



**JAMAICA  
ENERGY MANAGEMENT AND EFFICIENCY PROGRAM  
(JA-L1056)**

**INSTITUTIONAL CAPACITY ASSESSMENT OF THE  
PETROLEUM CORPORATION OF JAMAICA  
(PCJ)**



**FINAL REPORT**

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**TABLE OF CONTENTS**

<b>I.</b>	<b>INTRODUCTION.....</b>	<b>1</b>
A.	Objective.....	1
B.	Scope of the Report.....	1
<b>II.</b>	<b>THE PROGRAM.....</b>	<b>2</b>
A.	Objectives.....	2
B.	Components.....	2
C.	Cost.....	3
<b>III.</b>	<b>THE PETROLEUM CORPORATION OF JAMAICA.....</b>	<b>3</b>
A.	Institutional and Legal Background.....	3
B.	Mandate and Responsibilities.....	4
C.	Organization.....	5
	1. Office of the Group General Manager.....	6
	2. Core Business Departments.....	7
	3. Property Management.....	7
	4. Supporting Services.....	7
	5. Advisory Services.....	9
	6. Subsidiaries and Joint Ventures.....	9
D.	Personnel.....	10
<b>IV.</b>	<b>INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM.....</b>	<b>11</b>
A.	Objective and Scope.....	11
B.	Components of ICAS.....	11
	1. Programming and Organization Capacity (CPO).....	11
	2. Execution Capacity (CE).....	12
	3. Control Capacity (CC).....	12
C.	Assessment and Interpretation of Results of ICAS.....	13

cont.

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**FINAL REPORT**

**TABLE OF CONTENTS, CONT.**

<b>V.</b>	<b>RESULTS OF THE APPLICATION OF ICAS TO THE PETROLEUM CORPORATION OF JAMAICA.....</b>	<b>13</b>
A.	Summary of Results.....	13
B.	Results of Individual Components.....	15
1.	Activities Programming System (SPA).....	15
2.	Administrative Organization System (SOA).....	19
3.	Personnel Management System (SAP).....	22
4.	Goods and Services Administration System (SABS).....	24
5.	Financial Management System.....	27
6.	Internal Control System (SCI).....	31
7.	External Control System (SCE).....	34
<b>VI.</b>	<b>CONCLUSIONS AND RECOMMENDATIONS.....</b>	<b>36</b>
<b>ANNEX:</b>	<b>RISK MATRIX AND ICAS QUESTIONNAIRES.....</b>	<b>39</b>

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ENERGY MANAGEMENT AND EFFICIENCY PROGRAM  
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**ACRONNYMS**

AOP	Annual Operational Plan
CC	Control Capacity
CE	Execution Capacity
CEO	Chief Executive Officer
CFO	Group Chief Financial Officer
CPO	Programming and Organization Capacity
EC	Energy Conservation
EE	Energy Efficiency
ERP	Enterprise Resource Planning
ESCO	Energy Services Company
FAA Act	Financial Administration and Audit Act
GHG	Greenhouse Gas
GIAD	Group Internal Audit Department
GOJ	Government of Jamaica
IAS	International Accounting Standards
ICAS	Institutional Capacity Assessment System
ICT	Information and Communication Technology
IDB	Inter-American Development Bank
IFRS	International Financial Reporting Standards
INDC	Intended Nationally Determined Contributions
JARS	Jamaica Aircraft Refueling Services
JICA	Japan International Cooperation Agency
J\$	Jamaican Dollar
MFPS	Ministry of Finance and the Public Service
MSET	Ministry of Science, Energy and Technology
NCB	National Commercial Bank Jamaica Limited
OC	Ordinary Capital

cont.

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**ACRONNYMS, CONT.**

PCJ	Petroleum Corporation of Jamaica
PEA	Project Executing Agency
PEDEVESA	Petróleos de Venezuela, S.A.
PEL	Petrojam Ethanol Limited
PETCOM	Petroleum Company of Jamaica Limited
PEU	Project Executing Unit
PIOJ	Planning Institute of Jamaica
PO	Purchase Order
PSA	Production Sharing Agreements
PwC	PriceWaterhouse Coopers
REED	Renewable Energy and Energy Efficiency Department
SABS	Goods and Services Management System
SAF	Financial Management System
SAP	Personnel Management System
SCE	External Control System
SCI	Internal Control System
SOA	Administrative Organization System
SPA	Activities Programming System
SWOT	Strengths, Weaknesses, Opportunities and Threats
US\$	Dollar of the United States of America
UWI	University of the West Indies

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**I. INTRODUCTION**

**A. Objective**

- 1.1 The general objective of the report is to present the results of the institutional evaluation of the Petroleum Corporation of Jamaica (PCJ), which was undertaken through the deployment of the tool and methodology “Institutional Capacity Assessment System” (ICAS), developed by the Inter-American Development Bank (IDB). In particular, taking into consideration the participation of PCJ as Project Executing Agency (PEA) of the initiative “Energy Management and Efficiency Program” (JA-L1056).
- 1.2 The specific objectives of the report include, among others:
- (a) Describing the results of the institutional evaluation of PCJ, taking into consideration its fiduciary characteristics and capacity with respect to, among others, planning, organization and governance, human resources management, administration, financial management, and internal and external controls.
  - (b) Based on the analysis of such fiduciary systems and capacities, along with the implications for the Program, formulating recommendations to the Bank’s Project Team and PCJ for institutional strengthening, when necessary.
  - (c) Analyzing the project management capacity of PCJ, with respect to the technical processes and criteria deployed by the Corporation in their design, implementation and management, including an assessment of internal technical and administrative systems for project selection, implementation and supervision.

**B. Scope of the Report**

- 1.3 The report is the result of the institutional assessment which was carried out based on the meetings and work sessions held by the consultant with senior management and administrative personnel of PCJ, which took place during the week of April 18, 2016 in

Kingston, Jamaica, as well as the institutional and financial information provided by the Corporation to the consultant.

- 1.4 The present report directly reflects, in an objective, justified and complete manner, the verbal responses to concrete ICAS questions, topics and areas of discussion gathered during the interviews with PCJ officials, in addition to the respective interpretation and analysis by the consultant of all the supporting information and documentation provided by the Corporation in both, physical and digital formats. Thereby, the results and conclusions reflect, in an objective manner, the institutional characteristics and capacities of PCJ, as a direct input to its participation in the execution of the Program, and in compliance with: (a) the guidelines for the application of the ICAS methodology; and (b) the technical inputs and analysis of the consultant.

## **II. THE PROGRAM**

### **A. Objectives**

- 2.1 The general objective of this Program is to contribute to the Government of Jamaica's (GOJ) "National Energy Conservation and Efficiency Policy 2010-2030" (NECEP) target of 71% reduction in energy intensity through the design and implementation of Energy Efficiency (EE) and Energy Conservation (EC) measures in Government facilities, and through fuel conservation in the transport sector.
- 2.2 The specific objectives of the Program are: (a) reduced electricity consumption within Government facilities; (b) decreased fuel consumption through improved traffic control management; (c) reduced greenhouse gas (GHG) emissions which can contribute to Jamaica's commitment to Intended Nationally Determined Contributions (INDC); and (d) increased capacity to promote and supervise electricity planning in Jamaica.

### **B. Components**

- 2.3 The Program is structured in three components:
- (a) Component 1: Energy Efficiency and Energy Conservation Measures in Government Facilities. This component will finance EE and EC in a set of approximately 90 government facilities, concentrated in the health and education sectors given that together, these sectors have the potential to decrease the government's overall electricity bill by over 20%. Based on existing analysis and a sample of walk-through audits already conducted, a reduction in electricity consumption of between 30-50% is expected in these facilities, saving GOJ approximately US\$7 million annually. The buildings for this Component will be selected according to a pre-agreed set of criteria and on the results provided by comprehensive, investment-grade EE/RE audits. Activities include: (i)

investment-grade audits; (ii) purchase, installation, maintenance and operation of appropriate EE and EC technologies and measures within selected Government facilities; (iii) technical expertise and capacity building to improve monitoring and evaluation; and (iv) set-up and implementation of a revolving fund to improve Project sustainability.

- (b) Component 2: Fuel Efficiency in the Transport Sector. This component will finance: (i) the purchase and installation of equipment to facilitate the implementation of an Urban Traffic Management System in Kingston, including fiber optic cables, traffic lights, cameras, sensors, planning software, communication technology maintenance equipment, and training support; (ii) a technical study to assess how the public transport sector--which is a fairly heavy user of oil and heavy fuel--, can obtain EE from diversifying their fuel sources.
- (c) Component 3: Support to Institutional Strengthening for Electricity Planning. Building on a study commissioned by the IDB regarding the need to support technical capacity within energy planning, this component will finance: information systems training and technical support for integrated resource planning in Jamaica, with a particular focus on planning and supervision of EE across the country.

### **C. Cost**

- 2.4 The estimated total cost of the Program is US\$30 million including: (a) a US\$15.0 million investment loan from the Bank's Ordinary Capital (OC) Fund; and (b) US\$15.0 million in co-financing from the Japan International Cooperation Agency (JICA).

## **III. THE PETROLEUM CORPORATION OF JAMAICA**

### **A. Institutional and Legal Background**

- 3.1 The Petroleum Corporation of Jamaica (PCJ) was established under the *Petroleum Act* of June 15, 1979. as a body corporate under Section 28 of the *Interpretation Act of Jamaica*, which vests in the Corporation the autonomy and power to, among others: (a) sue in its corporate name; (b) enter into contracts in its corporate name; (c) acquire, hold or dispose real property; (d) regulate its own procedures and business; (e) employ the necessary staff; and (f) make the body liable to be sued under its own corporate name (i.e. limited liability).
- 3.2 The *Public Bodies Management and Accountability Act* of December 28, 2001, provides PCJ with the autonomy for corporate policy and procedures development, the establishment of its organizational/executive structure that is most apt to effectively discharge its responsibilities, and ultimately, to design and implement the instruments



and mechanisms necessary for the financial sustainability of its portfolio of business and investment activities. Also, under such legal framework, as corporate body of the GOJ and, from a sectoral and public governance perspective, PCJ is under the Ministry of Science, Energy and Technology. The Public Bodies Management and Accountability act establishes basis and processes of/for consultation with the Minister for strategic, budgetary and overall corporate affairs and decisions, among others.

#### **B. Mandate and Responsibilities**

3.3 Section 5 of the Petroleum Act describes the following responsibilities to the Corporation:

- (a) Promoting an orderly and rational development of the petroleum resources of Jamaica.
- (b) Ensuring that Jamaica receives the greatest benefits obtainable from the exploitation of petroleum resources.
- (c) Promoting the training of Jamaican personnel in all aspects of exploration, development and management of petroleum resources, and of the processing, refining, storage, sale and distribution of petroleum and petroleum products.
- (d) Promoting the development and transfer in/to Jamaica of technologies related to the exploration, development and management of petroleum resources and to the processing, refining, storage and distribution of petroleum and petroleum products.
- (e) Ensuring that operations in relation to the exploration and development of petroleum resources, and any other operations ancillary to such operations, are conducted in such a manner as to prevent and minimize accidents and to prevent adverse effects on the environment and other resources of Jamaica.
- (f) Advising the Minister on all matters related to exploration, development and management of petroleum resources and to the processing, refining, storage, marketing and import of petroleum and petroleum products.
- (g) By order of the Ministry, subject to affirmative resolution, extend the functions of the Corporation to include promotion, development and management of energy resources other than petroleum.

3.4 Under such framework of overarching objectives and based on the goals established in the “National Energy Policy”, the GOJ has charged PCJ with the mandate to establishing aggressive renewable energy goals, rigorously promoting energy efficiency, providing an appropriate fiscal framework to attract international investment for the development of

energy infrastructure and, ultimately, establishing the basis for the promotion of energy security, efficiency and sustainability for the country, and to ultimately and aggressively develop a suite of affordable energy options to enable national development.

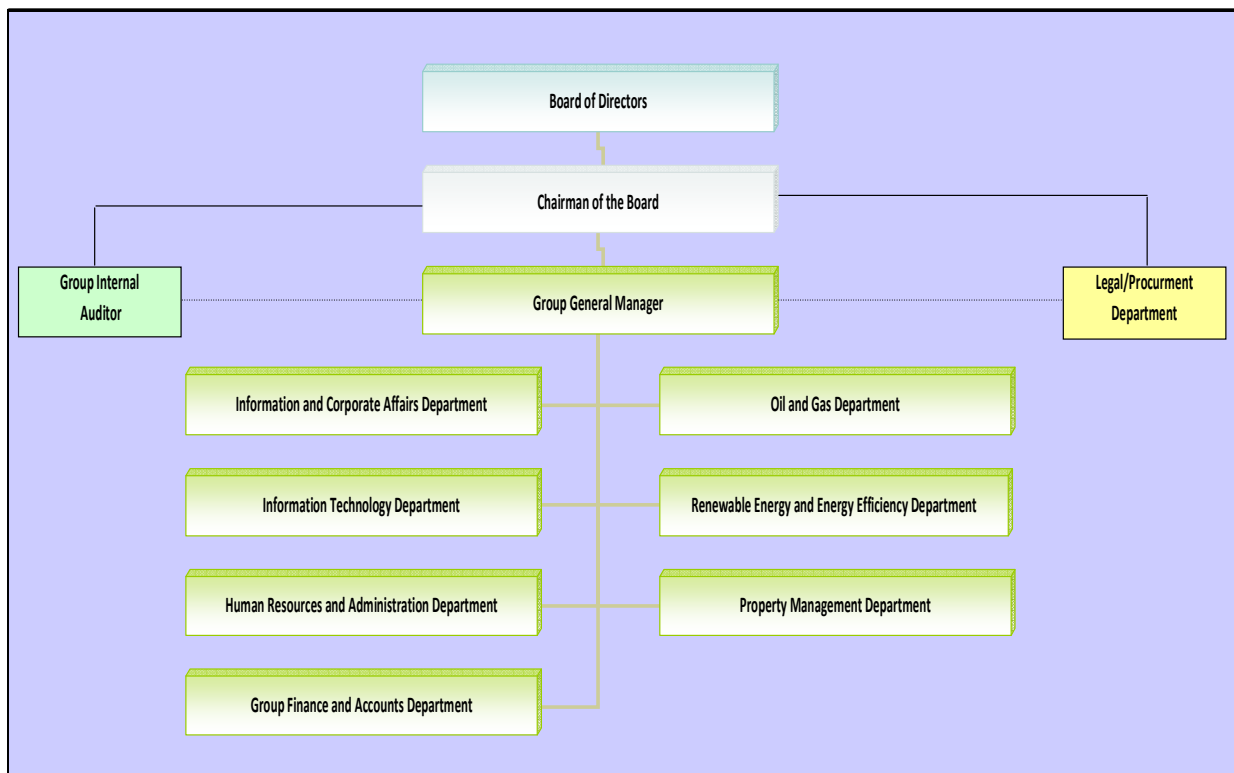
- 3.5 PCJ's mandate includes driving the diversification of Jamaica's energy supply, and facilitating the infusion of renewable energy into the country's energy mix. In this context, the Corporation focuses on four main actions including promoting energy efficiency, increasing the use of renewable resources, facilitating the production of biofuels, and driving oil and gas exploration.

### **C. Organization**

- 3.6 The organizational structure of PCJ follows the stipulations contained in both, the Petroleum Act and the Public Bodies Management and Accountability Act. Under this governance structure, the highest power of authority rests in the *Board of Directors* which is responsible for the overall oversight of the operations and administration of the Corporation and, in particular, it is charged with: (a) taking the necessary steps to ensure the efficient and effective management of the Corporation; (b) ensuring the accountability of all persons that manage resources of PCJ; (c) developing adequate information, control, evaluation and reporting systems within the Corporation; (d) establishing specific and measurable objectives and performance targets; (e) advising management of policy aspects which may affect the overall administration of the Corporation; and (f) monitoring the performance of the Group General Manager based on the agreed and approved terms with the Minister of Science, Energy and Technology (MSET).
- 3.7 The Board of Directors is appointed by and reports directly to the Minister of Science, Energy and Technology. The Board is comprised of a maximum of 12 members (including the Group General Manager), who are responsible for setting the policy direction of the Corporation and ensuring the fulfillment of the PCJ's mandate as well as providing guidance on governance matters. In addition, they are charged with the responsibility for the approval of business development projects; the consideration, approval and adoption of relevant institutional policies to support PCJ's programs, services and operations; and the approval of the Corporation's budgets and financial statements. Members of the Board come from a variety of backgrounds with extensive experience in private and public sector in Jamaica and overseas.
- 3.8 The Board of Directors also works closely with the Corporation's Group General Manager and the wider Management Team on the development of policy and relevant strategic plans. Standing sub-committees of the Board include the Technical Services Committee, the Finance Committee, the Audit Committee, and Human Resources Committee.
- 3.9 As can be seen in Figure No. III-1, at the executive level, PCJ presents a functional

organizational structure with all technical, operating and administrative departments reporting to the Office of the Group General Manager/Chief Executive Officer (CEO). In addition, the Corporation comprises a two advisory-level departments with a dual reporting structure to the Chairman of the Board of Directors (direct) and to the Group General Manager (non-line).

**FIGURE NO. III-1**  
**PETROLEUM CORPORATION OF JAMAICA: CURRENT ORGANIZATIONAL STRUCTURE**



SOURCE: Petroleum Corporation of Jamaica.

### 1. Office of the Group General Manager

3.10 The Group General Manager/CEO is responsible for managing and coordinating all of the Corporation's activities, including its subsidiaries. With the support of the Executive Leadership Team, drives the strategic vision and mission of the Corporation as a whole. He is responsible for managing all areas of operations to ensure revenues and profits on investments are maximized, risk is managed and costs controlled consistent with the budget and business plans. In addition, it is charged with developing and implementing corporate strategies, managing the overall operations and resources of the Corporation, and acting as the main focal point of communication between the Board of Directors and the executive structure. The Group General Manager sets business goals and assigns targets to the General Managers of the Subsidiaries and Senior Management Team of PCJ. Ensures that appropriate use of procedures and technologies to support and facilitate the achievement of the strategic corporate goals and objectives.

## 2. Core Business Departments

- 3.11 *Renewable Energy and Energy Efficiency Department (REED)*. Charged with the responsibility to drive energy conservation and energy saving for Jamaica, through education and promotion of the use of alternative energy sources. It is responsible for providing technical expertise in the formulation, development and implementation of a cohesive renewable energy program for Jamaica. It undertakes and oversees renewable energy project execution. This comprises: (a) evaluation of technical, environmental and economic feasibility of renewable energy systems; (b) screening of cost-effective renewable electricity projects through site visits, feasibility studies and project evaluations for successful implementation; (c) investigation and research on the potential end users for commercial and industrial renewable fuels; (d) development of selected technologies, and management of internal and external engineering resources in order to determine cost and schedule; and (e) preparation of sound technical/scientific reports, project reports, papers and presentations based on renewable electricity research, existing projects/schemes, procurements and negotiations. This includes the preparation of proposals for funding.
- 3.12 *Oil and Gas Exploration Department*. Responsible for the development of strategies and activities in oil and gas exploration in both, onshore and offshore Jamaica. It negotiates and liaises with companies for exploration activities. Through joint venture partnership and production sharing agreements (PSA), conducts oil exploration with other agencies both locally and overseas. The Department: (a) monitors the performance of companies that have licenses on particular exploration blocks; (b) conducts preliminary surveys and studies of oil and gas deposits to ascertain the geological and environmental feasibility of potential drilling operations; (c) advises on the geological suitability of where to drill for petroleum and assists in determining the economics of extracting oil; (d) oversees and advises the Corporation on various environmental standards, legislations, conventions and treaties related to oil and gas exploration in the Caribbean Region; and (e) reviews applications for licenses to drill for oil and gas wells.

## 3. Property Management

- 3.13 *Property Management Department*. Responsible for providing maintenance and security services to employees and tenants of the Corporation, including: (a) the preventive and recurrent maintenance of various facilities of the Corporation including the PCJ Resource Centre, Negril Royal Palm, Font Hill Farms, and Ocean Towers Apartment; (b) the implementation of industrial security measures; (c) development of facilities improvement projects and evaluation, selection and monitoring of contractors.

## 4. Supporting Services

- 3.14 *Finance and Accounts Department*. Responsible for managing, planning, coordinating

and directing the day to day operational fiscal functions and processes of the Corporation and its subsidiaries in accordance with generally accepted accounting standards. Its functions include, among others: (a) leading the preparation and distribution of PCJ' annual and corporate plans at the departmental and consolidated levels, (b) ensuring that the Corporation's accounting framework, policies, and procedures are developed and maintained in accordance with International Financial Reporting Standard (IFRS), and that the financial reports are prepared in accordance with this policy framework; (c) implementing and driving the financial processes, control framework and systems necessary to meet the information and reporting requirements of the Corporation and the Group as a whole; and (d) establishing corporate compliance/risk management systems and processes, including providing risk management assessment of potential project investments and structures.

- 3.15 *Human Resources and Administration Department.* Responsible for the alignment of human resources management with the strategic goals of the Corporation, with particular focus on the human capital, and all personnel management of PCJ and three of its subsidiaries including Petcom, Wigton and Jamaica Airline Refuelling Services. Its functions include: (a) recruitment, compensation and benefits, training and development, and staff appraisals; (b) health and safety, general employee well-being and guiding of staff behavior; (c) compliance with labor and employment laws; (d) formulates and recommendation of human resources policies and procedures; and (e) management of the performance appraisal process, along with the performance incentive program. The Department is also responsible for performing internal administrative functions beyond human resources management.
- 3.16 *Information and Corporate Affairs Department.* Responsible for the development and implementation of all internal and external communication strategies of the Corporation, in direct coordination with the Group General Manager. Contributes to the overall strategic planning process, ensuring the consistency with the overall mandate and objectives of the Corporation, pertinent legislation and sectoral and national development plans.
- 3.17 *Information Technology Department.* Responsible for providing information and communication technology (ICT) support services and solutions for PCJ and ensuring that all supporting systems and resources are in place and effectively managed. It provides specialized technical assistance to the Corporation and its subsidiaries with respect to information networks; conducts hardware and software maintenance; designs and implements file and information management and security measures, including back up and recovery procedures to ensure the solid running of all ICT systems; and develops internal policies and procedures for ICT, as part of the overall institutional, operating and control strategies.

## 5. Advisory Services

- 3.18 *Legal/Procurement Department.* On the legal side, the Department is responsible for the provision of legal advice and guidance at the Board and executive levels; contract management including negotiation and drafting of legal; keeping the Corporation's activities in strict compliance and within the overall legal framework surrounding the institutional, operating and administrative responsibilities of PCJ; and legislations; protecting the company's rights and interests; and providing corporate secretary services to the Board. On the procurement side, the Department is responsible for adhering to the GOJ standards, norms and regulations for the procurement of goods and services in determining the methods of awarding contracts; the evaluation and selection of suppliers; and the provision of guidance in the preparation of all technical bidding documents and evaluation of bids for major technical and energy related projects at PCJ and its subsidiaries including Petcom, Wigton and Jamaica Airline Refueling Services.
- 3.19 *Group Internal Audit Department (GIA).* Responsible for the internal audit functions for the entire PCJ Group including its subsidiaries. It is mandated to ensuring the compliance of PCJ and its subsidiaries' with a comprehensive program of audit assignments through an Audit and Compliance Plan covering: internal controls, risk management processes, regulatory compliance, quality of corporate governance arrangements, financial management processes, treasury and investment portfolios, administration and financial systems, human resources, information systems, reliability of financial and management accounts, fraud related and ethical issues, and other. GIA provides monitoring services that are designed to add value and improve operations.

## 6. Subsidiaries and Joint Ventures

- 3.20 PCJ has three wholly owned subsidiaries:

- (a) *Wigton Windfarm Limited*, which operates a 38.7 MW wind farm complex in Manchester, and which accounts for 4.5% of the grid's generating capacity and 2.6% of Jamaica's electricity generation.
- (b) *Petrojam Ethanol Limited (PEL)*, which focuses on the production, export and sale of anhydrous ethanol.
- (c) *Petroleum Company of Jamaica Limited (PETCOM)*, which functions as the retail arm of the PCJ; with a network of 24 service stations and 14 liquefied petroleum gas (LPG) filling plants island wide, and a remit which includes the marketing and sale of petrol, lubricants, LPG and industrial land fuels.

- 3.21 The PCJ has two joint venture companies:

- (a) *Petrojam Limited*, which operates the state owned refinery, with a capacity of

36,000 barrels, facility located on Marcus Garvey Drive in Kingston. It supplies Jamaica with a full range of domestic, transportation and industrial petroleum products. PCJ has a 51% stake in Petrojam while Petróleos de Venezuela, S.A. (PEDEVESA) controlling 49% of the stake.

- (b) *Jamaica Aircraft Refueling Services (JARS)*, which provides refueling services at Jamaica's two largest airports, namely, the Norman Manley International Airport in Kingston and the Donald Sangster International Airport in Montego Bay. PCJ owns 49% of JARS and Air B/P owns 51%.

#### **D. Personnel**

- 3.22 PCJ has a total of 118 employees, of which 101 were permanent staff members and 17 contract, part-time and internship employees. As can be seen in Table III-1, only 20 employees (16.9%) correspond to the core business departments (i.e. REED and Oil and Gas Exploration). Due to the nature of the responsibilities of the Property Management Department, it concentrates most of the employees of the Corporation (43 or 36.4%), mainly comprising maintenance personnel. Supporting services in the areas of finance, administration, human resources, corporate affairs and IT account for approximately one third of the total staff of PCJ. Personnel of non-line, advisory services (i.e. Legal and Internal Audit) account for 15 staff members (12.7%).

**TABLE III-1**  
**PETROLEUM CORPORATION OF JAMACIA**  
**PERSONNEL STRUCTURE**

Permanent	Permanent	Contract/ Temporary	Graduate/ Intern	Part-Time	Total
<b>I. OFFICE OF THE CHAIRMAN OF THE BOARD</b>	<b>1</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1</b>
<b>II. OFFICE OF THE GROUP GENERAL MANAGER</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3</b>
<b>III. CORE BUSINESS DEPARTMENTS</b>	<b>18</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>20</b>
A. Renewable Energy and Energy Efficiency Department	15	0	0	0	15
B. Oil and Gas Exploration Department	3	1	1	0	5
<b>IV. PROPERTY MANAGEMENT</b>	<b>35</b>	<b>2</b>	<b>1</b>	<b>5</b>	<b>43</b>
A. Property Management Department	35	2	1	5	43
<b>V. SUPPORTING SERVICES</b>	<b>30</b>	<b>4</b>	<b>2</b>	<b>0</b>	<b>36</b>
A. Finance and Accounts Department	10	0	0	0	10
B. Human Resources and Administration Department	11	2	1	0	14
C. Information and Corporate Affairs Department	6	2	1	0	9
D. Information Technology Department	3	0	0	0	3
<b>VI. ADVISORY SERVICES</b>	<b>14</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>15</b>
A. Legal/Procurement Department	6	0	0	0	6
B. Group Internal Audit Department	8	0	1	0	9
<b>TOTAL</b>	<b>101</b>	<b>7</b>	<b>5</b>	<b>5</b>	<b>118</b>

SOURCE: Petroleum Corporation of Jamaica.

- 3.23 As of the date of the present assessment, most positions approved by the Ministry of Finance and the Public Service (MFPS) for PCJ had been filled and/or are in the process of approval. In this respect, it can be asserted the Corporation is operating at near full employment.

#### **IV. INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM**

##### **A. Objective and Scope**

- 4.1 The Institutional Capacity Assessment System (ICAS) is a methodology applied to the evaluation of public organizations or executing agencies of project initiatives funded with resources from the IDB, and mainly comprises an assessment of internal management, administration and control capabilities and procedures. Through the application of a series of questionnaires as part of an interactive process between the evaluator and pertinent officials of the executing agency, along with the analysis of the institutional and financial information provided by the entity, the evaluator assesses the various internal resources of the institution including human resources, infrastructure, equipment, materials and information, among others, as well as institutional norms, procedures and control systems.
- 4.2 The assessment and results of the evaluation constitute the main input to determine the capacity of the institution to comply with fiduciary, administrative, internal control and external audit responsibilities required by the IDB from the executing agencies. In addition, the assessment provides indicators on the levels of development and risk implicit in the institutions and their direct implications on the execution of the projects.

##### **B. Components of ICAS**

- 4.3 ICAS comprises seven components grouped in three areas described below.
1. Programming and Organization Capacity (CPO)
- 4.4 Represents the institutional capacity to undertake the planning and programming processes, along with the corresponding allocation of the resources to implement the activities necessary for the attainment of institutional objectives. It includes two systems:
- (a) Activities Programming System (SPA). Provides an assessment of the planning capacity of the institution along with its ability to translate it into strategic and operational plans, as well as in concrete goals and activities to be executed by the organization towards the attainment of institutional objectives in the short, medium and long-term. Includes the institutional capacity to effectively link



such plans with the programming process towards the allocation of human, technical, financial and other resources, as well as the capacity and effectiveness of the institution in monitoring the implementation of its strategic plans towards the accomplishment of its institutional objectives and mandate.

- (b) Administrative Organization System (SOA). Provides an assessment of the characteristics of the governance, organizational and decision making structure, including the distribution of resources to meet the needs of the institution to undertake its programming, execution, administration and control activities, and towards the accomplishment of the institutional objectives.

## 2. Execution Capacity (CE)

- 4.5 Represents the capacity of the organization to implement its planned/programmed activities and reach the desired results in accordance with the strategic plan and institutional objectives. It includes three systems:

- (a) Personnel Management System (SAP). Provides an assessment of the existence of norms and procedures related to the search, selection, hiring, induction, development, and evaluation of the human resources of the institution, as well as the incentives, remuneration and retirement structures, among others.
- (b) Goods and Services Management System (SABS). Provides an assessment of the existence of technical and administrative norms and procedures applicable to the administration and control of the goods and services of the institution, from the moment of their request to their final disposition. In this respect, it comprises the request, authorization, estimates, procurement, and contracting, as well as the reception goods and services, verification of inventories, administration, control, safeguarding, and write-off processes.
- (c) Financial Management System (SAF). Provides an assessment of the existence of norms, procedures and systems for the administration of the financial resources of the institution, and includes, among others, budgeting, accounting, treasury and asset management systems. It also assesses the effectiveness of their operation as well as the overall level of integration of systems and recording mechanisms.

## 3. Control Capacity (CC)

- 4.6 Represents the capacity of the institution to generate and show efficiency and transparency in the administration of its resources, its ability to provide precise and reliable information on such administration, and its capacity to provide a timely accountability on the results for its fiscal periods. It includes two systems:

- (a) Internal Control System (SCI). Provides an assessment of the presence of an administration focused on the compliance with internal norms aimed at ensuring operating efficiency, effectiveness and transparency, the capacity of the institution to generate timely and reliable information on its administration, and its capacity to comply with norms, regulations and legislation related to the management of the State's and assigned institutional resources.
- (b) External Control System (SCE). Provides an assessment of the institution's procedures in the procurement of external/independent audits to examine the operations and activities of the institution in each fiscal period, with the objective of establishing the efficiency of the administrative and internal control systems, as well as the reliability of the accounting and operating records and financial statements.

### **C. Assessment and Interpretation of Results of ICAS**

- 4.7 As can be seen in the following table, ICAS groups each of the seven components described above in two categories of evaluation including "Development" and "Risk Level", and presents the results on a percentage scale.

**TABLE IV-1**  
**INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**  
**SCALE OF QUALIFICATIONS/SCORES**

Qualification	Development	Risk Level
0 – 40	Non-Existing (ND)	High (RA)
41 – 60	Incipient (ID)	Substantial (RS)
61 – 80	Medium (MD)	Medium (RM)
81 – 100	Satisfactory (SD)	Low (RB)

## **V. RESULTS OF THE APPLICATION OF ICAS TO THE PETROLEUM CORPORATION OF JAMAICA**

### **A. Summary of Results**

- 5.1 The application of ICAS to PCJ results in a weighted average factor of 85.05%, determining a "Satisfactory" (SD) development level associated with a "Low" (RB) risk level (see Table V-1 below). The three categories of capacity assessment contribute to such consolidate result in the following manner:<sup>1</sup>
- (a) "Planning and Organization Capacity" (CPO) with a score of 85.00%, equivalent

<sup>1</sup> Refer to section B of this chapter for detailed analysis.

to a “Satisfactory” (SD) development level and a “Low” (RB) risk level. Based on the ICAS’ *weight distribution* in this category of 50% for SPA and 50% for SOA (refer to Table IV-1 above), the weighted average results for the Corporation point to the presence of concrete strengths in both, the planning and organizational systems. Nonetheless, a number of aspects have been identified in both systems which, if effectively addressed by PCJ, can contribute to the strengthening of the overall governance structure and, especially, with respect to the planning environment and capacity.

- (b) “Execution Capacity” (CE) with a score of 87.65%, equivalent to a “Satisfactory” (SD) development level and a “Low” (RB) risk level. The ICAS’ methodology assigns a *weight distribution* of 30% to SAP, 30% to SABS and 40% to SAF for this category. The CE score for PCJ reflects the presence of strengths in all three systems, with consistent results of just under the 50% percentile of the satisfactory development and low risk levels. In this context, only a number of specific aspects have been observed with concrete recommendations for further strengthening and consolidating institutional performance in these administrative areas.
- (c) “Control Capacity” (CC) with a score of 81.19%, equivalent to a “Satisfactory” (SD) development level and a “Low” (RB) risk level. Based on a *weight distribution* of 80% for SCI and 20% for SCE of the ICAS methodology, a number of weaknesses encountered in PCJ’s internal control systems reduce the overall CC score to the lower 25<sup>th</sup> percentile of the threshold for satisfactory development and low risk levels. Indeed, the present prescribes concrete actions aimed at the strengthening of the overall internal control capacity of PCJ, as described in the following sections.

**TABLE VI-1**  
**MINISTRY OF WATER, LAND, ENVIRONMENT AND CLIMATE CHANGE**  
**RESULTS OF ICAS**

Capacity	System	Quantification			Development	Risk Level
		Score	Weight	Weighted Average		
CPO	SPA	80.00	50%	40.00	MD	RM
	SOA	90.00	50%	45.00	SD	RB
<b>Total</b>				<b>85.00</b>	<b>SD</b>	<b>RB</b>
CE	SAP	87.50	30%	26.25	SD	RB
	SABS	87.50	30%	26.25	SD	RB
	SAF	87.88	40%	35.15	SD	RB
<b>Total</b>				<b>87.65</b>	<b>SD</b>	<b>RB</b>
CC	SCI	78.57	80%	62.86	MD	RM
	SCE	91.67	20%	18.33	SD	RB
<b>Total</b>				<b>81.19</b>	<b>SD</b>	<b>RB</b>
Consolidation of Results		Quantification			Development	Risk Level
Capacity		Score	Weight	Weighted Average		
CPO		85.00	25%	21.25	SD	RB
CE		87.65	45%	39.44	SD	RB
CC		81.19	30%	24.36	SD	RB
<b>Total</b>			<b>100%</b>	<b>85.05</b>	<b>SD</b>	<b>RB</b>

- 5.2 *In summary, the consolidated results of ICAS indicate that the PCJ presents the necessary institutional capacity to participate in the execution of the “Energy Efficiency and Conservation Program”. Nonetheless, the presence of medium levels of development and associated medium levels of risk in some of the individual components of ICAS, as well as scores in the lower 25<sup>th</sup> and 50<sup>th</sup> percentile of the satisfactory and low risk levels, point to the need and the opportunity to address specific weaknesses or potential areas of improvement through concrete institutional building/strengthening efforts which would not only contribute to enhanced Project execution, but more importantly, would effectively consolidate a permanent administrative, fiduciary and control capacity of the Corporation, with the objective of contributing to the overall effectiveness and transparency of PCJ in fulfilling its institutional mandate, goals and objectives.*

## **B. Results of Individual Components**

### **1. Activities Programming System (SPA)**

- 5.3 *The SPA presents a score of 80.0%, equivalent to a Medium (MD) development level and Medium (RM) risk level.*

- 5.4 PCJ does not have an internal department with specific responsibilities for the planning, monitoring and evaluation functions. The Finance and Accounts Department has been assigned the responsibilities for the overall corporate/strategic and operational planning functions in the Corporation, as well as the monitoring and evaluation responsibilities. The Group Chief Financial Officer (CFO) leads such internal process with the support of departmental staff along with and in collaboration from the Information and Corporate Affairs Department.
- 5.5 Strategic Planning. From a procedural standpoint, PCJ's planning functions and responsibilities are mainly guided by Section 7 and First Schedule of the "Public Bodies Management and Accountability Act", 2011, which establishes that it is the responsibility of the Board of Directors of any public body to deliver, on a yearly basis to its responsible minister (i.e. MSET), a medium-term (five-year) corporate plan containing, as a minimum: (a) the statement of institutional mandate and objectives; (b) nature and scope of the activities to be undertaken by the corporation; (c) capital and operating budgets; (d) accounting policies; (e) performance targets; (f) statements on the determination of annual surplus or dividends; (g) information to be contained in the half-year and end-of-year reports; and (h) estimates on the current commercial values of the Government's investment in the public body.
- 5.6 The preparation of the "Petroleum Corporation of Jamaica - Corporate Plan 2016/17-2019/20" follows the following strategic framework: (a) "Vision 2030 – Jamaica National Development Plan", which provides a long term perspective for the energy sector as "a modern, efficient, diversified and environmentally sustainable sector, providing an affordable and accessible energy supply with long-term energy security, supported by informed public behavior on energy issues and an appropriate policy, regulatory and institutional framework"; and (b) the "National Energy Policy 2009-2030" which outlines a framework of seven goals for attaining such long-term vision.<sup>2</sup>
- 5.7 In this context, the PCJ Corporate Plan builds upon the Corporation's primary business objective which is to "*facilitate energy security for Jamaica*", and centers on six strategic

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<sup>2</sup> These include: (a) Goal 1: Jamaicans use energy wisely and aggressively pursue opportunities for conservation and efficiency; (b) Goal 2: Jamaica has a modernized and expanded energy infrastructure that enhances energy generation capacity and ensures that energy supplies are safely, reliably, and affordably transported to homes, communities and the productive sectors on a sustainable basis; (c) Goal 3: Jamaica realizes its energy resource potential through the development of renewable energy sources and enhances its international competitiveness, energy security whilst reducing its carbon footprint; (d) Goal 4: Jamaica's energy supply is secure and sufficient to support long-term economic and social development and environmental sustainability; (e) Goal 5: Jamaica has well-defined and established governance, institutional, legal and regulatory framework for the energy sector, that facilitates stakeholder involvement and engagement; (f) Goal 6: Government ministries and agencies are a model/leader in energy conservation and environmental stewardship in Jamaica; and Goal 7: Jamaica's industry structures embrace eco-efficiency for advancing international competitiveness and moves towards building a green economy.

priorities aimed at attaining such objective:

- (a) *Priority 1: Develop and promote Jamaica's energy resources*, by contributing to reducing the cost of energy supply through project development; facilitating the development of Jamaica's hydro resources; securing Production Sharing Agreements (PSA's) for oil and gas exploration; and instituting research and development programs.
- (b) *Priority 2: Ensure financial viability*, by optimizing revenues from investments, property and Group portfolio; indentifying and exploiting additional sources of revenue; undertaking profitable investments; strengthen revenue collection processes/mechanisms; upgrading of the Resource Center; and implementing a model for the transformation towards an Energy Services Company (ESCO).
- (c) *Priority 3: Align the Organization for major project implementation*, by pursuing partnerships with international players; and developing expertise in project management
- (d) *Priority 4: Organizational Development and Institutional Strengthening*, by harnessing intellectual knowledge, optimizing business processes; developing performance management systems; and improving the procurement processes.
- (e) *Priority 5: Enhance corporate image*, through continued implementation of the public sector energy efficiency intervention program; positioning PCJ as a driver of public education programs on energy uses; expanding the Schools Energy Program.
- (f) *Priority 6: Group transformation*, by strengthening corporate governance; improving Group oversight; improving operational efficiencies; and implementing a model of shared services for Corporate services.

5.8 Such priorities drive, under the current administration, a process that seeks an overall improvement the overall corporate structure and operations, along with addressing concrete medium to long-term aspects related to financial and governance sustainability, at both, the corporate and holding companies level.

5.9 Operations Planning. The five-year "PCJ Corporate Plan" contains the one-year "PCJ Operational/Business Plans" which are revolving and updated on an annual basis, and precisely derive their goals and targets from the overarching strategic objectives contained PCJ Corporate Plan. Under the guidance of the Finance and Accounts Department, each department is responsible for the preparation of the individual annual operational plans. The "PCJ 2016/17 Operational Plan" derives its objectives from such strategic framework, in conjunction with MSET, and includes interventions in the areas of: (a) oil and gas exploration; (b) enhancement of PCJ resource center; (c)

business transformations; (d) project management and implementation; and (e) other. It must be noted that the Operational Plan assigns a significantly heavier weight to the technical and project management areas and less to the administrative and corporate support areas.

- 5.10 It must be noted that the annual planning process is fully integrated to the budget preparation activities, with both, the Corporate Plan and the Annual Operational Plans containing the revenue and expenditures estimates for the year, along with the updated five-year projections. This is attained based on the streamlining of the activities programming and corresponding budgeting activities to all departments and the consolidation of the Corporate Plan and budget by the Finance and Accounts Department.
- 5.11 Monitoring and Evaluation. The PCJ Operational Plan comprises the following aspects for each of the priority areas: (a) objectives; (b) strategies; (c) outputs; (d) performance measures/outcome indicators; and (e) quarterly, tasks, targets and estimated costs for each activity. Each task is correspondingly assigned to the department(s) responsible for its execution or implementation, based on quarterly periods/targets to measure the progress and attainment of each of the tasks/activities, and serve the basis for the preparation of quarterly performance reports.
- 5.12 Such indicators are utilized by the Corporation in the periodic reporting to/by the Board of Directors, MFPS and MSE. In particular, and, as previously indicated, in compliance by PCJ with the stipulations contained in the legal framework related to quarterly and end-of-year monitoring and reporting. This includes the Public Bodies Management and Accountability Act, the Petroleum Act, and the Financial Administration and Audit Act (FAA Act). In particular, the Corporation has been in compliance with Sections 22 and 23 of the Public Bodies Management and Accountability Act which specifically establish, among other, the guidelines, content and timelines of the Annual Report, the Half-Year Report and the Annual Report.
- 5.13 *Weakness and limitations.* Based on the results of the SPA, a number of factors have been identified which show a number of weaknesses and/or areas for potential improvement which ultimately affect the effectiveness of the overall planning and monitoring network in PCJ. These include:
- (a) Absence of an internal department under the Group General Manager with strict responsibilities for planning, monitoring and evaluation, and institutional development, functions that are currently fragmented and ultimately delegated to the Finance and Accounts Department.
  - (b) Allocation of planning activities to personnel with financial and accounting background, with the absence of specialized corporate planning officers.

- (c) Absence of concrete internal institutional procedures to guide the strategic and annual planning processes, as well as the monitoring and evaluation activities. Under this situation, the execution of such functions takes place under general guidelines contained in the Jamaican legislation, but not tailored to the specific structure, governance, management and operating characteristics of PCJ as a holding company.
- (d) Lack of a planning module in the Corporation's Enterprise Resource Planning (ERP) which impedes systems integration with the financial management platform.
- (e) Monitoring and evaluation activities mainly concentrated in the technical departments, with limitations in the overall monitoring of internal advisory and support departments.
- (f) Limitations in the capacity of the Corporation to carryout an ultimately effective and integrated planning, monitoring and reporting process with compliance with standard guidelines and procedures by its subsidiaries.
- (g) Limitations in the ability conduct "value for money"<sup>3</sup> assessments to measure the effectiveness and impact of investment and operations resources at the corporate and subsidiary levels vis-à-vis. the attainment of broad sectoral and institutional objectives.
- (h) Shortcomings in the scope of the existing planning framework with respect to risk management (assessment, quantification and mitigation), mainly limited to a traditional Strengths, Weaknesses, Opportunities and Threats (SWOT) model.

## 2. Administrative Organization System (SOA)

- 5.14 *The SOA results in a score of 90.00%, equivalent to a Satisfactory (SD) development level and a Low (RB) risk level.*
- 5.15 As described in Section III of the present report, the organizational structure of PCJ follows the stipulations contained in both, the Petroleum Act and the Public Bodies Management and Accountability Act. Under this governance structure: (a) the oversight authority which rests in the Board of Directors, which in turn is responsible for the approval of the organizational chart along with the functions and responsibilities of each of the departments, divisions and units of the Corporation; and (b) the executive power which rests in the Office of the Group General Manager, under a functional

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<sup>3</sup> Value for money assessments comprise the evaluation of the compliance with the mandate and objectives of an institution, based on its actual expenditures, and taking into consideration the opportunity cost of such resources.



governance structure.

- 5.16 From a procedural and governance standpoint, as well as from an organizational management, decision-making and business continuity perspective, PCJ has not developed/implemented an organizational manual” describing, as a minimum: (a) the scope and power of the Board of Directors of the Corporation, along with the organization and functions of the sub-committees; (b) the overall organizational structure of the Corporation along with the main functions and responsibilities of the Group management, and technical, support and advisory departments and internal units; (c) the intra-institutional relations, hierarchical structure, decision making and reporting processes, and delegation of authority; and (d) the reporting and coordination and reporting structures at the central/corporate, subsidiary and joint venture levels. Such information is fragmented in partially contained in the Corporate Plan and non-official documents of the Human Resources and Administration Division.
- 5.17 Notwithstanding, PCJ’s organizational structure/chart, officially approved by the Board of Directors, effectively shows: (a) the Board as the highest authority in the governance structure of the Corporation following the stipulations contained in the Public Bodies Management and Accountability Act, with its members appointed by the head Minister (today MSET); (b) the Chairman of the Board; (c) the Group General Manager as Chief Executive Officer (CEO) of the PCJ group of companies/holding; (d) the functional departments (administrative and technical) under the Office of the Group General Manager; and (e) the advisory departments with dual reporting lines to the Office of the Group General Manager and the Chairman of the Board of Directors.
- 5.18 Based on applicable legislation contained in the Petroleum Act as well as the Public Bodies Management and Accountability Act, it is the responsibility of the Board of Directors to approve any updates or modifications to the organizational structure of the Corporation. In addition, any modifications to the organizational structure are subject to the consideration and approval by MFPS through its Corporate Management Division.
- 5.19 Under the current organizational framework, well-defined lines of communication are present based on hierarchical levels, functions, dependency and reporting lines, consistent with the functional structure of the Corporation. In this respect, it must also be indicated that PCJ's governance culture shows a consistent pattern of decentralization in the decision making process, from the Board of Directors, to the Office of the Group General Manager, to management of the various departments. Weekly and periodic management meetings allow for further coordination, decentralization and delegation of decision making at the departmental level. In addition, this culture is streamlined to the various areas in each of the departments, thereby maintaining an adequate balance between the scope of functions and delegation of authority. Nonetheless, reporting and coordination structures, mechanisms and lines are however less defined and formalized with respect to the subsidiaries at both, executive management and Board levels.

- 5.20 From a fiduciary standpoint and, as described in the following ICAS components, there is also the presence of a governance structure which provides for an adequate delineation of technical, administrative and operating responsibilities, including the separation of internal instances and positions based on internal control guidelines and, in particular, with respect to various areas of procurement, budget, payments and other, and in compliance with internal control requirements under the FAA Act, which precisely delineates the segregation of functions/separation of power and authority over financial and administrative systems.
- 5.21 Consistent with its organizational structure (chart), PCJ has prepared and formally approved a "Compendium of Job Specifications and Descriptions", which provides a specific detail of the profiles of all 119 positions in the Corporation, as approved by the Group General Manager, and consistent with the organizational structure approved by the Board of Directors, as well as the Corporate Management Division of MFPS. For each position profile, the document contains solid information which contributes to the personnel management function.<sup>4</sup> It is the responsibility of the Human Resources and Administration Department to provide for periodic assessment and updates of the organizational chart based on the guidelines of the Board of Directors, Office of the Group General Manager and MFPS.
- 5.22 PCJ's salary scale is directly tied to the hierarchical structure of the Corporation and the corresponding positions profiles, taking into consideration the levels, knowledge and experience, responsibilities, impact, complexity, technical requirements and other attributes of each position. Salary scales are approved by the MFPS taking as reference the Staff Orders for the Public Service. Nonetheless, the autonomy of the Corporation with respect to, among others, human resources management, the definition of its positions profiles along with higher standards in the qualification criteria, allows PCJ to establish salary levels that ultimately lead to a comparatively higher capacity to attract and retain qualified personnel, as compared to the Central Administration of the GOJ. It must be noted however that competition with prevailing salaries in the private sector remains a challenge for PCJ and its subsidiaries, and can jeopardize its capacity to attract and retain an increasingly technical workforce for the Corporation itself and its subsidiaries.
- 5.23 *Weaknesses and limitations.* As described in the previous paragraphs and, from an organizational management perspective, the following aspects adversely affect the organizational management environment in the Corporation:

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<sup>4</sup> This includes: (a) job title; (b) department; (c) position summary; (d) reporting and supervisory relationships; (e) key responsibilities; (f) required education, experience and competencies; (g) performance criteria; (h) stakeholders (internal and external); and (i) approval/verification by incumbent and Group General Manager.

- (a) The lack of an organizational manual tied to the organizational structure/chart of the corporation.
- (b) The lack of a planning and institutional development department with broad responsibilities in planning, monitoring and evaluation, as well as the overall organizational management function—currently under the Human Resources and Administration Department--.
- (c) The duplication/fragmentation of administrative/corporate service functions in three departments including the Human Resources and Administration Department, the Finance and Accounts Department, and the Property Management Department.
- (d) The presence of conceptually functional/administrative functions under the responsibility of non-line, advisory departments such as the procurement function.
- (e) The lack of concrete and agreed upon governance and reporting procedures with PCJ's subsidiaries, under a holding company governance framework.

### 3. Personnel Management System (SAP)

- 5.24 *The SAP results in a score of 87.50%, equivalent to a Satisfactory (SD) development level and a Low (RB) risk level.*
- 5.25 The Human Resources and Administration Department under the Office of the Group General Manager is responsible for personnel management in PCJ. Its functions include, among others: (a) organizational development; (b) employee relations and benefits; (c) recruitment and compensation; (d) performance management; (e) training and development; (f) manpower planning and staffing; and (g) employee relations and grievance. The Department has a total of 13 staff members of which, five correspond to the core human resources management activities including pensions/benefits, recruitment, performance management/training, and employee relations, and eight to general administration activities.
- 5.26 The Corporation has developed and adopted the Petroleum Corporation of Jamaica - "Human Resources Policy and Procedures Manual", officially approved by the Board of Directors as the main and comprehensive document providing the internal norms and

procedures for personnel administration in PCJ.<sup>5</sup>

- 5.27 In addition and, as described in SOA, the PCJ has a "Compendium of Job Specifications and Descriptions", which contributes to the organizational and personnel management functions, including compensation, with the salary scale in directly tied to the hierarchical structure along with the specific positions profiles.
- 5.28 In compliance with the stipulations contained in the Human Resources Policies and Procedures Manual, the Corporation:
- (a) Has implemented concrete employment practices and procedures which seek to ensure that all appointments by the Corporation are based on a fair and open assessment of individuals' capability and in accordance with high standards, including the practice of providing opportunity for competition and promotion from the inside.
  - (b) Has a formal orientation/induction practices along with employee training procedures and professional development based on needs self assessments and employer appraisals, and taking into consideration overall departmental and corporate needs and evolution.
  - (c) Has implemented a solid performance management system which measures employee and corporate performance. It is tied to the professional development system, and contributes to the decision making process with respect training, promotion, incentive pay, transfer and termination.
  - (d) As indicated in SOA, presents a salary scale directly tied to the hierarchical structure of the Corporation and the corresponding positions profiles, taking into consideration the levels knowledge and experience, responsibilities, impact, complexity, technical requirements and other.
  - (e) Fully complies with applicable legislation and internal norms and procedures with respect to fiscal obligations, social security contributions, insurance, pension schemes, vacation and leave benefits, and other.

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<sup>5</sup> The Manual provides a complete framework of personnel management policies on: (a) employment practices and procedures; (b) employee classifications and definitions; (c) work hours, breaks and overtime; (d) termination of employment; (e) employee identification; (f) employee benefits; (g) employee assistance program; (h) leave of absences; (i) compensation, allowances and pay related matters; (j) employee records; (k) training and development; (l) performance management; (m) communication; (n) worker participation; (o) employee discipline; (p) industrial/staff relations; (q) employee health and safety; (r) and general work rules/code of ethics. The Manual is in the process of updating and will be submitted shortly for the consideration and approval by the Board of Directors.

- 5.29 PCJ has over the years experienced low levels of personnel turnover. A number of factors have contributed to this situation including, among others, the profile and brand name of PCJ, solid corporate reputation and credibility, sectoral growth opportunities and expectations, and salary levels that are slightly above the average of the GOJ, especially in the Central Administration. Nonetheless, recruitment and retention of key technical personnel is without a doubt becoming an increasing challenge for the Corporation, amid private sector competition. Also, it must be noted that political factors have traditionally not been strong and have partially affected senior level management positions. In general, corporate culture, governance and leadership have contributed in a favorable manner to employee stability and motivation.
- 5.30 The factors that affect the results of the SAP in an adverse manner are limited and related to mainly to the risks associated with the lack of explicit contingency plans and written procedures with respect to the temporary or permanent replacement of key personnel and delegation of responsibilities in cases of unexpected and/or extended leave or absence, in addition to the absence of risk management procedures related to succession planning.

#### 4. Goods and Services Administration System (SABS)

- 5.31 *The SABS results in a score of 87.50%, equivalent to a Satisfactory (SD) development level and a Low (RB) risk level.*
- 5.32 Procurement. The Procurement Unit of the Legal/Procurement Department under the Office of the Group General Manager is responsible for purchases and contracts of goods, services and works in PCJ. Currently three full-time staff members are assigned to the procurement function including one Procurement Officer, one Procurement Specialist and one Legal Secretary--soon to become Procurement Officer--.. In addition, two positions have been requested including a Contracts Management Officer and an Administrative Assistant, as it must be noted that under the current structure and administration, the functions of procurement staff extend to all PCJ's subsidiaries (with the exception of Petrojam). Also, under the current organizational structure, the Legal/Procurement is an advisory-horizontal area and not a functional area.
- 5.33 PCJ has not adopted an internal procedures manual for procurement. Notwithstanding, consistent with the "Government of Jamaica Policy on Public Sector Procurement", it has fully adopted the "Government of Jamaica - Handbook of Public Sector Procurement Procedures", issued under the authority of the MFPS, pursuant to Section 19B of the FAA Act and the National Contracts' Commission in accordance with the Contractor General's Act. In particular, with respect to: (a) the general policy and institutional framework for public procurement of the GOJ; (b) the procedures for the procurement of goods, general services and works; (c) the procedures for the procurement of consulting services; and (d) the procedures for the procurement of general insurance services. These comprise, among others, procurement methods, proposals, eligibility

and qualification requirements, as well as procedures for procurement planning and processes.

- 5.34 In addition, the Handbook of Public Sector Procurement Procedures establishes the norms and contracting modalities which are effectively followed by PCJ with respect to thresholds and corresponding procurement methods.<sup>6</sup> The Handbook provides a step-by-step administrative and approval process for each modality of procurement.
- 5.35 The Procurement Unit has prepared and implemented three internal documents that directly contribute to the overall procedural and internal control processes of the procurement function, and which complement the overall framework contained in the "Handbook of Public Sector Procurement Procedures" of the GOJ. In particular:
- (a) The "Procurement Procedures Flow" and "Procurement Process Flow", which provide the mapping of the main steps involved in the procurement function, from the requisition point to the issuance of the contract or purchase order. This includes an estimate of the number target number of days to complete each stage in the process.
  - (b) The "Procurement Method and Contract Thresholds" (integral part of the Procurement Presentation).
  - (c) The "Service Level Agreement", which provides the description and expected services and results that internal customers (i.e. departments of PCJ) can expect from the Procurement Unit throughout the procurement administration process.
- 5.36 The Procurement Plan which emanates from the Business Plan provides a complete view of the purchases and contracts programmed for the year by department, types of contracts (i.e. goods and services, consultancy services, and works), costs, estimated sources of funding, procurement methods, and estimated dates for execution and completion. As such, it represents a solid tool with similar if not, equal characteristics of the procurement plan required by the Bank from its project executing agencies.
- 5.37 As previously indicated, PCJ has not prepared, nor implemented a specific procedures manual for the procurement function along with a description of the corresponding internal control system surrounding its administration. Nonetheless, in practice and, as analyzed in the present assessment, the internal controls adopted by PCJ provide for the necessary segregation of responsibilities and functions throughout the procurement administration and accounting process (i.e. requests, authorizations, receipt of goods

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<sup>6</sup> *First*, for goods, general services and works: (a) international competitive bidding; (b) local competitive bidding; (c) limited tender; and (d) direct contracting. *Second*, for consulting services: (i) quality and cost-based selection; (ii) quality-based selection; (iii) least cost selection; and (iv) selections based on consultants' qualifications. *Third*, for insurance services, provides various thresholds.

services and works, and payments).<sup>7</sup>

- 5.38 In addition, any purchase of good, service or works must have the following supporting documentation and authorizations: (a) requisition form; (b) proof of inclusion in the Annual Procurement Plan; (c) budget allocation and availability; (d) terms of reference and/or technical specifications; (e) requests for proposals (RFP); (f) advertisements on local newspapers; (g) award recommendations from the procurement and evaluation committees; (h) based on the threshold, endorsements from the National Contracts Commission (NCC); (i) award communications; (j) purchase orders; and (k) other.
- 5.39 With respect to record keeping, each procurement and corresponding accounting transaction has a file which shows the complete process and internal controls applicable from the point of requisition to the ultimate payment to the supplier or contractor. This physically supports the information that is entered and/or obtained from the Microsoft Dynamics SL platform and includes: (a) the justified requisition; (b) budget commitments; (c) requests for quotations; (d) quotes; (e) purchase orders; (f) invoices; (g) tax compliance certificates; (h) receipts for delivery; and (i) payment vouchers.
- 5.40 There are however three aspects that must be taken into consideration from a governance and control perspective as it relates to PCJ's procurement systems. *First*, from an institutional and governance perspective, the allocation of the procurement responsibilities to a non-line, advisory Department (i.e. the Legal/Procurement Department), in spite of the traditional "administrative" characteristics of the procurement function in any public or private institution. *Second*, the lack of systems integration (administration and financial management) under one sole ERP platform, as PCJ lacks the procurement module of the Microsoft Dynamics platform. This introduces internal control risks from the use of over the counter, Excel/Office platform for procurement planning, execution, administration and reporting. *Third*, the lack of effective process control checklists for routing and describing the overall steps, administrative processes, supporting documentation checklists, signatories and other requirements, as part of the internal control system, and as means to assess and identify areas of improvement in the Company-wide procurement core function.
- 5.41 Asset management and corporate services. The Petroleum Corporation of Jamaica "Inventory/Stores Management Policy and Procedures" outlines the internal procedures

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<sup>7</sup> The following controls and authorization mechanisms/protocols are in place, which delineate and separate the responsibilities and authorities/signatories throughout the process: (a) department/project procurement plan approved by Group General Manager; (b) requisitions approved by Head of Department; (c) Financial and Accounts Department provides the budget certification/availability; (d) procurement approval by Committee; (e) purchase order requisition signed by head of requesting department along with Procurement Officer and Legal Department Head/Senior Legal Counsel; (f) Accounts section issues the Purchase Order; (g) receipt of goods and services approved and certified by Administration along with requesting department; and (h) Finance and Accounts Department issues payment.

for purchasing, receipt of goods, return of goods, storage, distribution, inventory records, physical inventory, and inventory management. From an accounting/asset management perspective, most of inventories correspond to office materials and stationary, which are fully expended at the time of invoicing and payment and, thereby, are not reflected in the Corporation's financial statements (i.e. the balance sheet). Currently, it is the Finance Department's responsibility to execute the requisitions for office materials, the receipt, and ultimate distribution of such goods based on the requisition. In the case of pantry materials, this is under the responsibility of the Human Resources and Administration Department. With respect to projects, goods are delivered directly to project sites and thereby, expended upon arriving to the premises. This, along with the safeguard of such inventories is under the responsibility of each project manager.

- 5.42 With respect to corporate services: (a) the presence of insurance policies for the protection of the companies fixed assets, and under compliance of Section 12.0: "Insurance Coverage", of the PCJ Accounting Manual; (b) the compliance with MFPS norms and regulations with respect to Board of Survey and, specifically, the treatment of obsolete, damaged, or lost assets; and (c) the presence of internal procedures for asset management and financial accounting, along with security measures their safeguard.
- 5.43 Some of the aspects that adversely affect the results of SABS in PCJ, as it relates to asset management include: (a) the need to optimize the current fragmentation of corporate/administrative services in three separate departments (i.e. the Human Resources and Administration Department, the Finance and Accounts Department and the Properties Management Department); (b) the need for an overall upgrade of the asset registry of the Corporation, including the incorporation of a specific module in the existing ERP system; and (c) the lack of a preventive maintenance program of the Corporation's assets.

## 5. Financial Management System (SAF)

- 5.44 *The SAF presents a score of 87.88%, equivalent to a Satisfactory (SD) development level and a Low (RB) risk level.*
- 5.45 The Finance and Accounts Department under the Office of the Group General Manager is responsible for the overall financial administration activities in PCJ including budget, accounting, treasury and asset management. The Department has a total of 10 permanent staff members including the Group Chief Financial Officer (CFO), Chief Accountant, Administrative Manager, Accounting Clerks and secretarial and office assistants. Such staff is distributed in the areas of corporate planning, operational planning, treasury management, investments, payables, billing and collections, and payroll.



- 5.46 From a norms and procedures standpoint, the Corporation has prepared and fully implemented the "Petroleum Corporation of Jamaica-Accounting Manual", which has been duly approved and sanctioned by the Board of Directors. The Accounting Manual was prepared incorporating various provisions of the International Accounting Standards, International Financial Reporting Standards (IFRS), the Public Bodies Management and Accountability Act, Financial Audit and Administration Act (FAA Act), the Petroleum Act, and relevant MFPS circulars to ensure that the financial management and reporting in/by the Corporation conform to local and international best practices.
- 5.47 From a systems management perspective, PCJ deploys the ERP platform "Microsoft Dynamics" for its overall financial administration functions. It comprises the following modules: (a) general ledger; (b) accounts receivable; (c) cash management; and (d) accounts payable. Microsoft Dynamics allows for financial management based on a chart of accounts fully tailored to the operating, technical and administrative characteristics of PCJ, including project management. In addition, it represents an online solution which allows for real time access to budget, accounting and treasury information, as well as the preparation and access of/to financial reports.
- 5.48 However, it must be noted that currently the purchases/procurement and project management modules are not active, even though the Corporation has the necessary license for implementation and utilization of such much modules.
- 5.49 With respect to financial management at the subsidiary level, these utilize various ERP platforms including, among others, Microsoft Dynamics and SAP. In this respect and due lack of systems integration, the consolidation of financial statements for the holding company level takes place manually with the use of Microsoft Office/Excel solutions.
- 5.50 Budget. Budget administration in PCJ responds to: (a) Section 14 of the Petroleum Act, which establishes that on or before the 15th day of January, the Corporation must submit to the Minister, for his approval, estimates of revenue and expenditure for the financial year commencing April 1, and by June 15 the final statement of revenues and expenditures for the year ending March 31; (b) Section 2A of the Public Bodies Management and Accountability Act which instructs the Board of Directors of the Corporation to deliver to the Minister the estimates of revenue and expenditure (operating and capital budget) as part of the Corporate Plan; (c) the FAA Act, with respect to the estimates of revenue and expenditure; and (d) the "Budget Call" of the MFPS issued in September of each year, instructing the Chairman of the Board of Directors for the preparation of the complete Corporate Plan and based on specific parameters/assumptions for inflation, growth and GOJ objectives. In this context, Section 9.1: "Budgeting at PCJ" of the Accounting Manual outlines the principles of budgeting, budget cycle and Corporate Plan.
- 5.51 As established in the SPA section, the preparation of the budget for each fiscal/financial

year (i.e. April 1 to March 31) is adequately tied to: (a) the medium to long-term planning framework contained in the five-year revolving "Corporate Plan"; and (b) the short-term, one-year planning framework contained in the "Business/Operational Plans". Estimates of expenditure are prepared at the departmental and corporate level, and consolidated by the Finance and Accounts Department. As previously described, high-level corporate goals drive the budget process within three main strategic areas/departments including: (a) renewable energy and energy efficiency; (b) oil and gas; and (c) property management. In practice, these drive and determine the level of activity for the rest of supporting and advisory departments including human resources and administration, finance and accounts, legal/procurement, and other.

- 5.52 Budget administration is however not fully integrated in the existing ERP system. The Finance and Accounts Department prepares the recurrent and capital budgets outside the Microsoft Dynamics platform, utilizing an Excel application/worksheet, with such budgets then built in the general ledger. The general ledger module provides the capability to generate budget and budget execution reports along with the variances reports. Each department prepares its budget (estimates of revenues and expenditures) along with their departmental corporate and business plans in Excel worksheets for submission to the Finance and Accounts Department for review and consolidation.
- 5.53 Regarding budget execution, monthly reports on revenues and expenditures are prepared at the individual and consolidated levels. Quarterly reports which are delivered to the MFPS under the Public Bodies Management and Accountability Act are not consolidated, and submitted to such Ministry individually by PCJ and each of its subsidiaries. However, the Microsoft Dynamics ERP platform holds budgetary and financial information on the corporate, departments and subsidiary levels. In this respect, the Chart of Accounts presents the necessary flexibility to adapt to all the areas of the holding company, including project management under the responsibility of REED.
- 5.54 Accounting. PCJ has effectively adopted IFRS and corresponding International Accounting Standards (IAS) as the basis for its accounting systems and procedures, including the preparation of financial statements. The accounting, budget and treasury systems are adequately integrated under such accounting standards and through the deployment of the Microsoft Dynamics Platform. It must be noted however that PCJ-Accounting Manual has not been kept updated to reflect the presence of an ERP environment in the Corporation and is in need for an in depth review and revision, as necessary.
- 5.55 Under IFRS, PCJ presents an accrual accounting system which, based on its integration with the budget execution system, it allows for the monitoring and the accounting for each of the steps in the budget execution process including the commitment (requisition), accrual (purchase order) and payment. With respect to revenues, these are mainly recognized upon collection, with the exception of revenues from properties

management, which are accrued based on the monthly schedule of payments to the Corporation.

5.56 Treasury. The following responsibilities and actual activities to the Finance and Accounts Department have been analyzed and verified:

- (a) The preparation of cash flow forecasts set out on a monthly basis for the current and following financial year, included in the Corporate Plan, and updated periodically, representing a tool for working capital management, the identification of short-term financing needs, and the corresponding management of the portfolio of financial investments. This in addition to weekly cash flow forecasts for permanent monitoring of the cash position of the Corporation.
- (b) Following the stipulations of the PCJ-Accounting Manual, Bank reconciliations are performed on a monthly basis along with the closing of the monthly accounting cycle and corresponding reports of revenues and expenses. This takes place inside the Microsoft Dynamics Platform.
- (c) As described in SABS, each procurement and payment transactions must be supported by, among others: (a) the purchase requisitions; (b) budget certification/availability of funds; (c) procurement documents (quotes, other); (d) purchase order; (e) invoice; (f) receipt; and (g) payment voucher.
- (d) In spite of not explicitly being part of the PCJ-Accounting Manual, a number of practical steps are in place, which shows the presence of an adequate internal control environment surrounding the payment process.<sup>8</sup>

5.57 The following factors affect in an adverse manner the results of SFA in PCJ:

- (a) The lack of previous exposure and experience of the personnel of the Finance and Accounts Department to IDB fiduciary/financial policies and procedures for project management.
- (b) The lack of integration of the planning and budget preparation functions and

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<sup>8</sup> From a process perspective: (a) the requisition from user department is approved by department head; (b) it is forwarded to the Group General Manager or the CFO for approval; (c) Accounts checks and certifies budget availability; (d) purchase order is prepared by Accounts Payable; (e) Procurement sends the purchase order/contract to the supplier; (f) incoming invoice is signed by the requesting department, and Procurement certifies the delivery of good in the agreed conditions/fulfillment of the terms of the contract; (g) Procurement endorses the payment in-writing, based on the original invoice and purchase order; (h) approval is passed to Accounts Payable to issue the check. Approvals are issued inside the Microsoft Dynamics platform and in physical documents.

capabilities to the accounting and treasury functions under the existing ERP platform.

- (c) The lack of internal procedures to provide for a continuous/periodic testing and safe proofing of the accounting systems and financial data management.
- (d) Lack of systems integration with subsidiaries and joint ventures for control and consolidation of financial statements.

6. Internal Control System (SCI)

5.58 *The SCI results in a score of 78.57%, equivalent to a Medium (MD) development level and a Medium (RM) risk level.*

5.59 Code of Conduct. The stipulations contained in the PCJ Human Resources Policies and Procedures Manual with respect to "Employee Discipline", contain the general work rules and code of ethics of the Corporation, including the code of conduct, disciplinary code, disciplinary procedures (actions), and disciplinary actions (responsible for application). This policy seeks to ensure that fair and consistent treatment is given to all employees of PCJ, and that its staff fully understands the standards of conduct, which are expected of them while in the employment of the Corporation, and the potential action that may be taken if such standards are not met.

5.60 In addition, PCJ has adopted a "Conflict of Interest" statement, officially approved by the Board of Directors, which states that, as far as is possible, employees should avoid situations where there may be conflicts of interest between job requirements and private activities, and if they should potentially arise, the immediate supervisor, Group General Manager and Board of Directors should be made aware of, so as to decide on the course of actions to be followed.

5.61 Internal Audit. The Corporation has established the Group Internal Audit (GIA) Department as an advisory-level department with parallel reporting responsibilities to the Board of Directors and the Group General Manager, and ultimately accountable to the Chairman of the Board of Directors and its Audit Committee.<sup>9</sup> GIA is responsible for the internal audit functions for the entire PCJ Group including its subsidiaries. It is mandated to ensuring the compliance by PCJ holding company with a comprehensive program of audit assignments through an "Audit and Compliance Plan" covering: (a)

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<sup>9</sup> As established in the Internal Audit Charter, the Group Internal Audit Department discharges its responsibilities in agreement with: (a) "Standards for the Professional Practice of Internal Auditors", promulgated by the Institute of Internal Auditors, as considered appropriate in the conduct of all audit assignments; and (b) the International Accounting Standards (IAS) adopted by the Institute of Chartered Accountants of Jamaica (ICAJ). In addition, PCJ complies with Section 34: "Internal Audit" of the FAA Act, its regulations and instructions, and other GOJ pertinent legislation.

internal controls; (b) risk management processes; (c) regulatory compliance; (d) quality of corporate governance arrangements; (e) financial management processes and reliability of financial and management accounts; (f) treasury and investment portfolios; (g) administration and financial systems; (h) human resources; (i) information systems; (j) fraud-related and ethical issues; and (k) other. The GIA provides monitoring services that are designed to add value and improve operations.

- 5.62 The Annual Audit Plan, approved by the Audit Committee of the Board of Directors contains a detail of the audit activities for the financial year with reach to PCJ and its subsidiaries. On its part, the PCJ-Accounting Manual establishes the "Resolution of Audit Issues" procedure which establishes that first, audit reports should be submitted to the Head of the Department affected by the audit query. In this process, it is the responsibility of the CFO to oversee the resolution of all audit issues. In addition, the Group Chief Internal Auditor monitors the resolution of all audit issues and provides updates and reports at the meetings of the Audit Committee on their status. Long-standing matters are highlighted to the Audit Committee for special attention towards resolutions.
- 5.63 At the Board of Directors Level, the Audit Committee assists the Board in fulfilling its oversight responsibilities with respect to financial management and reporting processes, the systems of internal controls, management of financial risks, and monitoring of compliance by PCJ with laws, regulations and code of conduct.
- 5.64 Risk Management. An institution-wide risk management framework is not yet in place in PCJ. Only recently, the Corporation has contracted the services of Ernst & Young Services Limited (EY) to prepare an in-depth and Corporation-wide Enterprise Risk Assessment (ERA) aimed at identifying, assessing and prioritizing the key business risks at PCJ. The draft report was delivered during November 2015 and has been recently accepted by the Corporation, which will embark in a full-scale implementation of the recommendations of the report, based on 37 identified business risks. In the meanwhile, GIA conducts a limited "Risk-Based Internal Auditing" (RBIA).
- 5.65 Internal Controls. The presence of the following factors, among others, have contributed to favorable results in with respect to the internal control environment present in the Corporation:
- (a) The presence of overall governance, strategic planning, and operating and administrative environment that seeks adequate levels of institutional

performance and efficiency.<sup>10</sup>

- (b) In compliance with the Public Bodies Management and Accountability Act, the Petroleum Act, and the FAA Act, the integration of the Corporation's: (i) medium to long-term planning framework contained in the "Corporate Plan"; (ii) short-term planning framework contained in the "Operational/Business Plan" (iii) activities programming based on concrete performance/output indicators; (iv) the institutional budget or estimates of revenue and expenditure; and (v) projected/pro-forma financial statements.
- (c) The presence of administrative and financial management practices which seek to ensure that: (i) all transactions are adequately supported by the proper and necessary documentation and authorizations; (ii) internal support departments are assigned administrative and control functions, with the presence of segregation of authority norms and principles; and (c) the financial systems and procedures provide for the timely preparation of financial statements and other reports, in compliance with deadlines and requirements from the MFPS, MSET and other.
- (d) The actions of the Information Technology Department to ensure the security and integrity of the Corporation's computer equipment, hardware, software applications and other solutions, and consistent with the norms and procedures contained in the IT Policy Manual.
- (e) Base on the processes analyzed as part of this assessment, the presence of the necessary supervision (e.g. Finance and Accounts Manager, Senior Legal Counsel, other), to ensure the adequate operations of the Corporation's internal controls in the overall fiduciary/administrative systems under their responsibility, which is complemented by the "oversight" and support functions of the Group Internal Audit Department.

5.66 The factors that adversely affect the results of SCI in PCJ include:

- (a) The yet incipient level of the risk management currently present in the Corporation, event though in the process of shortly implementing a full framework.
- (b) The lack of the a planning and corporate/institutional development department,

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<sup>10</sup> Some of theses aspects include: (i) the presence of a corporate and operating planning and monitoring framework tied to concrete performance indicators; (ii) an overall compliance with national legislation directly related to PCJ as a body corporate; (iii) the presence of internal controls which aim to the transparency of administrative and reporting processes; and (iv) the efforts of Management and the Board of Directors that seek the modernization of the Corporation, along with its sectoral, institutional, technical and financial sustainability over the medium and long-term.

separate from the Finance and Accounts Department.

- (c) Weaknesses in the monitoring and evaluation procedures, especially with respect to value for money assessments.
- (d) The presence of outdated internal norms and procedures manuals for various areas including Accounting, lack of in-depth mapping of most important administrative, financial and control processes, and absence of decision making tree structures, checklists, controls and signatories.
- (e) Partial integration of information systems with respect to planning, budget preparation, procurement and preparation of consolidated financial statements.
- (f) Lack of assessment procedures and mechanisms with respect to the internal control environment.

5.67 Finally, it must be noted that as of the date of the present report, the delivery by the Corporation to the consultant of actual/recent internal audit reports was still pending, which has partially limited the scope of the SCI assessment, with respect to understanding the nature of the internal audit observations, recommendations and actual management actions with respect to corrective measures.

## 7. External Control System (SCE)

5.68 *The SCE results in a score of 91.67%, equivalent to a Satisfactory (SD) development level and a Low (RB) risk level.*

5.69 PCJ is subject to annual external audits in compliance with: (a) Section 13: "Accounts and Audit" of the Petroleum Act, which establishes that the accounts of the Corporation shall be audited by an auditor or auditors appointed annually by the Corporation and approved by the Minister. It also establishes that the Auditor General shall be entitled, on the general directions of the Minister, at all reasonable times to examine the records of the Corporation; (b) Section 3: "Accounts of Public Bodies" of the Public Bodies Management and Accountability Act, which establishes that no more than four months after the closing of the financial year, the Corporation shall submit to the Responsible Minister, the annual report including audited financial statements of the public body; (c) Section 144: "Accounts and Audit" of the Companies Act; and (d) Section 25: "Duties of the Auditor General" of the FAA Act, which establishes the attributes of the Auditor General in the examination of the financial reports and controls of public bodies annually or as necessary.

5.70 The Board of Directors, through the Audit Committee, is responsible for the selection and contracting of the firm of independent accountants to conduct the annual external audits of the Corporation and its subsidiaries (i.e. non-consolidated and consolidated

financial statements). The Board delegates to the Group General Manager and, ultimately, to the CFO the responsibilities for the provision of documents, data, information, along with the necessary time of PCJ staff for inquiries, meetings and clarifications to/with the external auditors.

- 5.71 The Engagement Letter signed by the external auditors (PwC) and PCJ is a binding contract that states the terms, conditions, scope and reach of the external audit of PCJ as of March 31 (i.e. the closing of the financial year) for the consolidated and non-consolidated financial statements. The engagement letter is signed by the Group General Manager and the CFO on behalf of the Board of Directors. It is the responsibility of the Audit Committee of the Board to negotiate the contractual terms.
- 5.72 The Engagement Letter clearly establishes the reach and scope of the audit, which comprises the consolidated and company statements of financial position, consolidated and company statements of comprehensive income, statement of changes in equity, and statements of cash flows for the year ending March 31 and prepared in accordance to IFRS.<sup>11</sup> In general terms, this includes tests on: (i) adequacy of the internal controls; (ii) adequacy of the accounting and financial reporting systems; (iii) performance in the administration of the Company's resources and financial reporting; and (v) systems support.
- 5.73 As part of the present assessment the audited financial statements closing March 31, 2013 and 2014 were reviewed and analyzed. In these years, PwC provides an "unqualified opinion" indicating: "the consolidated financial statements of Petroleum Corporation of Jamaica and its subsidiaries and associates, and the financial statements of the Petroleum Corporation of Jamaica standing alone, give a true and fair view of the financial position of Petroleum Corporation of Jamaica and its subsidiaries and associates, and the Petroleum Corporation of Jamaica standing alone as of March 31, 2013 and March 31, 2014, and of their financial performance and cash flows for the year then ended, so far as concerns the members of the Petroleum Corporation of Jamaica, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act".
- 5.74 The financial statements closing March 31, 2015 are not yet available given consolidation issues arising in PETROJAM, based on its shareholder structure (51% PCJ and 49% Petr leos de Venezuela--PEDEVESA--) which, unless resolved, can lead to materiality situations.

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<sup>11</sup> The activities of the external audit include the assessment of: (a) whether proper books of accounts have been kept by the Corporation; (b) whether the financial statements are in agreement with the books of accounts; (c) whether all information obtained and explanations provided are adequately based on the scope of the audit; and (d) whether the financial statements were prepared in accordance with the provisions of pertinent national legislation.



## VI. CONCLUSIONS AND RECOMMENDATIONS

- 6.1 *Results of the institutional evaluation.* The results of the institutional evaluation of PCJ conducted with the deployment of the ICAS methodology--through personal interviews and work sessions with personnel of the Corporation, in addition to the review and analysis of documentation provided by its administrative and technical staff--indicates that the PCJ presents the necessary institutional capacity to participate in the implementation of the investment loan "Energy Management and Efficiency Program" (JA-L1056). In particular, to assume and undertake the responsibilities of Project Executing Agency (PEA).
- 6.2 The consolidated/weighted average ICAS result indicates that the PCJ has in place the necessary planning, organizational, administrative, financial management, and internal and external control capabilities which would contribute to an effective administration of the resources allocated to the present initiative. The analysis contained in each of the seven components of ICAS shows in most cases the presence of satisfactory levels of development and associated low risk levels and, in limited cases, medium levels of development and associated medium risk levels.
- 6.3 *First*, with respect to the planning systems, PCJ presents solid capacities with respect to strategic and operational planning, which is also tied to the programming and budget functions. In addition, it is in full compliance with national legislation applicable to public body corporate organizations with respect to both, the planning and monitoring responsibilities, as required by the MFPS, MSET and other.
- 6.4 *Second*, with respect to governance, the Corporation presents a functional structure which, among others, clearly delineates the responsibilities, lines of communication, delegation of authority and decision making among the technical, support and advisory departments, with the management leadership of the Group General Manager, along with the delineation of the oversight responsibilities of the Board of Directors and its committees. This in accordance with its supporting legislation including, among others, the Petroleum Act and the Public Bodies Management and Accountability Act. This is accompanied by adequate personnel management practices and procedures.
- 6.5 *Third*, with respect to procurement, the Corporation operates under and in compliance with the legal and procedural framework contained in the "Government of Jamaica Policy on Public Sector Procurement", and has fully adopted the "Government of Jamaica - Handbook of Public Sector Procurement Procedures". In addition, the Procurement Unit has implemented concrete internal controls that provide for the necessary segregation of responsibilities and functions, throughout the procurement administration cycle, in addition to concrete process controls.
- 6.6 *Fourth*, with respect to financial management, PCJ presents solid budget, accounting

and treasury systems, in accordance with national legislation contained in the FAA Act, along with the overall integration of the planning, administrative and financial management systems. This is supported by an ERP platform which allows for the timely processing and real time access of/to revenue and expenditure information, and the preparation of financial statements, based on a chart of accounts tailored to the core operating, administrative and project management responsibilities of the Corporation.

- 6.7 *Fifth*, with respect to internal controls, PCJ presents a governance, strategic planning, and operating and administrative environment that seeks adequate levels of institutional performance and efficiency including, among others: (a) the adoption of a concrete code of conduct; (b) the integration of the planning and financial management functions; (c) the proper segregation of authority and responsibilities; (d) the presence of internal mechanisms that ensure that all transactions are properly supported and documented; (e) the scope and contribution of the internal audit function; and (f) the ICT environment with respect to support and security.
- 6.8 *Sixth*, with respect to external controls, the compliance with the yearly external audit requirements, including the proper administration of the procurement of the firm of independent auditors. For the years analyzed, the presence of unqualified opinions with respect to the Corporation's consolidated and non-consolidated financial statements and corresponding internal control environment.
- 6.9 *Weaknesses and limitation and institutional strengthening*. A number of aspects have been identified which, if effectively addressed by the Corporation, can enhance the corporate governance, administration and control environment in PCJ. These include:
- (a) The lack of a planning and institutional development department which, given the extensive scope of responsibilities of the Finance and Accounts Department, limits the effective discharge of the planning, monitoring and evaluation responsibilities, including the execution of value for money evaluations, as well as the continuous assessment of the organizational and governance environment.
  - (b) The fragmentation of administrative and corporate services functions in three separate departments.
  - (c) The need for the development and/or update of the Corporation's governance and internal procedures manuals with respect to organizational management, administration and financial management, including an in-depth analysis of internal processes and corresponding implementation of control road maps, process flow charts, check lists and other.
  - (d) The need to enhance the ERP environment throughout the Corporation so as to allow for the full integration under the existing electronic platform of the

planning, budget, financial management and procurement functions.

- (e) The need for concrete governance procedures as it relates to governance, control, integration and coordination with PCJ's subsidiaries under the umbrella of PCJ as a holding company.

6.10 *Program Implementation.* The results of the institutional assessment point to the capacity of the Corporation to fully utilize national (internal) systems for the financial management of the Program, with respect to internal norms, procedures, integrated financial administration systems, and controls. With respect to procurement, PCJ presents the necessary capacity to effectively adopt Bank's procurement policies (goods, services, works and consulting services), while complying with the GOJ procurement framework and requirements. Notwithstanding, the Unit maintains tight restrictions with respect to the number of personnel, especially taking into consideration the reach of its activities to PCJ and its subsidiaries. Thereby, in order not to compromise the attainment of institutional technical/project management objectives, along with Program implementation timelines, it is recommended that PCJ proceeds with the strengthening of the number of specialists in its procurement team.

6.11 In this respect, it is recommended that the fiduciary implementation of the Program takes place through the deployment of the existing Microsoft Dynamics platform, apt for budget, accounting, treasury and asset management as required by the Bank. It is hereby recommended that the planning, procurement and project management modules are incorporated shortly so as to enhance the overall performance of the system, while strengthening the control systems environment. This platform should be fully deployed and adapted to Bank's requirements including the adoption of a specific chart of accounts as well as the necessary formats for periodic financial reporting.

6.12 Based on the scope and reach of the Program, and taking into consideration the limitations in the number of personnel in the Company (procurement, financial administration and project management) along with the scope of inter-institutional coordination activities expected during Program implementation, it is recommended that a Project Execution Unit (PEU) is established under the Office of the Group General Manager. Notwithstanding, given the results of the present assessment, it is recommended that the functions of the technical and fiduciary personnel/consultants contracted for the PEU are streamlined and integrated to the technical (project management) activities of REED, the Procurement Unit and the Finance and Accounts Department, so as to allow for knowledge transfer, as well as the strengthening of its permanent institutional capacity. For this purpose, it is recommended that as part of Program preparation activities, a plan is designed for the initial contracting of personnel with project resources and a gradual replacement and phase in with/of Corporation's resources.

6.13 Finally, project management/gate procedures (selection, monitoring, evaluation,

reporting) currently present at REED can be effectively adapted to the Program's characteristics and incorporated in the Program Operations Manual. The Program should capitalize on the growing and consolidated technical experience gained by the Department in the past years in the implementation of various pilot projects aimed, at the adoption and streamlining of energy efficiency and energy conservation measures in various sectors and institutions.

**ANNEX I**  
**RISK MATRIX AND ICAS QUESTIONNAIRES**

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**INTERNAL CONTROL ASSESSMENT - INSTITUTIONAL CAPACITY**

**SUMMARY OF RESULTS**

<b>Executing Agency:</b>		<b>PETROLEUM CORPORATION OF JAMAICA (PCJ)</b>				
<b>Audit Firm:</b>		<b>PriceWaterhouse Coopers (PwC)</b>				
<b>Audited Period:</b>		<b>EVALUATION AS OF MARCH 31, 2016</b>				
Capacity	System	Quantification			Development (ND, ID, MD, SD)	Risk level (RA, RS, RM, RB)
		Qualification	IR %	Weighted %		
CPO	SPA	<a href="#">80.00</a>	50	40.00	<a href="#">MD</a>	<a href="#">RM</a>
	SOA	<a href="#">90.00</a>	50	45.00	<a href="#">SD</a>	<a href="#">RB</a>
<b>TOTAL</b>				<b>85.00</b>	<b>SD</b>	<b>RB</b>
CE	SAP	<a href="#">87.50</a>	30	26.25	<a href="#">SD</a>	<a href="#">RB</a>
	SABS	<a href="#">87.50</a>	30	26.25	<a href="#">SD</a>	<a href="#">RB</a>
	SAF	<a href="#">87.88</a>	40	35.15	<a href="#">SD</a>	<a href="#">RB</a>
<b>TOTAL</b>				<b>87.65</b>	<b>SD</b>	<b>RB</b>
CC	SCI	<a href="#">78.57</a>	80	62.86	<a href="#">MD</a>	<a href="#">RM</a>
	SCE	<a href="#">91.67</a>	20	18.33	<a href="#">SD</a>	<a href="#">RB</a>
<b>TOTAL</b>				<b>81.19</b>	<b>SD</b>	<b>RB</b>

Consolidation of results  Capacities	Quantification			Development (ND, ID, MD, SD)	Risk level (RA, RS, RM, RB)
	Qualification %	IR %	Weighted %		
CPO	85.00	25	21.25	SD	RB
CE	87.65	45	39.44	SD	RB
CC	81.19	30	24.36	SD	RB
<b>TOTAL</b>		<b>100</b>	<b>85.05</b>	<b>SD</b>	<b>RB</b>

Prepared by: Andrés E. Garrett, Institutional and Financial Consultant

Date: 05/20/16

Review coordinated by:

Date:

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**ACTIVITIES PROGRAMMING SYSTEM (SPA)**

Activities Programming System		Yes	NO	NA	Answer Justification
1	Are the Planning and Programming responsibilities and functions adequately defined and assigned among the Entity's personnel?	1			The Finance and Accounts Department has been assigned the responsibilities for the overall corporate/strategic and operational planning functions in PCJ, as well as the monitoring and evaluation responsibilities. In this respect, the Finance Manager leads such internal process with the support of his internal staff along with the collaboration from the Information and Corporate Affairs Office, under the Group General Manager's Office. Notwithstanding, it must be noted that PCJ' organizational structure does not have a planning and development department and, furthermore, the sole position of Corporate Planning Officer is currently vacant.

cont.

Activities Programming System		Yes	NO	NA	Answer Justification
2	Are there defined programming procedures in place, such as: manuals, formats, models and methodologies, for the preparation of the Plans and Programs, as well as a procedure for their approval and modification?		1		PCJ does not have specific, written internal norms and procedures to guide the overall strategic and operational planning activities in the Corporation. Its planning responsibilities are mainly guided by <u>Section 7 of the "Public Bodies Management and Accountability Act, 2011"</u> , which establishes that it is the responsibility of the Board of Directors of any public body to deliver to its responsible minister, a medium-term (five-year) corporate plan. The First Schedule of the Act establishes that each corporate plan must contain, as a minimum: (a) the statement of institutional mandate and objectives; (b) nature and scope of the activities to be undertaken by the corporation; (c) capital and operating budgets; (d) accounting policies; (e) performance targets; (f) statements on the determination of annual surplus or dividends; (g) information to be contained in the half-year and end-of-year reports; and (h) estimates on the current commercial values of the Government's investment in the public body.

cont.



Activities Programming System		Yes	NO	NA	Answer Justification
3	Have monitoring and follow-up procedures or mechanisms been designed, so that proper compliance with Plans and Programs can be determined (Including compliance with indicators; identification of between programmed and executed activities and the preparation of execution reports)?	1			PCJ does not have specific, written procedures to guide the monitoring and evaluation activities of the Corporation with respect to the corporate and operational plans. Notwithstanding, in practice, the Finance and Accounts Department formally prepares " <u>Quarterly Review Reports</u> " directly tied to the corporation's operational plan, which forms an integral part of the "Petroleum Corporation of Jamaica - Corporate Plan". Following the stipulations of the Public Bodies Management and Accountability Act, the Quarterly Review Reports are monitored by the Board of Directors, the Ministry of Finance and the Public Service (MFPS), and the head ministry (i.e. the Ministry of Science, Energy and Technology--MSET). The reports mainly monitor the performance of PCJ with respect to the strategic objectives, strategic initiatives, tasks, key performance indicators (KPI) and costs, with the variance analysis and explanations. Notwithstanding, PCJ's monitoring capacity as part of "value for money" assessments is very limited and can affect the decision making process.
4	Has an Annual Program of Operations (APO) or equivalent document been prepared and is it consistent with the general Planning?	1			The five-year "PCJ Corporate Plan" contains the one-year " <u>PCJ Operational/Business Plans</u> " which are revolving and updated on an annual basis. The Corporate Plan provides PCJ's overall strategic framework based on the following over-arching strategic priorities: (a) development and promotion of Jamaica's energy resources; (b) financial viability; (c) organizational alignment for major project implementation; (d) organizational development and institutional strengthening; (e) enhancement of corporate image; and (f) group transformation. Such strategic objectives are tied to a number of key performance metrics including: (i) financial; (ii) customer; (iii) internal processes; ; and (iv) learning and growth. In addition, they are tied to the five-year projected financial statements.

cont.

Activities Programming System		Yes	NO	NA	Answer Justification
The planning document (APO) establishes:					
5	What are the general and specific objectives (components) and goals (indicators)?	1			As indicated in the previous point, the "PCJ Operational Plan" derives its objective, goals and targets from the overarching strategic objectives contained PCJ Corporate Plan. Each department is responsible for the yearly preparation of the individual operational plans. From a technical perspective, concrete objectives are derived from such strategic framework along with the MSET in the areas of" (a) oil and gas exploration; (b) enhancement of PCJ resource center; (c) business transformations; (d) project management and implementation; and (e) other. Nonetheless, it must be noted that a heavier weight is assigned in the PCJ Operational Plan to the technical and project management areas and less to the administrative and corporate support areas.
6	The activities or tasks necessary to reach these objectives and goals?	1			The PCJ Operational Plan comprises the following aspects for each of the priority areas: (a) objectives; (b) strategies; (c) outputs; (d) performance measures/outcome indicators; and (e) quarterly, tasks, targets and estimated costs for each activity. Each task is correspondingly assigned to the department(s) responsible for its execution or implementation.

cont.

Activities Programming System		Yes	NO	NA	Answer Justification
7	A diagram or flowchart representing the necessary order and interdependence of the activities to reach the objectives?		1		PCJ has not developed a specific flow chart containing/showing the relation and inter-dependency of the various activities, aimed at reaching the operational, investment and overall institutional objectives. The PCJ Corporate Plan only contains a general scheme which delineates the Corporation's strategy map, tying the key performance metrics (i.e. financial, customer, internal processes, and learning and growth), to the overall mission, mandate and vision of the Corporation. In practice, it is the responsibility of the Finance and Accounts Department, with the collaboration of the Information and Corporate Affairs Department, to ensure the consistency of the various agencies' and divisions' operating plans towards the attainment of the sectoral and institutional goals and objectives during the fiscal/financial year.
8	Estimated time to carry out each activity or task?	1			The PCJ Operational Plan defines quarterly, three-month periods for the attainment of each of the tasks/activities. These are distributed in April-June, July-September, October-December, and January-March intervals and, correspondingly, their progress assessed and presented in the quarterly performance reports.
9	The Responsible parties for executing or coordinating the activities or tasks?	1			As indicated above, the PCJ Operational Plan represents the consolidation of the individual annual/operational plans prepared and submitted by the departments and subsidiaries of the PCJ Group and thereby, it assigns responsibilities at the agency and departmental levels. However, it does not reach internal dependencies within each department.

cont.

Activities Programming System		Yes	NO	NA	Answer Justification
10	The indicators of results and means for verification that allow measuring the achievement of the established goals?	1			Each program, project or activity contained in the PCJ Operational Plan contains specific Key Performance Indicators (KPIs), associated to deliverables, products and progress measures. The quarterly progress assessments are precisely based on such KPIs measured at the institutional level as well the departmental levels.
11	The risks (assumed) to the success of planning and the necessary actions to prevent or mitigate them?		1		PCJ has not yet incorporated a formal risk management system to the overall strategic and operational planning functions. The PCJ Corporate Plan only presents a limited "Strengths, Weaknesses, Opportunities, Threats" (SWOT) framework. However, it must be noted that recently, PCJ, under the recommendation of the Internal Audit Department, has contracted the services of Ernst & Young to conduct the design and implementation of a Corporation-wide risk management system and its only pending approval for its implementation.
Execution :					
12	Are reports being issued on the progress of the APO, according to what had been planned on previous policies?	1			As indicated above, PCJ is fully complying with the stipulations contained in the following legal framework, as it relates to quarterly and end-of-year monitoring and reporting: (a) the Public Bodies Management and Accountability Act; (b) the Petroleum Act; and (c) the Financial Administration and Audit Act (FAA Act), as it relates to the periodic reporting to/by the Board of Directors, the MFPS and MSET. In particular, the Corporation has been in compliance with Sections 22 and 23 of the Public Bodies Management and Accountability Act which specifically establish, among other, the guidelines, content and timelines of the Annual Report, the Half-Year Report and the Annual Report.

cont.

Activities Programming System		Yes	NO	NA	Answer Justification
13	When the reports identify non-fulfillment or considerable risks for effectiveness, were actions taken to address these risks and to improve the probability of execution?	1			The nature of the quarterly and end-of-year reports is precisely aimed at the assessment of the effectiveness of the Corporation (and its departments and subsidiaries) in meeting/attaining the goals and objectives established in both, the PCJ Corporate Plan and the individual Operational Plans. Assessments take place at the departmental level, the Group General Manager level and, ultimately at the Board of Directors. Variance and underperformance situations are identified and actions to remain on track assessed and approved, mainly at the management level.
14	In practice, does the execution represent the actions previously mentioned?	1			The concrete actions of PCJ with respect to strategic, corporate and operational planning indeed reflect the presence of a growing management by objectives framework, with the corresponding efforts to streamline and seek accountability of actions and results at the corporate, departmental and subsidiary levels. Nonetheless, the absence of a dedicated Planning and Institutional Development Department limits the capacity of the Corporation to fully provide for a strong and permanent monitoring and evaluation framework across the Company and subsidiaries, as it relates to sectoral and corporate level mandate.
15	If APOs have been modified, is there sufficient and adequate evidence to justify those modifications?	1			Modifications to the Operational Plan can take place upon the specific requests issued by the departmental managers, heads of subsidiaries and other to the Group General Manager for consideration and approval. Specific modifications, based on their level and scope may be subject to consideration and approval by the Board of Directors. Modifications to the Corporate Plan require the authorization of the Board of Directors and the MSET.

cont.

Activities Programming System		Yes	NO	NA	Answer Justification
16	Have the changes to the APO been approved by the Bank?			1	Not applicable to PCJ.
	<b>TOTAL</b>	12	3		

QUANTIFICATION:	Yes	* 100	<a href="#">80.00</a>
	(YES+NO)		
DEVELOPMENT:	There is no ND (0-40)		<a href="#">MD</a>
	Incipient ID (41-60)		
	Median MD (61-80)		
	Satisfactory SD (81-100)		
RISK:	High RA (0-40)		<a href="#">RM</a>
	Substantial RS (41-60)		
	Medium RM (61-80)		
	Low RB (81-100)		

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**ADMINISTRATIVE ORGANIZATION SYSTEM (SOA)**

Administrative Organization System		Yes	NO	NA	Answer Justification
<b>Organization Manual</b>					
1	Is there an Organizational Manual (OM) or equivalent instrument?		1		PCJ has not prepared/implemented an organizational manual describing the overall organizational structure of the Corporation along with the main functions and responsibilities of the Group management, technical and administrative departments, and support divisions and departments, along with the reporting and decision making structures, among others. For the purpose of the present assessment, the Human Resources and Administrative Department provided a job description for management positions from which actual responsibilities of the various departments can be extrapolated.
2	Are there procedures for periodical update and validation of the OM?		1		Given that PCJ does not have an organizational manual, these procedures are not in place. Notwithstanding, it must be noted that under the applicable legislation contained in the Petroleum Act--which established PCJ--, as well as the Public Bodies Management and Accountability Act, it is the responsibility of the Board of Directors to approve any updates or modifications to the organizational structure of the Corporation. In addition, any modifications to the organizational structure is subject to the consideration and approval by the MFPS through the Compensation and Benefits Division, the Industrial Relations Division and the Corporate Management Division.

cont.

Administrative Organization System		Yes	NO	NA	Answer Justification
3	Does the OM include the functions, responsibilities and authority for the performance of each position?	1			Consistent with its organizational structure (chart), PCJ has prepared and formally approved a " <u>Compendium of Job Specifications and Descriptions</u> ", which contains, for each of the 119 positions of the Corporation, a detail on the key responsibility areas, functions, reporting and supervising relationships, specific requirements, and hierarchical communication channels, among others.
4	Does the OM include the decentralization and delegation of authority and functions to the lower levels?	1			The organizational structure of PCJ follows the stipulations contained in both, the Petroleum Act and the Public Bodies Management and Accountability Act. Under this governance structure, the highest power of authority rests in the Board of Directors, which in turn is responsible for the approval of the organizational chart along with the functions and responsibilities of each of the departments, divisions and units of the Corporation. Also, under this structure, the highest executive power rests in the Office of the Group General Manager, with all technical, operating, administrative and advisory departments reporting directly to him. Hierarchical channels, as well as lines of authority and delegation of decision-making processes are clear and well-defined at the Board, Chairman, Group General Manager/Chief Executive Officer (CEO), departmental managers and below.
5	Were the manual's functions assigned in such a way to maintain independence of those in charge of authorizing, executing, recording transactions and to watch over goods and valuables?	1			This is not explicitly established in the "Organizational Chart" and/or the "Compendium of Job Specifications/Descriptions". Nonetheless, in practice, PCJ is in compliance with the administrative and organizational procedures and corresponding internal control requirements under the Financial Administration and Audit Act, which delineates the segregation of functions/separation power and authority over financial and administrative systems in Jamaica.

cont.



Administrative Organization System		Yes	NO	NA	Answer Justification
6	Were the OM or organizational diagram and functions made known to all related personnel?	1			New personnel of PCJ are required to go through an induction session under the responsibility of the Human Resources and Administrative Department. During such session, a formal presentation is provided on the overall governance, characteristics, activities and other aspects of the Corporation; one being the presentation and description of PCJ's organizational structure.
7	If so, did each employee sign a form that he/she has read and understands his/her functions and responsibilities?	1			Upon joining the Corporation, each employee/incumbent is required to sign his/her <u>Job Description and Specification</u> , which ultimately certifies the understanding and agreement of/with the functions, responsibilities and expectations of the position. Also, each Job Description and Specification carries the signature of the Group General Manager.
8	Are the OM and organizational diagram properly authorized by the Board of Directors or competent authority related to the Executing Agency (EA)?	1			As previously indicated, the Board of Directors is ultimately responsible for the approval of the PCJ's organizational structure/diagram. Based on the minutes of the Board meetings, the latest approval is dated March 15, 2015.
<b>The organizational diagram indicates:</b>					
9	The areas of activity and their functional relationship (General Management, Finance, Personnel, Procurement, Production of goods and services, etc.)	1			The organizational chart effectively shows: (a) the Board of Directors as the highest authority in the governance structure of the Corporation following the stipulations contained in the Public Bodies Management and Accountability Act, with its members appointed by the head Minister (today MSET); (b) the Chairman of the Board; (c) the Group General Manager as Chief Executive Officer (CEO) of the PCJ group of companies/holding; (d) the functional departments (administrative and technical) under the Office of the Group General Manager; and (e) the advisory departments with dual reporting lines to the Office of the Group General Manager and the Chairman of the Board of Directors . In general, PCJ is characterized by the presence of the functional organizational structure.

cont.

Administrative Organization System		Yes	NO	NA	Answer Justification
10	The levels of authority and supervision?	1			Consistent with PCJ's organizational chart, the Corporation's "Compendium of Job Specifications and Descriptions" contains a specific section on reporting and supervisory relationships, along with the responsibilities which also establish the communication channels with various stakeholders inside the Corporation and its subsidiaries. Indeed, these provide a solid framework for decision making, delegation of authority and supervision.
11	The levels of advisory functions (without level of responsibility)	1			All institutional responsibilities and dependencies in PCJ's organizational structure functional in nature and, as indicated above, fall under or report directly to the Office of the Group General Manager. The only advisory roles in the structure correspond to the Legal Department and the Group Internal Audit Department, both of which report to the Group General Manager and the Board of Directors, and thereby also present characteristics of functional departments.
12	The lines of communication?	1			The Organizational Chart shows the lines of communication based on hierarchical levels, functions and dependency in PCJ. As indicated in the previous points, the Institution is mainly characterized by a functional-vertical structure with clear dependency and reporting lines.

cont.

Administrative Organization System		Yes	NO	NA	Answer Justification
<b>Positions profiles:</b>					
13	Were the profiles of the positions needed for the execution of the anticipated functions (also including Consultants) designed and approved? (Academic background and experience)	1			The "Compendium of Job Specifications and Descriptions" provides a specific detail of the profiles of all positions in the Corporation, as approved by the Group General Manager, and consistent with the organizational structure approved by the Board of Directors and the Corporate Management Division of the MFPS. Each position profile contains: (a) job title; (b) department; (c) position summary; (d) reporting and supervisory relationships; (e) key responsibilities; (f) required education, experience and competencies; (g) performance criteria; (h) stakeholders (internal and external); and (i) approval/verification by incumbent and Group General Manager.
14	Have the profiles indicated in 13 been associated with payment levels that are equivalent to the market value?	1			PCJ's salary scale is directly tied to the hierarchical structure of the Corporation and the corresponding positions profiles, taking into consideration the levels knowledge and experience, responsibilities, impact, complexity, technical requirements and other. It is based on eight position levels, being 8 the highest and one the lowest in the salary scale. Salary scales are approved by the MFPS taking as reference the Staff Orders for the Public Service. Nonetheless, given the autonomy of the Corporation with respect to, among others, human resources management, the definition of its positions profiles along with higher standards in the qualification criteria, allows PCJ to establish salary levels that ultimately lead to a stronger capacity to attract and retain qualified personnel, as compared to the Central Administration of the Government of Jamaica (GOJ). It must be noted however that competition with prevailing salaries in the private sector remains a challenge for PCJ and its subsidiaries.

cont.

Administrative Organization System		Yes	NO	NA	Answer Justification
15	Is the organizational climate a reflection of what has been planned in the OM? (Take into account the statements of weaknesses and strengths made by those responsible of this sub-system and the impressions gathered in the different interviews)	1			PCJ's organizational structure reflects a governance and personnel environment in accordance with and consistent with the overall mandate and strategic objectives of the Corporation, as described in SPA. Notwithstanding, specific areas in such organizational structure show space for improvement including, among others, the absence of a Planning and Organizational Development Department, especially under the current process of institutional modernization that PCJ has embarked in the recent years.
16	Does the delegation of functions allow each level to make decisions and fulfill the functions assigned to them?	1			PCJ's governance culture shows a consistent pattern of decentralization in the decision making process, from the Board of Directors, to the Office of the Group General Manager, to management of the various departments. Weekly and periodic management meetings allow for further coordination, decentralization and delegation of decision making at the departmental level. In addition, this culture is streamlined to the various areas in each of the departments, thereby maintaining an adequate balance between the scope of functions and delegation of authority.

cont.

Administrative Organization System		Yes	NO	NA	Answer Justification
<b>Execution</b>					
17	Has there been a definition and formalization of the administrative (autonomy), organizational, and legal aspects of the executing agency, and the co-executing agencies?	1			PCJ was established by the Petroleum Act as a body corporate under Section 28 of the <u>Interpretation Act</u> of Jamaica which vests in the Corporation the autonomy and power to, among others: (a) sue in its corporate name; (b) enter into contracts in its corporate name; (c) acquire, hold or dispose real property; (d) <u>regulate its own procedures</u> and business; (e) employ the necessary staff; and (f) make the body liable to be sued under its own corporate name (i.e. limited liability). On the other hand, the Public Bodies Management and Accountability Act delineates the scope and powers of the Board of Directors, as the highest authority in the Corporation, along with the delegation of executive functions and responsibilities to the Group General Manager.
18	Does the EA have the legal and financial mechanisms for its autonomous or independent development?	1			As per the previous point, consistent with national legislation regarding the structure and attributes of PCJ as a body corporate under the Petroleum Act and Public Bodies Management and Accountability Act, the has the necessary autonomy for corporate policy and procedures development, the establishment of its organizational/executive structure that is most apt to effectively discharge its responsibilities, and ultimately, to design and implement the instruments and mechanisms necessary for the financial sustainability of its portfolio of business and investment activities. However, it must be noted that under national legislation, corporate bodies such as PCJ are under a head ministry (in this case MSET), which establish the process of consultation with the Minister for strategic, budgetary and overall corporate affairs and decisions.

cont.

Administrative Organization System		Yes	NO	NA	Answer Justification
19	Were the OM and organizational diagram of the EA and its components designed according to the needs established in the planning process and in the APO?	1			Vice versa. Both, the "Corporate Plan" and the "Operational Plan" take into consideration the current governance and organizational structure of PCJ to discharge its business and sectoral development activities, as it relates to all technical, administrative and advisory/support areas, as well as those related to the coordination and monitoring activities of its subsidiaries.
20	Are the functions and responsibilities identified in the project report fulfilled for the project's execution?			1	Not applicable to PCJ.
21	In practice, are all the Organizational Units working with the planned personnel?	1			As of April 2016, PCJ (not including its subsidiaries) had a total of 118 staff members, with most departments having the positions approved by the MFPS, filled. Only limited positions remain unstaffed such as the Corporate Planner item.
<b>Operations Regulations Manual (OR), Audit Regulations Manual (CR):</b>					
22	If applicable, has an Operations Regulations Manual (OR) or Audit Regulations Manual (CR) been prepared with previous approval of the Bank?			1	Not applicable to PCJ.
23	Were the OR/CR formalized and made known among the participants in the execution of the operation, documenting these actions?			1	Not applicable to PCJ.
24	Did the OR/CR establish that all financial or administrative operations have the necessary back up documentation?			1	Not applicable to PCJ.
25	Does this documentation allow to identify the nature, purpose and results of each operation?			1	Not applicable to PCJ.
26	Does the designed OR/CR describe the procedures for authorization , movement, registration and timely control procedures of all technical, financial and administrative operations related to the project?			1	Not applicable to PCJ.
<b>In case of a global program of investments, the RO includes the following sections:</b>					
27	Purpose and definitions?			1	Not applicable to PCJ.
28	Objectives and Description of the Program?			1	Not applicable to PCJ.
29	Eligibility criteria for the co-executors and the investments (technical, economic and financial)?			1	Not applicable to PCJ.
30	Assignment of Program resources?			1	Not applicable to PCJ.
31	Resource transfer, disbursements, revolving fund, and accountability mechanisms?			1	Not applicable to PCJ.
32	Tracking (reports)?			1	Not applicable to PCJ.
<b>In case of a global program of credit, the CR includes the following sections:</b>					
33	Purpose and definitions?			1	Not applicable to PCJ.
34	Program Objectives and Description?			1	Not applicable to PCJ.

cont.

Administrative Organization System		Yes	NO	NA	Answer Justification
35	Eligibility and participation criteria for the IFIs?			1	Not applicable to PCJ.
36	Eligibility criteria for the sub-borrowers and sub-loans?			1	Not applicable to PCJ.
37	Terms and conditions of the sub-loans?			1	Not applicable to PCJ.
38	Formalization of the sub loans?			1	Not applicable to PCJ.
39	Use of repayments and follow up (reports)			1	Not applicable to PCJ.
In the case of decentralized execution of projects, with multiple co-executors, is planned by the UCP:					
40	A flowchart with responsibilities and functions of the PCU and of co-executors?			1	Not applicable to PCJ.
41	A flowchart with responsibilities and functions of the managing entity, when the participation of a private or specialized agency is anticipated?			1	Not applicable to PCJ.
42	Monitoring systems and report to track the use of resources by the co-executors?			1	Not applicable to PCJ.
Total		18	2		

QUANTIFICATION:	Yes	* 100	90.00
	(YES+NO)		
DEVELOPMENT:	There is no ND (0-40)	SD	
	Incipient ID (41-60)		
	Median MD (61-80)		
	Satisfactory SD (81-100)		
RISK:	High RA (0-40)	RB	
	Substantial RS (41-60)		
	Medium RM (61-80)		
	Low RB (81-100)		

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**PERSONNEL MANAGEMENT SYSTEM (SAP)**

Personnel Management System		Yes	NO	NA	
1	Have the responsibilities to manage personnel issues been formally assigned?	1			The Human Resources and Administration Department under the Office of the Group General Manager is responsible for personnel management in PCJ. Its functions include, among others: (a) organizational development; (b) employee relations and benefits; (c) recruitment and compensation; (d) performance management; (e) training and development; (f) manpower planning and staffing; and (g) employee relations and grievance. The Department has a total of 13 staff members of which five correspond to the core human resources management activities including pensions/benefits, recruitment, performance management/training, and employee relations.
2	Does the person (or persons) in charge of personnel management functions have the skills and experience required in Human Resources?	1			The Human Resource and Administration Manager has a solid background in personnel administration in both, private and public sectors with extensive experience in various areas including industrial relations/collective bargaining, grievance procedures, and negotiations in Jamaica. This in addition to post-graduate studies in Human Resources Management. Also other personnel in the core areas of human resources management present post-graduate degrees along with solid specialized work experience. It is estimated that personnel of the Department bring at least 40-50 years of total cumulative experience.

cont.



Personnel Management System		Yes	NO	NA	
3	Does the Entity have authorized policies and procedures formally included in a Manual or equivalent document, about personnel management?	1			<p>The Petroleum Corporation of Jamaica <b>"Human Resources Policy and Procedures Manual"</b>, officially approved by the Board of Directors is the main and comprehensive document providing the internal norms and procedures for personnel administration in PCJ. It provides for specific guidelines on: (a) employment practices and procedures; (b) employee classifications and definitions; (c) work hours, breaks and overtime; (d) termination of employment; (e) employee identification; (f) employee benefits; (g) employee assistance program; (h) leave of absences; (i) compensation, allowances and pay related matters; (j) employee records; (k) training and development; (l) performance management; (m) communication; (n) worker participation; (o) employee discipline; (p) industrial/staff relations; (q) employee health and safety; (r) and general work rules/code of ethics. The Manual is in the process of updating and will be submitted shortly for the consideration and approval by the Board of Directors.</p>

cont.

Personnel Management System		Yes	NO	NA	
The current policies and procedures, include such aspects as:					
4	Existing policies and procedures include the following: Search and Selection	1			<p>Section 1 of the Human Resources Policy and Procedures Manual contains PCJ's Employment Practices and Procedures, which seek to ensure that all appointments by the Corporation are based on a fair and open assessment of individuals' capability and in accordance with high standards. In practice, the recruitment process comprises: (a) identification/need of the position; (b) acceptance by the Board of Directors or Group General Manager if it does not affect the organizational structure and if it has a profile; (c) development of position profile by the Human Resources and Administration Department, and consideration and approval by the MFPS; (d) advertisement; (e) preparation of short list for the best candidates; (e) first round of personal interviews with Human Resources and Administration Department and requesting department; (f) second round of personal interviews; (g) testing and evaluation; (h) final interviews; and (i) decision. In general, it is the practice of PCJ to promote from inside and, thereby, may conduct internal calls prior to public advertisements.</p>

cont.

Personnel Management System		Yes	NO	NA	
5	Orientation and training?	1			<p>First, with respect to <u>Orientation</u>, the Human Resources and Administration Department has implemented a formal and mandatory induction/orientation process/session for all new employees that join the Corporation. The orientation session takes place on the first day of employment and covers specific aspects on the Corporations including mandate, mission, activities, organizational structure, relevant policies and legislation, working rules, employee benefits, main human resources policies and procedures, and work ethics. Second, with respect to <u>Training</u>, the Human Resources Policy and Procedures Manual establishes that managers and supervisors will consider suitable courses for employees during appraisal and counseling interview and at any other time when the need is seen. Such courses are run and administered internally by the Human Resources and Administration Department on a schedules quarterly or yearly basis.</p>

cont.

Personnel Management System		Yes	NO	NA	
6	Professional development?	1			<p>Professional development in the Corporation is directly tied to performance management. Line management and individual staff define personal goals and expectations and, in conjunction with the immediate supervisors define training and development needs from the appraisal documents. This information is submitted to the Human Resources and Administration Department which in turn prepares the Annual Operational Plan (AOP) for training and professional development. Such plan must clearly outline the content/expectations of the training and the contribution to the strategic objectives of the Institution. Various modalities of training and development include: external trainers, sponsor courses in overseas universities, internal programs of the Human Resources Department, partnerships with the University of West Indies (Project management), Management Institute for National Development (MIND), Jamaica Employers Federation (JEF).</p>

cont.

Personnel Management System		Yes	NO	NA	
7	Performance evaluation?	1			<p>Section 12 of the Human Resources Policies and Procedures Manual establishes Performance Management as a continuous process of evaluating the individual employee's performance on the job and overall progress in the Corporation, based on specific and measurable objectives, and as means to identifying employees' areas of strength, as well as those areas in need of development for improved performance and job satisfaction, and to aid decisions for training, promotion, transfer and termination. In practice, performance appraisal in PCJ is conducted by supervisors and managers with both, the Human Resources Department and employees signing off on the individual goals and results. Performance management is linked to incentive pay within the limits agreed by the Board and within the boundaries established by the MFPS. PCJ utilizes the platform "Performance Impact Workplace" as a performance management solution, but is currently merging to the integrated human resources management platform "Lanteria", which includes a module for performance management.</p>

cont.

Personnel Management System		Yes	NO	NA	
8	Classification of positions and salary levels?	1			As indicated in SOA, PCJ's salary scale is directly tied to the hierarchical structure of the Corporation and the corresponding positions profiles, taking into consideration the levels of knowledge and experience, responsibilities, impact, complexity, technical requirements and other. It is based on eight position levels, being 8 the highest and 1 the lowest in the salary scale. Salary scales are approved by the MFPS taking as reference the Staff Orders for the Public Service. Nonetheless, given the autonomy of the Corporation with respect to, among others, human resources management, the definition of its positions profiles along with higher standards in the qualification criteria, allows PCJ to establish salary levels that ultimately lead to a stronger capacity to attract and retain qualified personnel, as compared to the Central Administration of the Government of Jamaica (GOJ).
9	Social security?	1			PCJ complies with the national guidelines of the Ministry of Labor and Social Security (MLSS) with respect to employer contributions and employee deductions with respect to: (a) "National Insurance Scheme" (NIS) for incapacity, death and retirement (compulsory), with a 2.5% employee contribution and 2.5% employer matching; (b) National Housing Trust (NHT) with a 5% employer contribution; (c) health insurance with approximately 80% of the cost covered by PCJ and 20% by the employee, and administered through SAGICOR Jamaica; and (d) HEART Trust/NTA with a 3% employer contribution.
10	Taxes and other labor obligations?	1			Taxes are automatically deducted from personnel payroll on a "pay-as-you-earn" basis. In particular, the personal income tax and the education tax. Personal income taxes range from 25% to 33% of the gross salary after the education tax is deducted. This represents on average represents approximately a 29% deduction for PCJ staff members.

cont.

Personnel Management System		Yes	NO	NA	
Other requirements					
11	Are there procedures for the control of staff attendance?	1			Section 18 of the Human Resources Policies and Procedures Manual contains the <u>Attendance</u> policy at PCJ as part of its code of conduct/ethics. Each department is responsible for keeping an attendance record for each employee, in conjunction with the Human Resources and Administration Department, which produces the end-of-month attendance reports. PCJ has implemented a digital system to control employee attendance. Such "Swipe Card" platform monitors the movement inside and outside the job place.
12	Is there a duly approved vacation program for all personnel?	1			Section 18 of the Human Resources Policies and Procedures Manual contains the Leave of Absences Policy, including <u>Vacation Leave</u> . Under such policy, all permanent full-time employees with at least one year's continuous service are entitled to vacation leave as stated in their letter of employment (usually ten working days). Thereafter, for every five years that an employee works with PCJ ,he/she is granted an additional five working days vacation leave up to a maximum of thirty working days. The Human Resources and Administration Department uses the platform "iVantage" to track vacation and overall leave of absence of PCJ's staff members.
13	Is there a plan to replace key personnel in case of temporary absence?		1		No contingency plans are in place to replace key personnel in case of temporary or unexpected leave or absence. In practice, acting arrangements are made for short-term absences whereby the staff immediately below may take or assume the functions based on delegation of authority.

cont.

Personnel Management System		Yes	NO	NA	
14	Are there policies about the procurement of insurance policies for the key positions in charge of the administration of liquid assets and goods?		1		PCJ does not have a policy for the procurement of specific insurance policies to protect key positions of the Institution. As indicated above, PCJ has only a contract with a private insurance company (SAGICOR Life Jamaica) for the provision of health insurance in addition to accidental death insurance based on the employer and employee contribution matching structure described above. Nonetheless, the Corporation is currently assessing the procurement of insurance coverage for international travel of key management and technical and administrative personnel.
15	Have the insured amounts been determined?			1	Not applicable to PCJ. As indicated in the previous point, key positions do not have specific insurance coverage beyond health and accidental insurance, which is applicable to all staff of the Corporation.
16	In general, is there stability in the composition of the Entity's personnel?	1			PCJ has over the years experienced an adequate level of employment stability, with very low personnel turnover. A number of factors contribute to this situation including the profile and brand name of PCJ, its solid reputation as a credible organization to work for, and overall sectoral growth opportunities and expectations. As previously indicated, salary levels are slightly above the average of the GOJ. Nonetheless, recruitment is becoming an increasing challenge, especially for technical positions and amid private sector competition. Also, such competition can jeopardize the capacity of PCJ to retain key specialized employees. Political factors are not strong and affect mainly senior level management positions. Nonetheless, most managers have been in the Corporation for five years or more. In general, corporate culture, governance and leadership contribute in a favorable manner to employee stability and motivation.

cont.



Personnel Management System		Yes	NO	NA	
Execution					
17	The current policies and procedures are consistent with the Bank's requirements in terms of recruiting of personnel, including consultants, as indicated in the project's documents and in the loan contracts or cooperation agreement	1			The application of the norms and regulations contained in the Human Resources Policies and Procedures Manual along with the corresponding internal norms and procedures for recruitment of permanent and temporary personnel are adequate and consistent with Bank requirements.
18	Is the personnel actually hired for the execution of the project consistent with the personnel requirements included in the project document?			1	Not applicable to PCJ.
19	Did the project's personnel selection and recruiting process follow what had been recommended in the project report and loan contract?			1	Not applicable to PCJ.
20	Do the recruited employees/consultants fulfill the profiles anticipated in the terms of reference or requirements of the positions previously approved by the Bank?			1	Not applicable to PCJ.
21	Did the recruitment of personnel/consultants by the EA had the previous non-objection by the Bank?			1	Not applicable to PCJ.
22	Are the salary levels approved by the EA's classification of positions compatible with the budgeted amount included for this type of expenditures on the program's budget?			1	Not applicable to PCJ.
	<b>TOTAL</b>	<b>14</b>	<b>2</b>		

<b>QUANTIFICATION:</b>	Yes	* 100	<a href="#">87.50</a>
	(YES+NO)		
<b>DEVELOPMENT:</b>	There is no ND (0-40)		<a href="#">SD</a>
	Incipient ID (41-60)		
	Median MD (61-80)		
	Satisfactory SD (81-100)		
<b>RISK:</b>	High RA (0-40)		<a href="#">RB</a>
	Substantial RS (41-60)		
	Medium RM (61-80)		
	Low RB (81-100)		

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**GOODS AND SERVICES MANAGEMENT SYSTEM (SABS)**

Goods and Services Management System		YES	NO	NA	Answer Justification
1	Is there a formal assignment of functions and responsibilities (in one organizational unit or equivalent) for procurement processes relating to works, goods and consulting services, and that is proportional to the project that is being financed?	1			The Procurement Unit of the Legal/Procurement Department under the Office of the Group General Manager is responsible for the procurement of goods, services and works in PCJ. Currently three full-time staff members are assigned to the procurement function including one Procurement Officer, one Procurement Specialist and one Legal Secretary--soon to become Procurement Officer--.. In addition, two positions have been requested including a Contracts Management Officer and an Administrative Assistant. It must be noted that under the current situation procurement staff are stretched thin as their responsibilities extend to all PCJ's subsidiaries with the exception of PETROJAM. Also, under the current organizational structure, the Legal/Procurement is an advisory-horizontal area and not a functional area.
2	Is there a formal assignment of functions and responsibilities (in one organizational unit or equivalent) for processes relating to the receipt, inventory, and maintenance of works, goods and consulting services, according to the nature and size of the future IDB financed project?	1			The receipt of goods, services and works acquired by the Corporation takes place with the participation of various departments depending on the type of asset procured. In practice, it involves the Finance and Accounts Department (ultimately responsible for the recording of the assets), the Property Management Department, the Information Technology Department, or the Renewable Energy and Energy Efficiency Department for projects. In all cases, the requesting department must be present to certify the quality and characteristics of the goods according to the technical specifications. The presence of the Legal/Procurement Department is also observed.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
3	Does the Unit have the human resources and knowledge needed to efficiently execute and manage the program?	1			The Procurement Officer has a proven and extensive experience in public procurement in the GOJ, along with the necessary education and skills which allow her to discharge her responsibilities in a solid and effective manner. In addition, she has extensive experience with IDB procurement policies and procedures based on previous engagement with the Agricultural Competitiveness Program in Jamaica. Also, it must be noted that all procurement personnel have been exposed to the necessary training from the MFPS, and have completed all courses (i.e. four levels) on GOJ procurement.
4	The Unit has clearly established the procedures, responsibilities and personnel assignment to the following tasks: • Procurement planning • Advertising and bid announcements • Prequalification of contractors, suppliers and consultants • Preparation of Requests for Proposals and contract models • Reception and Opening of proposals • Analysis and Evaluation of Proposals • Awarding of contracts • Contract Administration.	1			PCJ has not adopted an internal procedures manual for procurement. Notwithstanding, it has fully adopted the " <u>Government of Jamaica - Handbook of Public Sector Procurement Procedures</u> ", issued under the authority of the MFPS, pursuant to Section 19B of the FAA Act and the National Contracts' Commission in accordance with the Contractor General's Act. This is consistent with the "GOJ's Policy on Public Sector Procurement". Volume 1 contains the general policy and institutional framework for public procurement of the GOJ; Volume 2 contains the procedures for the procurement of goods, general services and works; Volume 3 contains the procedures for the procurement of consulting services; and Volume 4 contains the procedures for the procurement of general insurance services. These comprise, among others, procurement methods, proposals, eligibility and qualification requirements, as well as procedures for procurement planning and processes.
5	Was the procurement personnel trained on the procurement of goods, consulting services and works (either the Bank's procurement policies and procedures or the local legislation)?	1			As indicated above, the Procurement Officer has previous solid exposure to IDB procurement policies and procedures, as procurement specialist in the Agricultural Competitiveness Project in Jamaica.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
6	Is there any formal evidence related to the training of the Co-executor's personnel on policies and procurement procedures?			1	Not applicable to PCJ.
7	Have the types of contracting and procurement and the authorization levels by amount and complexity level been planned and regulated?	1			<p>The "Handbook of Public Sector Procurement Procedures" establishes the norms and contracting modalities which are indeed followed by PCJ. In particular, it clearly establishes the contract thresholds and corresponding procurement methods. <i>First</i>, for goods, general services and works: (a) international competitive bidding; (b) local competitive bidding; (c) limited tender; and (d) direct contracting. <i>Second</i>, for consulting services: (i) quality and cost-based selection; (ii) quality-based selection; (iii) least cost selection; and (iv) selections based on consultants' qualifications. <i>Third</i>, for insurance services, various thresholds. The Handbook provides a step-by-step administrative and approval process for each modality of procurement. Based on such guidelines, the Procurement Unit has developed concrete guidelines on "Procurement Method and Contract Thresholds" applicable to the amounts or ranges of costs established and updated periodically by the MFPS.</p>

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
8	Does the procurement administration system ensure that each transaction has the necessary and sufficient documentation to support it? (Invoices, Contracts, estimates, etc., as applicable)	1			<p>The Procurement Unit has prepared and implemented three documents that directly contribute to the overall procedural and internal control processes of the procurement function, and which complement the overall framework contained in the "Handbook of Public Sector Procurement Procedures" of the GOJ. In particular: (a) the "<u>Procurement Process Flow</u>"; (b) the "<u>Procurement Method and Contract Thresholds</u>" (integral part of the Procurement Presentation); and (c) the "<u>Service Level Agreement</u>". Any purchase of good, service or works must have the following supporting documentation and authorizations: (a) requisition form; (b) proof of inclusion in the Annual Procurement Plan; (c) budget allocation and availability; (d) terms of reference and/or technical specifications; (e) requests for proposals (RFP); (f) advertisements on local newspapers; (g) award recommendations from the procurement and evaluation committees; (h) based on the threshold, endorsements from the National Contracts Commission (NCC); (i) award communications; (j) purchase orders; and (k) other.</p>

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
9	Does the documentation mentioned in the previous question, allow the identification of the nature, purpose and results of each transaction and in particular, to establish compliance with the IDB procurement procedures (already agreed upon or to be agreed upon with the Bank.	1			One aspect that characterizes the Procurement Unit of PCJ is its dual functional and advisory nature. With respect to the latter and based on the contents of the Service Level Agreement, it seeks to provide the necessary training to requesting departments/internal clients on the formats, depth and level of information required to justify any purchase or contract, in order to proceed with the preparation of RFP and bidding documents. As indicated in the previous point, requesting departments must provide the technical justification for any good, service, work or consultancy, along with its inclusion in the Procurement Plan and departmental and institutional budget, with the corresponding approvals from the head of the requesting department manager, the procurement unit, and ultimately may required the authorization from the Group General Manager if not previously budgeted and/or included in the Procurement Plan.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
10	Do the procurement procedures define a separation of incompatible functions that allow to clearly differentiate personnel's attributions in each one of the different phases of the process? (Contracting Regulation or equivalent)	1			PCJ has not prepared nor implemented a specific Procedures Manual for Procurement. Nonetheless, in practice, the internal controls adopted by PCJ provide for the segregation of responsibilities and functions throughout the procurement administration and accounting process. In particular, with respect to the requests, authorizations, receipt of goods services and works, and payments. In summary the authorization/approval process is as follows: (a) project/ procurement plan approved by Group General Manager; (b) requisitions approved by Head of Department; (c) Financial and Accounts Department provides the budget certification/availability; (d) procurement approval by Committee; (e) purchase order requisition signed by head of requesting department must along with Procurement Officer and Legal Department Head/Senior Legal Counsel; (f) Accounts issues the Purchase Order; (g) receipt of goods and services approved by Administration along with requesting department; (h) Finance and Accounts Department issues payment.
11	Do the procedures consider that the requests for procurement for goods and services are properly based on a justified need by the responsible person or area?	1			As established above, any request for the purchase of a good, service or work or contract must be fully justified by the requesting department in PCJ and duly supported by the Procurement Plan and the departmental and institutional budget..

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
12	Is it expected that the requests would only be approved only when there are budget resources previously earmarked and available?	1			As established in the "Handbook of Public Sector Procurement Procedures", the MFPS requires that every procuring entity must submit a Procurement Plan, along with the Operational Plan and "Estimates of Expenditure" (i.e. the budget), to support the projected expenditure of the PCJ. Should the purchase represent an emergency item or activity rendered as a priority but not contained in the approved budget, it must have the written approval of the Group General Manager and the Finance and Accounts Department for the corresponding allocation or reallocation of the necessary resources.
13	Is there a system of prenumbered forms (electronic form preferred) in support of the procurement activities and procedures?	1			The purchase order and contract numbers drive the overall procurement process all the way to the final payment. Purchase orders are issued in the Microsoft Dynamics platform (formerly Solomon) with the numbers issued automatically following chronological order for all procurement transactions.
14	Does the system provide for the number of copies to issue, the destination of each one and the signatures required?	1			Purchase Orders are issued in the Microsoft Dynamics platform. The system automatically assigns the purchase order number, and determines the number of physical copies to be printed and distributed inside PCJ for authorization, as well as for the delivery to the vendor (original sent to supplier, one copy is attached to the Purchase Requisition, another copy is attached to the eventual invoice, and the fourth copy is retained in Purchase order book. It must be noted that PCJ's internal control system for the procurement function would be significantly enhanced with the presence of written internal procedures reflecting such base documents as well as concrete definitions of supporting documentation checklists, workflows on responsibilities of staff at the dependency and staff level, routing system, signatories and other.

cont.



Goods and Services Management System		YES	NO	NA	Answer Justification
15	When applicable, is there a system of permanent recording of inventories to control their variations per units of similar characteristics?	1			The Petroleum Corporation of Jamaica <u>"Inventory/Stores Management Policy and Procedures"</u> outlines the internal procedures for purchasing, receipt of goods, return of goods, storage, distribution, inventory records, physical inventory, and inventory management. From an accounting/asset management perspective, most of inventories correspond to office materials and stationary, which are fully expended at the time of invoicing and payment and, thereby, not reflected in the Corporation's financial statements (i.e. the balance sheet). Currently, it is the Finance Department's responsibility to execute the requisitions for office materials, the receipt, and ultimate distribution of such goods based on the requisition. In the case of pantry materials, this is under the responsibility of the Human Resources and Administration Department. With respect to projects, goods are delivered directly to project sites and thereby, expended upon arriving to the premises. This, along with the safeguard of such inventories is under the responsibility of each project manager.
16	Does the inventory control system include minimum and maximum quantities?		1		Even though such procedure is described in the "Inventory/Stores Management Policy and Procedures", an automatic system is not in place reflecting minimum quantities to trigger reorder points and corresponding actions. Office materials are ordered upon requests by the demanding units and based on needs estimates and usage patterns. However, inventories are minimum and mainly comprise office materials.
17	Have appropriate physical spaces been assigned, according to the type of inventories, for their appropriate storage and control?	1			Small centralized storage space has been assigned in PCJ's central building in Kingston. This is under the responsibility of an Inventory/Stores Clerk in the Finance Department.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
18	The system of procurement administration allows to identify the commitments and all other transactions from the beginning of the process, and establishes a link among the creation of the obligation, the receipt of the goods, works, and consulting services, and the corresponding payments, thus providing a reasonable assurance on the information system reliability and integrity?	1			Each procurement and corresponding accounting transaction has a file which shows the complete process and internal controls applicable from the point of requisition to the ultimate payment to the supplier or contractor. This physically supports the information that is entered and/or obtained from the Microsoft Dynamics SL platform and includes: (a) the justified requisition; (b) budget commitments; (c) requests for quotations; (d) quotes; (e) purchase orders; (f) invoices; (g) tax compliance certificates; (h) receipts for delivery; and (i) payment vouchers. Nonetheless, PCJ requires a solid mapping of all its processes and controls related to assets and facilities management and their respective integration to the financial management, and to further reflect them in new and/or updated internal procedures manuals for, among others, procurement, financial administration and facilities management.
19	Are there adequate procedures for the maintenance, security and appropriate handling of stored goods and parts?	1			Stock items are mainly office supplies, stationary and pantry and, thereby, do not require maintenance, only appropriate labeling, storage and safeguard. Security and safeguard guidelines are contained in the Inventory/Stores Management Policy and Procedures.
20	Are there periodic verifications of the physical existence of inventories?		1		In spite of the fact that such procedures are described in the "Inventory/Stores Management Policy and Procedures" and, in particular, in the " <u>Procedures for Physical Inventory Counts</u> ", in practice this is an informal process, with a client focus so as to verify and inform on the availability/presence of stocks of specific office materials.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
21	Has it been established that these verifications should be reconciled against the accounting records?	1			As previously indicated, as a matter of corporate financial policy and due to the characteristics of the limited inventories of office and pantry materials, all purchases of goods are recorded and fully expensed in the income statement at the time of invoicing/payment. In this respect, no inventories are kept in the balance sheet. The Corporation only keeps inventory reports under the responsibility of the staff member assigned with the responsibilities of Inventory Clerk.
22	Are these verifications performed by employees who are independent from the handling and recording of goods?	1			When performed, the internal policies and procedures establish that an administrative officer should conduct the count and verification, with the presence of the Inventory Clerk. Currently such administrative responsibility is under a Senior Accounting Clerk who, under the guidelines of the PCJ <u>Accounting Manual</u> must conduct monthly verifications of stores inventories.
23	Does Internal Audit (Internal Control) participate in the planning and observation of the verification?		1		In practice, the Internal Audit Department does not participate nor conduct independent verifications of office materials in the store. This is due to the fact that such stocks are minimal and mainly respond to the daily needs of the various departments.
24	Is there an insurance plan to protect the goods in general?	1			The Finance Department is responsible for the administration of all insurance policies of PCJ. In particular: (a) peril insurance (fire, theft, flooding) for buildings and contents; (b) full insurance coverage for complete fleet of vehicles; (c) full peril coverage for gas stations; and (d) third party liability coverage. In the future, the Corporation will transfer this responsibility, including the relation/engagement with the insurance broker to the Human Resources and Administration Department. Insurance administration takes place following the guidelines contained in <u>Section 12.0: Insurance Coverage of the PCJ Accounting Manual</u> .

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
25	Are there specific instructions regarding obsolete, damaged, lost or for sale goods in terms of their disposition (both physical and in the accounting records)?	1			As is the case with all GOJ institutions, PCJ follows the guidelines of the MFPS, and, specifically, the Board of Survey, with respect to the treatment of obsolete, damaged, or lost assets. This comprises consultations with the Board of Survey for matters related to the disposition, sale, or auction of assets. Following International Financial Reporting Standards (IFRS), any write off of the Company's fixed assets must be fully reflected in the financial statements.
26	Are these instructions in agreement with the current legal regulations?	1			As per the previous point, the handling of obsolete assets through the Board of Survey complies with GOJ procedures. In addition, this complies with the stipulations of the FAA Act.
27	Are there permanent records of fixed assets showing the purchases, retirements, transfers and improvements?	1			The Finance Department is responsible for asset management in PCJ. This comprises preparing and maintaining updated the record of all fixed assets of the Corporation including, among others: office buildings, gas stations and real property under the Property Management Department, vehicles, computer and other office equipment and furniture. It must be noted that currently such management takes place with the deployment of Excel-based spreadsheets and is not integrated in a fixed assets module in the Microsoft Dynamics Platform currently deployed by PCJ. The accounting for fixed assets takes place following the norms and guidelines contained in <u>Section 10.0: Accounting for Fixed Assets of the PCJ Accounting Manual</u> . It comprises the procedures under IFRS for acquisitions and capitalizations, depreciation, disposal and write off. All fixed assets are appropriately recorded in the balance sheet.
28	Is there a policy to formally assign responsibility to each administrative area and their employees regarding the utilization of fixed assets under their purview and their exclusive utilization for the intended purposes?	1			Assets are assigned and recorded based on: (a) location within each of PCJ's premises; and (b) for control purposes, its allocation to each staff member responsible for their use and proper care and safeguard.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
29	Is there a general maintenance plan for the acquired works and goods?	1			Maintenance responsibilities are assigned internally based on the type of asset. In particular, regular maintenance of the fleet of vehicles is the responsibility of the Human Resources and Administration Department; buildings under the Property Management Department; and computer and office equipment under the Information Technology Department.
30	Do they issue reports on the compliance with the preventive maintenance program?		1		There is no program for preventive maintenance of the Corporation's assets.
31	Are procured goods and contracted and received services been compared against the Purchase orders previously issued?	1			As indicated above, all goods, services and works received by PCJ are verified against the technical specifications and terms of reference, and with the presence of staff member(s) of the department the issued the requisition in the first place. This includes the verification of all supporting technical and administrative documentation including purchase orders and invoices, among others.
32	Is there a coding system to identify the fixed assets?	1			All assets are appropriately coded. However, PCJ requires an upgrade its existing fixed assets coding system towards a bar code application integrated to its overall Enterprise Resource Planning (ERP) platform, which would enhance its overall asset management and control environment.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
33	Is there a filing system for the documentation that supports the procurement of goods and consulting services as well as the contracted works, which allows to directly index and identify the transactions that have been performed, and also to make possible their audit as required by the Bank?	1			The Legal/Procurement Department maintains a filing system of all procurement documents up to the point of issue of the Purchase Order and/or contract. These are kept in sequential and chronological order. On its part, the Finance Department manages a filing system of all documents up to the point of payment and closing of the accounting/treasury transaction. Filing follows general practices of the GOJ with respect to the number of years to be kept in the premises for quick access or audit purposes (i.e. the "active" files), as well as for longer periods of time in storage facilities. In particular, all files are kept in the Finance and Accounts Department for at least seven years based on mandatory requirement. In practice, they are kept for two years immediately on hand and eight in storage.
34	Is the EA appropriately complying, in a sequential manner, with the Bank's procurement policies and procedures (short lists, preparation of terms of reference, no-objections, evaluations, etc.)?			1	Not applicable to PCJ.
35	In the event of projects of decentralized execution with the participation of multiple co-executors, have procedures been established to regulate the filing system of support documentation of the procurement of goods and services as well as contracting of consultants, which allows the indexing and identification of the transactions incurred with project resources?			1	Not applicable to PCJ.
36	Have procurements performed by the EA been included in the project's procurement plan?			1	Not applicable to PCJ.

cont.

Goods and Services Management System		YES	NO	NA	Answer Justification
37	If project's resources had been utilized to finance eligible expenditures incurred before the operation was approved by the Bank, have these expenditures been reviewed regarding their eligibility, according to the Bank's procedures? (Such expenditures should be the result of procurement procedures for works, goods and consulting services that were conducted under requirements similar to those set forth in the Bank's loan contract.)			1	Not applicable to PCJ.
TOTAL		28	4		

QUANTIFICATION:	Yes	* 100	87.50
	(YES+NO)		
DEVELOPMENT:	There is no ND (0-40)		SD
	Incipient ID (41-60)		
	Median MD (61-80)		
	Satisfactory SD (81-100)		
RISK:	High RA (0-40)		RB
	Substantial RS (41-60)		
	Medium RM (61-80)		
	Low RB (81-100)		

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**FINANCIAL MANAGEMENT SYSTEM (SAF)**

Financial Management System		YES	NO	NA	Answer Justification
1	A formal assignment of matters related to Financial Management (Budget, Treasury, Accounting) has been granted to an organizational unit or equivalent, with the hierarchical level and sufficient authority?	1			The Finance and Accounts Department under the Office of the Group General Manager is responsible for the overall financial administration activities in PCJ including budget, accounting, treasury and asset management. The Department has a total of 10 permanent staff members including the Group Chief Financial Officer (GCFO), Chief Accountant, Administrative Manager, Accounting Clerks and secretarial and office assistants. Such staff is distributed in the areas of corporate planning, operational planning, treasury management, investments, payables, billing and collections and payroll.
2	Does the person (or persons) in charge of such functions have the required financial management skills and experience?	1			The GCFO and Chief Accountant are Certified Public Accountants (CPAs) and registered with the Association of Certified Accountants (CAA). They both bring to the Corporation extensive and solid experience (over 20 years) in financial management in both the private and public sectors. Other staff members of the Department present university and technical degrees in accounting and finance. It must be noted however, that part of the personnel of the Department is new in the Corporation.
3	Is the personnel familiar with the Bank's procedures on the preparation of disbursement requests?		1		PCJ has not had previous experience with/to loan or technical cooperation projects funded with resources from the Inter-American Development Bank (IDB) and, thereby, its personnel has not had exposure to Bank's norms and procedures for financial administration including disbursements, payments and financial reporting, among others.

cont.



Financial Management System		YES	NO	NA	Answer Justification
4	Does the Institution have a Procedures Manual for financial administration duly authorized and current?	1			The Corporation has prepared and fully implemented the " <u>Petroleum Corporation of Jamaica-Accounting Manual</u> ", which has been duly approved and sanctioned by the Board of Directors. The Accounting Manual was prepared incorporating various provisions including International Accounting Standards, International Financial Reporting Standards (IFRS), the Public Bodies Management and Accountability Act, Financial Audit and Administration Act (FAA Act), the Petroleum Act, and relevant MFPS circulars to ensure that the financial management and reporting in/by the Corporation conform to local and international best practices.
5	Is there an automated system of accounting and financial records integrated with the Entity's general accounting, that allows the identification of the project's transactions by source of funding and investment categories, in agreement with the Chart of Accounts approved by the Bank, and independent from the rest of the Entity activities?	1			PCJ deploys ERP platform "Microsoft Dynamics" for its overall financial administration. It comprises the following modules: (a) general ledger; (b) accounts receivable; (c) cash management; and (d) accounts payable. It must be noted that currently the purchases/procurement and project management modules are not active, even though the Corporation has the necessary license for implementation and utilization of such modules. It must be noted that subsidiaries utilize various ERP platforms including, among others, Microsoft Dynamics and SAP. In this respect and, due lack of integration, consolidation of financial statements at the holding level takes place manually with the use of Microsoft Office/Excel solutions. Microsoft Dynamics allows for financial management based on a chart of accounts fully tailored to the operating, technical and administrative characteristics of PCJ. In addition, it represents an online solution which allows for real time access to budget, accounting and treasury information, as well as financial reports.

cont.

Financial Management System		YES	NO	NA	Answer Justification
6	Does this system allow timely and reliable access to financial information for the preparation of Financial Statements and other reports?	1			As indicated in the previous point, Microsoft Dynamics allows for reliable and real time access to financial information, including the preparation of financial statements in accordance to the characteristics of PCJ, and with the capacity to adapt to specific requirements, charts of accounts and formats for project management and reporting.
<b>File</b> The records of the project are taken in a way that:					
7	In case of projects of decentralized execution, is there an integrated accounting system that allows the identification of resources and transactions made by each participant co-executor, separated by categories and sub-categories of investment, in accordance with the chart of accounts approved by the Bank?			1	Not applicable to PCJ.
8	Do they show the cost of the investment in each category and sub-category in agreement with the Chart of Accounts approved by the Bank, as well as the progress of works?			1	Not applicable to PCJ.
9	Has the Project Executing Unit (PEU), or the Coordinating Unit (CU), whichever applies, prepared a accounting manual applicable to the project?			1	Not applicable to PCJ.
10	In relation with global credit programs, do the records also specify the credits granted, repayments made and their use?			1	Not applicable to PCJ.
11	Is there a filing system of the support documentation of financial transactions, which allows direct indexing and identification of the operations?	1			As established in SABS and SAF, the Finance and Accounts Division holds complete files for all payment transactions.
12	In the case of projects of decentralized execution, do the co-executors have a filing system of the support documentation of financial transactions, which allows the direct indexing and identification of the operations financed with project resources, including disbursement requests presented to the PCU?			1	Not applicable to PCJ.

cont.

Financial Management System		YES	NO	NA	Answer Justification
Programming and budget:					
13	Are there clear and properly approved procedures to formulate, execute and control the budget?	1			Budget administration in PCJ responds to: (a) Section 14 of the Petroleum Act, which establishes that on or before the 15th day of January, the Corporation must submit to the Minister, for his approval, estimates of revenue and expenditure for the financial year commencing April 1, and by June 15 the statement of revenues and expenditures; (b) Section 2A of the Public Bodies Management and Accountability Act which instructs the Board of Directors of the Corporation to deliver to the Minister the estimates of revenue and expenditure (operating and capital budget) as part of the Corporate Plan; (c) the FAA Act, with respect to the estimates of revenue and expenditure; and (d) the "Budget Call" of the MFPS issued in September of each year, instructing the Chairman of the Board of Directors for the preparation of the complete Corporate Plan and based on specific parameters/assumptions for inflation, growth and GOJ objectives. In this context, <u>Section 9.1: "Budgeting at PCJ"</u> of the Accounting Manual outlines the principles of budgeting, budget cycle and Corporate Plan.

cont.

Financial Management System		YES	NO	NA	Answer Justification
14	Have short, medium and long term mechanisms and procedures of financial management been designed?	1			As established in the SPA section, the preparation of the budget for each fiscal/financial year (i.e. April 1 to March 31) is adequately tied to: (a) the medium to long-term planning framework contained in the five-year revolving "Corporate Plan"; and (b) the she short-term, one-year planning framework contained in the "Business/Operational Plans". Estimates of expenditure are prepared at the departmental and corporate level, and consolidated by the Finance and Accounts Department. It must be noted that high-level corporate goals drive the budget process within three main strategic areas/departments including (a) renewable energy and energy efficiency; (b) oil and gas; and (c) property management. In practice, the drive and determine the level of activity for the rest of supporting areas/departments including human resources and administration, finance and accounts, legal/procurement, and other.
	Is there an automated and integrated budget system?		1		Partial. The Finance and Accounts Department prepares the recurrent and capital budgets outside the Microsoft Dynamics platform, utilizing an Excel application/worksheet, with such budgets then built in the general ledger. The general ledger module provides the capability to generate budget and budget execution reports along with the variances reports. It must be noted that each department prepares it budget (estimates of revenues and expenditures) along with their departmental corporate and business plans in Excel worksheets for submission to the Finance and Accounts Department for review and consolidation.

cont.

Financial Management System		YES	NO	NA	Answer Justification
16	Are there mechanisms of control, evaluation and follow up of the budgetary execution?	1			Monthly reports on revenues and expenditures are prepared on a monthly basis at the individual and consolidated level. Quarterly reports which are delivered to the MFPS under the Public Bodies Management and Accountability Act are not consolidated. It must be noted that the Microsoft Dynamics ERP platform holds budgetary and financial information on the corporate, departments and subsidiary levels. The Chart of Accounts presents the necessary flexibility to adapt to all the areas of the holding company.
17	For programs of decentralized execution, has a mechanism been designed for the consolidation and budgetary control of the financial transactions under the responsibility of the co-executors? (decentralized units)			1	Not applicable to PCJ.
Treasury It has been anticipated that:					
18	Is there an operational regulation manual for the management of both the Bank's financing and the counterpart resources including: functions, delegations of authority, restrictions, etc.?			1	Not applicable to PCJ.
19	Have bank accounts with the Central Bank or Commercial Banks been opened under the project's name and for the exclusive handling of the Bank's funding or contribution to be used for the project?			1	Not applicable to PCJ.
20	Have bank accounts with Commercial Banks been opened under the project's name and for the exclusive handling of local counterpart resources to be used for the project?			1	Not applicable to PCJ.
21	When dealing with projects of decentralized execution, have bank accounts with Commercial Banks been opened by the co-executors under the project's name and for the exclusive handling of the financing and the counterpart resources?			1	Not applicable to PCJ.

cont.

Financial Management System		YES	NO	NA	Answer Justification
22	Are there cash flow programs integrating the needs of all the Units?	1			Section 9.0: " <u>Cash Flow and Budgeting</u> " of the PCJ-Accounting Manual specifically establishes that a fundamental aspect of the Corporation's financial management and planning activities is the development of cash forecasts to track the movement of cash in and out of PCJ over the budgetary period. In this context, cash flow forecasts are set out on a monthly basis for the current and following financial year, included in the Corporate Plan, and updated periodically. Indeed, cash flow projections constitute an instrument which allows for adequate working capital management, the identification of short-term financing needs, and the corresponding management of the portfolio of financial investments. In addition, the treasury section of the Finance and Accounts Department prepares weekly cash flow forecasts for permanent monitoring of the cash position of the Corporation.
23	Are there periodic preparation of records, reports and reconciliations showing the balances and movement of the bank accounts and liabilities?	1			PCJ holds six bank accounts in 10 to bank accounts in two financial institutions in Jamaica; namely the Bank of Nova Scotia and the National Commercial Bank Jamaica Ltd. (NCB). There are specific accounts in Jamaican Dollars (J\$) and in United States Dollars (US\$). The latter to facilitate international/foreign currency-denominated transactions. Following the stipulations of the PCJ-Accounting Manual, Bank reconciliations are performed on a monthly basis along with the closing of the monthly accounting cycle and reports of revenues and expenses.

cont.

Financial Management System		YES	NO	NA	Answer Justification
24	Are the bank reconciliations prepared by personnel independent from the ones with access to the recording and handling of funds?	1			The Accounting Clerk has the responsibility for the monthly bank reconciliations, with the Chief Accountant signing off such reconciliations. Segregation of functions is ensured throughout the process, following internal control guidelines. Physical/bank bank statements are used for this purpose. However, it must be noted that all bank accounts are monitored on a daily basis through online access.
25	Are the bank reconciliations up-to-date for each end-of-month closing?	1			As established in the previous point, bank account reconciliations are performed on a monthly basis. In general, these are completed in a timely manner and subject to the delivery of the hard copies of account statements by the commercial banks. Bank account reconciliations are performed in the Microsoft Dynamics platform. The bank reconciliation process entails the adjustments for in-transit checks, bank commissions and charges, and other. These are in general up to date with the corresponding monthly closing of the financial statements.
26	Bank reconciliations do not reveal old transactions without adjustments or when timely actions have been established for their removal, when they exist.	1			Banks statements must be reconciled against the general ledger/trial balance at each month's closing with the pertinent adjustments for commissions, in-transit transactions and other. It was indicated that in most cases, bank reconciliations are effectively completed with all the relevant adjustments accounted for. This in compliance with the FAA Act.
27	Have periodic reconciliations been made to the Revolving Fund among the available bank balances, the executor's and the Bank's records, and are the reconciliation transactions properly explained or have the pertinent adjustments been implemented?			1	Not applicable to PCJ.
28	Are there mechanisms for the preparation and presentation of semi-annual reports of the Revolving Fund, within the 60 days following the closing of each semester?			1	Not applicable to PCJ.
29	In case of projects of decentralized execution, is there sufficient explanation of the cash flow among the Bank (or other co-financing organisms), the PCJ and the co-executors (graphic outlines)?			1	Not applicable to PCJ.

cont.

Financial Management System		YES	NO	NA	Answer Justification
30	For programs of decentralized execution, is there sufficient explanation of the regulating the accountability mechanism and financial reporting, the transfer of funds and the type of support documentation related to disbursement requests?			1	Not applicable to PCJ.
31	In the event of projects of decentralized execution, with multiple co-executioners, are there procedures for the ex-post review of disbursement requests support documents, according to the Bank?			1	Not applicable to PCJ.
If it is a credit program, the OE has planned and implemented mechanisms to					
32	Ensure that the sub-loans granted are eligible according to the conditions established in the CR?			1	Not applicable to PCJ.
33	Are there records, control and use of the repayments?			1	Not applicable to PCJ.
34	Is there control and follow up on the application of interest rates with the conditions established in the CR?			1	Not applicable to PCJ.
Records and documents					
It has been planned mechanisms that are operative, for:					
35	Are all financial transactions, including commitments properly recorded at the moment of their occurrence?	1			PCJ has adopted International Financial Reporting Standards (IFRS) as the basis for its accounting policy/principles and, thereby, presents an accrual accounting system. With respect to the expenditures, this allows for the monitoring and the accounting for each of the steps in the budget execution process including the commitment (requisition), accrual (purchase order) and payment. With respect to revenues, these are mainly recognized upon collection, with the exception of revenues from properties management, which are accrued upon the monthly schedule of payments to the Corporation.
36	Is an official receipt issued, for each financial transaction, (revenues and expenses) via a prenumbered form with the necessary information for its identification, classification and accounting entry?	1			For <u>expenditures</u> , the payment voucher which accompanies the check represents the official receipt and is issued in the accounts payable module of the Microsoft Dynamics system. With respect to <u>revenues</u> , receipts are generated in the accounts receivable module. All collection or payment transactions must be supported by their corresponding numbered vouchers to support any payment, including the purchase order which, with respect to expenditures, drives the overall control process and code for each associated payment.

cont.



Financial Management System		YES	NO	NA	Answer Justification
37	Have the deposits been made totally and entirely in the authorized bank accounts?	1			Revenues are collected via check, electronic transfer, cash, and tax certificates (for value added tax). All cash, check and wire transfer transactions take place exclusively in PCJ's bank accounts previously described.
38	Are such deposits made daily or, at the latest, in the next business day after receipt?	1			All monies collected must be deposited within 24 hours or the next business day at the latest and properly and timely accounted for in the system. This is done by Billing and Collections section of the Finance and Accounts Department.
39	Is each payment accompanied by support documentation such as: authorized purchase order, original proof of receipt of goods and services, original invoice and receipt of payment?	1			As describe in SABS, each procurement and payment transactions must be supported by, among others: (a) the purchase requisitions; (b) budget certification/availability of funds; (c) procurement documents (quotes, other); (d) purchase order; (e) invoice; (f) receipt; and (g) payment voucher.
40	Have the responsibilities to commit resources, review and authorize payments been defined?	1			The following steps, even though not part of an official document of the Finance and Accounts Department, show in practice, the presence of an adequate control environment for the payment process: (a) requisition from user department approved by department head; (b) forwarded to the Group General Manager of the CFO for approval; (c) Accounts checks and certifies budget availability; (d) purchase order is prepared by Accounts Payable; (e) Procurement sends the purchase order/contract to the supplier; (e) incoming invoice is signed by the originating department and procurement certifies the delivery of good in the agreed conditions/fulfillment of the terms of the contract; (f) Procurement endorses the payment in-writing, based on the original invoice and purchase order (g) approval is passed to Accounts Payable to issue the check. Approvals are issued inside the Microsoft Dynamics platform and in physical documents. Segregation of functions are observed throughout the payment process.

cont.

Financial Management System		YES	NO	NA	Answer Justification
41	Except for petty cash, or in cases required by Law, are all payments made by a non transferable check made out to the beneficiary or by electronic transfer?	1			All payments are made through non-transferable checks and wire transfers against PCJ's bank accounts. There is a petty cash fund of J\$50,000 for small, recurrent expenses.
42	Is the original support documentation of all transactions filed only when it has been signed, according to the expected regulations?	1			Once the payment has been issued, all documents are stored in originals in the Finance and Accounts Department, with individual, complete files held for each transaction. Files are readily available in the Division to support the audit function and consultations. Refer to filing procedures previously described in SABS.
Accounting and processed information in computing systems It has been planned an accounting system that:					
43	Makes it possible the preparation of the project's financial statements and other financial reports required by the Bank?	1			Microsoft Dynamics represents an ERP solution apt for the integrated financial management of PCJ. It allows for the timely closing and preparation of financial statements based on the Corporation's chart of accounts, and in compliance with the overall legal framework and requirements as a public body corporate. It is however recommended that the procurement and project management modules are adopted and fully integrated in the system, thereby strengthening the overall efficiency of the control environment and while enhancing the administrative, financial and technical processes.

cont.

Financial Management System		YES	NO	NA	Answer Justification
44	Are there defined deadlines for the preparation and timely presentation of the Financial Statements and other financial reports required by the Bank?	1			As established in <u>Section 18.2: Monthly Financial Statements</u> , of the PCI-Accounting Manual, all monthly financial statements (i.e. Income Statement, Balance Sheet, Statement of Cash Flow and Notes) for the previous month must be completed and submitted to the Finance Committee of the Board of Directors on/before the 15th day of the following month. With respect to the end of fiscal year financial statements (i.e. closing on March 31), <u>Section 3 of the Public Bodies Management and Accountability Act</u> establishes that the audited financial statements must be completed within four months of the closing, and submitted by the Board of Directors to MSET.
45	Are there defined policies and procedures to develop/modify, test and implement the accounting systems, including computer programs and files of related data?		1		No specific written policies are in place in PCI regarding the periodic testing and safe proofing of the accounting systems and financial data management.
46	Is there a procedure for the periodic back-up (data and system back-up) that assures the recovery of financial and accounting information?	1			<u>Policy No. 15: "Computer Data Backup"</u> of the Information and Communication Technology (ICT) Policy, establishes that a full system backup must be performed daily after the last user has logged off the system. Indeed, the Information Technology Department conducts a daily back up of all information, data and applications of the Corporation. This is conducted every night on an internal server. In addition, the Information Technology Department conducts an additional weekly back up on special tapes/cartridges which are stored off site for additional security measures.

cont.

Financial Management System		YES	NO	NA	Answer Justification
47	Are there methods (passwords, authorization levels, validation, etc.) to prevent unauthorized access to the database and to the accounting and financial information systems?	1			<u>Policy No. 8: "Computer Usage Policy"</u> of the ICT Policy, clearly establishes that employee privileges on these hardware and software must be assigned so that only those capabilities necessary to perform a job are granted. This applies to the access and use of Microsoft Dynamics, Office Suite, and other software that supports financial management, human resources management, administration and other. In this context, all PCJ staff and authorized contractors must have unique usernames and passwords to access the network. As a security measure, passwords must be reset/changed periodically. Access privileges to accounting and financial information including Microsoft Dynamics delineated by the Finance and Accounts Department based on internal end-user characteristics, area of responsibility, and internal controls, among others.
48	Is there an approved contingency plan and periodic review policy to assure the timely and continuous processing of financial and accounting information?	1			The PCJ's ICT Policy does not explicitly provide for this particular procedure. Notwithstanding, the ICT Division has implemented controls and mechanisms that seek to ensure the continuous, optimal, timely and reliable processing, access and storage of/to financial information (administrative, operating and program management). In addition and, as indicated in point 46, system back-up of the financial data base is performed daily and weekly to ensure the safeguard, integrity and recoverability of the data. In addition, the ICT Policy provides the steps for a disaster recovery.
49	Are the programs and applications properly documented?	1			Most software applications deployed by PCJ represent commercial software procured from manufacturers, vendors and integrators. In this respect, most user manuals are provided by such vendors and/or are available online for user consultation. Nonetheless, it must be noted that this aspect is not contained in the PCJ ICT Policy.

cont.

Financial Management System		YES	NO	NA	Answer Justification
50	Is there a formal restriction to access the computer center?	1			Policy No.14: " <u>Computer Room Environment</u> " of the ICT Policy provides the internal norms and guidelines to secure the safety and integrity of the computer center, under the responsibility of the IT Department. Following such norms, the facility housing all servers is kept locked at all times, with access granted only to IT Department's personnel. There is a physical and electronic system to log the movement of personnel in and out of the server room. This is tied to the smart card system of PCJ.
Other requirements					
51	Are the persons responsible for the financial information familiar with the Documents AF-100 Bank's Policy on the Audit of Projects and Entities, and AF-300 Guidelines for the Preparation of Financial Statements?		1		PCJ does not have previous exposure to IDB financial/fiduciary administration procedures, including, among others, those related to the preparation of financial statements and external audit requirements. The previous IDB-funded initiative "Energy Efficiency and Conservation Program" (JA-L1025) was executed directly by the former Ministry of Energy and Mining (MEM)--today MSET--.
52	Have the Financial Statements and other financial information required by the Bank's standards and procedures, been submitted to the Bank periodically and within the dates established in the contract?			1	Not applicable to PCJ.
TOTAL		29	4		

QUANTIFICATION:	Yes	* 100	87.88
	(YES+NO)		
DEVELOPMENT:	There is no ND (0-40)		SD
	Incipient ID (41-60)		
	Median MD (61-80)		
	Satisfactory SD (81-100)		
RISK:	High RA (0-40)		RB
	Substantial RS (41-60)		
	Medium RM (61-80)		
	Low RB (81-100)		

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**INTERNAL CONTROL SYSTEM (SCI)**

Internal Control System		SI	NO	NA	Answer Justification
<b>Environmental Control</b>					
1	Has a code of conduct (ethics) or equivalent guidelines been designed?	1			<u>Section 15: "Employee Discipline"</u> of the PCJ Human Resources Policies and Procedures Manual contains the general work rules and code of ethics and comprises the Corporation's: (a) code of conduct; (b) disciplinary code; (c) disciplinary procedures; and (d) disciplinary actions. In general, this policy seeks to ensure that fair and consistent treatment is given to all employees and that the Corporation's staff fully understands the standards of conduct, which are expected of them while in the employment of the PCJ, and the potential action that may be taken if such standards are not met.
2	Is there personnel orientation on the code of conduct?	1			As dictated in SAPS, as part of the orientation sessions, new employees are provided with the PCJ Human Resources Policies and Procedures Manual which contains the Corporation's code of conduct. Upon completion of the orientation sessions, new employees sign off on their understanding, as part of the discussion and formalization of general working rules.
3	Do the employees state that they know and understand the code of conduct upon start of employment and at least once a year?		1		PCJ has not adopted this procedure.

cont.

Internal Control System		SI	NO	NA	Answer Justification
4	Do the employees state the existence or nonexistence of conflicts of interest at the beginning of their employment and at least once a year?	1			<u>Subsection 18.2</u> of the PCJ Human Resources Policies and Procedures Manual contains the Corporation's "Conflict of Interest" statement which states that, as far as is possible, employees should avoid situations where there may be conflicts of interest between job requirements and private activities. Should such an instance arise, the employee is required to discuss the situation with his/her supervisor and decide on a course of action to be followed. The Group General Manager and/or the Chairman of the Board of Directors must be made aware of instances where there are potential or actual conflicts of interest. It must be noted that PCJ have implemented a formal "Conflict of Interest Policy" approved by the Board of Directors.
5	Has it been assigned at an appropriate level the responsibility to evaluate and solve situations of supposed breach of the code of conduct, frauds, other non compliance and recommendations to improve the control?	1			<u>Subsection 15.2: "Disciplinary Procedure"</u> of the PCJ Human Resources Policies and Procedures Manual contains each of the steps to be followed by the Corporation in order to address individual situations of breach of the code of conduct (i.e. informal warning, formal warning, further disciplinary action), along with the responsible parties including the immediate supervisor, Departmental Manager, Human Resources and Administration Manager, the Disciplinary Committee (i.e. members of senior management), Group General Manager and Chairman of the Board.

cont.

Internal Control System		SI	NO	NA	Answer Justification
6	Is the Entity's management style based on the fulfillment of standards geared towards efficiency, effectiveness and operational transparency? (Verify if there is a formal institutional code of values and if the personnel is aware of it and of the existence of an organizational culture: performance evaluation, definition of vision, mission, POA, indicators and standards).	1			Based on the work sessions conducted with PCJ personnel, as well as the institutional and financial documents provided to the consultant as part of the present assessment, it can be asserted that there is an overall governance, strategic planning, and operating and administrative environment that seeks adequate levels of institutional performance and efficiency. Some of these aspects include, among others: (a) the presence of a corporate and operating planning and monitoring framework tied to concrete performance indicators; (b) an overall compliance with national legislation directly related to body corporate; (c) the presence of internal controls which contribute to the overall transparency of administrative and reporting processes; and (d) the efforts and leadership of the Board of Directors and Management to seek not only the modernization of the Corporation, but its overall sectoral, institutional, technical and financial sustainability over the medium and long-term.
7	Are there reports, or documents equivalent, by which it can be observed whether management promotes and practices self-evaluation in such a way that shows the existence of a control environment which has also been improved?		1		Self appraisal procedures on the overall internal control procedures and environment have not been implemented in PCJ.

cont.



Internal Control System		SI	NO	NA	Answer Justification
8	Has an Internal Audit function, or the equivalent, been developed (without responsibility for other existing functions)?	1			The Group Internal Audit (GIA) Department is an advisory-level department with reporting responsibilities to the Group General Manager and the Board of Directors; however it is ultimately accountable to the Chairman of the Board and its Audit Committee. It is responsible for the internal audit functions for the entire PCJ Group including its subsidiaries. It is mandated to ensuring the compliance of PCJ and its subsidiaries' with a comprehensive program of audit assignments through an Audit and Compliance Plan covering: internal controls, risk management processes, regulatory compliance, quality of corporate governance arrangements, financial management processes, treasury and investment portfolios, administration and financial systems, human resources, information systems, reliability of financial and management accounts, fraud related and ethical issues, and other. The GIA provides monitoring services that are designed to add value and improve operations.
9	Does the Management considers and timely corrects the inconsistencies in the control activities reported by IA	1			It was indicated that overall, there is a good partnership between Internal Audit and management at different levels, whereby the latter is open and welcomes constructive and objective recommendations that emanate from audit assessment of various internal processes, procedures and systems. Times for the entire process are defined in advance including field work, exit meetings, disclosure of information and preliminary results, delivery of reports to management, responses from management, preparation of final report, agreement on plan of action and consideration by the Audit Committee of the Board of Directors.

cont.

Internal Control System		SI	NO	NA	Answer Justification
Risk value:					
10	Is there a clear identification of the relationship between the Entity's planning and programming of activities?	1			As indicated in SPA, the Ministry has effectively implemented the necessary procedures and actions to integrate: (a) its medium to long-term planning framework contained in the "Corporate Plan"; (b) its short-term planning framework contained in the "Operational Plan" (one-year plans that form an integral part of the Corporate Plan; (c) the activities programming based on concrete performance/output indicators; (d) the institutional budget or estimates of revenue and expenditure; and (e) the projected/pro-forma financial statements. This in compliance with, among others, the Public Bodies Management and Accountability Act, the Petroleum Act, and the FAA Act.
11	Does personnel responsible for the achievement of objectives and goals participate in their design or did they receive an appropriate orientation about them?	1			Following the guidelines contained in the PCJ-Accounting Manual, the Corporation undertakes the planning and budgeting activities with reach to each level in PCJ' organizational structure, with the leadership of the departmental manager and with the overall orientation and monitoring provided by the Finance and Accounts Department. This provides the mechanisms necessary for the identification and establishment of concrete physical and financial targets at the departmental and corporate levels. This also promotes the participation of employees in the planning/budgeting process for the establishment of individual goals.

cont.

Internal Control System		SI	NO	NA	Answer Justification
12	Is there a structured and advertised methodology for the Risk Analysis 'RA'?		1		An institution-wide risk management framework is not yet in place in PCJ. Only recently, the Corporation has contracted the services of Ernst & Young Services Limited (EY) to prepare an in-depth and Corporation-wide <u>Enterprise Risk Assessment (ERA)</u> aimed at identifying, assessing and prioritizing the key business risks at PCJ. The draft report was delivered during November 2015 and has been recently accepted by the Corporation, which will embark in a full-scale implementation of the recommendations of the report, based on 37 identified business risks. On its part, the Group Internal Audit Department conducts a "Risk-Based Internal Auditing" (RBIA). However, its scope is limited given the absence of an overall risk management framework in PCJ.
13	Are there reports to illustrate that the AR methodology works in practice and contributes to the timely risk management?		1		Based on the previous point, no actual reports are available on the risk management environment in PCJ. This will change as the Corporation fully moves to the implementation stage of the Observations are mainly contained in the Internal Audit Department quarterly reports to the PS, with very specific observations and recommendations mainly related to the financial administration and internal control systems capabilities and discharge of responsibilities.

cont.

Internal Control System		SI	NO	NA	Answer Justification
Activities or control procedures:					
14	In general, are the control activities interrelated or are they a result of the risk evaluation?	1			It can be asserted that control activities have been incorporated throughout the Corporation and, in particular, with respect to governance, planning, administration, financial management, procurement, systems and administration, as well as compliance with the legal framework that surrounds PCJ. Nonetheless a number of aspects become a priority to improve the overall control environment in PCJ: (a) establishing a planning and corporate development department, separate from the Finance and Accounts Department; (b) strengthening the monitoring and evaluation procedures, especially with respect to value for money; (c) preparing/updating the internal norms and procedures manuals for various areas; (d) providing for an in-depth mapping of most important administrative, financial and control processes, along with the identification of decision making structures, checklists, controls and signatories; (e) providing for the further integration of information systems, through a complete ERP environment; and (f) adopting the new risk management framework.

cont.

Internal Control System		SI	NO	NA	Answer Justification
15	Have procedures been formalized to establish that the processed data is complete and based on real authorized transactions, in such a way as to be used to prepare reliable and timely reports?	1			As was observed in SABS, SAF and other components of ICAS, the administrative and internal control systems currently present in PCJ seek to ensure that: (a) all transactions are adequately supported by the proper and necessary documentation and authorizations; (b) internal support departments are assigned administrative and control functions, with the presence of segregation of authority norms and principles; and (c) the financial systems and procedures provide for the timely preparation of financial statements and other reports, in compliance with deadlines and requirements from the MFPS, MSET and other. Nonetheless, as established in the previous point, further efforts become a priority so as to complement the existing procedures with road maps, process engineering, supporting information checklists, description of authorizing officials/signatories, and preparation/update of policies and procedures manuals.
16	In each important process, have the activities that contribute to the objectives of the ICS been identified ?	1			Through the present assessment, it has been observed that a number of internal controls have been implemented and are being deployed by PCJ as part of its overall administrative and financial management systems. This includes, among others: (a) the integration between the planning and budgeting systems; (b) the presence of supporting documentation to justify any budgetary commitments and payment transactions; (c) the segregation of authority for most internal processes; (d) the definition of signatories/authorizing officials based on the organizational structure of the Corporation, and following guidelines contained in public legislation; and (e) the presence of the internal audit function. However, the internal control environment can be further strengthened through concrete actions described in the previous point.

cont.

Internal Control System		SI	NO	NA	Answer Justification
17	Is there formal evidence that the personnel responsible for the processes has the knowledge and understanding of the control activities?	1			Interviews conducted with management and other personnel of the finance, administration, procurement, legal and internal audit departments, has shown the knowledge of such personnel on the relevance and importance of the internal control environment, as it relates to the allocation and accountability for public funding.
Information and communication:					
18	Is the information system supported by a technological platform that facilitates the processing and consultation of data in a comprehensive and timely manner?	1			The technological platform Microsoft Dynamics allows for real-time access and consultation regarding budget allocations, commitments, payments, receivables, payables and other, along with the general ledger and other. Nonetheless, as previously indicated, further integration of the planning, procurement and project management modules becomes a priority so as to enhance the internal processes and controls, while maintaining an environment that allows for fully integrated ERP capabilities.

cont.

Internal Control System		SI	NO	NA	Answer Justification
19	Have procedures been formally defined to protect the equipment and computer applications from correlated risks?	1			The Information Technology Department under the Office of the Group General Manager has implemented a number of measures to ensure the security and integrity of the Corporation's computer equipment, hardware, software applications and other solutions. These include: (a) the implementation of security measures to restrict access to the server room; (b) the presence of cooling and humidity control systems for the physical space/room of the servers; (c) the deployment of legally licensed software applications; (d) the implementation of licensed firewall, anti-virus and anti-spam applications; (e) the implementation of user restrictions and definitions of access levels/passwords to the various applications; (f) the compliance with periodic back-up requirements; and (g) other. All these consistent with the PCJ's IT Policy. However, it has been indicated that recent assessments of the IT environment have shown the need to further strengthen processes and controls which present vulnerability in the capture, retention and transfer of data.
20	Are there appropriate mechanisms in place that facilitate communication inside of the Organization (communication of policies, standards, procedures, appointments and retirement of personnel, explanations, report of unusual matters, consideration of staff suggestions, etc. )?	1			The <u>Information and Corporate Affairs Department</u> , under the Office of the Group General Manager is responsible for guiding the overall internal and external communications policies in the Corporation. However, It must be noted that it is the PCJ-Accounting Manual which provides the corporate guidelines for such communications along with the instruments. Section 13.1: " <u>Internal Communication</u> " of the Human Resources Policies and Procedures Manual" defines the channels for communications with internal customers and include notice boards, intercom, newsletters, staff meetings, email, Intranet, and library.

cont.

Internal Control System		SI	NO	NA	Answer Justification
21	Are there mechanisms that facilitate the communication outside the Organization (channels of communication with suppliers, multilateral, governmental and financial entities, etc.)?	1			Section 13.2: " <u>External Communication</u> " of the Human Resources Policies and Procedures Manual" defines the channels for communications with external customers and include media houses, news media, advertisements, brochures, flyers, media broadcasts, workshops, exhibitions and Web page/Internet. It must be noted that all external communications for widespread circulation or media coverage must be approved and signed off by the Office of the Group General Manager or selected representative, prior to release.
Monitoring:					
22	Have functions and procedures for the supervision of the key processes been defined?	1			Most functions and procedures for procurement, financial administration and other have the necessary internal controls in place, following, among others, the Public Bodies Management and Accountability Act, the FAA Act and internal procedures. The internal audit function also contribute to this objective. Notwithstanding, in various sections of the present assessment, it was indicated that procedures manuals from planning, organization, procurement and financial administration, among others need to be prepared or updated, and include a solid mapping of processes, approval authorities (signatories), supporting documents requirements/checklists, and other. This would greatly enhance the overall internal control environment.

cont.



Internal Control System		SI	NO	NA	Answer Justification
23	Is there formal evidence that the supervision is actually performed (identify evidence of documents and reports that show the participation of the supervisory levels in reviewing the quality of the processes)	1			The processes analyzed as part of this assessment show the presence of the necessary supervision (e.g. Finance and Accounts Manager, Senior Legal Counsel, other), to ensure the adequate operations of the Corporation's internal controls in the overall fiduciary/administrative systems under their responsibility, which is complemented by the "oversight" and support functions of the Group Internal Audit Department. Concrete examples include, among others, the presence of proper documentation to support all expenditures from the requisition to the commitment to the payment stages, defined authorizations/signatories; compliance with national legislation with respect to financial reporting; compliance with the accounting framework contained in IFRS; and the adoption systems procedures for integrated financial management under the existing ERP platform.
24	Have mechanisms been put in place for the personnel to self-evaluate how the controls corresponding to their areas of responsibility have been working?		1		Mechanisms for self-evaluation of internal controls and processes have not been implemented at PCJ.
25	Has it been clearly established the responsibility and actions related to the receipt, evaluation and transaction of the employee's initiatives, in relation to the Internal Control System (ICS)?		1		PCJ has not implemented a formal system for the analysis and implementation of employee initiatives, with respect to the internal control system.

cont.

Internal Control System		SI	NO	NA	Answer Justification
26	If the creation and operation of an Internal Audit Unit has been formalized, is it working in agreement with the International Standards on Audit (ISAs)? (Verify the existence of an IA Manual, Unit size, expertise on ISAs, scope of audits).	1			As established in the Internal Audit Charter, the Group Internal Audit Department discharges its responsibilities in agreement with: (a) "Standards for the Professional Practice of Internal Auditors", promulgated by the Institute of Internal Auditors, as considered appropriate in the conduct of all audit assignments; and (b) the International Accounting Standards (IAS) adopted by the Institute of Chartered Accountants of Jamaica (ICAJ). In the discharge of its activities, the Group Internal Auditor is accountable to the Chairman of the Board and the Audit Committee of the Board of Directors. The Audit Committee assists the Board of Directors in fulfilling its oversight responsibilities with respect to financial management and reporting processes, the systems of internal controls, management of financial risks, and monitoring of compliance by PCJ with laws, regulations and code of conduct.
27	Has responsibility been assigned and procedures put in place to receive, evaluate and process the recommendations and conclusions of Internal Audit on the ICS?	1			The PCJ-Accounting Manual establishes the " <u>Resolution of Audit Issues</u> " procedure which establishes that first, audit reports should be submitted to the Head of the Department affected by the audit query. In this process, it is the responsibility of the Group Chief Financial Officer (CFO) to oversee the resolution of all audit issues. In addition, the Group Chief Internal Auditor monitors the resolution of all audit issues and provides updates and reports at the meetings of the Audit Committee on their status. Long-standing matters are highlighted to the Audit Committee for special attention towards resolutions.

cont.

Internal Control System		SI	NO	NA	Answer Justification
28	Are the levels of responsibility and authority satisfied with the services received from the IA?	1			As previously indicated, staff from Finance and Accounts Department and other areas have expressed positive feedback on the services and support provided by the Group Internal Audit Department, with a solid collaboration with management towards the resolutions of audit issues and observations and with a view of strengthening the overall financial administration and control environment.
29	Is there an up-to-date Internal Audit report or equivalent document, which shows that the detailed requirements have been completed for each one of the five components of internal control, described in the five sections of this questionnaire?			1	The consultant was not given access to actual/recent internal audit reports, which has limited the scope of the SCI and, thereby, the present assessment is left with inquiries on the nature of the internal audit observations, recommendations and actual management actions with respect to corrective measures.
	TOTAL	22	6		
QUANTIFICATION:		Yes _____			78.57
		(YES+NO) * 100			
DEVELOPMENT:		There is no ND (0-40)			MD
		Incipient ID (41-60)			
		Median MD (61-80)			
		Satisfactory SD (81-100)			
RISK:		High RA (0-40)			RM
		Substantial RS (41-60)			
		Medium RM (61-80)			
		Low RB (81-100)			

**PETROLEUM CORPORATION OF JAMAICA (PCJ)**  
**APPLICATION OF THE INSTITUTIONAL CAPACITY ASSESSMENT SYSTEM (ICAS)**

**EXTERNAL CONTROL SYSTEM (SCE)**

External Control System		YES	NO	NA	Answer Justification
1	If the Entity is subject to an external audit, has it been performed annually?	1			PCJ is subject to annual external audits in compliance with: (a) Section 13: "Accounts and Audit" of the Petroleum Act, which establishes that the accounts of the Corporation shall be audited by an auditor or auditors appointed annually by the Corporation and approved by the Minister. It also establishes that the Auditor General shall be entitled, on the general directions of the Minister, at all reasonable times to examine the records of the Corporation; (b) Section 3: "Accounts of Public Bodies" of the Public Bodies Management and Accountability Act, which establishes that no more than four months after the closing of the financial year, the Corporation shall submit the annual report including audited financial statements of the public body to the responsible Minister; (c) Section 144 "Accounts and Audit" of the Companies Act; Section 25: (d) "Duties of the Auditor General" of the FAA Act, which establishes the attributes of the Auditor General in the examination of the financial reports and controls of public bodies annually or as necessary.

cont.

External Control System		YES	NO	NA	Answer Justification
2	Are there formal procedures for the administration of the external audit services (responsibilities for the preparation and supply of information, follow up on deadlines, receipt of results, clarifications and communication with External Auditors, etc.)	1			The Board of Directors, through the Audit Committee, is responsible for the selection and contracting of the firm of independent accountants to conduct the annual external audits of the Corporation and its subsidiaries (i.e. non-consolidated and consolidated financial statements). The Board delegates to the Group General Manager and, ultimately, to the Group Chief Financial Officer (CFO) the responsibilities for the provision of documents, data, information, along with the necessary time of his/her staff for inquiries, meetings and clarifications to/with the external auditors. As part of the present assessment the audited financial statements closing March 31, 2013 and 2014 were reviewed and analyzed. The financial statements closing March 31, 2015 are not yet available given consolidation issues arising in PETROJAM, based on its shareholder structure (51% PCJ and 49% Petróleos de Venezuela--PEDEVESA--) which, unless resolved, can lead to materiality situations.
3	Is there a formal contract, or equivalent, for the execution of the external Audit?	1			The <u>Engagement Letter</u> signed by the external auditors PriceWaterhouse Coopers (PwC) and PCJ is a binding contract that states the terms, conditions, scope and reach of the external audit of PCJ as of March 31 (i.e. the closing of the financial year) for the consolidated and non-consolidated financial statements. The engagement letter is signed by the Group General Manager and the Group Chief Financial Officer (CFO) on behalf of the Board of Directors. It is the responsibility of the Audit Committee of the Board to negotiate the contractual terms.

cont.

External Control System		YES	NO	NA	Answer Justification
4	Do the statements regarding the nature and scope of the audit services clearly reflect the benefits expected from this service?	1			The Engagement Letter clearly establishes the reach and scope of the audit, which comprises the consolidated and company statements of financial position, consolidated and company statements of comprehensive income, statement of changes in equity, and statements of cash flows for the year ending March 31 and prepared in accordance to IFRS. The activities of the audit include an assessment of: (a) whether proper books of accounts have been kept by the Corporation; (b) whether the financial statements are in agreement with the books of accounts; (c) whether all information obtained and explanations provided adequately based on the scope of the audit; and (d) whether the financial statements were prepared in accordance with the provisions of pertinent national legislation. In general terms, this includes tests on: (i) adequacy of the internal controls; (ii) adequacy of the accounting and financial reporting systems; (iii) performance in the administration of the Company's resources and financial reporting; and (v) systems support.
5	Are the estimated fees based on reasonable calculations per hour/person or days/person, based on the scope and nature of the work? (verify if there is formal supporting evidence of these calculations)	1			PCJ tenders the external audit for multi-year engagements (usually three years renewed/confirmed on a yearly basis and subject to negotiation of such fees). Fees are established taking into consideration the reach and scope of the audit along with, among other factors, the seniority of the experts assigned to the engagement.
6	Have the fees been paid according to what have been stated in the contract?	1			Fees have been paid in the terms and conditions agreed upon the parties in the Engagement Letter, with invoices rendered by the auditor based on progress attained, along with bills for direct out of pocket expenses.

cont.

External Control System		YES	NO	NA	Answer Justification
7	In case of payment delays, have they been justified based on the independent audit firm non-compliance.	1			Payments are made based on work progress. Delays in the past/present have been attributed mainly to coordination and time compliance challenges with/from the subsidiaries which delay the overall audit and the preparation of the consolidated financial statements. This is the situation at the moment with the audit of the financial statements year-ending March 31, 2015, with respect to the delays PETROJAM's financials.
8	Does the firm of external auditors only offer this type of service to the entity?	1			Currently the firm of external auditors PwC provides only services related to the annual audit of PCJ and its subsidiaries.
9	Have the reports from the contracted audit, or from a SAI's audit, been delivered in the expected time as stated in the contract or as described in the required legal standards?		1		Under the stipulations of the Public Bodies Management and Accountability Act, audited financial statement of PCJ should be delivered to the Minister within 120 days from the closing of the financial year (i.e. by July 31). In practice, this has not been attained and they are completed by the fourth quarter of each year. This is once again attributed to delays in the subsidiaries and corresponding consolidation processes. The current situation with the financial statements closing March 31, 2015 is an extreme with over a nine month delay. In this respect, delays are not attributed to the external auditors' performance, but to delays directly related to governance and compliance within the holding company.

cont.

External Control System		YES	NO	NA	Answer Justification
10	If the audit reports include opinions that are not "unqualified" and findings and/or reportable conditions on the internal control have been reported, has the Entity taken formal actions to address those problems in a timely fashion?	1			In all the years analyzed, PwC provides an "unqualified opinion" indicating: "the consolidated financial statements of Petroleum Corporation of Jamaica and its subsidiaries and associates, and the financial statements of the Petroleum Corporation of Jamaica standing alone, give a true and fair view of the financial position of Petroleum Corporation of Jamaica and its subsidiaries and associates, and the Petroleum Corporation of Jamaica standing alone as of March 31..., and of their financial performance and cash flows for the year then ended, so far as concerns the members of the Petroleum Corporation of Jamaica, in accordance with International Financial Reporting Standards and the requirements of the Jamaican Companies Act.
11	If there were limitations to the audit scope, were they due to the Entity's lack of knowledge of the necessary support to comply with the audit's objectives?			1	Not applicable to PCJ.
12	Is there evidence of the effective correction of the matters reported on the audit report?	1			Based on the presence of unqualified opinions in all years analyzed under the present assessment, it can be asserted that there would be no pending matters or aspects subject to or pending corrections/actions by the Company from the previous years' audits. Nonetheless, the March 31, 2015 financial statements are pending and consolidation issues between PETROJAM and PEDEVESA could be areas of concern and possible materiality which could affect the ultimate opinion of the external auditors on the Company's consolidated financial statements.

cont.



External Control System		YES	NO	NA	Answer Justification
13	Is the nature of the corrections geared towards solving the causes of the problems, so that they are not repeated in following years?	1			Based on the previous points, it can be asserted that any observations, corrections and recommendations from the external auditors have been addressed by the Management, and, thereby, not carried to the following years' audits. This contributes to the observed "unqualified" opinions on the yearly financial reports and controls. It must be noted, that during the entire audit process, there is a constant review and meetings between Management, the Group Internal Audit Department, the Audit Committee and the auditors, so as to address any issues and concerns in a timely manner.
14	If issues arising from audit reports are still pending, could this be attributed to the management's lack of will to implement solutions, or to a lack of knowledge of an external audit's benefits?			1	Not applicable to PCJ. No outstanding issues are pending based on the financial statements analyzed under the present assessment. This is expected from the pending March 31, 2015 financial statements once the PETROJAM/PEDEVESA issues are resolved. Subject to confirmation in the following weeks once such audited financial statements are completed.
TOTAL		11	1		

QUANTIFICATION:	Yes	* 100	91.67
	(YES+NO)		
DEVELOPMENT:	There is no ND (0-40)		SD
	Incipient ID (41-60)		
	Median MD (61-80)		
	Satisfactory SD (81-100)		
RISK:	High RA (0-40)		RB
	Substantial RS (41-60)		
	Medium RM (61-80)		
	Low RB (81-100)		