auditor General's Report it must be dealt with as soon as it is received. The longer the response time the likelihood increases that evidence will be lost, personnel are replaced and first-hand recollection diminishes.

Response from the Ministry of Finance

The Ministry of Finance had not led and co-ordinated Executive wide timely responses to the reports of the Auditor General.

Committee Recommendations

The Government will ensure that the Ministry of Finance issue instructions to all MDAs on the procedures and time lines for dealing with the annual report of the Auditor General. These instructions should include for example: advice on the formation of an MDA task force to prepare a response to the Auditor General's findings; advice on how the MDA task force should prepare in advance for the Hearings of this Committee; and advise on the role of the task force in reporting to the MDA the progress in implementing the remedial actions required to ensure that the findings in the Auditor General's Report are not repeated. The Government shall provide a response on this matter no later than one-month after the approval of this report by the National Assembly.

iv) PROCUREMENT**Finding Ten: Potential Loss of Public Money from non-compliance with the Public Procurement Act, 2008****Example One: Ministry of Finance**

The Ministry of Finance did not comply with the requirements of the Public Procurement Act, 2008 for the purchase of office chairs costing R103,250; 20 filing cabinets costing R78,000; and a second hand 12-seater bus costing R567,000.

Impact

The potential impact of non-compliance with the Public Procurement Act, 2008 is that value for money may not have been obtained for these procurements due to the absence of competitive tendering.

Responses from the Ministry of Finance

'Well at the time whoever, perhaps the PS made the judgement call saying he perceives the matter to be of urgency to get furniture for this new unit'.

'We know that this was a clear violation of the Act, but in this one I can assure you that it was a matter of urgency'.

Committee Recommendations

The Government shall within one-month of the National Assembly approval of this report provide assurances that unless dictated by emergency circumstances all future public procurements will be in full compliance with the legal requirements.

Example Two: Ministry of Education

The Ministry purchased 3 Suzuki AP 8-seater vans from a supplier 'A' costing R353,019 each – total cost R1,059,057 – without the required approval of the Procurement Committee.

The supporting payment for this procurement was based on a pro-forma invoice and payment of R1,059,057 was made to supplier 'A' for the three vehicles on 30th December 2009.

A second quotation from supplier 'B' for the supply of Hyundai mini-buses at a unit cost of R275,088 was seen by audit. The rationale for the decision to purchase the more expensive vehicles was not recorded.

The Ministry said that these vehicles were to be used by the School Meal Centres in Mahe, Pralin and Head Office. The more expensive vehicles were purchased because at times only the front seats were needed and the back seats could be removed easier from the Suzuki than the Hyundai vehicles.

No explanation was given to the questions if a flat panel vehicle was needed why were these not purchased?

The Auditor saw a quote from supplier 'A' for a flat panel Suzuki APV at a unit cost of R242,303 being R110,716 per unit less than the vehicles purchased.

After delivery of these three-vehicles the Ministry was due a credit of R41,614 from supplier 'A' – this was not refunded to the Ministry by the supplier.

Impact

This non-compliance with the law includes: value for money may not have been obtained; accepting the Suzuki option from supplier 'B' could have potentially saved significant public funds; full payment in advance was in breach of Financial Instructions and could have led to problems of funds recovery if the supplier defaulted on delivery; and unless the amount of R41,614 is returned by the supplier to the Ministry then this will represent a loss of public funds.

Responses from the Ministry of Education

'At that time of this transaction the Procurement Act was just introduced. And we were having problems to abide by all demands of the Act'. 'It was towards the end of the year and we were in the process of closing down the accounts, and since we had the funds, we said why not rather than surrendering the funds why don't we use these funds to procure some transport as the Ministry needs transport'. 'Well we knew it was against the law yes'. 'We applied to the Procurement Oversight Unit for retrospective approval and that was granted in May 2010'.

Committee Recommendations

This Committee repeats its recommendation for Finding 10 Example One.

The Government will conduct a thorough investigation into the financial implications of this finding and report back within two-months of the approval of this report by the National Assembly.

Example Three: Ministry of Education

The Ministry paid GBP 64,160 to an overseas publisher for text books 'History of Modern Seychelles'. The books were received by the Ministry in May 2009 and the Development Fund charged with the amount of R1,482,476 (the Seychelles Rupee equivalent of GBP). The requirements of the law were ignored and no evidence could be found why this contract had been awarded.

8,020 of these books were ordered and received in May 2009. 10-months later only 382 of these books had been either sold or used internally by the Ministry of Education. The balance of these books is still being held as stock by the Ministry.

Impact

This non-compliance with the Public Procurement Act, 2008 includes: value for money may not have been obtained; the suitability of this publication in the Seychelles education curriculum does not appear to have been assessed; no transparency in the selection and award of the contract to this publisher; the value of the remaining stock of books almost certainly a loss of public funds as it appears that this book will not be used in the Seychelles education system in the foreseeable future; full payment in advance was in breach of Financial Instructions and could have led to problems of funds recovery if the supplier defaulted on delivery; and these books will continue to

deteriorate in condition over time and in this event will ultimately have to be written off.

Responses from the Ministry of Education

'I may be wrong, but until the books were seen and went through we discovered that maybe some facts needed to be rectified'; 'I don't know whether somebody looked at the content before they finalised printing'. 'We saw that there were certain facts that needed to be corrected before we actually gave the books out to the schools'. 'They are only reference books, resources that teachers could use alongside their programmes'. 'So we need to have at least a stock centrally in any case if tsunami or whatever happens at the school we know that we have a stock there at our disposal'.

Committee Recommendations

This Committee repeats its recommendation for Finding 10 Example One.

The Government will conduct a thorough investigation into the financial implications of this finding and report back within two-months of this reports approval by the National Assembly. This report by the Government shall include the Government's assessment of whether any public employee has incurred a personal liability as a result of this procurement.

Example Four: Department of Police

The Department of Police spent R1.2 m on vehicle hire from private companies. No competitive tendering and or formal contracts were established with the companies as required by the Public Procurement Act, 2008.

Impact

This non-compliance with the law includes: value for money may not have been obtained; the absence of formal contracts that establishes the rights and obligations of both parties presents the risk that public funds will be expended in excess of what would be reasonably be anticipated.

Responses from the Department of Police

'We have 35 hired vehicles and often we do not have contracts with the 9 companies we deal with'. 'So far in 2012 we've spent R4.9 million on car hire, from January to now'. 'We plan to deal with this issue by ensuring that each and every year we have an amount in the budget approved by the Assembly so that we can purchase new vehicles'.

Committee Recommendations

This Committee repeats its recommendation for Finding 10 Example One.

The Government will provide its strategy for reducing the excessive amount of public funds being expended by the Police Department on vehicle hire. This strategy will be provided within two-months of the approval of this report by the National Assembly.

Example Five: Judiciary

The Judiciary meets the costs of international calls made by Judges up to a maximum of R300 per month. In 2008 the costs of international calls by one Judge totalled exceeded the annual limit by R15,755.34. The Judiciary paid in full for the excess balance has not been repaid by the Judge some 32 months from the start of 2008. The Judiciary have issued reminders to the Judge to settle this debt but that these have been ignored.

Impact

This finding has the following impacts: a loss of R15,755.34 public money; potential breach of contractual obligation by the Judge; and an absence of effective recovery processes by the Judiciary.

Responses from the Judiciary

'The Chief Justice advised them to recover the money from that Judge'. 'They will speak to that particular Judge first and see what he says about this'. 'They intend to deduct this amount from his end of year contract'. However, it was pointed out by the Committee 'that as a Constitutional appointee, the Judge will have to grant them permission to deduct this amount from his end of year gratuity payment, an agreement which they do not have yet'. 'We have not taken action for nearly 3 years as this is beyond my responsibility'.

Committee Recommendations

This Committee repeats its recommendation for Finding 10 Example One.

The Government will, within one-month of the National Assembly's approval of this report, provide evidence that this debt has now been cleared in full.

Example Six: Ministry of Health

The Ministry procured 98 Air Conditioning units at a total cost of R692,583 from two suppliers. This procurement was in breach of the Public Procurement Act, 2009. In addition the purchase of these AC units was not based on a planned replacement programme.

Impact

This non-compliance with the law includes: value for money may not have been obtained for the purchase of these items; and the rationale behind and need for this procurement is unclear.

Responses from the Ministry of Health

'The Ministry through oversight did not request additional quotations as required in the Public Procurement Act'. 'However, as from the year 2011, all purchases that need to be approved by the Procurement Unit of the Ministry will be'. 'We will honestly tell you we don't know why there was no replacement plan. We would have assumed there would have been one. However there is a replacement plan today'. 'Yes, they know that they have to comply with the Public Procurement Law, 2008'.

Committee Recommendations

This Committee repeats its recommendation for Finding 10 Example One.

The Government will conduct an investigation into the financial implications of this finding and report back within two-months of this reports approval by the National Assembly. This report by the Government will include an assessment of whether any public employee has incurred a personal liability as a result of this procurement.

Example Seven: Judiciary

Four vehicles at a total cost of R954,400 were purchased in non-compliance with the Public Procurement Act, 2008.

Impact

This finding has the following impacts: value for money may not have been obtained for the purchase of these items and as a result, public funds may have been lost through paying more than it should have.

Responses from the Judiciary

'These purchases were done in urgency and the agent was requesting the money up front to secure the vehicles'. 'This purchase was approved by the ex-Registrar and when he was asked whether he followed all the required formalities he said, what formalities?'

Committee Recommendations

This Committee repeats its recommendation for Finding 10 Example One.

The Government shall conduct an investigation into the financial implications of this finding and report back within two-months of this reports approval by the National Assembly. This report by the Government will include an assessment of whether any public employee has incurred a personal liability as a result of this procurement.

v) THE ANNUAL ACCOUNTS**Finding Eleven: The Qualification of the 2009 and 2010 Annual Accounts of the Government by the Auditor General**

What follows are examples of issues that were raised by the Committee with the Ministry of Finance in the Hearings on the 2009 and 2010 Auditor General's Report.

Example One: Statement of Revenue Arrears

The Auditor General reported that the Ministry of Finance had not yet produced an annual statement of revenue arrears.

Impact

The impact of not implementing the Auditor General's recommendation, to prepare an annual statement of revenue arrears was: impeding the completeness of the disclosure of revenue; impeding the facilitation of improved budget preparation; and making it more difficult to initiate appropriate recovery action.

Responses from the Ministry of Finance

'With the current system it is not possible to draw up a statement of comprehensive revenue arrears'. 'We are going to activate a module so that from 2013 onwards we can provide a statement of arrears'. 'This module has always been available but it needs to be reactivated. It has always been there but we are not using it for about 10-years'.

Committee Recommendations

The Government will provide written evidence that the Debtors Accounting Module is in fact operational from the start of financial year 2013.

Example Two: Centralised Payments

R25 million had been paid directly by the Government to the Public Utilities Company (PUC) in respect of Indian Ocean Tuna Company Ltd (IOT), arrears being settled by the Government.

Impact

Dealing with transactions like that above using the head 'provision for arrears' in general defeats the purpose of budgetary controls and transparency in the spending of budget funds. The result of this is that there is non-disclosure of the full extent of financial support provided by the Government.

Responses from the Ministry of Finance

'Well the IOT and Government at the time had an agreement and part of the agreement, it was stipulated within that agreement that electricity cost will be heavily subsidised by

Government'. 'Yes we can go into the past and say that we struck a bad deal, but anyway it was a bad deal but Government has to honour its obligations'. 'IOT is currently paying its own electricity but in the past IOT had this argument which today we know is totally flawed whereby they said that if Government does not assist me in paying my electricity I think I will have to close. But they are still trading today'. 'R25 million was paid to PUC by the Ministry of Finance on behalf of IOT as it was part of the arrangement with the Government'.

Committee Recommendations

The Government shall investigate this use of public funds and report back no later than three-months after the approval of this report by the National Assembly.

Example Three: Statutory Bodies

The Seychelles Tourism Board (STB) had not submitted accounts for audit for the years 2007, 2008, and 2009.

Impact

The STB is almost entirely dependent on public funds to support its existence. In the absence of audited financial statements it is impossible for assess in a transparent manner how it is spending and accounting for these public funds.

Responses from the Ministry of Finance

'I think that STB had a problem with the accounting personnel. They appointed someone, they left and they then appointed another one. That was the issue I think, because they did not have a person in-post to do the accounts'. 'The Ministry has provided assistance to the STB to prepare their accounts'. 'No it is not acceptable for STB not produce audited annual accounts, no'.

Committee Recommendations

The Government will provide an update on the current status of the audited financial statements of STB within one-month of this report's approval by the National Assembly.

Example Four: Suspense Accounts: Specialised Treatment Fund

The Ministry of Finance through the Treasury maintains a number of suspense accounts. An accumulated balance of R69 million remained in a Suspense Account as un-cleared debt to Government in relation to the Specialised Treatment Fund (STF).

Impact

The use of suspense accounts can distort the presentation of the financial statements of the Government and where possible their use should be discouraged.

Responses from the Ministry of Finance

'The STF is an old Suspense Account. It was paid with the aim of the Ministry of Health refunding it later. MoH was supposed to refund but even after many reminders it was never refunded'. 'The amount in the account is R69 million and it goes back to 2001 I think'. 'The amount (R69m) was written off'. The Auditor General added that 'if there's a possibility that the amount can be recovered then yes it can be re-stated in the account but the probability of recovery is low'.

Committee Recommendations

The Government will confirm, within one-month of this reports approval by the National Assembly that this debtor balance of R69 million has been written off as a charge against public funds.

The Government shall develop its strategy to eliminate the use of suspense accounts. This strategy will be provided no later than two-months following the approval of this report by the National Assembly.

Example Five: Advances: SMB

Parastatal advance balances at the beginning of 2008 included advances to SMB, expected to be recovered on finalisation of the liquidation, totalling R33.4 million.

Impact

There is a risk that the funds from the liquidation will be insufficient for SMB to clear its total debt to Government.

Responses from the Ministry of Finance

'These advances were given to facilitate the privatisation of SMB'. 'No, this has not been written off yet as we are supposed to recover this from the liquidation but so far it is still in our books'. 'There's a lot of it which is irrecoverable and we will not be able to recover the money'.

Committee Recommendations

The Government shall provide an explanation why this liquidation that started in 2007 has not been completed.

The Government will provide explanations why as required by law, annual reports have not been provided by the liquidator.

The Government will provide these explanations within one-month of the approval of this report by the National Assembly.

Example Six: General Advances from the Consolidated Fund

Despite their being no provision in the Public Finances Act, 1996 for making advances out of the Consolidated Fund that this was in fact taking place for both General and Parastatal advances.

Impact

Advances from the Consolidated Fund are prohibited by the Public Finances Act, 1996 and thus any transactions of this nature have both legal and financial statement presentation implications.

Responses from the Ministry of Finance

'So you're saying that in principle the Ministry of Finance cannot make an advance?' 'There's no provision? But way back we have been giving advances'. 'We agree that this is a serious matter however we have to make certain advances or else it would be very difficult you see. The Ministry of Finance would not be able to operate if it cannot make any advances because someone might be going down let's say, I don't know, let's say there is a problem at PUC, Ministry of Finance needs to intervene. And if you don't have that mechanism to give say PUC an advance, there's serious repercussions'.

Committee Recommendations

The Government will provide its reasons for using the Consolidated Funds for both General and Parastatal Advances contrary to the provisions of the Public Finances Act, 1996. The Government will give its response within one-month of this reports approval by the National Assembly.

Example Seven: Parastatal Advances from the Consolidated Fund

Despite their being no provision in the Public Finances Act, 1996 for making advances out of the Consolidated Fund that this was in fact taking place for both General and Parastatal advances.

Impact

Advances from the Consolidated Fund are prohibited by the Public Finances Act, 1996 and thus any transactions of this nature have both legal and financial statement presentation implications.

Responses from the Ministry of Finance

'I think that you know that these R30 million debts of Air Seychelles do not exist. And when we had this joint venture with Etihad, Etihad would not, well not any partner in the world. When I'm coming to join you I'm going to take your liability. There has to be a cut-off point'. 'R30m has been written-off by the Government in terms of settling all liabilities because this was part of the agreement'. 'STC has agreed that in 2013 to 2015 they would refund R15 million every year to clear the balance of R45 million outstanding

from STC'. 'We haven't done a written agreement for this yet, but we've discussed with the Chairman so far either through a call or e-mails'.

Committee Recommendations

The Government will provide its reasons for using the Consolidated Funds for both General and Parastatal Advances contrary to the provisions of the Public Finances Act, 1996. The Government will give its response within one-month of this reports approval by the National Assembly.

Within one-month of the approval of this report by the National Assembly, the Government will provide proof of a legal contract committing the STC to repay debt of R15 million per annum for the years 2013-2015 inclusive.

Example Eight: Adjusted Surplus

The General Revenue Balance (GRB) had been debited with R6 million in respect of an investment with a local bank. The bank explained that this amount was refunded to the SPDF in 2002 and therefore the investment no longer existed. Following an unsuccessful approach to the SPDF for re-imburement, this has been fully written-off.

Impact

The impact of this finding is that the SPDF received additional funds outside the Consolidated Funds. As a result the expenditure of the SPDF would be understated in the year this happened (2002) by R6 million. In effect the SPDF had an additional R6 million recurrent budget in 2002 that was not accounted for.

Responses from the Ministry of Finance

'We wrote to the bank and all this time we were looking, we were searching for this money. The bank said it was not with them and the bank further said that in 2002 the SPDF wrote to them and asked them to credit their account. The bank mistook the agreement. We don't know who made the agreement at finance at that time. The bank wrongly thought that the deposit was made by the SPDF so they transferred the amount to the SPDF account at the same bank'. 'It was deposited by finance for a line of credit or something'. 'It was given by the bank to the SPDF and the SPDF say they don't have any money to refund the Government'. 'The SPDF acknowledged that they received the money but they say they cannot refund Government it has to come from the budget. So basically the SPDF has used that money and unless we take R6 million from the SPDF when we agree the budget allocation this is the only way to make things equal'. 'We don't know how it was spent as we don't see the SPDF accounts'. 'We wrote this off in 2009 although it had been on our books since 2002'. 'We have been checking for that R6 million all the time, someone had the answer and they didn't want to give any information. I'm not going to mention names but it was only in 2009 that we managed to get some information and when we did we wrote to the bank but by then it was too late as the money was gone'.

Committee Recommendations

The Government will set out its legal options for recovering this R6 million from the bank in question as the bank clearly made an unauthorised transfer between bank accounts.

The Government shall provide the evidence of who actually authorised the transfer of R6 million from the account.

The Ministry of Finance should ensure that there is closer monitoring of all transactions involving bank transfers by MDAs.

The Government will report back on these matters within one-month of this report being approved by the National Assembly.

5. CONSTRAINTS ON COMMITTEE ACTIVITIES

The Committee is constrained by a number of factors which impedes its performance. One of the problems the Committee encountered during the Hearing process was the availability of some MDA Accounting Officers. Some MDAs did appear before the Committee but without their Accounting Officer and thus could not provide comprehensive responses to the queries raised by the Members. This resulted in a lack of information available to the Committee.

There is also a lack of resources available to the Committee in terms of support staff and expert advice. These issues limit the ability of the Committee to produce high-quality reports on a timely basis.

To overcome these constraints the Committee would recommend additional training for Members and the resources to develop the Committee and its Secretariat including additional expert Consultancy to further develop capacity.

The FPAC has already begun to demonstrate its importance as a scrutiny and oversight mechanism and it should be provided with the full-time support it needs to function effectively.

6.ANNEXES**Annex I****MDAs and witnesses examined by the Committee**

NO.	NAME OF MINISTRY/ DEPARTMENT/ AGENCY	WITNESSES	DATE AND TIME SUMMONED
1	Ministry of Education	Mrs. Merida Delcy- <i>Principal Secretary</i> Mrs. Alice Labonte- <i>Director for Finance and Human Resources</i> Mrs. Melinda Malbrook- <i>Financial Controller</i>	Monday 20 th August, 2012 1300 hours
2	Ministry of Health	Ms. Veronique Laporte- <i>Principal Secretary</i> Mr. Tony Maria- <i>Senior Project Officer</i> Ms. Nadia Leon- <i>Asset Manager</i>	Monday 20 th August, 2012 1400 hours
3	Ministry of National Development	Mr. Yves Choppy- <i>Ag. Principal Secretary</i> Mr. Anderson Nourrice- <i>Accountant</i> Mr. Maxwell Desaubin- <i>Transport Manager</i>	Monday 20 th August, 2012 1500 hours
4	Ministry of Natural Resources and Industry	Mr. Michel Nalletamby- <i>Principal Secretary</i> Mr. Damien Thesee- <i>Director for Budget Management at Ministry of Finance</i>	Tuesday 21 st August, 2012 0900 hours
5	Department of Police	Mr. Godfra Hermitte- <i>Chief Superintendent</i> Mrs. Marsha Loizeau- <i>Principal Accountant</i>	Tuesday 21 st August, 2012 1300 hours
6	Department of Prisons	Mr. Maxim Tirant- <i>Superintendent of Prisons</i>	Tuesday 21 st August 1500 hours

7	Department of Transport	Mr. Terence Mondon- <i>Principal Secretary</i> Mrs. Linda Monthy- <i>Principal Accountant</i> Mr. Parida Herath- <i>Ag. Chief Executive Officer of Seychelles Land Transport Agency</i>	Wednesday 22 nd August, 2012 0930 hours
8	Immigration Division	Mr. Charles Bastienne- <i>Principal Secretary</i> Mrs. Florianne Vidot- <i>Director of Administration and Finance</i>	Wednesday 22 nd August, 2012 1045 hours
9	Department of Community Development	Mr. Denis Rose- <i>Principal Secretary</i> Mr. Marcus William- <i>Accountant</i> Ms. Cecile De Commarmond- <i>Director of Administration and Finance</i>	Wednesday 22 nd August, 2012 1300 hours
10	Postal Services	Errol Dias- <i>Chief Executive Officer of Postal Services Division</i>	Wednesday 22 nd August, 2012 1330 hours
11	Seychelles National Youth Council	Mrs. Vicky Van Der Westhuizen- <i>Chief Executive Officer</i> Mr. Don Julie- <i>Assistant Accountant</i>	Wednesday 22 nd August, 2012 1400 hours
12	Seychelles Bureau of Standards	Mrs. Shreekla Nair- <i>Manager of Biochemical Testing Services</i> Mr. Andy Ally- <i>Manager for Standardization and Information Services</i> Mrs. Zitanne Joubert- <i>Accounts Supervisor</i>	Thursday 23 rd August, 2012 0900 hours
13	Seychelles Revenue Commission	Ms. Jennifer Morel- <i>Revenue Commissioner</i> Mrs. Marie-France Fanchette- <i>Assistant Commissioner</i> Ms. Magda Cecile- <i>Director for Enforcement</i> Ms. Lisa Woodcock- <i>Director for Domestic Tax</i>	Thursday 23 rd August, 2012 1045 hours

14	Seychelles International Business Authority	Ms. Wendy Pierre- <i>Chief Executive Officer</i> Mrs Elisabeth Bodwell- <i>Finance Manager</i>	Thursday 23 rd August, 2012 1300 hours
15	SENPA	Ms. Penny Belmont- <i>Chief Executive Officer</i> Ms. Cecile Hoareau- <i>Assistant Accountant</i>	Thursday 23 rd August, 2012 1345 hours
16	Seychelles Heritage Foundation	Mr. Patrick Nanty- <i>Chief Executive Officer</i> Mr. Michel Brutus- <i>Accountant</i>	Thursday 23 rd August, 2012 1500 hours
17	National Human Resources Development Council	Mrs. Margaret Pillay- <i>Chief Executive Officer</i> Mrs. Doreen Gertrude- <i>Finance and Administration Manager</i>	Friday 24 th August, 2012 0900 hours
18	Judiciary	Mrs. Janine Lepathy- <i>Ag. Registrar</i> Mr. Wilson Belmont- <i>Director for Administration and Finance</i> Mr. Joudan Cassime- <i>Assistant Accountant</i>	Friday 24 th August, 2012 1045 hours
19	STB	Mr. Jean-Francois Adeline- <i>Financial Controller</i>	Friday 24 th August, 2012 1300 hours
20	Department of Defence	Brigadier Leopold Payet- <i>Chief of Defence Forces</i>	Monday 27 th August, 2012 0900 hours
21	Postal Regulatory Agency	Mr. Thomas Nolin- <i>Chief Executive Officer of Postal Regulatory Agency</i>	Monday 27 th August, 2012 1045 hours
21	Ministry of Finance	Mr. Steve Fanny- <i>Principal Secretary</i> Ms. Sitna Cesar- <i>Comptroller General</i> Mrs. Gretel Quatre- <i>Chief Accountant</i> Ms. Rosanda Alcindor- <i>Chief Executive Officer of Small Business</i>	Monday 27 th August, 2012 1300 hours

		<i>Financing Agency (previously CCA)</i>	
22	Department of Defence	Brigadier Leopold Payet- <i>Chief of Defence Forces</i> Mr. Paul Dupres- <i>Senior Accountant</i> Mr. Sajay Kumar- <i>Financial Controller</i>	Thursday 6 th September, 2012 1000hrs

Annex II

MDAs requested to provide written explanations

1. Department of Information, Communications and Technology
2. Department of Legal Affairs
3. Health Professional Council
4. Ministry of Environment
5. National Assembly of Seychelles
6. National Council for Disabled Persons
7. National Human Rights Commission
8. Office of the President
9. Public Officer's Ethics Commission
10. Registration Division
11. Seychelles Fire and Rescue Services Agency

Annex III**Roles and Responsibilities of Accounting Officers****i. Public Finance Act, 1996****ii. Ministry of Finance Financial Instructions 1997: Chapter 2**

It is the responsibility of Accounting Officers of Ministries/Departments and the Chief Accountant in so far as the following are applicable to their particular duties:

- i) To ensure that a proper system of accounting as prescribed by or under the Ministry responsible for Finance is established and maintained.
- ii) To ensure the safe keeping of public moneys, stores, fixed assets, books of account, registers, accounting forms, securities and other financial records.
- iii) To supervise the receipt of public revenue and to secure its prompt collection.
- iv) To bring to account promptly under the proper Heads and Subheads all moneys received by him.
- v) To report and promptly bring to account as revenue any unexplained surplus of cash, stores and fixed assets.
- vi) To regularly check all cash, stores, fixed assets in his charge and to reconcile the amounts with the balances shown in the cash book or cash analysis, stores register and appropriate fixed assets register respectively.
- vii) To ensure that no payment is made which is not covered by proper authority.
- viii) To charge promptly in his accounts under the proper Heads and Subheads of expenditure, all disbursements of public funds.
- ix) To ensure that all records are correctly posted and kept up to date.
- x) To report and to make good all deficiencies in cash, stores and fixed assets for which he is responsible and such losses be promptly brought to account.
- xi) To exercise strict supervision over all officers under his authority entrusted with the receipt and expenditure of public moneys and with financial and accounting responsibilities. Precautions should also be taken by the maintenance of sufficient checks against the occurrence of fraud, embezzlement or carelessness.
- xii) To produce when required by the Principal Secretary responsible for Finance or by the Auditor General all records, cash, stores or fixed assets in his charge.
- xiii) To promptly prepare such financial returns and statements as are required by Financial Instructions, any law or departmental circular.

- xiv) To see that the maximum cash balance authorised to be held at any time is not exceeded.
- xv) To report to the Principal Secretary responsible for Finance any apparent defect or difficulty in the procedure for revenue collection or any apparent waste or extravagance in expenditure which may come to his notice during the course of his duties.
- xvi) To reply promptly to any query addressed to him by the Principal Secretary responsible for Finance, the Chief Internal Auditor or the Auditor General, giving complete information or particulars required.
- xvii) To prepare Draft Estimates for the Ministry/Department and to control the requirements for virement and supplementary provision.
- xviii) To ensure that the operation of the Ministry/Department are not at variance with the financial policies of the Government.
- xix) To carry out other such financial and accounting responsibilities as may be necessary.
- xx) To bring to the notice of the Principal Secretary responsible for Finance, any apparent deficiency in these or other instructions or any means by which it appears that the financial and accounting procedures might be improved.
- xxi) To adhere to the guidelines laid down viz a viz the authorised agents. (Authorised agent is the authority, designated by the Principal Secretary responsible for Finance, which is entrusted with the receipt, custody and disbursement of public moneys and other assets, on behalf of the Government).

iii. Ministry of Finance Accounting Manual 1997: Chapter 2

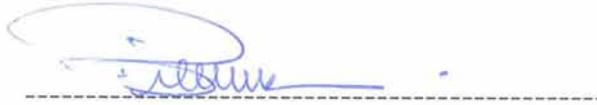
- (a) The most important responsibilities of Accounting Officers are as follows:
 - i) Maintaining all the required Books of Account and Registers, ensuring correct usage of all the required Accounting Forms, and preparation of financial returns and statements.
 - ii) Exercising strict supervision over officers under his authority entrusted with public moneys and taking necessary precautions by the maintenance of sufficient checks against the occurrence of fraud, embezzlement or carelessness.
 - iii) Regularly checking all cash, stores and fixed assets in his charge, maintaining the evidence of such checks and reconciling the balances recorded in the books and registers.

- iv) Reporting immediately to the Principal Secretary responsible for Finance and to the Auditor General any irregularity connected with the public accounts that may come to his notice.
- v) Providing proper facilities to enable the Auditor General and the Chief Internal Auditor to carry out their audit inspection in accordance with the provisions of the law.
- b) If at any time the public revenue and/or funds, stores or fixed assets sustains a loss by reason of neglect or fault of any officer, he will be liable to be surcharged with such amount and any sum due to him from Government may be withheld in satisfaction of such surcharge.
- c) Delegation of duties in no way absolves an officer from personal responsibility for ensuring that there is proper financial accounting and control.

Membership of the 5th Assembly

Hon. David Pierre

Chairperson

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Hon. Charles De Commarmond

Vice-Chairperson

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Hon. Lenny Lebon

Member

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Hon. Nichole Barbe

Member

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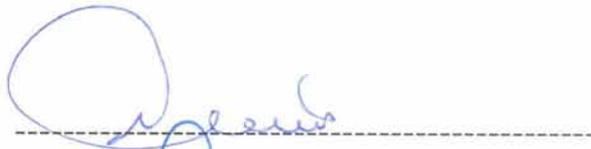
Hon. Sebastien Pillay

Member

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Hon. Marc Volcere

Member

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Hon. Jeniffer Vel

Member

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