COMMONWEALTH OF DOMINICA FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
Unit of currency = Eastern Caribbean dollar (ECS)

EXCHANGE RATE
US$ 1 = ECS2.70

<table>
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<tr>
<th>World Bank</th>
<th>Vice President</th>
<th>Country Director</th>
<th>Sector Manager</th>
<th>Task Manager</th>
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<tr>
<td></td>
<td>David de Ferranti</td>
<td>Caroline Anstey</td>
<td>Roberto Tarallo</td>
<td>Patricia Hoyes</td>
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<td>ABBREVIATION</td>
<td>NAME</td>
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<tr>
<td>AG</td>
<td>Accountant General</td>
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<tr>
<td>CARICOM</td>
<td>Caribbean Community and Common Market</td>
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<td>CARTAC</td>
<td>Caribbean Regional Technical Assistance Centre</td>
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<td>CDB</td>
<td>Caribbean Development Bank</td>
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<td>CF</td>
<td>Consolidated Fund</td>
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<tr>
<td>CFAAA</td>
<td>Country Financial Accountability Assessment</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CPAR</td>
<td>Country Procurement Assessment Report (World Bank)</td>
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<tr>
<td>CS-DRMS</td>
<td>Commonwealth Secretariat - Debt Recording and Management System</td>
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<tr>
<td>DFID</td>
<td>Department for International Development (U.K.)</td>
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<tr>
<td>DOA</td>
<td>Director of Audit</td>
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<tr>
<td>ECCB</td>
<td>Eastern Caribbean Central Bank</td>
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<td>ECEMP</td>
<td>Eastern Caribbean Economic Management Program</td>
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<td>ESW</td>
<td>Economic Sector Work</td>
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<tr>
<td>FAA</td>
<td>Financial (Administration) Act</td>
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<td>FIR</td>
<td>Fiscal Issues Review (World Bank)</td>
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<td>FM</td>
<td>Financial Management</td>
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<td>FS</td>
<td>Financial Secretary</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<tr>
<td>ICAEC</td>
<td>Institute of Chartered Accountants of the Eastern Caribbean</td>
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<tr>
<td>IFAC/PSC</td>
<td>International Federation of Accountants/Public Sector Committee</td>
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<td>INTOSAI</td>
<td>International Organization of Supreme Audit Institutions</td>
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<td>JOCR</td>
<td>Institutional and Organizational Capacity Review</td>
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<td>IT</td>
<td>Information Technology</td>
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<td>IRD</td>
<td>Inland Revenue Department</td>
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<td>LCOAA</td>
<td>Latin America and Caribbean Office of Audit and Accountability (World Bank)</td>
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<td>MOF</td>
<td>Ministry of Finance</td>
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<td>OECS</td>
<td>Organization of Eastern Caribbean States</td>
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<td>PAC</td>
<td>Public Accounts Committee</td>
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<tr>
<td>PEMIS</td>
<td>Public Expenditure Management System</td>
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<td>PSC</td>
<td>Public Service Commission</td>
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<td>PSIU</td>
<td>Public Sector Investment Unit</td>
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<td>SAI</td>
<td>Supreme Audit Institution</td>
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<tr>
<td>SIGFIS</td>
<td>Standardized Integrated Government Financial Information</td>
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<td>SIGTAS</td>
<td>Standardized Integrated Government Tax Administration System</td>
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<tr>
<td>SOE</td>
<td>State-owned Enterprise</td>
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ACKNOWLEDGEMENTS

The Country Financial Accountability Assessment (CFAA) for the Commonwealth of Dominica was undertaken by the World Bank’s Latin America and Caribbean Region Office of Audit and Accountability (LCOAA), with substantial contribution from consultants and in close collaboration with the World Bank’s OECS Fiscal Issues team and the Dominica country team. The CFAA report was prepared by Patricia Hoyes (LCOAA Financial Management Specialist and Task Team Leader for the CFAA) and Luc Ladouceur (Consultant) in accordance with the draft guidelines issued by the World Bank’s Financial Management Sector Board in September 2002 and the Initiating Concept Memorandum issued November 1, 2002, and approved by World Bank Country Director, Orsalia Kalantzopoulos.

The CFAA team would like to thank the Director General of the Ministry of Finance and Planning of the Commonwealth of Dominica, Mr. Swinburne Lestrade, and the Financial Secretary, Mr. Ambrose Sylvester, for their collaboration and support of this exercise. The team also thanks all of the staff from the line ministries who participated in our meetings and provided input for this report, and acknowledges the extensive cooperation and assistance received from the officials and staff of the ministries and agencies and other institutions interviewed. The contributions of the government were sought from the beginning and their feedback forms an integral part of this report.

The CFAA team also appreciates the extensive collaboration provided by the members of the Dominica country team, Antonella Bassani (LCC3C Lead Economist and PREM Sector Leader) and Camille Nuamah (Senior Country Economist for the OECS) in charge of the preparation of the proposed Economic Recovery Support Operation (ERSO) for Dominica, and the members of the OECS Fiscal Issues team, Claudia Sepulveda (Senior Fiscal Economist) and Ted Paterson (Consultant).

Peer reviewers were Camille Nuamah, Claudia Sepulveda, and Nicola Smithers (Advisor from the Public Expenditure and Financial Accountability Secretariat).

Technical guidance and advice on the preparation and content of this report were provided by Jamil Sopher (LCOAA CFAA Advisor) and Daniel Boyce (LCOAA Senior Financial Management Specialist). Both are task managers of completed CFAA reports in the region.

Suzanne Snell (Consultant) and Joost Polak (Consultant) provided advice on presentation and assisted in the editing and formatting of the final report. Gilma Unda (LCOAA Senior Program Assistant) and Gabriela Limberger (LCOAA Team Assistant) provided administrative management and support.

The main fieldwork was conducted from November 12 to 20, 2002 in conjunction with a mission lead by the country team. The findings of the CFAA were presented and discussed with the government of Dominica in Roseau on August 11th and 12th, 2003.
EXECUTIVE SUMMARY

The following observations and findings summarize the results of the Dominica Country Financial Accountability Assessment prepared by the World Bank.

General Observations and Findings

The most immediate challenge affecting Dominica’s economic development is to improve controls over spending and to halt and reverse the accumulation of domestic arrears. With the International Monetary Fund (IMF) Standby Arrangement in place, the rules governing financial management take center stage because they are the key to ensuring that government spending remains within the fiscal constraints currently facing the economy. As such, the government should seek to address the following weaknesses in their financial management arrangements:

- The legal and regulatory framework need updating to provide guidelines relevant to the current financial management procedures and automated systems in place and to strengthen the internal control framework to support fiscal discipline and expenditure management. This would include expanding the Financial (Administration) Act (FAA) coverage from simply defining norms to also defining appropriate accountability arrangements and, the proper and timely dissemination of information. Other regulations and laws applicable to public financial management should be updated and consolidated with the FAA to provide a single comprehensive public financial legislation framework. The government has expressed its commitment to update its legislation but progress thus far has been slow.

- The budget planning process appears established and the budget is made readily available via telecasting of the budget address and the printing of the estimates. However, the budget execution process does not have effective procedures and controls to manage spending or ensure efficient use of public resources. This reduces the budget’s effectiveness as an expenditure management tool and undermines its accountability function.

- Budget execution and monitoring are neither comprehensive nor effective. Budget analysts must gather data from several sources to get a reasonably comprehensive picture of total government expenditures during the fiscal year making it difficult to reconcile the fiscal strategy, dictated by the Cabinet and Parliament, with Dominica’s public expenditure program. As a result, expenditure management problems are compounded, increasing the likelihood that decisions will be made in isolation from the actual fiscal situation.

- The government has recently made an effort to improve its cash management capacity by establishing a Cash Management Unit in the Ministry of Finance. This unit uses a system of spreadsheets populated by data submitted from spending ministries. Unfortunately the data sent by line ministries is not always timely or complete. As a result, even though the spreadsheet system provides adequate capacity for cash management, the government has not been able to realize its full benefit.
While external debt is managed with reasonable care, domestic debt appears subject to less prudence, resulting in high interest costs that have, in part, contributed to the current fiscal crisis. Furthermore the debt system (CS-DRMS) functions in isolation from other public financial management systems causing it to have incomplete data and underutilized capacity.

Annual financial statements are commendably up to date, however, they have omissions of material amounts, such as current external debt, which is a divergence from international accounting standards and can be considered a material misstatement. Furthermore, even though the government has implemented a Standardized Integrated Government Financial Information System (SIGFIS) that has good accounting and reporting capabilities, the system is only operational in four ministries, and the reporting capabilities have not been customized. Therefore the annual financial statements, although prepared on time, do not necessarily present the information in a useful manner or reflect a consolidated and accurate picture of the financial position of the country.

Dominica has in place several automated systems but they function either in isolation or with only partial information. The staff in charge of using the systems often lack sufficient understanding of the system features, or simply do not have access to system portals. The staff in charge of maintaining the system databases lack sufficient technical capacity and resources to carry out their functions effectively. All of these factors combined represent gaps and weaknesses in the internal control framework of Dominica’s public financial management arrangements.

The office of the Director of Audit lacks the autonomy needed for the appointment and training of its staff and its resource allocation arrangements so that it can effectively carry out its function. Furthermore, the reporting arrangements should be directly to Parliament rather than through the Ministry of Finance, otherwise the independence and transparency of reporting is compromised.

Parliament’s Public Accounts Committee (PAC), which is responsible for carrying out legislative oversight, is not effective in its role. It rarely meets and when it does, it lacks the technical support to carry out work or analyze the findings of annual audit reports. This erodes the PAC’s ability to support the recommendations proposed in the annual audit reports or pursue findings of mismanagement of funds.

Dominica has significant fiduciary risk, mostly due to a weak internal control framework and poor legislative oversight. Fiduciary risk represents the expected value of the loss of development benefits and in the case of Dominica, translates into a deterrent of foreign investment and aid that negatively affects growth. As evidenced in the annual audit report for FY2001, internal controls are often bypassed or even ignored, a situation that has a direct, in the case of Dominica, a negative affect on the efficiency and effectiveness of public spending.

The overall accountability framework in Dominica needs strengthening. There exist lines of accountability between civil society and elected officials realized through release of public information, such as the broadcasting of the budget address, and between elected officials and the executive, through Cabinet and, to some small degree, the PAC. However, the framework deteriorates between the Ministry of
Finance and line ministries due to lax expenditure controls, loosely monitored budget execution, and weak cash and debt management, and there is a complete absence of accountability between civil society and the line ministries.

**Recent Developments**

During the November 2002 CFAA mission, the government expressed its intention to improve all aspects of public financial management. This included taking the following immediate actions to realize results by early 2003: (i) begin the process of revising budget allocations on a monthly basis to reflect actual expenditures and forecast revenue inflows; (ii) extend and improve the use of current information systems; (iii) streamline the number of public sector bank accounts; (v) update accounting practices for government land purchases, sales and related debts, and (vi) begin a process to revise the FAA.

Based on a subsequent missions carried out by the country team in January 2003 and May 2003, it appears that the government has made relatively little progress with these actions.

**Next Steps**

Bearing in mind that the government has expressed its commitment to address the weaknesses in its financial management arrangements and that these efforts are currently well supported with donor funds and technical assistance, the end result of this CFAA report will be the preparation of an implementation strategy in the form of an action plan.

The action plan proposed in this report recommends priorities for the steps that need to be taken and the expected outcomes. The criteria for prioritization is based on the following:

- The government’s immediate need (Phase I) to implement stringent budget constraints to control spending and develop a plan to arrest and reduce the accumulation of cash arrears, and
- The government’s medium- to long-term need (Phase II) to reduce fiduciary risk by implementing stronger internal controls and establishing a robust accountability framework.

Most of the actions in Phase I and several of the actions in Phase II fit within the measures already formulated under existing assistance programs being provided by the Canadian International Development Agency (CIDA), the Caribbean Technical Assistance Company (CARTAC), the UK’s Department for International Development (DFID), and the European Union (EU). For actions that do not form part of existing programs or cannot be supported by current government staff, the cost estimates assume that the consultants needed for technical assistance or training average US$18,000 per person month. No estimates have been made for software or equipment, since these vary widely depending on features and complexity. Under these assumptions, the costs not covered by existing programs or government resources in each Phase are the following:

**Phase I:** US$378,000 plus cost of an automated cash book and bank reconciliation system.

**Phase II:** US$864,000 plus additional costs for network software if this option is deemed feasible.
Total cost estimate: US$1.2 million plus any additional systems/software costs\(^1\).

The CFAA team will circulate the final draft of this report to the government for its review and government comments will be included as Attachment I of this report. In addition, the CFAA team will seek agreement from the government and the donor community on the action plan items and costs and include the final action plan as Attachment II of this report.

\(^1\) Note that the government has already established that there are no resources available in its FY03/04 budget to cover these costs, therefore, they will need to be covered by donor programs or with some of the resources from the fast disbursing ERSO currently under preparation.
The following tables summarize the recommended priorities of the action plan.

**Phase I**

<table>
<thead>
<tr>
<th>Recommendations listed in terms of priority</th>
<th>Expected Outcomes</th>
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<tr>
<td><strong>1) Prepare Monthly Budget Execution Reports.</strong> Institute a policy requiring the AG prepare monthly reports on the budget execution of each line ministry and circulate these reports within the MOF and the line ministries. These reports should include actual versus budgeted information for the following:</td>
<td>Encourage fiscal discipline.</td>
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<tr>
<td>- Recurrent and Capital Expenditures</td>
<td>Support exchange of information required for good cash &amp; debt mgt.</td>
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<tr>
<td>- Outstanding Commitments</td>
<td>Increase the comprehensiveness and effectiveness of the budget execution process.</td>
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<td>- Cash and Payment Arrears</td>
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<tr>
<td>- Debt Service Requirements</td>
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<tr>
<td>- Revenue In-take and Receipt of External Funds</td>
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<tr>
<td>This recommendation is contingent on the accuracy and reliability of the information entered into SIGFIS as well as the timeliness of information received by the AG from the line ministries that do not have on-line access to SIGFIS. Therefore, the MOF should also institute a short-term policy that provides the FS with measures to enforce compliance with the monthly reporting requirements for line ministries. This policy should allow the FS the authority to reduce or delay monthly budget allocation for ministries that fail to provide complete information on time. The policy should also require the FS to use this information to set payment priorities and commitment limits.</td>
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| **2) Set Commitment Limits and Payment Priorities.** Institute an interim policy requiring government to forecast cash availability and set payment priorities and commitment limits that will control the timing of payments, warn when payments may exceed cash availability, and provide a guideline to the AG for authorizing payments in the case of a cash shortage. Specific actions include: | Match cash availability with expenditure payment schedules. |
| - Set commitment limits that are consistent with revenue in take and cash availability. | Forewarn government when to expect a cash shortage. |
| - Issue a public announcement that all ministries are subject to these limits and that vendors can submit requests to the Accountant General’s office to confirm that the commitment they have received from a ministry does not exceed the limits (these requests should be limited by a minimum dollar figure so that the AG’s office is not inundated with requests). | Prepare basis for implementing the modified accrual accounting method in the long term. |
| - Adjust limits based on information provided in comprehensive monthly monitoring reports. | |
| - Set payment priorities that are consistent with the overall fiscal and development strategy of the country. | |

| **3) Improve Effectiveness of Cash Management – Procure technical assistance for the Cash Management Unit and the management teams of line ministries to prepare monthly reports on their expected revenues and expenditures in accordance with the requirements detailed in the circular issued by the Finance Secretary in November 2002. The TA scope of work should include:** | Begin establishing crucial capacity to gather and prepare relevant expenditure and revenue data. |
| | Ensure compliance with circular issued by the FS |
### (Phase I, Step 3 continued)

- Prepare procedures to gather historical information on expenditures and revenues (this information may be available at the Inland Revenue Department (IRD)).
- Assist in determining proper account classification of costs and revenues, i.e., discretionary versus non-discretionary costs.
- Provide guidance on preparing expenditure and revenue forecasts (should consult with IRD and Budget for methodology).
- Establish criteria for prioritizing payments.

The TA should also work with the IRD and the Budget Office to ensure that information provided by the line ministries is consistent with the revenue projections and trends used by the IRD and MOF to prepare commitment limits.

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<tr>
<th>4) Improve Effectiveness of Financial Reporting. Currently Dominica’s financial statements include material omission of information that significantly reduces their usefulness and can be considered a serious departure from international standards. The AG should begin taking the steps needed to adopt and follow standards for accounting and reporting that are generally accepted, such as the standards issued by the International Federation of Accountants (IFAC) for general-purpose government financial statements kept on a cash basis (IFAC/PSC-ED9, issued January 2003).</th>
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<tr>
<td>Increase usefulness of financial statements.</td>
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<td>Increase transparency of PFM.</td>
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<td>Strengthen governance by providing complete, accurate, and useful information for oversight functions.</td>
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<tr>
<th>5) Increase Effectiveness of Cash Management – by first consolidating all government bank accounts and then issuing a circular that (i) explicitly establishes the criteria needed to open a government bank account, (ii) reminds ministries to submit monthly reconciliations of government accounts to the Accountant General, and (iii) remind ministries that public funds belonging to the government should by way of checks or currency, should be made payable to the Accountant General and deposited in the consolidated fund.</th>
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<tr>
<td>Simplify the monthly reconciliation process.</td>
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<tr>
<td>Facilitate the implementation of an electronic system of reconciliation.</td>
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<tr>
<td>More efficient use of public funds.</td>
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<td>More economical management of inactive funds.</td>
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<tr>
<th>6) Debt Management - Integrate all debt management (internal &amp; external) functions into one unit and formally establish its financial management role. Specific actions include:</th>
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<tr>
<td>Appoint a Debt Management Manager.</td>
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<td>Prepare guidelines for the unit’s mandate that include developing a borrowing strategy for the country that ensures the sustainability of debt service.</td>
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<td>Institute policy that requires analysis of debt to be presented to Parliament with indebtedness request.</td>
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<td>Connect the debt systems (CD-DRMS) to SIGFIS.</td>
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<tr>
<td>Debt unit to prepare Debt Management Manual.</td>
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<tr>
<td>Consolidation of debt information for effective formulation of borrowing strategy.</td>
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<tr>
<td>More efficient use of public funds.</td>
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<tr>
<td>Ensure that debt analysis and clear borrowing strategy guide Parliament decision to approve loans.</td>
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<tr>
<th>7) Appoint an Internal Auditor. The position currently exists but is unstaffed. Prior to staffing, the job descriptions should be reviewed for relevance and that the tasks meet the current internal audit requirements. The job description should include and provide the internal auditor with the authority to monitor compliance with internal controls and suggest ways to improve control effectiveness. The selection of the candidate should rely heavily on the input of the Director of Audit’s office, as his staff will need to rely on the internal auditor’s work.</th>
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<tr>
<td>Strengthen internal control framework.</td>
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<tr>
<td>Reduce fiduciary risk.</td>
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<td>Ensure accuracy of financial records and accounts.</td>
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Appoint a Donor Coordinator within government – the coordinator’s responsibilities would include (i) organizing bi-annual donor meetings, (ii) representing Dominica at these meetings, and (iii) providing a liaison between government and donors to ensure donor-financed activities are consistent with the country’s overall development strategy.

Ensure a cohesive donor financed strategy that is supported by government.

Phase II

<table>
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<tr>
<th>Fiduciary Risk</th>
<th>Recommended Action</th>
<th>Expected Outcome</th>
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<tr>
<td><strong>1) Legal and Regulatory Framework</strong>&lt;br&gt;Framework is out of date and does not provide sufficient guidelines for management of electronic records.</td>
<td>Update and revise the laws and regulations governing financial management. This includes revision of the FAA, the Loans, and the Land Acquisition Acts. Ultimate objective should be to consolidate PFM related acts and laws into one PFM regulatory framework law.</td>
<td>Up-to-date guidelines that govern by whom, how and to what ends public funds should be managed.&lt;br&gt;Better transparency and comparability of financial management transactions.&lt;br&gt;Improve governance by modernizing oversight functions.</td>
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<td><strong>2) Accountability Framework</strong>&lt;br&gt;Accounting Officers and other government officers with authority to spend public funds are not involved in the review process of the public accounts.</td>
<td>Institute a policy requiring that within the scope of the annual audit, the Director of Audit verify compliance by accounting officers to the applicable laws and regulations as well as to their execution of the fiscal and development strategy promulgated by government in the budget plan.</td>
<td>Facilitate the implementation of recommended actions in the annual audit report.</td>
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<tr>
<td><strong>3) Internal Controls – Financial Management Systems.</strong>&lt;br&gt;The government still relies heavily on manual procedures that hinder its ability to apply adequate controls and to share information on a timely basis.</td>
<td>Procure technical assistance to (i) roll out SIGFIS to all line ministries, (ii) do a sweep of its accounting information to remove incorrect data and update outdated or missing data, (iii) customize reporting capabilities so that report can be generated easily and with useful information, and (iv) carry out a cost/benefit analysis to connect SIGFIS to other automated systems to allow automatic sharing of information.</td>
<td>SIGFIS used by all ministries.&lt;br&gt;Promote timely sharing of information and increase accuracy of data.&lt;br&gt;Facilitate the application of internal controls on daily public financial management transactions.</td>
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<td>4) Internal Controls – Financial Management Policies and Procedures</td>
<td>Prepare FM policies and procedures manual that explains how the FAA is relevant to each financial management process (budget, accounting, audit, etc.), the key steps and responsibilities for carrying out daily FM procedures, and what systems should be used to carry out these procedures.</td>
<td>Improve compliance with FAA. Provide consistent guidelines for carrying out financial management procedures. Ease the transition from manual to automated procedures.</td>
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<tr>
<td>5) Internal Controls – Database Management &amp; IT Support</td>
<td>Procure consulting services to provide (i) immediate database administration support, and (ii) transition/train a permanent database administrator. Institute an IT policy to strengthen the computer center and ensure its capability to maintain the integrity of information and support the IT needs of the staff using the system. The policy should include (i) provide for adequate staffing of center, (ii) provide for resources to maintain the center, (iii) require center to prepare system manuals with a reference on the features of the system and how they are used, (iv) provide for the technical capacity to customize the reporting capabilities of the automated systems so that the data processed is organized and presented in a useful manner.</td>
<td>Maintain the integrity of the data stored in financial management systems databases. Ensure the security of the information on the systems. Ensure the validity of the information entered into the systems. Maximize the use of the systems available. Ensure that financial management information is usable and relevant. Maximize the benefits and influence of information on the decision making process.</td>
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<tr>
<td>6) Internal Controls – Staff Capacity</td>
<td>Institute a policy requiring periodic assessments of the training needs and staffing of the Accountant General’s Office, the Audit Department, the Budget Office, the Debt Management Office, the Cash Management Department and the Computer Center, to ensure that these offices have sufficient staff with the appropriate skills and training to carry out their functions.</td>
<td>Ensure an adequate complement of staff and resources is available to discharge public sector financial management functions. Strengthen the internal control framework.</td>
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### 7) External Audit

The Director of Audit (DOA) cannot ensure that his office has appropriately trained staff to effectively carry out his mandate.

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<th>Steps to Improve</th>
<th>Outcome</th>
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<tr>
<td>Institute an external audit policy that provides autonomy and independence to the Director of Audit. The policy should include provision to (i) involve the Director in the selection of his staff, (ii) transfer the budget approval of the Director from the MOF to the PAC, and (iii) require consultation with Parliament on the appointment of the Director.</td>
<td>Audit department staffed with sufficient and adequately trained staff. Audit Department budget approved by PAC. Parliament consulted on appointment of DOA.</td>
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### 8) Legislative Oversight

An inactive PAC that does not provide effective oversight of public accounts.

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<th>Steps to Improve</th>
<th>Outcome</th>
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<td>Raise the PAC’s public profile by focusing public attention on its role and activities. Parliament should request that the (i) PAC publicly debate the result of the annual audit report and (ii) prepare a report that highlights the recommendations and findings made by the Director of Audit and any additional actions or decisions that the PAC recommends to Parliament to support these recommendations. Furthermore, Parliament should seek to support the activities of the PAC by encouraging the participation of outside professionals in law, budget and accounting as well as other government resources to provide expert analysis or witnesses to give evidence on sensitive accountability issues.</td>
<td>Raise the profile of the PAC’s role and benefit from discussion of best practices. Annual report recommendations discussed and follow-up documented in a public note. Improve oversight and governance.</td>
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I. INTRODUCTION

1. Dominica's public sector and public expenditure management issues have been analyzed in several World Bank Economic Sector Work (ESW) reports, including the Organization of Eastern Caribbean States (OECS), Institutional and Organizational Capacity Review (IOCR), the OECS Country Procurement Assessment Report (CPAR), the OECS CFAA, and is currently being reviewed under OECS Fiscal Issue Review (FIR) and the Dominica CPAR. In order not to duplicate areas already analyzed and recognize the relevant recommendations already made in these other document, this report will make reference to and build on the earlier work performed. It will also propose an action plan to implement public sector financial management reform and prioritize the actions within Dominica's overall objectives to improve public expenditure management and public sector reform.

Country Background

2. The Commonwealth of Dominica is a small island (area 750 km², population 72,000) at the north end of the Windward Islands. It is a middle-income developing country with a per capita gross net income of $3,140. A former British colony, it became a member of the British Commonwealth in 1978. The Constitution established a Westminster-style parliamentary democracy under a unitary state with a President elected by Parliament. Executive authority lies with the Prime Minister and Cabinet, who are collectively responsible to Parliament.

3. Following the election of October 2000, a coalition of the Labor Party (now holding 11 seats) and the Freedom Party (2 seats) formed a new government, with the United Workers Party (8 seats) in opposition. The next election must be called by October 2005.

4. Dominica is a member of the Caribbean Community and Common Market (CARICOM), the regional organization that coordinates steps toward a common market of all Caribbean states, harmonization of macroeconomic policies, and eventual monetary integration into a CARICOM Single Market and Economy. CARICOM represents its members in trade negotiations in global forums. Following a downturn in the economic climate in the 1980s, the prospect of utilizing CARICOM as a channel to pursue economic growth and export-led development faded. Eastern Caribbean states decided to strengthen the existing institutional framework for mutual cooperation through a parallel set of cooperation and integration institutions specific to themselves. The result was the creation of several sub-regional institutions of which the most important are the Organization of Eastern Caribbean States (OECS) and the Eastern Caribbean Central Bank (ECCB). Please see Annex 2 for a detailed description of these institutions.

Dominica's Current Fiscal Crisis

5. Over the past five years, Dominica has experienced rising fiscal deficits and increasing debt levels, associated mainly with slow adjustment to declining growth rates, and an increase in commercial borrowing to finance public investments.

6. In an effort to stabilize the economy, the government entered into a Standby Arrangement with the IMF in late August 2002. The implementation of the stabilization program under this agreement was intended to achieve a reduction in the government’s deficit² and eliminate all

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²Dominica’s central government deficit grew from 7 percent of GDP in 1998 to 11 percent in 2001.
domestic arrears by the end of FY2003, however performance to date has been questionable. With the IMF Standby Arrangement in place, the rules governing financial management are key to ensuring that government spending remains within the fiscal constraints currently facing the economy.

7. In tandem with this program, Dominica has requested technical and financial assistance from the World Bank in the form of an Economic Recovery Support Operation (ERSO). This operation, currently under preparation, would support the government’s effort to regain economic sustainability and promote growth while mitigating the impacts of adjustment and protecting past social gains.

Issues of Economic Development

8. The most immediate challenge affecting Dominica’s economic development is to improve controls over spending and to halt and reverse the accumulation of domestic arrears, which reached 9 percent of GDP in FY2002 (total arrears were 11 percent of GDP). A second major challenge will be to establish a sound fiscal policy and the leadership and controls to adhere to it.

9. The recent fiscal crisis has revealed critical weaknesses in the degree and quality of oversight and responsiveness from the line ministries to Cabinet, from Cabinet to the legislature, and from the government to the public in general. Although there may be social reasons for less than stringent oversight in a small country such as Dominica, many officials report that there has been a distinct deterioration over recent years. Some cite the significant increase in grant resources as a share of government revenues available to Dominica in the 1990s, as a possible cause for the decline in financial and fiscal discipline, or the wider availability of commercial loans. Given the challenges ahead, increasing the level of public accountability on financial matters will be instrumental in helping build and maintain the social consensus needed to implement difficult stabilization and adjustment reforms.

10. Dominica has an extensive network of community centers, clinics, and schools, and an active local government system comprising 42 village councils. Past investments in human and social development have yielded relatively good social outcomes in Dominica. However, given the current fiscal crisis and medium-term macroeconomic outlook, the arrangements now in place are no longer adequate and do not meet Dominica’s needs. Furthermore, wages and salaries account for a large share of recurrent expenditures for social service delivery, leaving materials, goods and services, and maintenance of facilities severely under funded in recent years. As such, the third major challenge on the expenditure front will be to adjust public spending to achieve greater efficiency in service delivery in order to preserve and extend social gains.

11. The government realizes the need to address weaknesses in its public financial management arrangements as part of the effort to improve its economic condition and is working with CARTAC, CIDA’s Eastern Caribbean Economic Management Program, and DFID to this end.

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3 As of December 30, 2002, total arrears were estimated at EC$76 million (11 percent of GDP) and domestic arrears at EC$62 million (9 percent of GDP).
4 Data provided by the Dominica country team based on data gathered before and during the mission.
5 Dominica country team.
However, despite the government's commitment to pursue actions to strengthen financial management, implementation has been slower than expected.

**Dominica's Development Partners**

12. The Canadian International Development Agency (CIDA) has taken the lead in economic management and financial management reform in the OECS region and important roles are also played by two regional organizations (CDB & CARTAC) and by the UK and EU. The main donor programs are summarized in the next table and are described in greater detail in Annexes 4 and 5.

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<th>Dominica's Main Donor Programs</th>
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<td><strong>CIDA:</strong> Canadian International Development Agency</td>
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<td><strong>DFID:</strong> UK's Department for International Development</td>
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<td><strong>EU:</strong> European Union</td>
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<td><strong>CDB:</strong> Caribbean Development Bank</td>
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13. Dominica's main development partners held a Public Reform Consensus Building Workshop in Dominica in January 2003, hosted by government's Reform Management Unit (RFU) with support from the World Bank and DFID. Financing gaps identified at the workshop included support for budget development, in particular, financial analysis and medium-term budgeting, along with accountability and accounting practices, and civil service reform. Donors proposed assigning specific responsibility to each donor and to a donor coordinator appointed by government. Whenever possible, the CFAA Action Plan mirrors current terms of reference and actions being undertaken by various donors. In particular, efforts to establish crucial capacity in cash management recommended in this CFAA fit closely with the objectives of the CARTAC, DFID, and ECEMP programs and support will be sought from these sources. Potential donor support of the CFAA Action Plan is indicated in the Final Action Plan (Attachment II).

**Purpose of the Dominica CFAA**

14. Although the World Bank's regional office had already prepared an OECS CFAA, the country management unit felt it necessary to prepare a specific report for Dominica to support the proposed ERSO. The findings and recommendations of the CFAA report will provide critical inputs for the ERSO and be incorporated in the design of the operation. The objectives of the ERSO are to strengthen Dominica's efforts at economic recovery through improvements in fiscal management, the environment for private investment, and public sector service delivery. The
reform agenda to be supported under the ERSO would consist, in part, of the agreed Public Financial Management Action Plan proposed in this report.

Scope of the Dominica CFAA

15. The OECS CFAA serves as a diagnostic tool to increase the Bank’s knowledge of public sector financial accountability arrangements in the OECS countries and focused primarily on identifying issues that are shared regionally. This Dominica CFAA report will focus more on the specific arrangements that Dominica has and the priorities the government should follow in the financial management reform process.

16. This CFAA report does not reflect an audit exercise, nor does it provide assurance on the specific uses of Bank funds in Dominica. It does review public sector financial management arrangements, such as the policies and procedures to record, manage, and report on public funds, the presence and effectiveness of the internal controls to prevent the mismanagement of funds, and the oversight exercised by government institutions on the state of the public accounts.

17. The scope of the CFAA review is limited to the central government. The financial management arrangements of local governments were not examined in detail thus no recommendations are made in this report. Private sector accounting and auditing is limited to a few firms and is often provided by firms established in other countries in the region. Therefore, the analysis of private sector financial management arrangements in Dominica is brief and makes reference to the analysis performed in the OECS CFAA.

18. The scope of the Fiscal Issues Review (FIR), currently being prepared, covers the usefulness and accuracy of Dominica’s budget planning process, its fiscal sustainability, and proposed fiscal responsibility measures. The CFAA focuses on the financial management procedures affecting the preparation, monitoring and execution of the budget, for the purposes of analyzing the budget process in the context of public sector financial management.

Methodology of Analysis

19. Main sources of information used for this report include (a) data at the Ministry of Finance and at a sampling of spending ministries and state-owned enterprises; (b) reports and outputs of the accounting and reporting systems; (c) interviews with key government officials, business persons, and leaders of civil society; and (d) other literature available in the government, the Bank, and other international agencies.

20. Information was gathered primarily through the following methods:

- **Initial desk research**: using resources from the government, World Bank, development partners (particularly, CIDA, CARTAC and DFID), and other relevant and reliable resources.

- **Scoping Mission**: in lieu of a scoping mission, the CFAA team used the Dominica mission notes of the OECS CFAA team and the FIR team.

- **Field Mission**: The CFAA team joined a country team mission in charge of preparing the ERSO and held meetings with key government officials to solicit their views of the
public financial management and regulatory environment, their own practices, and their suggestions for improvements. See Annex 1 for a list of persons interviewed.

- **Questionnaire**: The team selected questions from a country risk questionnaire that were not already answered during the OECS CFAA and FIR meetings. See Annex 7 for a sample questionnaire.

21. **All the information used for this report reflects the financial arrangements in place as of November 2002.**

22. The recommendations made throughout the report are consolidated in an action plan. The action plan is split into Phases I and II. Phase I actions are crucial steps that should be taken, or started so that they can take effect during the execution of the FY2004 budget and to support the government’s need for tight expenditure control and a clearing of cash arrears. Phase II recommendations reflect the medium-to long-term needs of reducing fiduciary risk by strengthening the internal control structure and implementing a robust accountability framework. The detailed Final Action Plan is presented in Attachment II to this report.
II. PUBLIC SECTOR FINANCIAL MANAGEMENT ANALYSIS

23. For purposes of this assessment, Dominica’s public sector financial management arrangements have been broken down into the following basic components:

- The legal and regulatory framework, which establishes the who, how, when, and incentives for the proper management of public funds.

- The budget process, which should outline the government’s plans for public funds, how they should be spent, over what period, and for what objectives.

- Cash and debt management procedures that ensure that public funds are available to meet government spending, and in the case of a shortage, propose a borrowing strategy or the curtailment of expenditures, whichever is appropriate given the fiscal position of the government.

- The accounting, reporting and internal control procedures that should ensure that public funds are spent in accordance with the government’s plan, always observing a set of recognized standards as established in the applicable laws and regulations.

- The financial management IT systems, which should make the budget process more efficient, facilitate the exchange of information, and provide some measure of spending control.

- The external audit function, which has responsibility for reviewing the public accounts to ensure that records are accurate, reliable, timely, and maintained with due regard for the applicable laws and regulations.

- The legislative oversight exercised by Parliament, which should discuss the status of the public accounts, their usefulness and follow up in areas that reveal weaknesses and discrepancies as revealed through independent investigations and the external audit reports.

24. Each component will include a summary conclusion and recommendations section. The recommendations are all consolidated in the proposed action plan annexed to this report as Attachment II.

Legal and Regulatory Framework

25. The legal and regulatory framework dictating the aspects related to financial management are dealt with, in general terms, in the Constitution. One specific pronouncement in the Constitution related to the use of a single Consolidated Fund (CF) to manage revenues. All public monies collected are paid into the CF, unless by law or other legal provision they are payable into some other fund. No withdrawal is allowed from the CF except to meet expenditure charged on the CF by law (e.g. an Appropriation Law or Supplementary Appropriation Law) or by the Constitution (e.g. the salaries and allowances of the Head of State, or members of the Public Service Commission).

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6 Loan/Credit/Grant funds for World Bank-financed projects are deposited into a special account and not into the CF, even though they are public funds.
26. Monies are distributed out of this fund via appropriations made by Parliament, established by the Constitution as the supreme authority in matters of public funds management. The Constitution also provides for a supreme audit function and its specific responsibilities and obligations. Beyond these pronouncements the Constitution defers to the Financial (Administration) Act (FAA) to define regulations governing public financial management.

27. **Financial (Administration) Act.** The FAA provides financial management guidelines, including the procedures that need to be followed for the budget process, cash and debt management, accounting, reporting, internal controls, and the audit and legislative oversight to be exercised over these functions. Dominica’s 1965 FAA was repealed and replaced with the Finance (Administration) and Audit Acts of 1994 (acts no. 4 and 5 of 1994) although it does not appear that the 1994 acts have been formally adopted by Parliament into law. According to the FAA, the Minister of Finance is responsible for supervising the government’s finances and ensuring a full accounting to Parliament. After October 2000, the Minister of Finance also became Prime Minister, who has a number of other portfolios. In mid-2002, the Prime Minister appointed a Director General for Finance to oversee his finance portfolio. However, this position is not part of the formal civil service establishment and therefore has limited statutory power. Additional supervision responsibilities, such as disseminating and enforcing public financial management regulations, laws and instructions are shared with the Financial Secretary.

28. The FAA defines Accounting Officers as the permanent secretaries of ministries and heads of departments, answerable to the Public Accounts Committee of Parliament (PAC) for the efficient management and accounting of the public funds entrusted to them. Each officer is responsible for ensuring that: (i) funds entrusted to him/her are properly safeguarded, and applied only for purposes intended by Parliament and without waste; (ii) all payments and votes are properly authorized; (iii) financial records are properly maintained in accordance with financial regulations; and (iv) these records are properly stored and presented to the Director of Audit when requested. Accounting Officers may recruit accounts staff through the Public Sector Commission to carry out these functions according to guidelines, regulations, and standards prescribed by the Accountant General. Accounting Officers remain personally responsible for any expenditure that is improperly incurred and can be called upon by the PAC to respond to any findings of mismanagement revealed by the Director of Audit in the annual audit report. However, there is no recent record of the PAC exercising this right even though the annual audits have revealed several findings of this nature.

**Shortcomings in the Legal and Regulatory Framework**

29. The FAA, in addition to providing guidelines for financial management and auditing, should clearly dictate accountability arrangements for the persons responsible for carrying out the administration and control of public funds. Furthermore, the 1965 FAA and 1994 Acts do not provide for the new procedures followed since the implementation of several automated systems currently in use by the government. As a result, government staff in charge of financial management do not have applicable or up-to-date guidelines.

30. In addition to the FAA, the government should look to modernize other acts that affect public financial management, with the objective of creating an overall PFM regulatory framework law or act. For example, the Loans Act and the Land Acquisition Act, although not reviewed in detail by the CFAA team, appear to be outdated and ineffective based on discussions held with
government officials at the MOF and in the line ministries. The box lists specific examples of situations the CFAA team came across during the November 2002 mission that illustrate why the FAA, the Loans Act and the Land Acquisition Act should be revised so that they are more effective.

### Examples of Ineffective Public Financial Management Regulations

**Virement of Funds:** Dominica's FAA empowers the Financial Secretary to “vire” or transfer funds appropriated for one program “in aid of any new purpose ... within the same supply vote.” (FAA, Section 26) This means funds can be transferred to a completely new recurrent program within the same agency, or from one capital project to a completely new capital project within the same agency, without the obligation to obtain subsequent endorsement from Parliament via a supplemental appropriation. In theory, any virement and ultimately any expenditure would at least be reported in future year estimates books. However, the estimates books do not always contain complete and accurate figures for revisions and prior year expenditures, particularly with respect to capital projects. This means that the government could legally spend funds on programs or projects without the House of Assembly ever becoming aware that such a program or project existed.

**Expenditure Thresholds:** The Loans Act contains thresholds for approval of expenditures that applied at the time of its drafting in the mid 1900s. Currently accounting officers must seek approval from their ministers for expenditures exceeding approximately $1,000, a relatively low amount in the context of how much the government spends on average. Not only does this become extremely cumbersome and bureaucratic, but it also encourages Accounting Officers to make smaller, sometimes less economical expenditures to avoid the expenditure approval process.

**Land Acquisitions and Sales:** During the mission’s discussions with the Ministry of Agriculture, it was discovered that a substantial volume of land purchases and sales since the 1970s were not recorded in the government’s accounts. This not only speaks to the ineffectiveness of the regulation, but also its failure to promulgate proper accounting procedures for land sales and purchases. The team also found instances were accrued interest owed to the government by landowners, or to landowners by government, for purchases and sales of lands that had occurred but for which funds were not exchanged, were also not recorded. The lack of effective legal and regulatory procedures for land acquisitions has undermined the transparency surrounding these transactions and has made it difficult to identify and manage.

### Conclusions & Summary of Recommendations

31. **Dominica needs to modernize the legal and regulatory framework governing financial management to make it more effective.** As revealed in the analysis of the OECS CFAA, this issue is region-wide due primarily to the implementation of new automated systems and procedures that have made existing regulations obsolete or non-applicable. The government has

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7 The Estimates Books show the approved and revised estimates for the prior year and actual expenditures with a two-year lag.

8 FAA, Section 25 also empowers the Minister of Finance to transfer funds between agencies via a reallocation warrant, including to a new item. In this case however, the subsequent endorsement of the House of Assembly must be obtained via a supplemental appropriation. Therefore, a reallocation warrant offers no guarantee of the transfer of funds.

9 The OECS CPAR concludes that thresholds for approval of expenditures can be raised without substantial risk to financial control.
indicated its intention to modernize the legal framework but progress thus far has been slow (see Annex 3 for a detailed chart of legislative framework and its coverage).

32. The fact that the current legal and regulatory framework does not provide up-to-date and effective guidelines for financial management represents a growing gap in Dominica's internal control framework and increases the fiduciary risk present in the country. The following table lists recommended actions to improve and modernize the laws and regulations governing Dominica's public sector financial management.

**RECOMMENDATIONS FOR LEGAL & REGULATORY FRAMEWORK**

1. **Update and modernize the FAA.** It is recommended that the Government take the following actions:
   - Identify areas that need revision,
   - develop revised text, and
   - submit it for Parliamentary approval.

   Suggested areas for revision include:
   (i) The timing and types of financial management reports that should be prepared, what information should be presented, to whom they should be disseminated, in what forum they should be discussed, and how the results of the discussions should be followed up;
   (ii) The changes in financial management arrangements that have taken place, such as the implementation of a cash management unit in the Ministry of Finance as well as the use of management teams in the line ministries and their respective roles in the financial management process;
   (iii) The new automated systems now used in PFM and how they should be used for more effective financial management;
   (iv) The internal controls needed in light of the new systems and arrangements and the internal auditor's responsibility for ensuring compliance and improvements for these controls;
   (v) The international accounting and reporting standards to be observed, including the specific criteria for cash management that should be followed; and
   (vi) The audit standards that should be observed, the types of audits that should be conducted, and the circulation and dissemination of these audit reports.

2. **Update the provisions of the Loans Act.** A specialist should be hired to review and recommend changes to the act to increase its effectiveness in guiding and controlling Dominica's expenditure and debt strategy.

3. **Update the provisions for the purchase and disposal of government lands and the provisions of the Land Acquisition Act.** Prompt action should be taken to establish a formal land register and an update of the accounting practices and laws governing procedures to record, sell and buy land, and how interest is accrued, recorded, and paid or collected.

4. **Consolidate regulations and laws affecting PFM into one framework law.** This will simplify compliance by allowing one single reference to govern PFM and provide a comprehensive financial legislation framework.
The Budget Process

33. Dominica’s budget execution process does not have adequate procedures or controls to effectively manage public spending or ensure efficient and economical use of public resources. This weakness begins in the budget preparation process whereby the country’s fiscal strategy is not clearly imbedded in the procedures to monitor the budget execution process. The weakness continues through the budget execution process where the controls to manage spending, in particular overspending, either do not exist or are not observed. There are no formal procedures to report overspending to Parliament so that the country’s fiscal strategy and resulting decisions reflect the actual execution of its resources.

34. The FIR report will cover the fiscal sustainability and usefulness of the budget; the CFAA focuses on financial management procedures affecting the budget process.

Budget Preparation

35. The budget preparation process should serve as the articulation of the government’s plan for the use of public monies and an instrument of accountability and control. In Dominica, the MOF establishes the parameters for expenditure planning and monitoring of the central government and coordinates the preparation of the annual budget and the approval by the Cabinet and Parliament. The budget preparation process starts in November with the Estimates Call (Budget Circular) and ends in June when the budget estimates are completed.

36. Every second year, a Strategic Outlook is prepared based on the latest Medium-Term Economic Strategy Paper (MTESP) and ECCB national income accounts projections. However, no Strategic Outlook has been prepared for the past two budget cycles; nor was an MTESP prepared for the 2002 Caribbean Group for Cooperation in Public Sector Development, because discussions were taking place with the IMF concerning the Standby Arrangement requested by Dominica.

37. A strength of Dominica’s budget process is the regular discussions held between the MOF’s budget analysts and the management teams of the line ministries during preparation. The management teams at each line ministry prepare their budget estimates following the format prescribed by the MOF. The budget office then schedules meetings with each team to seek justifications for the estimates. Generally estimates exceed available resources, so the MOF makes cuts to fit the aggregate budget to the available resource envelope. The budget is then presented in May and the passing of the appropriation bill occurs by June, which is before the start of Dominica’s July 1 fiscal year.

38. The budget preparation is split between recurrent and capital estimates. The budget function for recurrent expenditures rests with the MOF budget office and the budget function for capital expenditures rests with the Public Sector Investment Unit. Separate budget documents are prepared for recurrent expenditures and capital expenditures and different account classifications are used in these two budgets, making it difficult to obtain consolidated program-level expenditure information. The guidelines for preparing indicators for execution also do not clearly define how measurable objectives and goals should be set to evaluate the success of a program. In the absence of measurable objectives, it is difficult to monitor budget execution and reconcile the country’s overall fiscal strategy to what is actually executed.

39. The Minister of Finance delivers an annual budget address in Parliament that is broadcast live and provides the basis for Parliamentary debate on the appropriation bill. After the
presentation of the address, Parliament adjourns to allow members time to prepare their contributions to the debate. The debate can include comments and views regarding the budget estimates, which may include alternative budget proposals or other possible changes. Copies of the budget are available to anyone from the Government Printer and there is active debate on it in the print, radio, and TV media. This level of transparency is commendable and should be duplicated in other aspects of public financial management, such as the discussion of the year-end public accounts statements prepared by the Accountant General (AG) and examined by the Director of Audit.

**Budget Coverage and State-owned Enterprises**

40. Dominica’s budget covers the central government but does not include local authorities (which have their own public financial management cycles), nor statutory bodies such as state-owned enterprises (SOEs), except that transfers to and from them are shown in the budget estimates. Nor does the budget include below-the-line receipts and payments included in the public accounts but not the budget estimates.

41. All SOEs come within the definition of statutory bodies. The FAA requires them to submit estimates of their recurrent and capital expenditure and the financing for the year to the responsible minister, who submits them to the Minister of Finance before the start of the company’s fiscal year. Neither the company nor the responsible minister may alter these estimates without the authorization of the Minister of Finance. In Dominica, these estimates, if received, do not appear to be closely monitored.

**The Budget Monitoring & Execution Process**

42. Once the Appropriation Act is approved and passed, the MOF issues written authority (General Warrant) to begin the budget execution process. The General Warrant allows ministries to execute public resources in accordance with their approved programs. The MOF is responsible for distributing the funds of the General Warrant to the line ministries via monthly budget allocations. The allocations are recorded by the AG, who controls the spending of the allocation by using an automated system with a funds control module that rejects payment requests which exceed the aggregate allocation (versus the monthly allocation) granted to a ministry.

43. Budget execution begins with the monthly budget allocations by the MOF to the line ministries. At that point ministries can begin sending payment requests to the AG. The amounts released via monthly allocation warrants are entered by the AG into SIGFIS together with any authorized transfers—virements—between the amounts appropriated for each program and project. However, this allocation warrant does not affect how the ministry schedules its payments.

44. For example, a Ministry may have an allocation for $12,000 for the entire year with a monthly allocation of $1,000. However, the ministry can theoretically commit itself to pay more than $1,000 in one month since there are no procedures to limit how it commits to pay its

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10 For example, during the CFAA mission, the Finance Secretary was interviewed live on the radio and dealt with both positive and negative feedback from the public.

11 "Below-the-line" refers to funds available to the government through externally financed loans, credits, trust funds and grants for a given fiscal year but do not appear in the Budget Estimates. However, they do appear in the final public accounts because they represent government monies.

12 Increases to appropriations (supplemental) require a journal entry made by Treasury.
expenditures. When the AG receives the payment request, it is within the annual budget allocation but it exceeds the current available funds for that month. Therefore, the AG must issue a check for payment due that exceeds available funds. In order to prevent an overdraft, the AG holds the check until funds are available which creates a cash arrear not to mention dissent and pressure from vendors and service providers who do not receive their payments. As of November 2002, the oldest such checks were two years old.

45. Under the current scenario found in Dominica, budget allocations have exceeded total available funds, so even if a ministry maintains its spending within its monthly allocation, its payment commitments may still exceed available funds. The government is then left in a position to honour the commitment by borrowing funds or defaulting on the payment.

46. Currently there are no mechanisms to warn — and constrain — the government from entering into commitments that exceed the total available funds. As a result, Dominica suffers from an increasing accumulation of cash arrears. As of December 31, 2002, domestic arrears were estimated at EC$62 million and total arrears at EC$76 million.

47. A system of commitment limits is used by neighboring OECS countries and it seems to work well. However, the control process depends on the degree of fiscal discipline that each level is willing to impose, and in Dominica discipline has been weak. For example, the FY2001 annual audit report lists several examples where ministries overspent, particularly for salaries, mostly because there is a lack of communication and exchange of information regarding available funds between heads of divisions, budget, accounting, and in the case of salaries, the personnel department.

48. The issue of controlling commitments also continues to challenge the MOF in terms of enforcement. Currently the government has no way of determining how much is committed for the remainder of the fiscal year. There are no formal procedures to track and monitor commitments, and no mechanisms in place to limit commitments. It is generally difficult to monitor commitments because in some cases they can be made verbally or informally. The procedures needed to control commitments will need to rely to some degree on the honor system as well as the distribution of public information to the vendors and suppliers so that they can play a part in enforcement. This is further discussed in the cash management section.

49. Although the budget execution is monitored in several ways, it is difficult to get reports that present information in a consolidated and useful manner. There are monthly reports by the Office of the Budget to the Minister of Finance; quarterly and annual forecasts of revenue and recurrent and capital expenditure submitted by ministries and departments to the MOF, and quarterly reports by MOF to the Cabinet. The Budget Unit monitors recurrent expenditures during the year based on reports from SIGFIS, while the Public Sector Development Unit monitors those for capital projects, which requires the compilation of data from a variety of sources, such as donor agencies and project management units holding imprest accounts.

50. Furthermore, SIGFIS does not always contain timely information because a majority of the ministries are offline, so their budget execution information must be entered manually based on spreadsheets usually sent on a monthly basis. In addition, SIGFIS hardly has any information regarding externally financed capital projects. Capital projects are monitored by quarterly reports of financial and physical progress that should be submitted by project implementation units. The quality of reports is generally not good because they are late (or not submitted at all), incomplete, and unreliable. Since externally financed capital projects maintain their accounting records
independent of SIGFIS, it is left to the AG to seek this information out from each individual project.

**Use of IT in Budget Process**

51. The use of information technology in the budget process is increasing. In FY2000, under the CIDA-financed Eastern Caribbean Economic Management Program (ECEMP) (Annex 4), the government implemented SIGFIS, which provides adequate capacity for good public financial management. As of October 2002, four government departments could use the system online. For off-line ministries, SIGFIS has the budget workbench. However, it appears that ministry staff have insufficient technical knowledge to use the system, do not have access to system terminals, or lack the license required to operate the system. Furthermore, as budget information is processed differently by each department and is not all maintained on one system, the consolidated budget is prepared using a computer spreadsheet instead of SIGFIS, even though the system has the capability to generate the report.

**Conclusions and Recommendations**

52. **The government should improve the budget monitoring process which includes improving the budget execution reports.** This may require various measures, including a rolling out of SIGFIS to all line ministries and imposing disciplinary actions on ministries that do not provide their budget execution information on a timely basis.

53. A commendable aspect of Dominica’s budget process is the discussions held between the MOF and line ministries during budget preparation. However, these discussions should include members of Cabinet, and the fiscal strategy should be monitored throughout budget execution to ensure that public funds are spent in accordance with nationally agreed objectives. **MOF should implement procedures to make the budget monitoring process more comprehensive by requiring the development of measurable objectives.** The objectives should be monitored on an ongoing basis throughout the year at each level of execution, and the results should feed back into the budget allocation and the decision to impose commitment limits on the ministries.

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13 According to ECEMP, these departments handle 20 percent of all transactions.
54. The following table list specific actions that the government can take to improve its budget process.

<table>
<thead>
<tr>
<th>BUDGET PROCESS RECOMMENDATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve Budget Monitoring. Procure technical assistance (consultant) to develop the procedures needed to make the budget monitoring process more comprehensive and effective. This plan should include procedures for preparation and formulation of corporate plans and measurable performance indicators, the type of information needed to monitor these indicators, how the monitoring information should feedback into the budget planning process as well as the timely adjustments of budget allocations and commitment limits that should be made through out the year when actuals deviate from planned revenue and expenditures estimates and projections.</td>
</tr>
<tr>
<td>Prepare Monthly Budget Execution Reports. Institute a policy requiring the AG prepare monthly reports on the budget execution of each line ministry and circulate these reports within the MOF and the ministries. These reports should include actual versus budgeted information for the following:</td>
</tr>
<tr>
<td>➢ Recurrent and Capital Expenditures</td>
</tr>
<tr>
<td>➢ Outstanding Commitments</td>
</tr>
<tr>
<td>➢ Cash and Payment Arrears</td>
</tr>
<tr>
<td>➢ Debt Service Requirements</td>
</tr>
<tr>
<td>➢ Revenue In-take and Receipt of External Funds</td>
</tr>
</tbody>
</table>

This recommendation is contingent on the accuracy and reliability of the information entered into SIGFIS as well as the timeliness of information received by the AG from the line ministries that do not have on-line access to SIGFIS. Therefore, the MOF should also institute a short-term policy that provides the FS with measures to enforce compliance with the monthly reporting requirements for line ministries. This policy should allow the FS the authority to reduce or delay monthly budget allocation for ministries that fail to provide complete information on time. The policy should also require the FS to use this information to set payment priorities and commitment limits.

**Cash and Debt Management**

55. The government can significantly improve the way it plans and manages its public funds by strengthening the cash and debt management functions. **Currently these functions are weak because they do not effectively deal with Dominica’s cash shortage or borrowing needs and do not seem to follow procedures to ensure efficient and economical use of public funds.** The government has taken recent steps to improve cash management by establishing a Cash Management Unit in MOF, but cash management procedures are not yet well established or effective. Furthermore debt management is highly fragmented and debt analysis, although prepared, does not seem to factor into the decision making process of Parliament when loans are proposed and approved.

56. Although the analysis of debt management functions lies outside the usual scope of a CFAA and is dealt with in greater detail in the FIR report, it is included here because the government’s borrowing requirements impact directly on its overall cash flow position.
Cash Management

57. The Budget Division of MOF manages cash via budget allocations. However it does not appear that these allocations are modified to reflect the actual fiscal position of the country. The budget has historically exceeded actual execution costs, as shown in the figure below from the FIR report\(^\text{14}\) and led to an overspending problem. Furthermore, even if budget allocations were cut back in response to cash shortage, this process is very reactive and not sustainable in the long run because it responds after the fact instead of preventing the shortage in the first place.

\[\text{Budgeted} \hspace{0.5cm} \text{Actual Recurrent Expenditures}\]

58. This leads to the conclusion that overspending results from actual expenditures exceeding the actual revenue collected. Therefore the focus, in the short term or until the budget plan is more in line with actuals, should be on controlling spending in terms of actual resources collected and available versus the budget allocation. This can be done by way of commitment limits which uses revenue and cash availability forecasts to control how much a ministry can commit to spend within a given period, such as a month. Currently Dominica does not have a formal system that records anticipated spending needs generated by government commitments. Furthermore, it does not have a formal process for setting payment priorities in the case of a cash shortage. Instead, the AG and the FS meet on a regular basis to decide what payments will be made and others deferred to a later period. For example, the AG prepares a check that is placed in a queue awaiting release once sufficient funds are available, which in recent times has taken more than a year. This practice of writing checks that are not issued generates cash arrears. Based on discussions with the AG, the FAA is not very specific on the criteria that should be followed under these circumstances and has lead to the accumulation of substantial arrears. Given Dominica’s current fiscal crisis, this practice is not sustainable and should be halted and arrears reduced promptly.

59. The MOF attempted to address its overspending and cash shortage problems by requesting, in November 2002, that each ministry prepare a report with actual and estimated revenue and expenditures by the tenth of every month. However, line ministries still continue to spend, even though their expenditures exceed the available resources. This may be due in part to the fact that

\(^{14}\) This may suggest an overestimation of revenue, an issue that will be analyzed in the FIR report.
payment requests are generated by line ministry staff who do not have up-to-date information on actual cash resources available (versus budget allocated resources) to cover the payment and because the MOF waits to receive actual spending and revenue information to react to the shortage versus attempting to limit what a ministry can commit to pay in the first place.

60. In addition, the staff at line ministries have limited capacity to prepare the analysis required to prepare their estimates of revenues and expenditures in an accurate and useful manner. It may be necessary to procure consulting services to assist the management teams of the line ministries and to work with the central cash management unit to maximize the benefits of preparing revenue and expenditure estimates as required in the November 2002, circular. In fact, the IRD may already employ an effective revenue projection methodology that could be shared with the line ministries in preparing their revenue estimates.\textsuperscript{15} Furthermore, the MOF should consider taking stronger measures, such as curtailing or delaying budget allocations to ministries that do not present the information required by the circular on a timely and complete basis.

61. For externally financed capital projects, where expenditures are made from deposit accounts outside the AG's control, and direct payments by donors to contractors, suppliers and consultants, the AG should receive monthly journal vouchers showing the amount spent on each project. However, capital projects are often late in sending their expenditure information because the project coordination units do not feel an obligation to keep the AG informed of expenditure activity. This makes managing cash flows on externally financed capital projects difficult. As suggested in the OECS CFAA, the AG should meet with representatives of donor agencies and project coordinators, and consider a common approach to ensure that timely information is provided for accounting external funds.

62. For domestically financed capital projects, ministries are expected to provide annual work plans that detail their cash flow requirements on a quarterly basis. Although interim project implementation reports are expected to update cash flow estimates based on actual progress, this system does not function well. Consequently, projects are held up or unplanned cash has to be raised, which increases the government's cost of funds.

63. In Dominica, the actual management of cash in accounts is not a simple process. The CF is made up of five different bank accounts to pay for expenditures and two accounts to receive revenues.\textsuperscript{16} The AG, as the chief accounting officer for government funds, must manage and reconcile these accounts on a continuous basis. This process should be simplified by consolidating the bank accounts to ensure an easier reconciliation process and reveal accounts where funds are idle and could be put to better use or reduce the cost of account management and overdraft fees\textsuperscript{17}. This would also facilitate the implementation of an automated reconciliation process that would alleviate this administrative burden on the AG.

\textsuperscript{15} The scope of this report did not include a review of public financial management procedures at the Inland Revenue Department.

\textsuperscript{16} FIR report

\textsuperscript{17} The quantification of these costs went beyond the budgeted scope of this report but should be considered in the follow-up work for this report.
Use of IT in Cash Management

64. Dominica has not yet implemented the cashier module of SIGFIS although it is anticipated that under ECEMP III this module will be implemented during the next fiscal year beginning July 1, 2003. In the meantime, the central government’s cash management unit is using a system of manual and spreadsheet-supported procedures that are adequate but highly inefficient and burdensome. Furthermore, there are no links between this system and the revenue collection system. Therefore, cash is managed either without this information or with information that is old and may no longer reflect Dominica’s actual fiscal position.

65. For the short term, the government has engaged the assistance of CARTAC and technical assistance from the Barbadian government to strengthen the current system to provide adequate cash management. ECEMP III has a cash management project that includes building interfaces between the Inland Revenue Department and SIGFIS to allow the immediate exchange of actual revenue collection information that will feed into the accounting records and budget planning process. However, for this interface to add value, the procedures for budget process will need to be revised to take this information into consideration during the planning and execution phases of the process.

Debt Management

66. The debt management function is split between a small MOF unit under the Budget, Debt, and Fiscal Management and Accountant General’s Departments. This makes it difficult to develop a borrowing strategy, which can lead to the risk that debt is assumed ad hoc. Furthermore, as already discussed in the cash management section, Dominica is facing a cash shortage problem. Therefore debt management is of paramount importance since it will most likely need to assume debt in order to plug this shortage.

67. In order to prevent the assumption of debt in an ad hoc fashion and at less than economical terms because of time constraints, the debt unit should develop a comprehensive debt strategy that takes into consideration anticipated cash shortages. However, because debt is managed in a fragmented fashion by the debt management unit, the AG, and the accounting officers at the line ministries and because there is no consolidated statement of debt, it makes it very difficult to develop and follow a strategy.

Use of IT in Debt Management

68. The MOF debt management unit uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to record and maintain debt data and facilitate the preparation of reports for use in fiscal management decisions. The CS-DRMS is used for external debt only; domestic debt data is maintained and managed by Treasury. The CS-DRMS has a module for domestic debt, and the Treasury accessed this via modem to input domestic debt data until 1997, when the modem connection was discontinued at the time SIGFIS was installed. The connection has not been re-established, so the two databases are maintained separately. It is difficult for the debt department to prepare an adequate borrowing strategy in the absence of real-time

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18 The Strengthening Debt Management Report, prepared by Oxford Policy Management under DFID funding, and issued to the government in May 2002 shows that this is very much the case in Dominica.
information available on SIGFIS and other relevant information maintained by other automated systems used by the government.

69. Furthermore, based on discussions with the debt unit and the line ministries, current regulations permit ministries to negotiate loans without prior involvement by the debt unit. This has caused CS-DRMS data to be incomplete and the system capabilities underused. It has also prevented analysis of individual loans to ensure that they are contracted on terms that are sufficiently concessional and do not present an unsustainable debt service burden.

Conclusions and Recommendations

70. Cash management is weak and debt management is not adequately included in Dominica’s financial management process. The MOF has taken steps to improve cash management but several steps remain to improve this function and debt management. The following table lists specific actions the government can take to improve its cash and debt management process.

<table>
<thead>
<tr>
<th>CASH &amp; DEBT MANAGEMENT RECOMMENDATIONS</th>
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<tr>
<td>1. Prepare and Set Payment Priorities and Commitment Limits. Institute an interim policy requiring government to forecast cash availability and set payment priorities and commitment limits that will control when expenditures are paid, serve as an early warning system when expenditures payments may exceed cash availability, and provide a guideline to the AG for authorizing payments in the case of a cash shortage. Specific actions include:</td>
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<tr>
<td>• Adjust limits based on information provided in comprehensive monthly monitoring reports.</td>
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<tr>
<td>• Set commitment limits that are consistent with revenue in take and cash availability.</td>
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<tr>
<td>• Issue a public announcement that all ministries are subject to these limits and that vendors can submit requests to the Accountant General’s office to confirm that the commitment they have received from a ministry does not exceed the limits (these requests should be limited by a minimum dollar figure so that the AG’s office is not inundated with requests).</td>
</tr>
<tr>
<td>• Set payment priorities that are consistent with the overall fiscal and developmental strategies of the country.</td>
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</tbody>
</table>

The medium- to long-term objective should be adopt modified cash and then modified accrual accounting that automatically tracks commitments via the recording of liabilities.

2. Improve effectiveness of Cash Management. Increase the government’s capacity to prepare accurate monthly revenue and expenditures estimates by procuring technical assistance (consultant) to assist the management teams of the line ministry prepare the monthly reports on their actual and expected revenues and expenditures in accordance with the requirements detailed in the Circular issued by the Finance Secretary in November 2002. The TA scope of work should include:

3. Prepare procedures to gather historical information on expenditures and revenues (this information may be available at the Inland Revenue Department (IRD)).

4. Assist in determining proper account classification of costs and revenues, i.e. discretionary versus non-discretionary costs.

5. Provide guidance on how to prepare expenditure and revenue forecasts (should consult with IRD and Budget for methodology).

6. Establish criteria for prioritizing payments.
7. The consultant should also work with the IRD and the Budget Office to ensure that information provided by the line ministries is consistent with the revenue projections and trends used by the IRD and Budget to prepare the Estimates and monthly budget allocations.

8. Simplify cash management in government bank accounts, by closing all accounts except (i) where separate bank accounts are required by law or trust instruments, (ii) temporary payroll accounts that are cleared after each batch of payroll checks is cashed, and (iii) imprest accounts operated by named officers, which have to be cleared at the end of each year. This will simplify the bank account reconciliation process and contribute to a more efficient allocation of cash resources and allow investment of surplus funds.

9. Issue guidelines for the management of public funds in government bank accounts. By issuing a circular that (i) explicitly establishes the criteria needed to open a government bank account, (ii) reminds ministries to submit monthly reconciliations of government accounts to the Accountant General, and (iii) remind ministries that public funds belonging to the government should by way of checks or currency, should be made payable to the Accountant General and deposited in the consolidated fund.

10. Integrate external and domestic debt management into one unit. All debt management functions should be centralized into one department within the MOF to ensure that the country follows a cohesive debt strategy. This process should first begin with the development of a plan, including the reassignment of staff, to consolidate the units followed by the actual consolidation process. The department should be equipped with a manager and sufficient staff to plan, manage and service Dominica’s public debt. The MOF may consider moving staff from the Treasury, which now manages domestic debt, to the debt department. By doing so, knowledge will not be lost and the additional cost of hiring new staff can be avoided.

11. Link the debt management information system to SIGFIS. Based on discussions with the computer center, software and systems capabilities exist and it is simply a matter of connecting the two systems. Once the connection is established, debt information should automatically flow into SIGFIS, where the AG can collect it and report it as part of the public accounts. SIGFIS can also feed the CS-DRMS with cash inflow and debt service information, which will help better plan and manage Dominica’s debt strategy.

Accounting, Reporting, and Internal Controls

71. Dominica’s accounting and reporting functions need updating as well as customization and accessibility by all ministries. The current information technology has the capacity to support good public financial management and meet the needs of the government but its utility has been limited by human capacity constraints, the input of inaccurate or unreliable data, and the lack of IT support.

72. Dominica should take the measures needed to present its public accounts in accordance with internationally recognized standards and free of material omissions that reduce their reliability and usefulness. Dominica’s current annual audit revealed that the public accounts do not present all financial transactions carried by the government in their entirety.

Role of the Accountant General

73. The Accountant General (AG) serves as both Treasurer and Chief Accountant. Her duties include performing an ex-ante audits of all payments to determine whether they remain within the amounts appropriated by Parliament; refusing payments that are not in order or do not
comply with laws and regulations; acting as custodian of all government securities; implementing internal controls to prevent fraud and embezzlement, and managing the government’s cash flow. As Chief Accountant, she must account for all revenues and expenditures, prepare monthly and annual financial statements, and present annual statements to the Director of Audit for examination.

**Basis of Accounting**

74. The government uses the cash basis double-entry system of accounting. This means that revenues are recorded when collected and not when earned, and expenditures are recorded when paid and not when accrued or when invoices are received. This means the government does not have a clear picture of the actual revenue earned during a fiscal year, or the expenses incurred. For example, even though taxes are incurred for income earned during a fiscal year, these taxes are often collected after the close of the fiscal year, so that this revenue appears in the year it actually collected, not the year in which the government actually earned it. Expense accounting is similar—if government commits to purchases in one year and invoices are paid after its close, the expenses are recorded in the next year. This mismatching of revenues and expenditures with the periods in which they were incurred has far-reaching effects on the government’s ability to plan its budget estimates and manage cash. There is always a risk that the following year’s budget will not cover expenditures from the previous year.

75. This mismatching is aggravated by the AG’s practice of printing checks at the end of the year but not issuing them. This forces the recording of the expenditure on the books and reduces the allocated amounts given to spending ministries, but does not affect the government’s bank balance. The checks are only released once funds are available, which recently has taken up to two years. As a result, there are artificial expenditure peaks in the last month of each year, and large divergences between cashbook and bank balances. This adds to the burden of cash reconciliation, which is generally in arrears, and creates a security risk because the paper checks that are held can be lost, damaged, or become invalid.

76. The preferred solution is to move to a modified cash accounting basis, and eventually to modified accrual accounting. Modified cash or accrual accounting provide a more accurate picture of revenues and expenditures that correspond to a period because they tracks commitments via the recording of liabilities. As such, it is easier to reconcile the results of expenditures made during the year to the actions and investments that the government has decided to make. They also provide a way to manage and control commitments that then feeds into better management of cash and debt.

77. However, this will require a complete modification of the standards of the accounting followed by the government as well as re-customizing of SIGFIS to allow for the input of information under these new standards. It is also imperative that the modification in accounting basis is supported by modifications in budgeting. This means that budgeting will eventually move towards accrual budgeting. For this reason, the government should consider moving to
modified cash and then modified accrual as a long-term goal and implement a system of commitment limits, as discussed in the cash management section of this report, in the short term.

Use of IT in Accounting

78. The SIGFIS system is the main government accounting system. It went live in the AG's Department and the rest of MOF in January 2000. Three modules (general ledger, payables, purchasing) were initially implemented, followed by payroll (January 2001), then funds control and the budget workbench (in July 2001). Three additional departments (Agriculture, Communications and Works, and the Personnel Department in the Office of the Prime Minister) are now online. Computers have been purchased for the others, plus the two sub-treasuries, but these plans have been deferred for lack of funds to cover the costs to purchase and implement software and capacity.

79. For those ministries not on line, transactions are entered into the system by the AG's staff based on manual journal entries submitted monthly by each ministry. It is the responsibility of each ministry to reconcile its monthly vote book to ensure that its records match those of the AG and that it does not overspend its allocation. However, due to a system update of SIGFIS in which the database was partially lost, the information needed for the ministries to reconcile their vote books has been delayed in printing by several months.

80. SIGFIS now represents the main data warehouse and accounting tool used by the government to manage its finances. However, even though the system is capable of operating to a satisfactory level and able to meet the needs of government, there are certain constraints that have not permitted the government to maximize the system's capabilities. These include limitations in human capacity to use the system, data accuracy and reliability, and IT support for the system.

Reporting

81. Dominica's AG is required to present annual statements to the Director of Audit within three months of the end of the year. The government's latest audited financial statements cover the fiscal year ending June 30, 2001. They were first submitted to the Director of Audit in October 2001, returned for corrections, resubmitted in April 2002, and certified in June 2002 by the Minister of Finance. This is a good record, and puts Dominica among the most up-to-date OECS countries in reporting. Unfortunately, these statements have significant omissions that substantially erode their quality and reliability.

82. Under the FAA and international accounting standards, the government's annual financial statements should include individual statements of assets and liabilities; balances on advance accounts; balances on deposit accounts; outstanding loans made from the CF; public debt; contingent liabilities; investments and funds on behalf of which they were made; Contingency Fund Account; changes in financial position; and other statements as Parliament may require. In Dominica the public accounts do not include all outstanding loans made from the CF, all public debt, or statements of arrears of revenue and losses of cash and stores as required by law. It is not clear why these statements are not provided. The Director of Audit includes in his annual report

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19 In countries such as Canada and New Zealand, it has taken on average 15 to 20 years to move towards accrual accounting. Therefore this report will not go into the specific details regarding the steps required to move Dominica towards accrual accounting since a separate report on this topic would be more appropriate.
a statement of losses due to theft or negligence reported during the year, and a statement of arrears of revenue and salary overpayments, all of which showed significant total amounts.

83. Furthermore, the annual statements are presented exclusive of funded public debt, the related sinking fund, the external debt, overdrafts and guarantees made by the government, and external funds received for capital projects. The Director of Audit has pointed out that for the past 12 years, the annual statements have not presented a comprehensive public debt statement. This omission is a material misstatement. The data is available from the MOF Debt Unit, although the annual audit report indicates reliance cannot be placed on the figures that appear in the system.

84. Furthermore, the omissions of external funds erode the reliability of the public accounts statements, distort the presentation of public sector accounts, and may also distort the national balance of payments accounts and the national income and product accounts. What appears to be overestimation of revenue may be due rather to under-reporting of foreign aid revenue. Direct aid (i.e. aid not passing through government systems) is usually brought to account simultaneously with revenue and expenditure. However, the IMF reclassifies loan aid as financing items, so their omission from the accounts means that expenditure is understated and the overall deficit is correspondingly understated.

85. There is an international standard for general-purpose government financial statements kept on a cash basis (IFAC/PSC-ED9, issued January 2003). It requires a statement of accounting policies, including the definition of the reporting entity, the point of recognition for receipts and payments, the treatment of reserves, and the translation of amounts denominated in foreign currency. Additional disclosures in the notes to the accounts should include:

- Lists of physical assets (including land);
- Commitments;
- Tax expenditures (estimates of revenue foregone because of preferential provisions of the tax structure), and,
- Forecast information.

86. Except for some partial statements of accounting policies, these are not disclosed in Dominica’s public accounts. The AG and her staff should remain aware of changing international standards and move in the direction of compliance with them, as these are the standards of transparency on which governments are now judged.

Use of IT in Reporting

87. Dominica should consider its reporting capabilities weak. Based on discussions held with ministries and departments, it appears that the automated systems have reporting capabilities that have not been customized for the needs of the users. Therefore, the government should consider procuring technical assistance to (i) customize the reporting capabilities of its automated systems, and (ii) provide standard spreadsheet formats for those processes that remain manual. Also, reports per se are not helpful unless they are designed to present the information in a useful manner. This ensures that information is properly understood, easily circulated, and included in the decision-making process that keeps the financial management process transparent.
Internal Controls

88. Internal control is left to heads of departments (Accounting Officers), who have no internal audit units and very little guidance and support. Furthermore, these officers receive very little training in the systems and procedures they operate. The planned decentralization of authority and responsibility that the MOF is seeking will depend on strong guidance and support for its success.

89. The Internal Audit function is centralized at the Treasury. However, although the position of Director of Internal Audit exists, it is not currently filled. A job description exists but has not been reviewed for relevance or adequacy given the new automated systems in place.

90. The quality of staff is a very important component of internal controls. In Dominica, staff are recruited and promoted centrally by Public Service Commissions and their secretariats. In most cases, departments have little influence on the selection of their staff. Also the pool of candidates with basic financial management skills is limited, and candidates with these skills often prefer the private sector. This is especially true for staff with basic IT skills, which are becoming increasingly important now that the government uses several automated systems for financial management.

Use of IT for Internal Controls

91. Although Dominica is moving toward more automation of its financial management functions it does not appear that it has adapted its internal controls to this new environment. Manual procedures still prevail, even though the systems have the ability to provide a more stringent control process.

92. The most significant threat to internal controls will be the lack of staff capacity to use the system properly, including the input of accurate and reliable data. If staff do not have the capacity to use the system, they may opt not to maximize its benefits and instead carry on with a parallel manual system that will be difficult to control, not easily reconciled, and subject to more human errors that an automated system can be programmed to catch. Staff need to be trained in public sector financial management so that they have the wherewithal to understand what information is required by the system to carry out day-to-day management of public funds. Providing the appropriate training and capacity to staff will reduce the government's risk of implementing good systems at significant cost—only to have them process useless data.

93. Dominica should consider training in the following areas to strengthen internal controls:

- **SIGFIS** for all accounting staff, the audit staff, and accounting officers at the line ministries. The extensive use of computers and online activities in some areas of budgeting and accounting can not only add to the transparency of the process, but also facilitate the effective monitoring of transactions. However, ministries continue to rely on parallel manual procedures performed by staff who do not always possess sufficient technical background to perform their tasks on SIGFIS.

- **The Standardized Integrated Government Tax Administration System (SIGTAS)** for the Ministry of Inland Revenue and Customs and audit staff.

- **CS-DRMS** for the staff in charge of debt management and the audit staff.
- **Database management systems** for the staff of the computer center as well as redesigned job descriptions that reflect their actual duties and required capacities.

- **Public sector financial management** for all accounting staff, Accounting Officers, members of the PAC, and the staff of the management teams at each of the line ministries.

94. To realize economies of scale, regional training using distance learning can help avoid the high costs of travel and subsistence. Dominica already has a Distance Education Center that together with the University of West Indies School of Continuing Studies in Mona, Jamaica, provides learning opportunities using centrally prepared course materials, local assistants, and teleconferencing facilities. As Dominica is not the only country with staff who lack the capacity to use government systems, it should consider pooling resources with other OECS countries to provide the training needed.

**Conclusions and Recommendations**

95. **Dominica's internal controls represent the area of highest fiduciary risk.** Rules and regulations governing the financial accounting and reporting functions are outdated and do not reflect the use of SIGFIS, staff do not have sufficient capacity to use the systems to carry out their functions, the systems process information in isolation, and reporting of the information is not consolidated or very useful. All of the factors represent weaknesses in the internal control framework.

96. Without regulations that promulgate accounting policies, reporting requirements, and staff qualifications, it is difficult to rely on the accuracy and validity of the information processed and generated by the accounting system. Currently accounts staff have no structured training in the systems and procedures they operate, the internal audit unit is unstaffed, the MOF does not monitor compliance with internal controls or provide systems support, routine reconciliations are months in arrears, and the Director of Audit repeatedly reports that internal controls are widely ignored or evaded.

97. The current annual public accounts do not reflect all of Dominica's financial activity. As such, reliability and transparency are compromised and the government is left to make policy and fiscal decisions using incomplete information. These plans are then translated into a budget process that is implemented without effective expenditure control or clear parameters that ensure that funds are invested toward intended objectives. Even if these limits and parameters could be set, the automated systems that would monitor them are not fully implemented in all ministries or fully utilized by the staff that currently have access to the system.

98. There is also a problem with the accuracy and reliability of the information currently in SIGFIS. These include discrepancies between the bank balances on the system, the manual cash balances maintained on the books, and the balances on the bank statements. Also there are old balances that have not been verified and missing balances, such as from the transactions for some land sales and purchases as well as receipt of external funds. Donor disbursement advices and expenditures from project special accounts are not promptly reported to the AG. Since donor-financed projects usually manage their funds independently from those managed by the AG, a natural disconnect is created. The result is that both expenditure and revenue are understated in
the public accounts. Generally, external funding is included in the budget, but its omission from the corresponding accounts shows up as a shortfall in expenditure and revenue.

**RECOMMENDATIONS FOR ACCOUNTING, REPORTING & INTERNAL CONTROLS**

1. **Improve Effectiveness of FM reporting.** Currently Dominica’s financial statements include material omission of information that significantly reduces their usefulness and can be considered a serious departure from international standards. Therefore the AG should seek to adopt and follow standards for accounting and reporting that are generally accepted such as those issued by the International Federation of Accountants (IFAC) for general-purpose government financial statements kept on a cash basis (IFAC/PSC-ED9, issued January 2003) or International Accounting Standards (IAS).

2. **Appoint a Internal Auditor.** Currently the position exists but is unstaffed. Prior to staffing, the job descriptions should be reviewed for relevance and that the tasks meet the current internal audit requirements. The job description should include and provide the internal auditor with the authority to monitor compliance with internal controls and suggest ways to improve control effectiveness. The selection of the candidate should rely heavily on the input of the Director of Audit’s office, as his staff will need to rely on the internal auditor’s work.

3. **Prepare a FM policies and procedures manual.** Civil servants in-charge of carrying out FM still rely heavily on manual procedures and seem reluctant to move towards automated procedures. This transition may be facilitated if an FM manual was prepared explaining the relevance of each automated financial management process (budget, accounting, audit, etc.), and the key policies (FAA, IAS) and procedures needed to carry out their daily FM responsibilities and what systems should be used to carry out these procedures. The internal auditor should be highly involved in the process of developing these manuals as they will form the basis for monitoring compliance and assessing the adequacy of controls.

4. **Design and implement a training needs survey and program.** The survey could be undertaken by a training specialist as a regional effort, as training needs are similar across the OECS countries. Under the joint supervision of the AG, the Director of Audit, and the Ministry of Public Service, the program should distinguish between the skills required for the performance of current duties in the various budgeting, accounting, reporting and internal audit posts, based on their position descriptions, and training for the levels of accreditation such as accounting technician and full professional level, which should be linked to promotion through the grades. Middle and senior level officers need supervisory skills as well as technical skills. Training should be continuous throughout the career and form part of the staff evaluation process.

5. **Establish procedures to ensure that donors and project coordinators submit timely and accurate expenditure information regarding external and donated funds to the AG.** Large amounts of aid are not reported in the public accounts due to a failure of donors and project directors to report aid receipts and expenditures promptly. This practice is distorting comparisons of budgeted and actual revenue and expenditure, and comparisons of expenditure with results.

6. **Adopt a modified cash basis of accounting** in the short term to facilitate the accounting of commitments. In the long-term Dominica should look into the experience of other countries, such as New Zealand, on the various steps needed to move towards the accrual basis of accounting and determine the best approach for adopting this method of accounting to their own PFM. This method would provide a more accurate matching of expenditures with results.
Financial Management Systems and IT Support

99. IT is beginning to play a large role in financial management and can go a long way toward making financial management more efficient and transparent. As a priority, the government should continue its efforts to roll out SIGFIS to all line ministries. However, prior to committing public resources towards the implementation of SIGFIS to all ministries, the government should ensure that the procedures for gathering relevant information and inputting the data accurately are in place, and that staff have the technical training and the license to use the system once it is implemented. Otherwise the government will risk having a system that only a few people can operate and that uses inaccurate, insufficient, or unreliable information to prepare its reports. Once this is accomplished, it should consider the costs and benefits of connecting its systems to facilitate the exchange of information such as between SIGFIS and the CS-DRMS. Maintaining the integrity of the information and realizing the full benefits of automatization will require adequate IT support and staff capacity built in tandem with the rollout and connection of these systems.

100. The SIGFIS system is the government’s accounting primary accounting tool and has been online in the MOF and AG’s office since January 2000. The use of SIGFIS could make the PFM process more efficient, facilitate the exchange and analysis of relevant information, improve the reconciliation process of the overall fiscal strategy to what is actually executed, and provide some measure of spending control. However, currently, only four departments have the capability to use the system online. For ministries not online, accounting transactions are entered in the system by the AG's staff based on manual journal entries submitted monthly by each ministry; the consolidated budget is prepared using a computer spreadsheet rather than SIGFIS, and the annual financial statements contain material omissions of information. Furthermore, automated systems have reporting capabilities that are not being used because they have not been customized for the needs of users.

101. SIGFIS was implemented with a high-end database management system that requires frequent, if not constant, oversight by an experienced database administrator. There is no experienced database management administrator in Dominica, putting the current application and any future developments at risk. Based on discussions with the former manager of the Computer Center, staffing at the center does not meet the current needs of the system. In September 2001, a plan was presented to the FS to redesign staff job descriptions and provide training to improve the capacity of the Center’s staff. However, due to limited funds, this proposal has not been implemented.

102. The government computer center supports and maintains the government’s automated systems. Based on discussions with the former manager, the staff does not have sufficient technical capacity to provide appropriate database management support. In fact, since the removal of the manager, Dominica has needed to hire a temporary consultant, at a substantial expense, to provide database support. Also, the daily processes carried out by computer center staff no longer reflect their original job descriptions. It appears that the staff have learned on the job and provide ad hoc support. This situation should be formalized by updating their job descriptions and providing training to ensure that the information maintained on the systems is secure from manipulation, erasure, or vandalism. The staff should also be required to prepare user manuals for the systems so that staff in the line ministries using the systems can maximize the benefits of system features. The manuals should include descriptions of the reporting...
capabilities of each system, and center staff should be able to customize the systems to generate information in a useful manner.

103. The OECS CFAA identified the lack of IT support as a regional weakness and proposed that the OECS countries pool their resources to establish a regional IT support center that would maximize the scarce technical skills found in the region. This would also reduce the cost of maintaining the systems and hiring expensive consultants.

**RECOMMENDATIONS FOR FINANCIAL MANAGEMENT SYSTEMS**

1. **Strengthen the use of IT in accounting, reporting and internal control.** Procure technical assistance to (i) roll out SIGFIS to all line ministries, (ii) conduct a sweep of information on the system to remove incorrect or old data and update and add missing data, (iii) customize the reporting capabilities of the system so that reports can be generated easily and provide useful information, and (iv) carry out a cost/benefit analysis of purchasing software to connect SIGFIS to other automated systems to allow automatic sharing of information through a network.

2. **Reorganize the computer center.** Institute an IT policy to strengthen the computer center and ensure its capability to maintain the integrity of information and support the IT needs of staff using the system. The policy should include (i) provide for adequate staffing of the center, (ii) provide for resources to maintain the center, (iii) require the center to prepare system manuals with a reference on the features of the system and how they are used, (iv) provide for the technical capacity to customize the reporting capabilities of the automated systems so that data is organized and presented in a useful manner.

**External Auditing**

104. Dominica's Supreme Audit Institution (SAI) needs more autonomy over the management of its resources including the appointment and training of its staff to ensure that they can pursue their mandates effectively and independently. Currently the Director of Audit must submit its budget request to MOF, which has the authority to cut this budget as it deems necessary. Furthermore, the Public Service Commission appoints the office staff without involving or requesting the consultation of the Director of Audit regarding the technical skills needed.

**Overview of the SAI's Function**

105. In accordance with the Constitution, the SAI function is carried out by the Director of Audit who is appointed by the President, acting in accordance with the advice of the Public Service Commission. Before tendering advice, the Public Service Commission has to consult with the Prime Minister. Parliament has no say in the selection even though the Director of Audit reports to that body. Dominica's Director of Audit is appointed for an indefinite period but must retire at the age of 55. The Director can be removed only for incapacity or misbehavior as determined by an independent tribunal. This is common to all OECS countries and provides appropriate protection of tenure.

106. The SAI's audit programs include all ministries, agencies, and SOEs that do not have the authority to appoint their own private auditors. The Director of Audit must:
- Satisfy himself that all moneys that have been appropriated by Parliament and disbursed have been applied to the purposes for which they were so appropriated and that the expenditure conforms to the authority that governs it, and,

- At least once in every year, audit and report on the public accounts of Dominica. The Director of Audit audits every auditable body every year, except for overseas missions that are audited on average every five years because of the high expense.

107. According to the audit report for FY2001, the Director was not fully satisfied that the financial statements, in particular the Statements of Assets and Liabilities and the Statement of Expenditures, contained sufficient information. As a result, he issued a qualified exception opinion that included several explanatory paragraphs indicating where information was either missing or inaccurate.

108. The Director of Audit, in his certificate on the accounts, states that the audit is conducted in accordance with International Organization of Supreme Audit Institutions (INTOSAI) and Generally Accepted Auditing Standards. The standards and practices attempt to provide reasonable assurance as to whether the statements are free from material misstatements. However, due to limits in human and financial resources, these standards cannot always be observed.

109. Staff quality determines the effectiveness of audit and it is an INTOSAI standard that there be sufficient trained staff to carry out audit work. This is not the case in Dominica, especially in terms of staff with IT capacity. Personnel records are no longer audited and exception reports from SIGTAS, SIGFIS, and CS-DRMS are not reviewed. The information in the system is not verified for accuracy or reconciled in a periodic or timely fashion. More staff with training in computer-assisted audit techniques and value-for-money audits is needed.

110. The Director of Audit has no role in recruitment of his staff. There is very little awareness in the Public Service Commission and Office of Personnel Management personnel division of his special technical needs. This results in appointment of staff that do not have appropriate experience, particularly in automated accounting systems. A further problem identified in the OECS CFAA is that conflicts of interest can arise when former accounts staff are transferred into audit. As audit staff are not a closed service, they are interchangeable with staff from executive departments. In practice conflict is avoided, as such staff are not assigned the audits of their former departments. The need for this internal separation is unavoidable in an open service.

111. The Director of Audit’s staff do not receive sufficient professional training in the latest audit techniques, including auditing of automated financial management systems. This will become increasingly important as the government begins to roll out SIGFIS to more line ministries and financial management becomes more automated. Technical assistance has provided training in performance audit and comprehensive audit but there are insufficient staff to apply this training on a continuing basis.

112. Training needs are largely addressed by the individual efforts of audit department staff. In the past four years, five officers have attended four- to six-week courses in India and one officer is pursuing a degree in auditing and consultancy in the UK. There is no systematic training of

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20 A nine-month course given by the Canadian Comprehensive Audit Foundation.
recruits or of staff transferred in from other occupations. In-house training has not been given for some time. Apart from donor-funded training in India, the UK, and Canada, training is carried out on the job by other staff, who may not themselves have received adequate or sufficient training.

Conclusions and Recommendations

113. The SAI is a key component of the government’s internal controls and play an important role in monitoring and supporting compliance with the fiscal strategy of the country. Therefore it is important that in Dominica’s financial management reform, actions are taken to provide the Director of Audit’s office with sufficient and adequately trained staff as well as the resources to maintain the professional development of staff. Furthermore, as suggested in the OECS CFAA, the government should transfer approval of the Director of Audit’s budget from the MOF to the PAC once this committee becomes stronger in its role.

114. The appointment of the Director of Audit is not independent from the executive and does not reflect the principal role of the Director as a servant of Parliament. It would be more appropriate for the Director of Audit to be selected after consultation with Parliament. In Trinidad and Tobago, for instance, the President appoints the Director of Audit after consultation with both the Prime Minister and the leader of the opposition.

RECOMMENDATIONS FOR EXTERNAL AUDIT

1. **Involve the Director of Audit in the recruitment process of his/her staff.** Effective auditing requires staff with specific skills. Although these skills can be learned, it will help decrease training costs as well as decrease the time needed by new staff to carry out effective audits if properly qualified staff are hired in the first place.

2. **Carry out periodic assessments of the staffing and training needed by the audit department to ensure that is can adequately carry out its mandate.** Some of the audit department staff are already taking some courses in these areas and they should be encouraged to share their knowledge with their colleagues. Immediate action should be taken to develop a training plan to be implemented during the next 12 months.

3. **Consult Parliament for the appointment of the Director of Audit.** As a public servant that reports to Parliament, the Director of Audit’s appointment should be made in consultation the relevant parties in Parliament and the qualifications of the Directorship updated as necessary (ie. need for IT and VFM audit skills and background).

4. **Transfer the budget approval of the Director of Audit from the MOF to the PAC,** when this committee becomes more effective. This will substantially increase the independence of Dominica’s SAI.

Legislative Oversight

115. Parliament is the supreme authority in financial management. The financial management process begins with Parliament’s release of funds and ends when the public accounts are published and tabled for Parliament’s review and approval. However, the PAC, which is responsible for carrying out Parliament’s legislative oversight function, does not do so effectively. This analysis of Dominica’s PAC focuses on the implications for public financial management and its lack of effectiveness.
Establishment of the Public Accounts Committee

116. The duties of the PAC are to examine the accounts and audit reports referred to them by the Parliament and issue a report on its findings. The committee has four members appointed from elected members and appointed senators. Unlike in other OECS countries, government ministers are not excluded from the committee, which weakens its independence. It is an accepted convention—though not legally mandated—that its chairman should be the leader of the opposition.

117. Parliament appointed a PAC in July 2001 with two opposition members (the former Prime Minister and Minister of Finance) and two government members; it had met twice as of November 2002. The annual audit report on FY1999 has not been examined even though it was tabled in Parliament more than two years ago.

PAC Operations

118. The PAC uses the public accounts prepared by the AG and the annual audit reports prepared by the Director of Audit, as the basis for its discussions. It has no independent professional support in conducting preparatory work, investigating, and reporting. Instead it relies more on the knowledge of the current members and input from the Director of Audit. PAC discussions would benefit from the input of Budget Director, the AG, the Internal Auditor, and all the accounting officers, as they could provide perspective to the PAC discussions and answer queries regarding specific findings in the annual audit report. The PAC would also benefit from the use of local expertise in finance, banking, and law and could be expanded by the appointment of suitable persons from outside Parliament.21

119. There is no documented follow-up to observations and recommendation emanating from the Committee proceedings. This may lower incentives for PAC members to carry out their roles. The government should consider requiring the PAC to publicly present a follow-up plan with timetable, required actions and lead responsibility.

120. The PAC has never reviewed the accounts of statutory bodies, even though they are tabled in Parliament and a standing order requires it to do so. The cause may be that the Ministers of Finance has not proposed motions that they be referred to the PAC. This procedural step should be taken, as statutory bodies are users of public funds, questions have been raised about their accountability, and they are as subject to Parliamentary scrutiny as any other ministry or department.

Conclusions and Recommendations

121. The PAC's ineffectiveness is one of the clearest weaknesses in public financial accountability in Dominica and represents a critical missing link in the internal control process of the government. As revealed in the OECS CFAA and the OECS IOCR, this situation is true of many OECS countries. The OECS CFAA already includes a recommendation to host a workshop for East Caribbean Parliamentarians, including members of their PACs, the media and civic leaders, to familiarize them with the role of the PAC and its relations with other Parliamentarians, audits directors and accounting officers. However, this recommendation will

21 See, for example, the Report of the Study Group on Public Accounts Committees meeting sponsored by the Commonwealth Parliamentary Association and World Bank Institute, Toronto, May 28-31, 2001.
take time to coordinate and carry out. Therefore, in the interim, the government should seek other measures, such as making the results of PAC meetings public, as a means to incentives the PAC to be more active and effective.

122. Though annual audit reports and the PAC represent the main check on poor administration and financial irregularities, they cannot be effective on their own. They need Parliamentary support and public awareness of their role in making government accountable and transparent. To promote public awareness and engage the public—and PAC members—in the scrutiny of public accounts, the press secretary should consider expanding their public education drive, the initiative used with great success to engage civil society in the budget process.

123. Engaging civil society in the accountability process is consistent with the overall role of legislators in a democratic society. Clear links should be established between civil society and line ministries. Civil society could then participate and strengthen the process of holding public officers accountable for the execution of public resources.

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**RECOMMENDATIONS FOR LEGISLATIVE OVERSIGHT**

1. **Parliament to make the review of the annual audit a public debate and request that key government officers attend the debate.** The budget address, which lays out the government’s plan for public expenditure, is already highly publicized. The same degree of publicity should be focused on the actual results of this plan as revealed in the annual audit report. Therefore the Parliament should request that the PAC publicly debate the result of the annual audit report as well as invite the accounting officers and key government officials responsible for executing the budget plan to join this public debate.

2. **Parliament to request that the PAC prepare a public report on the results of its meeting to review the annual audit report and other public accounts.** This report should include a highlight of the recommendations and findings made by the Director of Audit and any additional actions or decisions that the PAC recommends to Parliament to support these recommendations. This could incentivate the PAC to become more active in the face of public scrutiny as well as provide civil society with an accountability tool.

3. **Provide professional support to the PAC** by encouraging the participation of outside professionals in law, budget and accounting as well as other government resources to provide expert analysis or witnesses to give evidence on sensitive accountability issues. This should not replace the role of the Director of Audit but instead support additional examinations and investigations into areas that fall outside the scope of the annual audit. This could take the form of a professional secretariat to assist the PAC in conducting its preparatory work, investigation, and reporting.

4. **Implement a policy that requires the PAC to review the accounts of at least one statutory body.** The Minister of Finance should propose a motion that refers the accounts of these bodies to the PAC for examination on an annual basis.
III. PRIVATE SECTOR ACCOUNTING AND AUDITING

124. The lack of staff with capacity in financial management extends from the public sector into the private sector. Given the small size of Dominica’s economy, the market for accounting and audit services is dominated by a few local firms and affiliates of international firms. Therefore, the pool of available human resources with accounting skills is limited to the local firms. Many others have left for more attractive salaries and opportunities in accounting firms outside of Dominica.

125. Therefore, even if the government could provide employment incentives equal to those in the private sector, the pool of candidates would still be too small to fill the need. Dominica should consider a regional approach to solving its capacity issues, as suggested in the OECS CFAA. Otherwise the OECS countries with fewer resources may run the risk of investing in training local candidates only to lose them to the private sector or to other countries that provide more attractive incentives.

126. The ECCB and OECS Secretariat are pressing for establishment of an Institute of Chartered Accountants of the Eastern Caribbean (ICAEC) that would regulate the practice of accountancy and raise local standards of accounting and auditing region-wide in the public and private sectors. The ECCB has prepared draft legislation to give legal effect to the ICAEC agreement, which was approved at a heads of government meeting in November 2000 and will take effect when five countries ratify it. The objectives of the legislation are to establish the ICAEC and provide facilities for study and examinations, setting up student associations, regulating professional ethics, making representations to governments and international bodies, making rules for practicing certificates, prescribing accounting standards for its members, and disciplining members. It is expected initially to have a standard-setting and monitoring role, and a post-qualification education role.

Conclusion and Recommendations

127. The government of Dominica should support the effort to establish ICAEC and focus its attention on tapping regional sources of candidates. The creation of ICAEC would represent a significant step in providing a regional focus for accounting and professional development and appears feasible.
IV. FIDUCIARY RISK ANALYSIS

128. During the past decade, donor activity in the OECS region has increased its emphasis on improving government institutions and their financial management (FM) arrangements (see Annex 5) as better FM promotes better public sector performance, specifically in expenditure management. An analysis of national public financial management systems provides the information needed to understand better the opportunities available to strengthen public sector performance to do more with less, and to reduce fiduciary risk.

129. The previous sections of this report analyzed the strengths and weaknesses of individual financial management components in Dominica’s central government. This section analyzes the process as a whole and compares it to generally accepted public financial management standards and shows how divergence increases fiduciary risk. Fiduciary risk represents the expected value of the loss of development benefits that can result from the gaps between generally accepted public financial management standards and actual practices.

Risk Assessment Parameters

130. The risk analysis has been carried out in accordance with the DFID and OECD/DAC Guidelines on managing fiduciary risk when providing direct budget support. These build on the IMF Code of Good Practices in Fiscal Transparency, the IMF/World Bank reviews of 25 highly indebted poor countries, and IFAC/PSC International Public Sector Accounting Standards. In the DFID and OECD/DAC Guidelines, the development benefits are defined by implication in terms of pro-poor countries.

131. The guidelines contain 9 principles and 18 benchmarks for assessing adherence to the principles. Of the nine principles, six fall within the scope of the CFAA, two within the scope of the Fiscal Issues Review on Dominica, and one within the CPAR. The results are summarized here, and the guidelines and benchmarks, with detailed analysis, are attached as Annex 6.

Results of the Fiduciary Risk Analysis

132. Dominica has significant fiduciary risk rating mainly due to its weak internal controls and lack of oversight. This translates into an inability to control expenditures, accumulation of payment arrears, unproductive public sector investments, slow economic growth and an overall deterrent to foreign investment. The substantial risk rating is attributed to the following four general conditions in Dominica’s public financial management arrangements:

- A weak and ineffective internal control framework. There are several factors creating this weakness, including lack of monitoring and enforcement mechanisms as well as insufficient qualified staff to effectively carry out functions. The internal audit function is currently un-staffed leaving the line ministries to impose controls at their own discretion. Furthermore the controls that do exist can be either bypassed or ignored as revealed in the FY2001 annual audit report.

- An outdated legal and regulatory framework further aggravates the internal control weaknesses of the government by not providing adequate guidelines and procedures to
support sound financial management, the systems used to carry it out (i.e., SIGFIS, CS-
DRMS, SIGTAS) or the government’s need to observe fiscal discipline through effective
spending controls, in-year adjustments to budget allocations, and better cash
management.

- Limited financial and human resources that have delayed the implementation of
automated system and training programs as well as reporting and connectivity solutions
between the systems used by the government for financial management. This very much
reduces the benefits that could be derived from the government’s investments in systems
especially in the case of timely sharing of information for the decision making process.

- A poor accountability structure promoted by weak lines of accountability between the
MOF and line ministries, an inactive PAC that rarely engages in its role of legislative
oversight and no links between civil society and the government’s ministries which
effectively prevents them from becoming involved in the scrutiny and governance
process of public accounts.

- Dominica has in place several automated systems but they function either in isolation or
with only partial information. Also the staff in charge of using the systems often lack
sufficient understanding of the system features, or simply do not have access to system
portals. Finally the staff in charge of maintaining the systems databases lack sufficient
technical capacity and resources to carry out their support function effectively.
V CONCLUSION AND NEXT STEPS

133. Dominica’s public financial management arrangements at the central government level appear weak and represent significant fiduciary risk primarily due to the following:

- The legal instrument that defines financial management regulations, the FAA, is generally outdated and does not appropriately define procedures reflecting current practices or provide for accountability arrangements and the dissemination of information.

- The budget execution process does not have the effective procedures and controls to manage spending or ensure efficient use of public resources.

- Budget execution and monitoring lack effectiveness and comprehensiveness which increases the likelihood that decisions will be made in isolation from the actual fiscal situation.

- The effectiveness of the MOF’s cash management unit depends heavily on submission of revenue and expenditure data from line ministries, which is not always timely or complete.

- The debt system (CS-DRMS) functions in isolation from other public financial management systems, causing it to have incomplete data and underutilized capacity.

- Annual financial statements do not present information in a useful manner nor reflect an accurate and consolidated picture of the financial position of the country.

- The automated systems in place function in isolation and with incomplete information. Furthermore, staff using the system often lack sufficient understanding of the system features or do not have access to system portals. IT staff lack sufficient technical capacity and resources to carry out their support functions.

- The office of the Director of Audit lacks autonomy over the appointment and training of its staff and its resource allocation arrangements. In addition, its independence and transparency are compromised because it reports to Parliament through the MOF rather than directly.

- Parliament’s Public Accounts Committee (PAC) rarely meets and when it does, it lacks the technical support to carry out investigative work or analyze the findings of annual audit reports.

- Dominica has significant fiduciary risk, mostly due to weak internal controls and oversight. The internal controls currently in place are often bypassed or even ignored.
• Although there exist lines of accountability between civil society and elected officials through release of public information, and between elected officials and the executive, through Cabinet and, to some small degree the PAC, the framework deteriorates between the Ministry of Finance and line ministries due to lax expenditure controls, loosely monitored budget execution, and weak cash and debt management. There is a complete absence of accountability mechanisms between civil society and the line ministries.

134. The proposed action plan presents the findings and recommendations discussed in this report and prioritizes them into Phases I and II. Phase I actions are key steps for implementation during the execution of the FY2004 budget with the objective of supporting the government’s need for tight expenditure control and a clearing of cash arrears. Phase II recommendations reflect the medium-to long-term needs of reducing fiduciary risk by strengthening the internal control structure and implementing a robust accountability framework.

135. Phase I Recommendations include:

• **Prepare Monthly Budget Execution Reports.** Institute a policy requiring the AG to prepare monthly reports on the budget execution of each line ministry and circulate these reports within the MOF and line ministries. This recommendation is contingent on the accuracy and reliability of the information entered into SIGFIS as well as the timeliness of information received by the AG from the line ministries that do not have on-line access to SIGFIS. Therefore, the MOF should also institute a short-term policy that provides the FS with measures to enforce compliance with the monthly reporting requirements for line ministries. This policy should allow the FS the authority to reduce or delay monthly budget allocation for ministries that fail to provide complete information on time. The policy should also require the FS to use this information to set payment priorities and commitment limits.

• **Prepare and Set Payment Priorities and Commitment Limits.** Institute an interim policy requiring government to forecast cash availability and set payment priorities and commitment limits that will control when expenditures are paid, serve as an early warning system when expenditures payments may exceed cash availability, and that provide a guideline to the AG for authorizing payments in the case of a cash shortage.

• **Improve Effectiveness of Cash Management.** Procure technical assistance to assist the management teams of the line ministry prepare accurate and useful monthly reports on their actual and expected revenues and expenditures. In addition, the government should simplify cash management in government bank accounts, by closing all accounts except (i) where separate bank accounts are required by law or trust instruments, (ii) temporary payroll accounts that are cleared after each batch of payroll checks is cashed, and (iii) imprest accounts operated by named officers, which have to be closed at the end of each year. This will simplify the bank account reconciliation process and contribute to a more efficient allocation of cash resources and allow investment of surplus funds.

• **Improve Effectiveness of FM reporting.** Currently Dominica’s financial statements include material omission of information that significantly reduces there usefulness and can be considered a serious departure from international standards. The AG should seek to adopt and follow standards for accounting and reporting that are generally accepted
such as those issued by the International Federation of Accountants (IFAC) for general-purpose government financial statements kept on a cash basis (IFAC/PSC-ED9, issued January 2003) or International Accounting Standards (IAS).

- **Strengthen Debt Management Function:** Internal and external debt management functions should be integrated into a single unit formally charged with developing a borrowing strategy that ensures the sustainability of debt service. This should include appointing a Debt Manager, and requiring that indebtedness requests to Parliament include an analysis of debt. The debt unit should prepare a Debt Management Manual that conforms to basic FAA requirements, and its CD-DRMS information system should be connected to SIGFIS.

- **Appoint an Internal Auditor.** The position currently exists but is unstaffed. Prior to staffing, the job descriptions should be reviewed for relevance and that the tasks meet the current internal audit requirements. The job description should include and provide the internal auditor with the authority to monitor compliance with internal controls and suggest ways to improve control effectiveness. The selection of the candidate should rely heavily on the input of the Director of Audit’s office, as his staff will need to rely on the internal auditor’s work.

- **Appoint a Donor Coordinator Within Government:** Given that several donors are involved in supporting Dominica’s efforts to improve PFM, the government should appoint a coordinator whose responsibilities include (i) organizing bi-annual donor meetings, (ii) representing the government at these meetings, and (iii) providing a liaison between the government and donors to ensure that donor financed activities are consistent with government supported reforms and the country’s overall strategy

136. The Action Plan’s Phase II recommendations involve steps to overcome Dominica’s deeper problem of fiduciary risk:

- **Increase Effectiveness of Legal and Regulatory Framework.** The government needs to update and revise the laws and regulations governing its financial management, including the FAA, and the Loans and Land Acquisition Acts with the ultimate objective of consolidating all PFM related laws and regulations into a comprehensive framework law.

- **Strengthen the Internal Control Framework.** There are many factors that weaken the government’s internal control framework including that lack of staff capacity to carry out their functions, the lack of adequate policies and procedures manuals, and weak database and IT support. The government should begin addressing these weaknesses by (i) carrying out a training needs survey as well as staffing assessments to address staff capacity issues, (ii) roll out SIGFIS to all ministries and ensure that staff, in addition to their training, have a comprehensive policies and procedures manual to ease the transition from their customary manual procedures to the new automated procedures, and (iii) strengthen IT support and database management to ensure the integrity and safety of the information maintained on the automated systems.

- **Provide Autonomy and Independence to External Audit.** The Director of Audit does not have the financial means or human resources to perform all the audits and functions as required under the SAI mandate. The government should seek to implement policy
changes that include a provision to involve the Director in the selection of his staff, autonomy over SAI budget resources for training and professional development, transfer the SAI budget approval from the MOF to the PAC, and require consultation with Parliament on the appointment of the Director.

- **Improve Effectiveness of PFM Systems.** The government has several automated systems that carry out PFM that exist in isolation hindering the ability to share and distribute information. Furthermore, the systems do not have their reporting features customized to the needs of the government. The government should procure technical assistance to analyze the costs and benefits of connecting all government offices through an area-wide network as well as customization of the systems’ reporting features so that information can be presented easily and in a useful manner.

- **Improve Legislative Oversight.** The PAC is inactive and does not provide effective oversight of public accounts. In order to incentivate the PAC, the government should focus public attention on its role and activities. For example, Parliament should request that the PAC publicly debate the result of the annual audit report and prepare a report to highlight the recommendations and findings made by the Director of Audit and any additional actions or decisions that the PAC recommends to Parliament to support these recommendations. Furthermore, Parliament should seek to support the activities of the PAC by encouraging the participation of outside professionals in law, budget and accounting as well as other government resources to provide expert analysis or witnesses to give evidence on sensitive accountability issues.

137. The CFAA team recognizes that the government of Dominica is well aware of the weaknesses in its financial management arrangements and that it is taking steps, supported by substantial donor funds and technical assistance, to address them. Bearing this in mind, recommendations attempt to complement and coordinate with current and planned donor aid as part of a coherent country-led and internationally supported development program, rather than isolated actions.

138. Most of the actions in Phase I and several of those in Phase II fit within the measures already formulated under existing assistance programs provided by DFID, CIDA, CARTAC and the EU. For actions that do not form part of existing programs or cannot be supported by current government staff, the cost estimates assume that the consultants needed for technical assistance or training average US$18,000 per person month. No estimates have been made for software or equipment as these vary widely depending on features and complexity. Under these assumptions, the costs not covered by existing programs or government resources in each Phase are the following:

**Phase I:** US$378,000 plus cost of an automated cash book and bank reconciliation system.

**Phase II:** US$864,000 plus additional costs for network software if this option is deemed feasible.

**Total cost estimate:** US$1.2 million plus any additional systems/software costs that could be covered by ongoing donor programs or with some of the resources from the fast disbursing ERSO currently under preparation.
139. The CFAA team will circulate the final draft of this report to the government for their review and their comments will be included as Attachment I of this report. In addition, the CFAA team will seek agreement from the government and the donor community on the action plan items and costs and include the final action plan as Attachment II of this report.
Attachment I – Request for Government Comment

The World Bank
Washington, D.C. 20433
U.S.A.

CAROLINE ANSTHEY
Director
Caribbean Country Management Unit
Latin America and the Caribbean Regional Office

June 29, 2004

The Right Honorable
Roosevelt Skerritt
Prime Minister and Minister of Finance and Planning
Roseau
DOMINICA

Via Fax: (767) 448-0054

Dominica: Economic Recovery Support Operation

Dear Mr. Prime Minister:

The Bank is encouraged by the progress made by your Government on the macroeconomic and medium term reform program embarked on earlier this year and supported by the Economic Recovery Support Operation. We are also pleased to note the improved economic performance during 2003 and the early part of 2004.

I wish to raise two issues to your attention, which we feel are critical to the continued success of the program. The first pertains to the credit union sector and the second to the financial management reform program.

We remain concerned about the situation regarding the credit unions. The Bank mission that visited Dominica during May 16-20, 2004 was informed that the Ministry of Finance has not yet been able to start implementation of its new responsibilities for financial supervision of the credit union sector, due to staffing issues. In the interim, an untenable situation has developed in which no formal inspections of any credit union have taken place, in a period during which several credit unions would otherwise have been inspected by the Cooperatives Department. The Ministry needs to appoint the necessary personnel to oversee the sector and to take steps to continue the work on the revision of the Cooperatives Act regulations, as soon as possible.

In addition, given the financial condition of the Roseau Cooperative Credit Union reported in the November 2003 inspection report, it is important that follow up action be agreed with and taken by that institution to avoid further deterioration of its financial condition. The Bank mission has provided your Ministry with some recommendations in this regard. We would also strongly recommend that the Ministry invite the ECCB to assist with follow up discussions with the RCCU as soon as possible, given its systemic importance to the regional financial system.

The Bank stands ready to provide support to the Government’s efforts in this sector. Ms. Nuamah will follow up with your office on this matter.

The second matter of concern is the financial management reform program. Notwithstanding the good progress made on controlling public expenditures and commitments over the past few months, Dominica will need to accelerate progress on strengthening financial management if it is to safeguard the fiscal gains made over the past two years and prevent a recurrence of the events that led to the fiscal crisis. The provision of sufficient authority and capacity to the Accountant
General's Department and the Cash and Debt Management Unit, through the restructuring of the Ministry of Finance, are two critical steps in this regard.

On a related matter, as you may know, the Bank completed a Country Financial Accountability Assessment and a Country Procurement Assessment Review for Dominica in June 2003. The former has already been edited in line the Government's comments received earlier this year. In line with standard Bank practice for economic and sector work, the two documents will be published, circulated to the Board of Executive Directors, and made available to the public, in mid July 2004. As such, if the Government has additional comments, please send those to us by July 12, 2004.

We continue to be optimistic for a successful outcome to the Government's stabilization and adjustment program and an acceleration of growth and poverty reduction to the benefit of the Dominican people.

Best wishes,

Caroline Anstey
Director
Caribbean Country Management Unit
Latin America and the Caribbean Region

cc: Marcel Masse, Executive Director, World Bank
    Gobind Ganga, Alternate Executive Director, World Bank
    Alejandro Santos, Deputy Division Chief, IMF
    Ambrose Sylvester, Financial Secretary, Ministry of Finance,
    Swinburne Lestrade, Coordinator, Economic Stabilisation and Adjustment Programme

No comment were received from the Government of the Commonwealth of Dominica to the above referenced letter.
Attachment II – Proposed Action Plan

GOVERNMENT OF THE COMMONWEALTH OF DOMINICA

COUNTRY FINANCIAL ACCOUNTABILITY ASSESSMENT

Proposed Action Plan

Proposal to review and strengthen Dominica’s public sector financial management arrangements.
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1.0 BACKGROUND AND OBJECTIVES

Purpose

The recommendations made in the Dominica Country Financial Accountability Assessment (CFAA) report are consolidated in the attached action plan. The recommended actions have been classified into Phase I and Phase II. Phase I actions are crucial steps that should be taken, or at least started by the budget address for fiscal year 2004 to support tight expenditure control and the clearing of cash arrears. Phase II include actions to reduce fiduciary risk by implementing a stronger internal control structure and raising the level of accountability in the public sector.

Cost & Financing

Most of the actions in Phase I and several of the actions in Phase II fit within the measures already formulated under existing assistance programs being provided by DFID, CIDA, CARTAC and EU. For actions that do not form part of existing programs or cannot be supported by current government staff, the cost estimates assume that the consultants needed for technical assistance or training average US$18,000 per person month. No estimates have been made for software or equipment since these vary widely depending on features and complexity. Under these assumptions, the costs not covered by existing programs or government resources in each Phase are the following:

Phase I: US$378,000 plus cost of automated cash book and bank reconciliation system.

Phase II: US$864,000 plus additional costs for network software if this option is deemed feasible.

Total cost estimate: US$1.2 million plus any additional systems/software costs that could be covered under existing programs or with some of the resources from the fast disbursing ERSO currently under preparation. The Government of Dominica has already expressed its concern that they do not anticipate the availability of any counterpart funds to support the action plan for FY 2003/2004.

Up-Dates

This document will be up-dated as required to reflect the current status of the implementation of each action. Ideally it will serve as a benchmark for the progress made by the government and should be up-dated on a periodic basis. Thus far this action plan has been either discussed and/or updated on the following occasions:

- May 28, 2003 – First draft discussed with Government of Dominica
- May 29, 2003 – First draft shared with participant so of OECS Workshop in St. Lucia
Context

The actions recommended in this plan are made in the context of the material presented and analysed in the Dominica CFAA issued (date) and the OECS CFAA report presented in January 2003.

Regional donors, such as CARTAC, CIDA, DFID, and EU were consulted so that the actions recommended in this plan do not contradict or duplicate efforts already in place. In fact, when possible, the recommendations attempt to coordinate and support ongoing reform programs and build on the progress already made in the area of public sector financial management.

2.0 ACTION PLAN

The attached action plan table is split between Phase I and Phase II.
## Attachment II – Action Plan

### PHASE I – ACTIONS LISTED IN ORDER OF PRIORITY

<table>
<thead>
<tr>
<th>PROPOSED ACTIONS</th>
<th>CHAMPION</th>
<th>FINANCIER</th>
<th>OUTCOMES</th>
<th>TIMEFRAME</th>
</tr>
</thead>
</table>
| 1. **Prepare Monthly Budget Execution Reports.** Institute a policy requiring the AG prepare monthly reports on the budget execution of each line ministry and circulate these reports within the MOF and the line ministries. These reports should include actual versus budgeted information for the following:  
➢ Recurrent and Capital Expenditures  
➢ Outstanding Commitments  
➢ Cash and Payment Arrears  
➢ Debt Service Requirements  
➢ Revenue In-take and Receipt of External Funds | Finance Secretary | Government | Encourage fiscal discipline.  
Encourage better budget control.  
Support exchange of information required for good cash & debt mgt.  
Increase the transparency of the budget execution process. | By FY 2003 Budget Address (June 30, 2003) |

This recommendation is contingent on the accuracy and reliability of the information entered into SIGFIS as well as the timeliness of information received by the AG from the line ministries that do not have on-line access to SIGFIS. Therefore, the MOF should also institute a short-term policy that provides the FS with measures to enforce compliance with the monthly reporting requirements for line ministries. This policy should allow the FS the authority to reduce or delay monthly budget allocation for ministries that fail to provide complete information on time. The policy should also require the FS to use this information to set payment priorities and commitment limits.  

Ref: DM CFAA Paragraphs 43-51.

| 2. **Set Commitment Limits and Payment Priorities.** Institute an interim policy requiring government to forecast cash availability and set payment priorities and commitment limits that will control when expenditures are paid, serve as an early warning system when expenditures payments may exceed cash availability, and provide a guideline to the AG for authorizing payments in the case of a cash shortage. Specific actions include: | Finance Secretary | CARTAC (could be added to the current activities of the cash management project) | Promote more disciplined budget execution process.  
Begin the process to | By FY 2003 Budget Address (June 30, 2003) | By FY 2003 |
- Set commitment limits that are consistent with revenue in take and cash availability.
- Issue a public announcement that all ministries are subject to these limits and that vendors can submit requests to the Accountant General’s office to confirm that the commitment they have received from a ministry does not exceed the limits (these requests should be limited by a minimum dollar figure so that the AG’s office is not inundated with requests).
- Adjust limits based on information provided in comprehensive monthly monitoring reports.
- Set payment priorities that are consistent with the overall fiscal and development strategy of the country’s.

Ref. DM CFAA Paragraphs 43-51, 54-64.

3. **Improve Effectiveness of Cash Management** – Procure technical assistance for the Cash Management Unit and the management teams of line ministries prepare monthly reports on their expected revenues and expenditures in accordance with the requirements detailed in the circular issued by the Finance Secretary in November 2002. The TA scope of work should include:

- Prepare procedures to gather historical information on expenditures and revenues (this information may be available at the Inland Revenue Department (IRD)).
- Assist in determining proper account classification of costs and revenues, i.e. discretionary versus non-discretionary costs.
- Provide guidance on how to prepare expenditure and revenue forecasts (should consult with IRD and Budget for methodology).
- Establish criteria for prioritizing payments.

The TA should also work with the IRD and the Budget Office to ensure that information provided by the line ministries is consistent with the revenue projections and trends used by the IRD and MOF to prepare commitment limits.

Ref. DM CFAA Paragraphs 56-64.

<table>
<thead>
<tr>
<th>3. Improve Effectiveness of Cash Management</th>
<th>Cabinet (CARTAC or DFID Consultant)</th>
<th>CARTAC or DFID to provide TA. ECEMP to provide system interfaces to facilitate the exchange of information needed for cash management. ECEMP currently providing TA to IRD</th>
<th>Begin establishing crucial capacity to gather and prepare relevant financial management information. Ensure compliance with circular issued by the FS</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>If not, the GOCD to hire a consultant for 6 months to provide TA.</td>
<td>clear cash arrears. Prepare basis to adopt modified accrual accounting in the long term.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Budget Address</td>
<td>Budget Address</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(June 30, 2003)</td>
<td>(June 30, 2003)</td>
<td></td>
</tr>
</tbody>
</table>

4. **Improve Effectiveness of FM reporting.** Currently Dominica’s financial statements include material omission of information that significantly reduces their usefulness and can be considered a

<table>
<thead>
<tr>
<th>4. Improve Effectiveness of FM reporting. Currently Dominica’s financial statements include material omission of information that significantly reduces their usefulness and can be considered a</th>
<th>Accountant General</th>
<th>DFID (added to the activities currently Support exchange of information required for</th>
<th>By FY 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Budget Address</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(June 30, 2003)</td>
</tr>
</tbody>
</table>
serious departure from international standards. Therefore the AG should seek to adopt and follow standards for accounting and reporting that are generally accepted such as those issued by the International Federation of Accountants (IFAC) for general-purpose government financial statements kept on a cash basis (IFAC/PSC-ED9, issued January 2003).

Ref: DM CFAA Paragraphs 43-52.

<table>
<thead>
<tr>
<th>5. <strong>Increase Effectiveness of Cash Management</strong> - by first consolidating all government bank accounts and then issuing a circular that (i) explicitly establishes the criteria needed to open a government bank account, (ii) reminds ministries to submit monthly reconciliations of government accounts to the Accountant General, and (iii) remind ministries that public funds belonging to the government should by way of checks or currency, should be made payable to the Accountant General and deposited in the consolidated fund.</th>
<th><strong>Treasurer</strong> CARTAC (could be added to the current activities of the cash management project) If not, the GOCD to hire a consultant for 2 months to provide TA.</th>
<th><strong>good cash &amp; debt mgt.</strong> Increase the transparency of the budget execution process.</th>
<th>(June 30, 2003) Issue first statement by September 2003</th>
</tr>
</thead>
</table>

| 6. **Debt Management** - Integrate all debt management (internal & external) functions into one unit and formally establish its financial management role. Specific actions include: Appoint a Debt Management Director Define the units mandate which should include developing a borrowing strategy for the country that ensures the sustainability of debt service. Institute policy that requires analysis of debt to be presented to Parliament with indebtedness request. Connect the debt systems (CD-DRMS) to SIGFIS. Debt unit to prepare Debt Management Manual. | **MOF** | **DFID** | **Consolidate debt data for effective formulation of borrowing strategy** More efficient use of public funds. Provide Parliament reliable debt data and borrowing strategy for decision making process. | September 2003 |
| --- | --- | --- | --- |
| | MOF | Government | **Strengthen internal control framework.** | September 2003 |

| 7. **Appoint an Internal Auditor.** The position currently exists but is unstaffed. Prior to staffing, the job descriptions should be reviewed for relevance and that the tasks meet the current internal | **MOF** | **Government** | **Strengthen internal control framework.** | September 2003 |
audit requirements. The job description should include and provide the internal auditor with the authority to monitor compliance with internal controls and suggest ways to improve control effectiveness. The selection of the candidate should rely heavily on the input of the Director of Audit’s office, as his staff will need to rely on the internal auditor’s work.

Ref: DM CFAA Paragraphs 86-88.

| 8. **Appoint a Donor Coordinator within Government** – the coordinator’s responsibilities would include (i) organizing bi-annual donor meetings, (ii) representing the government at these meetings, and (iii) a provide a liaison between the government and donors to ensure that donor financed activities are consistent with government supported reforms and the country’s overall strategy. | Parliament | Government | **Reduce fiduciary risk.**  
Ensure accuracy of financial records and accounts. | **Ensure a cohesive donor financed strategy that is supported by government.** | By FY 2003 Budget Address (June 30, 2003) |
## PHASE II – ACTIONS LISTED IN ORDER OF PRIORITY

<table>
<thead>
<tr>
<th>ISSUE &amp; REF.</th>
<th>FIDUCIARY RISK</th>
<th>PROPOSED ACTIONS</th>
<th>CHAMPION &amp; FINANCIER</th>
<th>EXPECTED OUTCOME</th>
<th>TIMEFRAME</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Legal and Regulatory Framework</td>
<td>Framework is out of date and does not provide sufficient guidelines for management electronic records.</td>
<td>Update and revise the laws and regulations governing financial management. This includes revision of the FAA, the Loans, and the Land Acquisition Acts. Ultimate objective should be to consolidate PFM related acts and laws into on PFM regulatory framework law.</td>
<td>ECEMP/Regional Partnership with other OECS countries (ie. gather lessons learned from FAA Acts currently in use.) TA assistance recommended for a minimum of 12 months for drafting and implementation.</td>
<td>Up to date guidelines that govern who, how and to what ends public funds should be managed. Better transparency and comparability of financial management transactions.</td>
<td>New Act adopted by end of FY 2004.</td>
</tr>
<tr>
<td>2) Accountability Framework &amp; Legislative Oversight</td>
<td>Government officials with spending authority are not involved in the oversight of public accounts or held accountable for the management decisions they make.</td>
<td>Institute a policy requiring that within the scope of the annual audit, the Director of Audit verify compliance by accounting officers to the applicable laws and regulations as well as to their execution of the fiscal and development strategy promulgated by government in the budget plan.</td>
<td>Parliament Director of Audit</td>
<td>Facilitate the implementation of recommended actions in the annual audit report.</td>
<td>By the FY03/04 annual audit.</td>
</tr>
</tbody>
</table>

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22 Amounts and the champions identified will be confirmed once the plan has been discussed and agreed with the Government and Donors.
<table>
<thead>
<tr>
<th>3) Internal Controls – Financial Management Systems.</th>
<th>The GOCD relies heavily on manual procedures that hinder the ability to apply adequate controls and to share information on a timely basis.</th>
<th>Procure technical assistance to (i) roll out SIGFIS to all line ministries, (ii) do a sweep of its accounting information to remove incorrect data and update outdated or missing data, (iii) customize reporting capabilities so that report can be generated easily and with useful information, and (iv) carry out a cost/benefit analysis to connect SIGFIS to other automated systems allow automatic sharing of information.</th>
<th>Cabinet</th>
<th>SIGFIS used by all ministries. Promote timely sharing of information and increase accuracy of data. Facilitate the application of internal controls on daily PFM transactions</th>
<th>Part (i) &amp; (ii) by September 2003. Part (iii) and results of study to be fully implemented by FY 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>4) Internal Controls – Financial Management Policies and Procedures</td>
<td>Civil servants in charge of PFM seem reluctant to give up manual procedures.</td>
<td>Prepare an FM policies and procedures manual that explain how the FAA is relevant to each financial management process (budget, accounting, audit, etc.), the key steps and responsibilities for carrying out daily FM procedures, and what systems should be used to carry out these procedures.</td>
<td>Minister of Finance Consultant recommended for at least 3 months to draft operations manual.</td>
<td>Improve compliance with FAA Act. Provide consistent guidelines for carrying out FM procedures. Ease the transition from manual to automated procedures.</td>
<td>September 2003</td>
</tr>
<tr>
<td>5) Internal Controls – Database Management</td>
<td>(i) Insufficient safeguards to ensure that data on systems is not corrupted, erased or lost. (ii) The computer</td>
<td>Procure consulting services to provide (i) immediate data base administration support, and (ii) transition/train a permanent database administrator. Institute an IT Policy to strengthen the computer center and ensure its Computer Center</td>
<td>Financial Secretary Consultant services recommended for a minimum of 6 months.</td>
<td>Maintain the integrity of the data stored on FM systems databases. Ensure the security of</td>
<td>Part (i) by June 2003.</td>
</tr>
<tr>
<td>101.</td>
<td>center does not have the capacity to support database management of automated system. This affects the reliability and integrity of the information maintained.</td>
<td>capability to maintain the integrity of information and support the IT needs of the staff using the system. The policy should include (i) provide for adequate staffing of center, (ii) provide for resources to maintain the center, (iii) require center to prepare system manuals with a reference on the features of the system and how they are used, (iv) provide for the technical capacity to customize the reporting capabilities of the automated systems so that the data processed is organized and presented in a useful manner.</td>
<td>Manager (to draft policy) Computer Center staff (to prepare systems manuals) TA recommended for a minimum of 4 months for customization of reporting requirements. the information on the systems. Ensure the validity of the information entered into the systems. Maximize the use of the systems available. Ensure that financial management information is usable and relevant. Maximize the benefits and influence of information on the decision making process.</td>
<td>Part (ii) by September 2003</td>
<td></td>
</tr>
<tr>
<td>6) Internal Controls – Staff Capacity DM CFAA paragraphs 86-96.</td>
<td>Public Financial Management carried out by insufficient staff or staff that do not have the appropriate background or training to effectively discharge their functions.</td>
<td>Institute a policy that requires periodic assessments of the training needs and staffing of the Accountant General’s Office, the Audit Department, the Budget Office, the Debt Management Office, the Cash Management Department and the Computer Center to ensure that these office have sufficient staff with the appropriate skills and training to carry out their financial management related functions. Finance Secretary (to issue policy) Internal Auditor (to draft policy and verify compliance)</td>
<td>Ensure an adequate complement of staff and resources is available to discharge public sector financial management functions.</td>
<td>September 2003</td>
<td></td>
</tr>
</tbody>
</table>
| 7) **External Audit**  
Ref. DM CFAA paragraphs 102-112. | The Director of Audit cannot ensure that his office has appropriately trained staff to effectively carry out his mandate. | Institute an external audit policy that ensure the autonomy and independence need by the Director of Audit to carry his mandate effectively. The policy should include provision to (i) involve the DOA in the selection process of his staff, (ii) transfer the budget approval of the DOA from the MOF to the PAC, and (iii) require consultation with Parliament on the appointment of the DOA. | **PAC**  
TA assistance recommended for a minimum of 3 months for drafting of policy requirements. | **Audit department**  
staffed with sufficient and adequately trained staff.  
Audit Department budget approved by PAC.  
Parliament consulted on appointment of DOA. | December 2003 |
|---|---|---|---|---|---|
| 8) **Legislative Oversight**  
DM CFAA paragraphs 113-121, 132. | An inactive PAC that does not provide effective oversight of public accounts | Raise the public profile of the PAC by focusing public attention on its role and activities. Parliament should request that the PAC publicly debate the result of the annual audit report and prepare a report to highlight of the recommendations and findings made by the Director of Audit and any additional actions or decisions that the PAC recommends to Parliament to support these recommendations. Furthermore, Parliament should seek to support the activities of the PAC by encouraging the participation of outside professionals in law, budget and accounting as well as other government resources to provide expert analysis or witnesses to give evidence on sensitive accountability issues. | **PAC**  
Government Publicity Campaign | **Educate public on role of PAC and how it can be used as an accountability tool.  
Annual report recommendations discussed and follow up documented in a public note.** | June 2003 |
Annex 1 – List of Persons Interviewed

<table>
<thead>
<tr>
<th>NAME</th>
<th>POSITION</th>
<th>ENTITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lestrade, Swinburn</td>
<td>Director General</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Sylvester, Ambrose</td>
<td>Financial Secretary</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Pascal, Francisca</td>
<td>Accountant General (Ag)</td>
<td>Treasury Department</td>
</tr>
<tr>
<td>Elwin, Ralph</td>
<td>Director of Audit</td>
<td>Audit Department</td>
</tr>
<tr>
<td>Brumant, HesKeith</td>
<td>Budget Controller (Ag)</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Edwards, Rosamund</td>
<td>Senior Economist (Ag)</td>
<td>Ministry of Finance, Public Sector Investment Program Planning Unit</td>
</tr>
<tr>
<td>Astaphan, Michael</td>
<td>Director</td>
<td>Dominica Assoc. of Industry &amp; Commerce (DAIC)</td>
</tr>
<tr>
<td>Fadelle, Michael</td>
<td>Acting General Manager</td>
<td>National Development Corporation</td>
</tr>
<tr>
<td>Williams, Francis</td>
<td>Economist/Foreign Debt</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Fontaine, Andrelina</td>
<td>Budget Analyst</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Douglas, Eisenhower</td>
<td></td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Parillon, Anderson</td>
<td>Budget Analyst</td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>Isidore, Paula</td>
<td>Manager (Acting)</td>
<td>Computer Center</td>
</tr>
<tr>
<td>Garraway, Madgie</td>
<td></td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>Thomas, Jo-Ann</td>
<td></td>
<td>Ministry of Health</td>
</tr>
<tr>
<td>Shillingford, Vindranı</td>
<td></td>
<td>Ministry of Finance</td>
</tr>
<tr>
<td>John, Mark</td>
<td>Director of Forestry</td>
<td>Ministry of Agriculture</td>
</tr>
<tr>
<td>Allport, Ruth</td>
<td>Director of Planning</td>
<td>Ministry of Agriculture</td>
</tr>
<tr>
<td>Castle, Livingston</td>
<td>Director of Land Supervision</td>
<td>Ministry of Agriculture</td>
</tr>
<tr>
<td>Williams, Merina</td>
<td></td>
<td>Ministry of Legal Affairs</td>
</tr>
</tbody>
</table>
Annex 2 – Description of Regional Institutions

Organization of Eastern Caribbean States

The OECS was set up in 1981 by the Treaty of Basseterre. It now has nine members: Anguilla, Antigua-Barbuda, British Virgin Islands, Dominica, Grenada, Montserrat, St. Kitts-Nevis, St. Lucia and St. Vincent-Grenadines. In the present economic environment, globalization and trade liberalization are posing serious challenges to the economic and social stability of these small island countries. In particular, OECS countries have seen the erosion of preferential access for their banana and sugar exports to the European market.

It is the purpose of the Organization to assist its members to respond to these multifaceted challenges by identifying scope for joint or coordinated action towards the economic and social advancement of their countries. Meetings of the OECS Authority have identified areas targeted for policy harmonization and functional cooperation and the agreed steps toward their achievement. Progress has been made on functional cooperation in curriculum reform, health (notably the centralized procurement of medicines), meteorology, civil aviation, agricultural research and marketing, investment and export promotion, tourism marketing, environmental management and legislative harmonization. Overall, however, progress has been slow and halting, largely because of the need for unanimity of decisions, financial weakness of the OECS Secretariat (due to members not paying their agreed contributions), low capacity of national public service agencies to implement collective decisions, and the lack of OECS powers to enforce them.

OECS Heads of Government decided in July 2001 to deepen economic integration by creating an economic union. In October 2002, the OECS put forth an OECS Development Charter that outlines the sub-regional strategy for meeting these challenges. The goals were further refined, also in October 2002, by the OECS Authority as follows:23

- sustainable real growth of 6 percent per annum,
- high-quality employment, with unemployment rate less than 6 percent,
- poverty levels below 6 percent,
- Human Development Index consistent with international standards, and
- diversified, productive, and competitive sub-regional economies.

Eastern Caribbean Central Bank

The ECCB was established in 1983 and is based in St. Kitts. This is the central bank of all OECS members except the British Virgin Islands. They share a common currency, the Eastern Caribbean dollar, and a common monetary policy that has enabled the ECCB and its predecessor organization to maintain a stable exchange rate of EC$2.70 to US$1 since 1976.

23Communique of the Special Meeting of the OECS Authority on the Economy, October 10, 2002, St. Kitts/Nevis.
The ECCB has four main objectives:
- currency stability,
- financial stability,
- development of money and capital markets, and
- the general development of its member countries (Annual Report 2001).

With regard to the general objective, the ECCB has become increasingly involved in the formulation, coordination, and delivery of technical assistance projects designed to strengthen economic management at the national level, such as CIDA's ECEMP. It has also built a substantial training unit for training nationals of member countries in diverse policy areas. The ECCB convenes semi-annual meetings of (a) financial secretaries, (b) comptrollers of inland revenue, (c) comptrollers of customs, (d) accountants general, and (e) budget directors. These committees are useful in their own right, but also serve as effective steering committees when reform projects are under way. They select the country that will pilot each reform, and the countries (usually two) that will be in the second wave of implementation. The latter countries second some of their civil servants to work in the pilot country so that when they return they can lead the reform in their own countries. The ECCB provides backstopping services such as training replacement officers.

The ECCB is accountable to its member countries through annual and quarterly reports and monthly statements. It is audited annually by local affiliates of an international public accounting firm in accordance with generally accepted auditing standards. Annual reports are published within a few months of the end of the calendar year and are available to the general public. Government auditors generally do not carry out any separate additional audit.
### Annex 3 – Scope of Dominica’s Legal & Regulatory Framework

The following table, based on the OECD/WB preliminary Budget practices and procedures survey, October 2002 (legal framework, part 1) provides a summary of Dominica’s legal and regulatory framework and its coverage.

<table>
<thead>
<tr>
<th>Constitutional Requirements</th>
<th>Budget Law</th>
<th>Regulation (internal rules)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public funds for program, only if authorized by Parliament</td>
<td>Yes</td>
<td>Yes</td>
<td>Budget allocation process</td>
</tr>
<tr>
<td>The budget and reporting to cover all central government transactions</td>
<td>Yes, but not explicit</td>
<td>Yes, but not explicit</td>
<td>External debt reporting is not integrated. Statutory/mandatory spending included as information.</td>
</tr>
<tr>
<td>All budget transactions to be shown in gross terms</td>
<td>Yes, traditional format</td>
<td>By agency and line items</td>
<td>Program budgeting being implemented.</td>
</tr>
<tr>
<td>Minister of Finance has effective power over budget management</td>
<td>Yes</td>
<td>Power to issue regulation and orders</td>
<td>Financial management system is out of date and not fully documented. Communication and enforcement is weak.</td>
</tr>
<tr>
<td>Individual agencies are held accountable for spending and revenue collection</td>
<td>Yes, as required under Standing Order 72</td>
<td>Yes, supplemented by the Audit Act</td>
<td>Accountability framework is weak. PACs do not cover the responsibility of Accounting Officers.</td>
</tr>
<tr>
<td>Requirements for independent audited reports</td>
<td>Yes, Audit Act</td>
<td></td>
<td>Follow-up is not systematic. Role of PAC not understood.</td>
</tr>
<tr>
<td>Conditions for use of contingency reserve provisions</td>
<td>Yes, powers extended to the Minister of Finance</td>
<td></td>
<td>Uncertain as to its application. Criteria not well defined.</td>
</tr>
<tr>
<td>Definition of public money</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Rules for extra-budgetary funds to special cases authorized by separate statute</td>
<td>To a certain extent. Fiscal Incentives Legislation</td>
<td>Not explicitly in relation to specific Legislations</td>
<td>Documentation, communication and enforcement of requirements is not apparent.</td>
</tr>
<tr>
<td>Authorize the government</td>
<td>Yes</td>
<td>Yes, with</td>
<td>Accounting practices need to</td>
</tr>
<tr>
<td>Constitutions</td>
<td>Budget Law</td>
<td>Regulation (internal rules)</td>
<td>Notes</td>
</tr>
<tr>
<td>--------------</td>
<td>------------</td>
<td>-----------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>accounts into which all money must be paid and all expenditures paid from, by appropriation only.</td>
<td>definitions</td>
<td>be modernized.</td>
<td></td>
</tr>
<tr>
<td>Roles of the Parliament and the Executive in terms of budget responsibilities</td>
<td>Yes</td>
<td>Yes but uncoordinated</td>
<td>Financial management system is outdated, limiting the role and responsibilities of the Executive. Linkage between the remaining users is not firmly established.</td>
</tr>
<tr>
<td>The form and structure of the finance bill</td>
<td>Yes, Appropriation Bill</td>
<td>Yes</td>
<td>Appropriation Bill is in a very summarized form (total by agency). Use of warrants or specific “supply.” But the Appropriations are “global”, so the Minister of Finance could authorize the full amount for each agency.</td>
</tr>
<tr>
<td>Definition of the main heading and accounts in the budget law</td>
<td>Yes</td>
<td>Yes but more traditional in format</td>
<td>Incomplete and not in line with the newly implemented Program budgeting approach.</td>
</tr>
<tr>
<td>Legal basis for the execution and formulation of the budget, including roles of key institutions</td>
<td>Yes</td>
<td>Regulations, but not in line with modern practices</td>
<td>Requirements not in line with new accounting system.</td>
</tr>
<tr>
<td>Administrative/judicial sanctions of budget legislation</td>
<td>Yes</td>
<td>Yes but not in practice</td>
<td>Does not seem to be enforced. Not communicated effectively.</td>
</tr>
<tr>
<td>Basis for internal control and internal audit</td>
<td>Not explicitly</td>
<td>Partly</td>
<td>No structure in place. A position exists within the Accountant General office but was never staffed.</td>
</tr>
<tr>
<td>Authorities for issuing and reporting on government guarantees</td>
<td>Not explicitly</td>
<td>No</td>
<td>Instances of derogation. No internal policies or rules.</td>
</tr>
</tbody>
</table>
Annex 4 – Eastern Caribbean Economic Management Program

The ECEMP financed under CIDA, was implemented in phases, beginning with phase I and II from 1993 until 2000. One of its objectives was the improvement of Financial Planning and Management in the OECS region. This had several components, including the implementation of SIGFIS and a Standard Integrated Government Tax Administration System (SIGTAS).

SIGFIS was piloted in St. Lucia and used the SmartStream software. Dominica, as most other OECS countries, opted for the version based on SmartStream, originally developed for commercial applications by Dun & Bradstreet. While implementation has been slow, SIGFIS has operated satisfactorily, although users complain of difficulties of access, lack of user-friendly report generation, slow speed when several users are on line, and the lack of individual advance accounts.

Phase II has already carried out actions to strengthen certain components of public financial management in Dominica including strengthening the budget cycle, introducing a revised chart of accounts, implementing a new public sector investment system and the establishment of management teams in each ministry.

An ECEMP III phase is currently under plan to identify IT skills available and assess systems support needs. However, it is strongly recommended that such a plan move forward in tandem with a plan to bring all ministries on-line with SIGFIS. The Phase III (ECEMP III) is funded by the Canadian International Development Agency (CIDA) and managed by the Canadian management consulting firm CRC SOGEMA for the first four years through a structure of committees. Management is to be later moved to a regional institution. Phase III has a schedule implementation starting July 2002 for 6 years under an approved budget totaling Canadian $6 million. The program will be monitored via the ECEMP regional office in St. Lucia. It contains a number of activities that will support improved public financial management in Dominica, including providing regional training in revenue management, public expenditure management and value for money audits, that will support Dominica directly, and others that will support good public financial management in the region through the review and update of the legislative and regulatory framework under decentralization.
Annex 5 – Development Partner Support for Public Financial Management

The following describes recent donor support for Public Financial Management in the OECS region. The information was gathered based on a donor meeting held in Barbados on November 22, 2002 and a subsequent Public Sector Reform Workshop that took place in Dominica the week of January 20, 2003.

CIDA – The Canadian International Development Agency has taken the lead in economic management and financial management reform in the OECS region. Its main vehicle is a project called “Eastern Caribbean Economic Management Program”, which has as main objective to improve the financial accountability in the OECS region.

CARTAC – The Caribbean Technical Assistance Center, founded with the financial support of CIDA, the IMF, the World Bank, and other donors, provides assistance to strengthen and build capacity in the area of public expenditure management including the development of the Public Expenditures Management System (PEMS). CARTAC is currently involved in strengthening the Cash management function in Dominica. It is also providing support by funding the assignment of a resident macroeconomic advisor and tax administration advisor in Dominica for six months.

DFID – The Department for International Development is providing assistance under its Fiscal and Economic Recovery Project, which includes components on Public Administration/Public Sector Reform, and Public Expenditure Management. As part of the PEM component, DFID will provide support on budget and debt management, including a resident advisor for six months in Dominica to help complete the cash management reforms started by CARTAC.

EU – The European Union is also involved in PEMS via their various Public Investment Programs (PIP) and Banana support programs.

CDB – The Caribbean Development Bank has concentrated efforts in the area of strengthening Dominica’s macroeconomic framework, and has recently provided a resident consultant to replace the key Computer Center staff.

The government of Barbados is providing a resident Public Sector Investment Program coordinator to head the PSIU for up to one year.

RECENT DONOR MEETINGS

The Donors have held coordination meetings in order to discuss the situation in Dominica and the need to go beyond the current level of support provided. During the meetings the Donors agreed that with more government support their intervention could improve. However, on the same token, it was agreed that donors do a better job coordinating their efforts with the government.

Discussions also touch on the need to have both the donors and the GOCC to work more closely on specific themes, with assigned responsibilities and timetables. The specific themes and areas discussed were the following:

- Macroeconomic Framework
- Budget development
The discussions also pointed to the need to expand on these themes in the form of a precise action plan and related terms of reference leading to concrete actions and results “in the field”. In addition, it was proposed to assign specific responsibilities to each donor as well as a government representative. The responsibilities would include specific mandates and timeframes for implementing the required solutions and deliverables.

In addition to the coordination meetings, the donors held a Public Reform Consensus Building Workshop in Dominica in early January 2003. The government’s Reform Management Unit (RMU) hosted the workshop with technical assistance from the World Bank and DFID. The main objective of the workshop was to develop and obtain broad consensus on the proposed Public Sector Reform (PSR) strategy and related deliverables. There was a review, within the context of the proposed PSR strategy, of current reform efforts such as:

- Public sector modernization (including Cabinet accountability and planning system)
- Public expenditures management system (including policy framework, systems and accountability)
- Growth related government services
- Rationalization of social services delivery, (affordability and effectiveness).

The workshop concluded with the following proposed next steps:

- Deepening Cabinet and Permanent Secretary’s ownership and prioritization of PSR actions, (leadership and buy-in for the reforms)
- Institutional arrangements for the reforms, (location of the RMU and specific responsibilities)
- Identification and assignment of subject matter experts to act as “energizers” who will be on location and help push the reform agendas with technical assistance from UNDP and DFID.

**CFAA CONTEXT**

Upon cross-examination of the above-mentioned themes, the observations and recommendations in the CFAA report reinforce the approach of the Donors and complement their efforts to support the government in the process of public financial management reform. In fact, whenever possible, the proposed action plan in attachment II of the CFAA report mirrors the current terms of references and actions being undertaken by the various donors.
Annex 6 – Detailed Results of Fiduciary Risk Analysis

The detailed results of the CFAA fiduciary risk assessment are listed in the following table. In parentheses is the specific financial management component for which each rating applies. A summarized version of these results are found in the text of the Dominica CFAA report.

<table>
<thead>
<tr>
<th>Good Practice Principle and Benchmarks for Assessment</th>
<th>Risk Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A clear set of rules governs the budget process (Budget Preparation)</td>
<td>Moderate</td>
</tr>
<tr>
<td>1.1 A budget law specifying fiscal management responsibilities is in operation</td>
<td></td>
</tr>
<tr>
<td>1.2 Accounting policies and account code classifications are published and applied</td>
<td></td>
</tr>
<tr>
<td>2. The budget is comprehensive (Budget Presentation)</td>
<td>Moderate</td>
</tr>
<tr>
<td>2.1 All general government activities are included in the budget</td>
<td></td>
</tr>
<tr>
<td>2.2 Extra-budgetary expenditure is not material</td>
<td></td>
</tr>
<tr>
<td>3. The budget is aligned with national development strategy (Budget Execution)</td>
<td>Rated in Fiscal Issues Paper for Dominica</td>
</tr>
<tr>
<td>3.1 Budget allocations are broadly consistent with any medium term expenditure plans for the sector or for the overall budget</td>
<td></td>
</tr>
<tr>
<td>4. The budget is a reliable guide to actual expenditure (Budget Execution)</td>
<td>Rated in Fiscal Issues Paper for Dominica</td>
</tr>
<tr>
<td>4.1 Budget outturn shows a high level of consistency with the budget</td>
<td></td>
</tr>
<tr>
<td>5. Expenditure within the year is controlled (Accounting, Reporting and Internal Controls)</td>
<td>High</td>
</tr>
<tr>
<td>5.1 In-year reporting of actual expenditure</td>
<td></td>
</tr>
<tr>
<td>5.2 Internal controls operating to prevent fraud and error</td>
<td></td>
</tr>
<tr>
<td>5.3 Systems operating to control virement, commitments and arrears</td>
<td></td>
</tr>
<tr>
<td>6. Government carries out procurement in line with principles of value for money and transparency (Procurement)</td>
<td>Evaluated in CPAR</td>
</tr>
<tr>
<td>6.1 Appropriate use of competitive tendering rules</td>
<td></td>
</tr>
<tr>
<td>6.2 Decision making is recorded and auditable</td>
<td></td>
</tr>
<tr>
<td>6.3 Effective action taken to identify and eliminate corruption</td>
<td></td>
</tr>
<tr>
<td>7. Reporting of expenditure is timely and accurate (Cash Management, Legislative Oversight)</td>
<td>High</td>
</tr>
<tr>
<td>7.1 Reconciliation of fiscal and bank records is carried out on a routine basis</td>
<td></td>
</tr>
<tr>
<td>7.2 Audited annual accounts are submitted to Parliament within the statutory period</td>
<td></td>
</tr>
<tr>
<td>8. There is effective independent scrutiny of government expenditure (Audit &amp; Legislative Oversight)</td>
<td>Significant</td>
</tr>
<tr>
<td>8.1 Government accounts are independently audited</td>
<td></td>
</tr>
<tr>
<td>8.2 Government agencies are held to account for mismanagement and criticisms and recommendations by the auditors are followed up.</td>
<td></td>
</tr>
<tr>
<td>9. The budget process is transparent (Other aspects of financial management)</td>
<td></td>
</tr>
</tbody>
</table>
Detailed Analysis of CFAA Fiduciary Risk Assessment

**Principle 1: A clear set of rules governs the budget process.**
Dominica’s current legal framework has a good basis but several laws and regulations are out of date. The risk of outdated laws and regulations is twofold. On the one hand, it suggests that laws and regulations are flexible and not to be taken seriously. On the other hand, it raises the possibility that delinquent officers escape prosecution. This situation exits to some degree in Dominica and constitutes a high risk. The following recommendations should be considered a high priority:

- Complete the legal reforms initiated under ECEMP II, including the updating of the FAA and related regulations.
- Have the FAA require periodic updating of the manual for SIGFIS and other systems and combine into one comprehensive public financial management manual.
- Review the Loans Act and Lands Acquisition Act legislation for applicability and effectiveness.

**Principle 2: The budget is comprehensive.**
Dominica’s budget is relatively comprehensive but certain gaps still exist. If a budget is not comprehensive, receipts and payments can occur without being planned or properly recorded in the accounts.

As in most governments using a cash based accounting system, Dominica’s budget does not include receipts and payments, such as deposits and advances that are categorized as Trust Funds and grant monies that appear in the public accounts but not in the budget. Public debt is not presented in the budget or public accounts in a consolidated fashion. Domestic debt is managed and accounted for by the Treasury, while foreign debt is managed by a debt unit within the MOF. There is no routine consolidation of government accounts that would permit identifying financial activity that is not planned or recorded. Dominica should consider consolidating its public accounts following the IMF model.

In general, the budget provides an adequate basis for comprehensive and transparent fiscal management but the following areas could use improvement:

- Budget estimates should include a provision for contingent liabilities.
- The estimates for revenue, expenditure, financing and debt should be presented using a standard classification system. The IMF’s GFS provides a good example.
- The debt service for both domestic and foreign debt should be budgeted and presented in a consolidated fashion.
**Principle 5: Expenditure within a year is controlled.**
Expenditure control depends primarily on the internal controls and to what degree they are laid out and enforced by laws and regulations. In Dominica, laws and regulations regulating public financial management are outdated. Furthermore, the Accounting Officers do not receive any training in the systems and procedures that they operate. The internal audit function is currently not staffed and there is no evidence that the Ministers monitor compliance with internal controls within their ministries. Compliance with regulations is left entirely up to the Director of Audit's staff. In fact, in the latest audit report there was evidence that internal controls are usually ignored or evaded.

Dominica’s MOF has already taken steps to gain control of yearly expenditures. A circular was issued by the Finance Secretary in November 2002, requesting that all line ministries prepare reports with estimates of their revenues and expenditures on a monthly basis. The government has expressed its commitment to update its financial laws and regulations. In addition to these steps, the following recommendations should be considered as high priority:

- Clarify responsibilities for internal control and internal audit.
- Staff the internal audit function.
- Provide Accounting Officers, the Director of Audit’s staff and the Internal Auditor with adequate and periodic training in systems and operations.
- Implement a process whereby the observances and recommendations made by the Director of Audit and the Internal Auditor are addressed and resolved. For example, the CFAA team found that one recommendation has been made for the last 12 years but never implemented (consolidation of debt statements).

**Principle 7: Reporting of expenditure is timely and accurate.**
A government uses financial statements to report on its use of public funds to the citizens of the country. When financial statements are late, do not contain sufficient information, or are inaccurate, accountability is eroded. In the case of Dominica, although the financial statements are presented in a relatively timely fashion, they do not meet international reporting standards (IFAC/PSC-ED9) because they do not contain sufficient information. For example, some public debt, losses of cash and stores, and certain arrears in revenue are omitted from the financial statements.

Also, since the government of Dominica uses cash accounting, non-cash assets and all liabilities are not included in the public accounts. Therefore there is a risk that non-cash assets such as land, and liabilities, such as arrears due from the government to the social security administration, will increase or decrease without authorization or transparency.

The following recommendations should be considered as high-level priority:

- Present financial statements in compliance with international standards. For example, present a consolidated statement of public debt.
- Move to a modified cash basis of accounting with a long-term plan to move to full accrual in compliance with international standards for the public sector.
Clear arrears within a reasonable period of time and until then, disclose them as notes to the financial statements.

**Principle 8: There is effective independent scrutiny of government expenditure.**
The Director of Audit is responsible for exercising independent scrutiny of government expenditure. However, his independence and effectiveness are limited since he does not have independent use of appropriated funds or personnel. Furthermore, the Director of Audit’s staff lack appropriate training to effectively carry out their mandate and the recommendations they make in the annual audit report are not supported by a strong public accounts committee (PAC), limiting their effectiveness even more.

Without effective and independent scrutiny, treasuries are vulnerable to make unwise commitments or expenditures that are not in line with the fiscal strategy of the country. The government of Dominica should place the highest priority on ensuring that effective and independent audits are carried out on an annual basis and that the audit report is reviewed by an active PAC. The following recommendations should be considered high priority:

- The Director of Audit reports to Parliament and therefore Parliament should be consulted in the selection process.
- The Director of Audit should be appointed for a fixed term rather than the current practice of a lifetime term until a relatively low retirement age.
- Audit reports should go directly to the Speaker of the House for tabling.
- The Director of Audit should have more autonomy in financial and personnel decisions, including decisions to seek expertise from outside.
- The Director of Audit’s staff should receive periodic training in international standards, systems auditing, and value for money audits.
- The PAC members should be exposed to the practice of transparency and accountability in action in other countries in order to better understand how they affect the PAC’s role. The PAC should also request updates on the implementation of the recommendations made in the annual audit report.
- The MOF should use the media to increase public awareness of accountability and transparency.

**Principle 9: The budget process is transparent.**
Dominica’s budget process is transparent. Citizens can easily obtain information during various stages of the budget cycle. The budget address, delivered by the Minister of Finance to Parliament, is broadcast live. The final budget estimates are available in print. Dominica’s press secretary together with the Government Information Systems (GIS) carried out a public education drive to increase civil society’s awareness of the budget process. This effort is commendable and has led to positive results.
Annex 7 – Sample Country Risk Questionnaire

Country Risk Assessment Questionnaire
for Agencies other than the Ministry of Finance

1. Introduction
The country risk assessment portion of the CFAA is aimed at assessing how effective public sector financial management methods are in the country. The attempt, through this exercise, is to assess the financial management good practices in effect. Also the assessment will be made with a view towards sustainability of these good practices.

With that view, the questionnaire has been developed to review the budgeting and financial management procedures and practices in place at the organization level, as they may exist. If they do not exist it should be so noted so that technical assistance or appropriate other remedial actions may be identified.

The questionnaire is arranged in five sections:

1. Budgeting and Budget Process
2. Financial Management/Internal Controls
3. Accounting
4. Auditing
5. Integrated Financial Management Systems (IFMS)

This questionnaire is to be completed, in as much detail, as possible by the responding agencies. The Ministry of Finance should distribute this questionnaire and provide the other agencies with assistance as needed.

1. Budgeting – Development, Adoption and Execution
1. When does your organization’s budget process begin and when is your budget adopted?
   1. What is the trend for the past 5 years?
   2. Please describe the statutory budget calendar and the budget calendar in practice.
2. Does a Budget Manual exist?
   1. Has the Budget Manual been implemented?
   2. How many budget staff have been trained in the appropriate use of the Manual?
3. Are Extra-budget funds maintained?
   1. If yes, what is the source of revenue and purpose of expenditures?
   2. Why are they not consolidated in the General Budget?
4. How is the Budget Execution monitored? Describe the process in detail.
5. Is there a published policy on budget modifications and/or supplemental appropriations?
6. Are the modifications reallocations or new appropriations (new spending)?
7. Is your budget Calendar published in the national/regional/local newspapers?
8. Are there public hearings on the budget?
   1. Is adequate notice given of the public hearings?
   2. Is your adopted budget published in the national or local newspapers?
9. Are multiyear capital budgets prepared?
   1. Are capital budgets planned with recurring budget impacts in mind?
10. Are Special Projects Funds or Capital Project Funds used to supplement Recurrent Budgets?
11. Does your legislative body or board increase or decrease the budget based on public debate?

2. **Financial Management/Internal Control**
   1. Is there a Financial Management/Internal Control Manual?
      1.1 Is the manual made available to staff?
      2. Is the manual updated periodically, if yes, how often?
   2. Is there a continuing education requirement for Accounting, Budget Management and Financial Analysis Staff?
   3. Describe the separation of duties for:
      1. budget modifications,
      2. revenue collection, and
      3. payments processing (both vendor (payment to contractors) and payroll (payment to employees))? (Attach sections of the manual if available)
   4. Are payment controls in place for various limits of payments?
   5. How often are financial reports prepared and distributed to line departments?
   6. How often does Finance/Budget office meet with the line departments to review budget-to-actual variances?
   7. Are quantifiable performance indicators agreed to and monitored periodically within the fiscal year?
   8. Are budget funds reserved for obligations/commitments incurred?
   9. Are copies of procurement contracts maintained in the finance department?
   10. Are payroll audits periodically performed?
   11. How many Financial Management/Budget staff exist?
   12. Does your organization have an Internal Audit department?

3. **Accounting**
   1. What is the system of accounting? Cash, Accrual, Modified Accrual?
   2. What is the system of bookkeeping? Single entry or Double Entry?
   4. What is the error correction procedure? Describe it.
   5. How many bank accounts are maintained?
   6. How often are bank accounts reconciled to books?
   7. Are arrears (of payments) analysis done? How often?
   8. Is there a valuation of assets done periodically? How often?
   9. Is your cash management department separate from the accounting department?
   10. Is cash collected in your office or only through the banks (on your deposit accounts)?
   11. How Many Accountants and Bookkeeping staff in MOF/Line Ministries?

4. **Auditing**
   1. Is an active internal audit function present in your organization?
   2. Who do the internal auditors report to?
   3. Does the Internal Audit department have an Annual Audit plan?
   4. How many fraud audits has the internal audit department performed?
5. Are interim financial reviews performed and financial statements provided to aid in budget preparation/discussion/adoptions process?
6. Which is the most current Internal Audit Report?
7. Are independent (private) auditors used to audit your organization? If yes, which ones?
8. Does the Management (Director of Finance, Mayor, President of the Company, etc.) respond in writing to the Internal Audit Report?
9. Does your legislative/policy body respond to the Internal Audit report?

5. Integrated Financial Management Systems (IFMS)
An IFMS system is an automated budgeting, accounting and financial management system that links the various divisions of a finance department, such as revenue department, expenditure department, debt management, auditing and cash management (treasury). All IFMS systems are in a networked computer environment with multiple levels of security.
1. Does an IFMS exist in your organization?
2. When was it implemented?
3. Is the IFMS “home-grown” or “off-the-shelf”?
4. What are the modules in use (GL, AP, Budget, AR, and Cash Management)?
5. How many line ministries are connected to the IFMS?
6. What accounting method is currently used in the IFMS, cash or accrual?
7. Are any sub-systems such as payroll, tax and duties collections automatically interfaced to the IFMS?
8. Are extra-budget funds maintained on the IFMS?
9. Where are the IFMS terminals located, please elaborate considering your organization: Accounting, Treasury, Chief Executive’s Office, Internal Audit, and Planning Department?
10. How is the security matrix implemented?

Does the manual contain clear instructions on how to do each step?

11. The CFAA is a pre-requisite and analytical input for the preparation of the Poverty Reduction Support Credits (PRSC).

NOTE:

1. Please circulate the questionnaire to the Chief Executive and the Chief Financial Officer of each Organization;
2. Please fill in the name of the Organization with the name of the official who completed the questionnaire and his/her contact information here below:

Name of Official Completing Questionnaire:
Department/Division:
Name of Organization:
Address:
Tel. Number:
Email Address:
MAP SECTION