



**MINISTRY OF FINANCE & THE ECONOMY
GOVERNMENT OF THE REPUBLIC OF TRINIDAD & TOBAGO**

**ADDRESS FOR
SENATOR THE HONOURABLE LARRY HOWAI
MINISTER OF FINANCE & THE ECONOMY**

**AT THE ENERGY CHAMBER OF TRINIDAD & TOBAGO –
IMPROVING CORPORATE GOVERNANCE IN TRINIDAD &
TOBAGO**

13 MAY 2014

HYATT REGENCY, PORT OF SPAIN

Salutations:

Mr. Thackwray Driver
Chief Executive Officer – ECTT

Ms. Michelle Cross Fenty
Country Head- IDB

Other members of the Energy Chamber of Trinidad & Tobago

Specially Invited Guests.

Good morning.

It is indeed a pleasure to have been invited to speak to you this morning at the close of this very important initiative:

“Improving Corporate Governance in Trinidad and Tobago.”

This project which is aimed at improving the corporate governance practices in both private and public sector companies will ultimately result in the creation of an ethical, non-corrupt business environment within our expanding economy.

I wish to congratulate the facilitators of this event which included the Inter-American Development Bank, the Multilateral Investment Fund (MIF), RBC Royal Bank, (Syntegra Change Architects Limited, Ernst & Young)

Limited and the Energy Chamber of Trinidad & Tobago. It is very encouraging to note that the project has successfully facilitated to date thirteen one day Corporate Governance Workshops for Boards of Directors, Company Directors and other company decision makers from the private, public and special purpose and non-governmental companies.

Corporate Governance strengthens the very foundation on which companies are built allowing them to expand well into the future. The Ministry of Finance and the Economy recently conducted a one day workshop on Corporate Governance for all Boards of Directors of State Enterprises.

For me, this is an opportunity to continue a very important conversation with Public and Private sector executives. That conversation has been, and continues to be about how essential it is for us to advance strategic interventions for improving our ethical standards, and for ensuring that our organisations operate with a baseline of best practice in corporate governance.

Ladies and Gentlemen, the issue of corporate governance has gained intense attention with policy makers around the world, especially in the after-math of the 2008 Global Financial Crisis.

The enormous impact of that crisis, which stormed down on the global economy with such intensity directly because of the failure of corporate governance systems, is still being felt today in economies that, six years later, are still struggling to halt declines.

We have also had unfortunate experiences locally in the state enterprises as well as in the private sector which serve as examples of what happens when there is a lack of sound risk management and corporate governance practices. Our local experiences coupled with the spectacular failures in the global financial system tell us that the issues of ethics and moral standards are concerns for all of us.

Good corporate governance and ethical conduct are central to a more stable business environment and the role and contribution of the board of directors (in both the public and private sectors) in establishing ethical standards and good governance is critical.

We all agree with the notion that businesses need to be governed by a set of rules that protect the interests of all stakeholders. The codes of best practices and principles were in force internationally by the regulators and supervisors of various economic segments including the financial sector even before the events that led to the recent financial crises. But many of these standards were not adhered to effectively because they were either too general or perhaps the regulators had limited autonomy to

implement the codes in its true spirit. Most importantly however, there were personal failures. These failures were also partly the result of perverse incentive systems which rewarded improper behavior.

Though corporate governance is important for every institution and business, I consider it more critical for the financial institutions which are the custodians of household and business sector deposits. Their intermediary role is only possible when the society has full confidence in its financial system which is a role of the central bank and other regulators of the financial system.

Ladies and Gentlemen, good governance requires accurate information to be available and accessible. Information

should be sufficient and in conformance with relevant standards to allow for understanding, comparison and monitoring. Accountability however, is firmly based on the concept of answerability for the responsibility conferred and is a fundamental aspect of good governance. It means demonstrating honesty, integrity and professionalism through transparency and full accountability. As such I have impressed upon all the Boards of Directors of State Enterprises the urgent need to encourage their respective organizations to adopt the Trinidad and Tobago Corporate Governance Code which was launched in November 2013. As you will know the Code is based upon five principles which once established will no doubt lead to greater transparency and accountability and by extension improve the efficiency and delivery of service to any organization.

I should add that the State Enterprise Sector has a fairly comprehensive set of guidelines designed to ensure good governance.

I shall briefly outline some of the current operating mechanisms within the public sector corporate governance framework.

The first is the *Performance Monitoring System* which is the framework for the oversight of State Enterprises by the Corporation Sole. It outlines the relationship that should prevail between the shareholder, the directors and management of the State enterprises.

Within this monitoring system are the monitoring agents - Line Ministries, Boards of Directors, the Audit and Investment Committees, various Chief Executive Officers, and of course, the Corporation Sole.

The Board of Directors are responsible for ensuring that their organizations have effective audit processes and that internal controls are adequate for the nature and scope of their businesses. The reporting lines of the internal audit function should be such that the information that Directors receive is impartial and NOT unduly influenced by management.

The effectiveness of internal controls within any organization is the responsibility of the line managers. They

must be able to determine the level of risks that is acceptable to their business.

Line managers must also ensure that the combination of earnings, capital and internal controls is sufficient to compensate for their risk exposures. The supporting functions such as accounting, legal, compliance, internal audit and risk management should be able to independently monitor the effectiveness of the internal control processes.

Continuing with the framework for governance in the State Enterprise Sector, there are the responsibilities discharged by the Central Audit Unit, established within the Ministry of Finance and the Economy, to:

I also wish to make reference to the Internal Audit Manual prepared by the Treasury Division of the Ministry. This Manual provides a standard set of guidelines regarding internal auditing procedures in the Public Service, and sets the tone to create sustainable and effective internal auditing mechanisms.

Internal auditors within the Ministry are required to examine the records of Ministries/Departments in order to ascertain the extent of compliance with established policies and procedures as established by the Treasury, and must ensure that expenditure incurred and revenue earned conform to the Estimate of Expenditure and Revenue approved by Parliament.

The internal audit framework is also governed by legal provisions including:

- The Constitution of the Republic of Trinidad and Tobago (Chapter 8) concerning the Minister of Finance, the Auditor General and the Consolidated Fund;
- The Exchequer and Audit Act, Chapter 69:01 providing for the control and management of public finances; the duties and powers of the Auditor General; and the audit of public accounts;
- The Financial Regulations to the Exchequer and Audit Act (Chapter 69:01) which guides internal auditors; and
- The Ministry's Comptroller of Accounts Circulars outlining new accounting systems/procedures being introduced or amended;

In addition, the Integrity Commission has mechanisms for monitoring the personal financial affairs of Ministers, Directors and other Government officials.

Notwithstanding this comprehensive framework, the sector continues to be plagued with governance challenges. What this confirms is that having the principles in place, the appropriate risk management and corporate governance architecture documented and the knowledge of procedures, in place, are simply not enough.

There must be a strong commitment to aggressive enforcement and rigid regulatory oversight.

So ladies and gentlemen, with this overview of the context of risk management and corporate governance, and a brief insight into our own evolving approach here at home, what is clear is that success relies not on the rules, but on character.

Taking responsibility for an organisation can no longer be driven simply by profit and expansion, but must also be matched by a deep appreciation of the broad scope of the responsibility which Boards and management carry.

Yes, we have all spoken about, read about and heard analyzed, the stories of economic disasters, but we ought not to comfort ourselves by the coldness of theoretical terminologies.

Mistakes, or negligence, can plunge economies and industries into crisis and collapse; they can cost thousands of people their livelihoods; they can cost thousands of families the comfort of a home; they can cost many more thousands of children the access to education and training; they can cost small businesses the ability to survive, and indeed, they can sacrifice the very future towards which all Directors, Executives, Managers and Overseers work.

The time has therefore come to see risk management and corporate governance not as a choice that we choose to make, but rather imperatives that we simply *must* adopt and commit to upholding.

There is quite enough evidence of the *cost* of mistakes to people, to communities, to companies, to cities and to nations.

Let us therefore change our focus to the *benefit* of rigorous planning, astute management and loyal commitment to sound governance practices.

Let's work towards making sound corporate governance, not the ideal that we work towards, but the baseline by which we operate.

Ladies and gentlemen, I thank you!