

*B*arbados *A*udit *O*ffice



Report
of the
Auditor General
for the year
2012

MISSION STATEMENT

The Mission of the Audit Office is to strengthen public accountability by providing fair and independent reports after careful examination of use of resources.

THE GOAL

The goal of the Audit Office is to promote staff development, achieve a high standard of auditing and contribute to the general efficiency and effectiveness of Public Service.



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January 31, 2013

His Honour The Speaker
The House of Assembly
Parliament Building
BRIDGETOWN

Sir,

In accordance with Section 113 (3) of the Constitution of Barbados and Section 38 (5) of the Financial Management and Audit Act, 2007 - 11, I forward for laying before the House of Assembly my Report of the examination of the accounts of the Ministries and Departments of Government, and of other financial statements and accounts required to be audited by me in respect of the financial year ended 31st March, 2012.

A copy of the Report is transmitted to the Senate for information, in accordance with Section 38 (6) of the above mentioned Act.

Yours faithfully,

Leigh E. Trotman
Auditor General

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Introductory Comments

I am pleased to present my 2012 Annual Report to Parliament. This Report is presented in accordance with Section 38 of the Financial Management and Audit Act, 2007-11 which requires the Auditor General to report annually the results of his examination of the accounts and any failure to observe the enactments or other laws of Barbados.

The 2012 Report provides general observations, recommendations and information pertaining to the audit and examination of Government entities during the year. The purpose of this Report is to assist Parliament in holding Government ministries and other state agencies accountable for the management of public resources.

Generally, Ministries and Departments carried out most of their transactions in accordance with the financial rules and other Government regulations. There were some exceptions however, and in this regard, appropriate management letters outlining the Office's findings would have been issued to these agencies.

The Audit Office also conducted a number of special reviews during the year. The agencies reviewed included the Barbados Water Authority, Invest Barbados and the Barbados Vocational Training Board. The Audit of the Water Authority was issued as a special report while the two other reports are listed in Chapter 5.

The Office continues to have staffing shortages. Interviews were carried out during the year, but these are not expected to result in any significant staff increases since there is not a large available pool of auditors in the Country to draw upon. The Office needs to be able to recruit at the entry level and train these officers to fill posts in the higher grades. I am again recommending that the authority to recruit staff should be delegated to the Office to expedite this process.



Acknowledgements

In order for the Office to adequately carry out the work, the cooperation of personnel from Ministries, Departments and other Government Agencies is essential. In this regard, I wish to acknowledge the cooperation of Permanent Secretaries and the staff of Ministries, Departments and Statutory Boards.

I would also like to thank members of my staff for their support, dedication and commitment to their tasks. Such support is essential for the continued success of the Office.

Leigh E. Trotman, CMA
Auditor General

January 31, 2013



CHAPTER 1

General Issues

Introduction

This Annual report of the Auditor General to the House of Assembly for the year 2012 is issued in accordance with Section 38 (1) of the Financial Management and Audit Act, 2007-11 which states that:

“The Auditor General shall report annually, as soon as possible and not later than the last day of December following the close of each financial year, the results of his examination of the accounts and any failure to observe the enactments or other laws of Barbados”.

- 1.2** It has been five (5) years since Government has switched from the cash to accrual basis of accounting; however, there continue to be considerable shortcomings in the accounts presented which have so far resulted in the Audit Office being unable to verify that the financial statements are presented fairly and in accordance with International Public Sector Accounting standards. There were numerous omissions from the financial statements presented, and these included over \$150 million which was owed to the University of the West Indies, Cave Hill Campus.
- 1.3** Revenue continues to be recorded on a cash, rather than an accrual basis, and numerous items on the balance sheet such as Plant, Equipment and Furniture, and Accounts Receivable could not be verified because of the absence of adequate supporting schedules. There is a need for an urgent examination of the system of accounting currently being practiced by Government since, in many instances, there is no



adherence to International Public Sector Accounting Standards (IPSAS), to which the Government has subscribed. Regrettably, as in previous years, I have to report that my Office could not certify that the financial statements which were presented gave an accurate picture of the financial position and operations of the Government. Further details on this matter are outlined in the second Chapter of this Report.

Public Accounts Committee (PAC)

- 1.4** The Public Accounts Committee is a Committee of Parliament established primarily to review the financial statements of state enterprises and all reports of the Auditor General that are tabled in Parliament. The Committee also has a role in reviewing the adequacy of the funding, staff administrative structures and reporting capabilities of my Office. The Committee can then make recommendations to Parliament to correct any deficiencies it has observed.
- 1.5** During January 2012, the Committee met to consider the annual budget of the Audit Office as required by Section 38 of the Financial Management and Audit Act, 2007-11. The Committee had indicated that it would be reviewing a number of special and annual reports which were submitted by the Auditor General. Unfortunately, such reviews however never took place.
- 1.6** The role of the Public Accounts Committee is critical in the accountability cycle of Government. The Committee can call on accounting officers and other public officials to explain issues reported in the audit reports and, if warranted, make recommendations to Parliament for corrective action. The Committee has, however, not reviewed any of the reports of the Auditor General for the past five (5) years.



- 1.7 The international community has sought to assist the Public Accounts Committee by hosting workshops to provide guidance to PAC members. In this regard, the Parliamentary Grouping of the Americas (ParlAmericas) held a two-day regional workshop in Antigua. Participants included Parliamentarians and Auditors General from ten (10) Caribbean countries including Barbados. The main purpose of the Workshop was to share best practices from the Public Accounts Committees in the larger Caribbean Parliaments and consider measures to strengthen the relationship between the Auditor General and the PAC.

Contents of this Report

- 1.8 This Report includes information and observations arising from various audits undertaken in 2012. More detailed information has been communicated to Permanent Secretaries, Heads of Department and management of Statutory Boards. Comments from these agencies when provided are also included in the Report.
- 1.9 In addition to this Chapter the Report also contains four (4) other chapters as follows:-
- i. In Chapter 2 the findings from the audit of Government's financial statements are provided. The absence of adequate supporting schedules for amounts shown on the financial statements and the non-adherence to accrual accounting principles were some of the major concerns highlighted.
 - ii. Chapter 3 consists of audit findings and comments arising from the audits of Ministries and Departments. The major focus of these audits was on determining whether the financial activities of various



agencies were in compliance with Government rules and regulations.

- iii. Chapter 4 gives an update on the audit of Statutory Boards and agencies. A number of these entities are audited by firms in the private sector. The absence of up-to-date audited accounts continues to be a major concern for a number of these agencies.
- iv. Chapter 5 reports on performance audits on certain activities of Invest Barbados and the Vocational Training Board.

Attendance at Conferences and Workshops

1.10 Audit Officers attended a number of local and regional conferences and workshops during the year. These were as follows:

- A World Bank sponsored conference in St. John's, Antigua, from the 1st to 2nd February, 2012 was attended by the Auditor General, Mr. Leigh Trotman. The purpose of the project was to discuss and make suggestions on a World Bank Grant for the institutional strengthening of audit offices in the Caribbean region.
- Barbados was represented at a workshop to develop a strategic plan for the audit offices in the Caribbean region (CAROSAI). This event was hosted by the Auditor General of Jamaica. Coming out of the meeting, a draft strategic plan for the region was developed and circulated to members for their comments. Over the next four (4) years the group will be seeking to assist with the capacity development of Audit Offices through legislation to strengthen their independence. There will also be initiatives for training of staff and improving the



relationship between Auditors General and Public Accounts Committees.

- A one (1) week workshop on International Public Sector Accounting Standards (IPSAS) was held for members of staff of the Audit Office and participants from the Treasury Department during the period 27th to 31st August, 2012. This training was conducted by personnel from the National Audit Office of the United Kingdom. It was generally agreed by the staff that the course significantly increased their knowledge about the application of accounting standards to the financial statements of the Government.
- The Auditor General attended a Workshop on Public Sector Auditing standards in Paramaribo, Suriname, during the period 12th to 14th November, 2012. Auditors General from the Caribbean discussed the implementation of a comprehensive set of International Standards of Auditing (ISSAI) for their offices. The introduction of these standards will represent a milestone in the strengthening of the public sector audit profession, as they will serve as a key tool for securing greater uniformity in the way that public sector auditing is conducted worldwide.

Payment of Pensions to Officers in Statutory Boards

- 1.11** In my 2011 Report, I drew to Parliament's attention the fact that a number of state agencies were paying pensions to former employees who were not entitled. A further review of this matter has revealed that little action has been taken to rectify the situation by statutory boards. The Government pensions of these former employees should have been reduced by the amounts of pension they received from the National



Insurance Department. This situation has resulted in numerous persons being overpaid for a number of years.

1.12 A check with such agencies as the National Assistance Board, the National Conservation Commission and the Sanitation Service Authority has indicated that there has been no change in the manner in which pensions are paid at these institutions.

1.13 While the Treasury has corrected numerous cases of overpayment involving officers in central Government, the directorates of Statutory Boards seem unable or unwilling to rectify their situations.



CHAPTER 2

Analysis of Government Financial Statements

The Financial Management and Audit Act (FMAA), 2007-11 requires the Accountant General to prepare, sign and submit financial statements of the Crown (the Public Accounts) within four (4) months after the close of each financial year. The statements for the financial year ended 31st March 2012 were submitted shortly after the stipulated period.

Audit Mandate and Objective

- 2.2** Section 36 (2) of the Financial Management and Audit Act, 2007-11, requires that the Auditor General examine the Public Accounts, to ascertain whether they are punctually and properly posted, and to give an opinion as to whether they present a true and fair view, in all material aspects, of the financial position of the Government of Barbados, and are in compliance with International Public Sector Accounting Standards, (IPSAS) which the Government has adopted.

Methodology

- 2.3** The audit was conducted in accordance with auditing standards established by the International Organization of Supreme Audit Institutions (INTOSAI). These standards require the auditor to plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. Audit procedures include examining, on a test basis, evidence supporting the amounts and other disclosures in the financial statements and the evaluation of accounting policies used, as well as an appraisal of the overall financial statement presentation.



Scope of Government's Financial Statements

- 2.4** The Financial Statements of the Accountant General cover the accounts of all Government ministries and departments. They however do not include financial information on statutory boards or Government companies. The Accountant General has indicated that work is being undertaken to consolidate the financial statements of statutory entities with those of Central Government within a five-year time frame, but this has not yet occurred.

General

- 2.5** Adoption of the International Public Sector Accounting Standards (IPSAS) by Government was intended to enhance the quality and transparency of public sector financial reporting, and strengthen confidence in public sector financial management. This includes the transition from a cash-based to an accrual-based system of accounting, which was initiated in 2007.
- 2.6** As pointed out in previous reports, there were a number of issues which needed to be resolved prior to the implementation of the accrual system, and these included the identification of all the entities to be consolidated, assets to be included in the financial statements and the asset valuation method(s) to be employed. In addition, there is a need for clarity over the recognition points for some taxes, and the treatment of Government's pension liability. These issues have not been properly addressed.



Audit Opinion

- 2.7** In my opinion the financial statements presented for audit did not in all material respects, fairly represent the financial position of the Government of Barbados as at 31st March, 2012.

Government Debt

- 2.8** Government debt has become a pressing issue for most developing countries and this has been exacerbated by the world-wide economic recession. Barbados, like most developing countries, has seen its long term debt rise steadily over the years and this continued during the financial year ended 31st March, 2012.
- 2.9** The total public debt as recorded by the Treasury moved from \$7.983 billion to \$8.630 billion, an increase of \$646.68 million, mainly as a result of increases in local loans, treasury bills and borrowing from the Inter-American Development Bank.
- 2.10** The impact of Government debt on overall financials can be measured in a number of ways and this includes examining what percentage of revenue is used to service debt. For the financial year ended 31st March, 2012 the ratio was 20.4% of the total revenue, and this was marginally lower than the 20.6% of the previous year but still significantly higher than the 15.25% of 2007-2008.
- 2.11** As Government's indebtedness grows, the higher interest cost will consume a greater proportion of its resources, limiting the amount that can be spent on other services.



Audit Issues

- 2.12** Issues arising from the audit of the accounts for 2011-2012 were as follows:-

Notes to Financial Statements

- 2.13** Note 1 to the Financial Statements indicates that they have been prepared in accordance with the accounting principles for Government set out by the International Public Sector Accounting Standards Board (IPSAS). The note goes on to state that the reporting entity relates only to Government Ministries and Departments including the General Post Office. However, IPSAS 6 requires that users of the financial statements are informed about the financial affairs of the economic entity as a whole and not only a section.

Transitional Provisions

- 2.14** IPSAS offer Governments which are changing from the cash to the accrual basis certain transitional provisions, which allow reporting entities additional time to meet the full requirements of certain standards. In the case of full consolidation of accounts this should have occurred within three (3) years from the date of first application, i.e. 1st April, 2007. This was not achieved, therefore the financial statements were not in compliance with IPSAS in this regard.
- 2.15** Under IPSAS 1, Presentation of Financial Statements, paragraph 132, a reporting entity is required to indicate the extent to which it has applied any transitional provision in any of the International Public Sector Accounting Standards. The absence of this required information made it



difficult to determine the extent of any transitional provisions undertaken by Government.

Presentation of Financial Statements

- 2.16 There were a number of issues relating to the presentation of the financial statements. These are as follows:

Net Asset/Equity

- 2.17 The presentation of the Financial Statements shows an amount of (\$3.4 million) recorded in the Statement of Changes in the Net Assets/Equity. IPSAS 1 Section 118 and 119 requires that items recognized directly in the Net Assets/Equity Statement should be listed. However, these details were not mentioned in the statement, hence the IPSAS were not complied with.

Net Debt

- 2.18 The Net Debt figure of \$6.7 billion is carried as the last line on the Statement of Financial Position. There was no table or notes setting out how the Net Debt position was derived. The Net Debt should be defined so as to provide adequate explanation to users of the financial statements.

Contingent Liabilities

- 2.19 Contingent Liabilities indicate the possibility of additional debt to the Crown in the event that agencies, whose debt had been guaranteed by Government, cannot meet their liabilities when these fall due. The schedule includes various financial guarantees made by the Crown. The



Contingent Liabilities contained several errors which resulted in them being understated by **Bds. \$28 million** as at 31st March, 2012. Details are listed below: -

(i) Barbados National Oil Company Limited (BNOCL)

Letters of comfort were granted to Barbados National Oil Company Limited to cover financing by the BNB Finance & Trust totalling \$160 million in five (5) series. The balance outstanding on this contingent liability was recorded as \$89 million as at 31st March, 2012. Confirmation requested from the BNOCL indicated that the outstanding balance was \$118.7 million as at 31st March, 2012. Therefore the Treasury records were understated by \$29.7 million in this instance.

(ii) Barbados National Terminal Company Limited (BNTCL)

Letters of comfort were granted to Barbados National Terminal Company Limited to cover financing by the BNB Inc. and BNB Finance & Trust totalling \$120 million. The balance outstanding on this contingent liability was recorded as \$94.9 million. Confirmation requested from the BNTCL indicated that the outstanding balance was \$87.2 million as at 31st March, 2012. Therefore the Treasury records were overstated by \$7 million in this regard.

(iii) Collections and Recoveries Limited (CRL)

The debts owed by the CRL to the Central Bank (\$9 million) and to the Industrial Credit Fund (\$432,159) were recorded as Contingent Liabilities. However, these amounts do not include the accumulated interest of \$5.4 million and \$82,261, respectively. Therefore Contingent Liabilities were overstated by \$5.5 million and Public Debt understated by a similar amount in this regard.



(iv) Caves of Barbados

A letter of comfort was issued to the Caves of Barbados in the amount of Bds. \$3.5 million in respect of a loan with the Barbados National Bank. However, the statement of Contingent Liabilities carried a balance outstanding of Bds. \$2.9 million. This has resulted in Contingent Liabilities being understated by \$598,183 (\$3,500,000- \$2,901,817) in this instance.

Other Contingent Liabilities

2.20 Financial Management and Audit (Financial) Rules, 2011, No. 229 (4) states that the Accountant General shall report on the outstanding cost of contracts for services or supplies as Contingent Liabilities. During the year under review such outstanding costs were not reported in the Accountant General's annual report. Hence this requirement of the Financial Rules was not complied with.

2.21 **It is recommended that:**

- **Steps are taken to update the records of outstanding Contingent Liabilities.**
- **Adequate disclosures of contingent liabilities are available for users of the financial statements.**



Significant Accounting Policies

2.22 There were a number of significant accounting policies outlined in the notes of the Financial Statements which were not implemented by the Treasury and these included:

- The valuation of tangible assets every three (3) years; and
- The inclusion of capital assets such as road networks, bridges and traffic management systems over a five (5) year period ended March, 2012.

2.23 These policies have not been implemented as at 31st March, 2012, nor was, disclosure made regarding the failure to implement or the proposed timeframe for implementation. It should also be noted that the Treasury had indicated that all relevant assets would be brought to account in a phased manner within a five (5) year period. This time has now expired without all assets being brought to account.

2.24 **It is recommended that:**

- **Any departures from the Significant Accounting policies should be highlighted so as to adequately inform users of the statements.**

Bank Reconciliation

2.25 For several years, including the last financial year, the bank reconciliation statements contained large un-reconciled differences. This state of affairs still existed at 31st March, 2012. These un-reconciled differences were in excess of \$7 million.



2.26 The failure to fully reconcile the ledger accounts to the bank statements indicates that there are weaknesses in the cash management process, which can result in fraud or errors going undetected, and also impact on the accuracy of the accounts presented.

2.27 **It is recommended that:**

- All un-reconciled differences are fully investigated and corrected prior to year end.
- It is emphasized that reconciliations are important control measures that should not be overlooked.

Public Enterprise Investment Fund (PEIF)

2.28 On 10th November, 2010 the PEIF Act was repealed as per the Financial Administration (Public Enterprise Investment Fund) (Repeal) Act 2010-19. As a result, all the resources of the PEIF should have been transferred to the Consolidated Fund.

2.29 As at 31st March, 2011 the balance in the PEIF bank account had been transferred to the Treasury account. However, as at 31st March, 2012, other assets totaling \$340 million had not been transferred to the Consolidated Fund as required.

2.30 The Treasury has indicated that amounts invested in state enterprises will be brought to account when there is full consolidation of Government's accounts; however, amounts invested in agencies external to Government should have been brought to account.



- 2.31 In addition to the above, the Public Enterprise Investment Fund financial statements as at 31st March, 2010, and the final statement as at 9th November, 2010, were not presented for audit as required.

Current Assets

Accounts Receivable

- 2.32 Receivables outstanding to the Crown were reported as \$882 million. This figure consists primarily of amounts owing to large revenue collection agencies. The accuracy of the outstanding amounts provided by the Treasury could not however be verified. Details are as follows:-

Inland Revenue Department

- 2.33 Corporation Tax receivable of \$67.6 million and PAYE Tax receivable of \$176.5 million were reported as at 31st March, 2012. No information from the Inland Revenue Department on these receivables was presented for audit verification; therefore no reliance could be placed on the figures presented in the Financial Statements.

Valued Added Tax (VAT)

- 2.34 As at 31st March, 2012, Valued Added Tax (VAT) receivables before Provision for Bad Debts was reported by the Customs Department as \$362.7 million, while the amount reported in the Treasury was \$362.1 million. The difference of \$0.6 million was not explained.
- 2.35 Audit attempts to obtain a detailed listing of receivables from the Value Added Tax Division were unsuccessful. The VAT Division continued to



have challenges with its Information System and therefore no audit assurance could be provided on the accuracy of the figures presented.

2.36 It is recommended that:

- **The systems in the revenue collecting departments are examined and corrective action taken to ensure that dependable and accurate financial information is produced. This situation has continued far too long and is a contributing factor to the adverse audit opinion given.**

Loans to Individuals and Agencies

2.37 Loans to Individuals and Agencies by the Government were recorded as \$300.4 million. This total included loans to Parliamentarians, Registering Officers and Secretary Treasurers. Issues relating to these loans were as follows:-

I. Loans to Secretary Treasurers

The loans outstanding for Secretary Treasurers of \$171,280.68 were not included in the loan balances in the Financial Statements. Hence loans were understated by that amount.

II. Barbados Tourism Investment Inc. (BTII)

In Government's financial statement for the financial year under review, a figure of \$141.5 million with accrued interest of \$19.3 million was reported as an advance to Barbados Tourism Investment Incorporation (BTII). This figure had previously been reported as \$235 million but was reduced by \$97,885,949.83 during



the 2010-2011 financial year. The Audit Office had requested an explanation from the Treasury on this matter but none was provided.

The BTII subsequently indicated that it had undertaken work on behalf of the Government and there was therefore no loan involved. These funds were used in the Kensington Redevelopment Project and other Urban Development Projects. The agency also reported that the Ministry of Finance had recently indicated that it no longer needed to show these amounts in its accounts.

Audit Comment

2.38 For a number of years the Audit Office has been commenting on the absence of clear trails on the \$235 million which was paid to the BTII by the Treasury.

There was generally a lack of clarity in respect of these transactions resulting in the current difficulties in bringing them to account. These transactions were essentially expenditures of the Government. The Ministry of Finance seems now to have accepted this position.

2.39 This change in position by the Ministry has certain implications and these include the annulment of interest earned and its removal from the accounts, along with the removal of any receivables attributed to the BTII.

2.40 **It is recommended that:**

- **Government avoids situations that cast doubt on the transparency of its financial transactions.**
- **All assets resulting from these expenditures are valued and brought to account.**



- **The expenditures are adjusted to the Consolidated Fund since these would have occurred in prior periods.**

III. Advances to Hotels & Resorts Ltd

The Government of Barbados advanced funds to Hotels & Resorts Limited by way of a loan agreement dated 22nd July, 2002. An amount of **\$145.3 million** was advanced, repayable over twenty (20) years at a rate of **07.25%** per annum on the reducing balance, with semi-annual repayments at 30th June and 31st December. Repayment was scheduled to commence at June 30, 2005 but this was revised to June 30, 2006. Interest was due with effect from June 30, 2004, to be accrued until the first payment.

Given the poor finances of this entity, it was always unlikely that repayments would have materialized. A large portion of the debt has subsequently been written off. The outstanding balance on this loan was reported as \$85.4 million at 31st March, 2012 with accumulated interest of \$30.4 million.

IV. Loans to Southern Golf Club

All loans issued should have terms and conditions affixed so as to ensure correct accounting for and posting of transactions. A loan brought to account in relation to Southern Golf in the amount of \$2 million still has no terms and conditions agreed upon by the parties involved. No action has been taken in finalizing the loan agreement. It should be noted that this money was transferred to Southern Golf on the 25th September, 2009.



A loan agreement should be put in place addressing the terms and conditions of this loan. This should be done without further delay.

V. Loan to Private Company

During the financial year 2009-2010 an amount of \$950,000 was loaned to a private company from the PEIF. The letter of intent was signed in June 2009, with both parties agreeing to the repayment of the loan within a three (3) year period, with a moratorium of three (3) months and interest of 4.93%. The loan was repayable in installments of \$26,388.89 together with any interest accrued on a reducing balance basis, on the last day of each month. This loan has not been brought to account to-date by the Treasury and as a result receivables were understated by \$950,000 in this regard.

2.41 It is recommended that:

- **The Treasury ensures that the receivable is brought to account.**

Inventories

2.42 Inventories recorded in the accounts totalled \$792,139 and relate to stored items held at the Central Purchasing Department. Several other Ministries and Departments had items purchased that were not fully used at year end, but were not included in the Treasury's inventory records. According to Generally Accepted Accounting Practices these items should be classified as inventory items. Examples are drugs from the Barbados Drug Service, spare parts from the various workshops and also unsold



documents from the Barbados Printery. Therefore the figures reported by the Treasury did not provide an adequate representation of the inventory held by Government.

2.43

It is recommended that:

- **Inventory held at departments are physically identified to attest for existence, examined for obsolescence and appropriately brought to account.**

Other Capital Assets

Revaluations

2.44

The accounting policies of the Government state that its assets will be re-valued after three (3) years. The Crown owns property and buildings both in Barbados and in some countries where Missions are posted, however, these assets were not re-valued. As a result, a number of buildings carried values that could be verified.

Renovated and Derelict Buildings

2.45

The list of buildings received from the Ministry of Housing and Lands indicated that some buildings were renovated while others were either demolished or categorized as derelict. The Treasury did not prepare the necessary journal entries to update the status of these assets. Hence, the relevant values in the Financial Statements for these properties could not be relied upon.



Asset Management Records

- 2.46** Other Capital Assets shown in the Financial Statements totalled \$1.5 billion net of depreciation. These consist of buildings, equipment, vehicles, furniture and fittings, computer equipment, air-conditioning units and other assets with values over \$3,000.
- 2.47** These assets are entered into an assets management module kept by the Treasury. As transactions for capital assets occur they should be recorded in this module and this information should correspond with that reported in the Accountant General's Report. However, as at 31st March, 2012 the records of the Module and the financial statements differed by \$357 million as detailed in the below table. No reconciliation was provided to account for this significant difference.

Assets excluding Land as at 31st March 2012

	Asset Management Module at Cost \$	Financial Statement at Cost \$	Difference \$
Property & Plant	1,331,424,629.49	1,397,155,663.43	65,731,033.94
Equipment	157,589,736.31	207,173,895.87	49,584,159.56
Furniture & Fittings	5,503,708.64	11,673,716.19	6,170,007.55
Software	5,046,033.82	13,452,789.62	8,406,755.80
Motor Vehicles	38,207,280.38	41,927,588.72	3,720,308.34
Sub-Total	1,537,771,388.64	1,671,383,653.83	133,612,265.19
Infrastructure	-	74,337,216.70	74,337,216.70
Assets Under Construction	-	149,269,755.15	149,269,755.15
Total	1,537,771,388.64	1,894,990,625.68	357,219,237.04



2.48 It was also observed that some transactions which did not involve the acquisition of assets were posted to the asset Module, for example, those relating to Consultants' Fees. In other instances assets purchased were not added to the asset management module resulting in my Office not being able to verify the accuracy of the assets recorded.

Assets Under Construction

2.49 Assets Under Construction are usually buildings which have not yet been completed. Such assets are reported under the Assets Under Construction account and transferred to the Asset Management Module on completion of the projects. There were however some assets under construction that were completed but have not been added to the Asset Management Module. These include:-

	\$
• George Lamming Primary School	7,124,699.48
• Christ Church Foundation School	12,637,514.17
• Springer Memorial School	1,108,626.48
• St. Michael School	8,789,435.34
• St. Martins Four Roads Primary School	5,018,943.37
• Ann Hill Primary School	4,855,433.98

2.50 In addition to the omissions under 'Assets Under Construction', several assets purchased during the year were not added to the 'Asset Management Module'. Also for several years, items not classified as assets were charged to the Assets Ledger Account by various ministries and departments when they had exhausted the funds in the applicable account. These practices cast serious doubt on the reliability of the information provided with respect to Assets Under Construction.



Infrastructural Assets

2.51 During the financial year under review an amount of \$9,413,061.36 was posted to the Infrastructural Account. This amount was not added to the 'Asset Management Module' as at 31st March, 2012 and has contributed to the significant difference between the ledger and the asset management module. The Audit Office was not in a position to verify the accuracy of the infrastructural assets reported.

2.52 **It is recommended that:**

- **An officer is assigned to manage the 'Asset Management Module' to ensure assets are added promptly, and to quickly address incorrect charges to asset accounts.**
- **Transactions entered in the system have adequate description notes and provide the relevant audit trail.**

Accounts Payables

2.53 The Subsidiary Ledger for accounts payable reported a total of \$8.9 million, while the financial statements carried a total of \$9.6 million. The difference of \$0.7 million was not reconciled.



Long Term Liabilities

Caribbean Development Bank Loans

2.54 During the financial year under review, a total of US \$204,635.27 was charged as Commitment Fees with respect to a number of loans. This is an indication that loan agreements are being entered into without all the necessary arrangements in place for the commencement of projects, resulting in the payment of these fees until the loans are disbursed.

2.55 **It is recommended that:**

- **Early action is taken to ensure all conditions are met to allow for a faster drawdown of loans. This should minimize the cost of the loans to Government.**

Loans from Government Agencies

Construction of Gymnasium

2.56 As reported in the audit reports for the financial years ended 2009 and 2010 an amount of US \$241,548.80 was incorrectly posted to the account for *the Construction of Gymnasium*, thereby understating the outstanding balance reported. The adjustment to correct this transaction was not applied as at the end of the 2011-2012 financial year.



Pension Liability

- 2.57** It has been observed that there are no provisions for Government Pension Liability. I am of the view that the IPSAS and IFRS to which the Government subscribes require that a pension provision be made for those persons who qualify to receive retiring awards. The Government has a defined benefit plan and thousands of persons have already been approved for pensions and are already on the pension list. The general practice is that persons who qualify receive their pensions at retirement age, and there are few exceptions to this rule.
- 2.58** There is therefore a clear basis for estimating Government's pension liability. It will therefore be necessary for Government to carry out an actuarial review to provide the estimate of the pension liability to its employees.

Revenue Adjustments

- 2.59** The total revenue recorded for the Government for the financial year was \$200 million more than in the previous year. In 2011-2012 revenue was recorded as \$2.6 billion while in 2010-2011 it was \$2.4 billion. The main audit concern over these figures was that they were not recorded on the accrual basis as required.
- 2.60** Revenue figures of \$99.6 million for the major revenue entities were adjusted by the Treasury at September, 2011 and March, 2012. The Treasury indicated that these adjustments were intended to bring to account amounts due for the financial year but yet not paid.
- 2.61** The following represents adjustments made to the figures reported by the major revenue departments:



Department/Tax	Months	Journal Vouchers	Amount \$
Import Duties – Customs	September 2011	AVSEP11REV501303LF	287,413.13
	March 2012	AVMAR12REV501604- CJP	286,728.37
Value Added Tax	September 2011	AVSEP11REV501303LF	47,891,201.65
	March 2012	AVMAR12REV501604- CJP	13,813,502.12
Land Tax	September 2011	AVSEP11REV503388LF	1,461,538.89
	March 2012	AVMAR12REV503420DES	35,885,322.39
Inland Revenue	September 2011	-	-
	March 2012	-	-
			99,625,706.55

2.62

It is recommended that:

- All adjustments made to revenue are initiated by the relevant revenue entities as they are responsible for the revenue collections and would have full knowledge of all income earned for the year.



Expenditure

- 2.63** The total expenditure was reported as \$3 billion for the 2011-2012 financial year and this was \$109 million less than in the previous year. The Audit Office however had some challenges with the figures presented. Government's accounts are on an accrual basis which means that expenses should be recorded once goods or services have been purchased or performed whether the actual funds were paid or not. It was however observed that a debt of \$150 million was due to the University of the West Indies and this figure should have been expensed during the relevant financial years. The expense for 2011-2012 was therefore materially under-reported.

Suspense Account

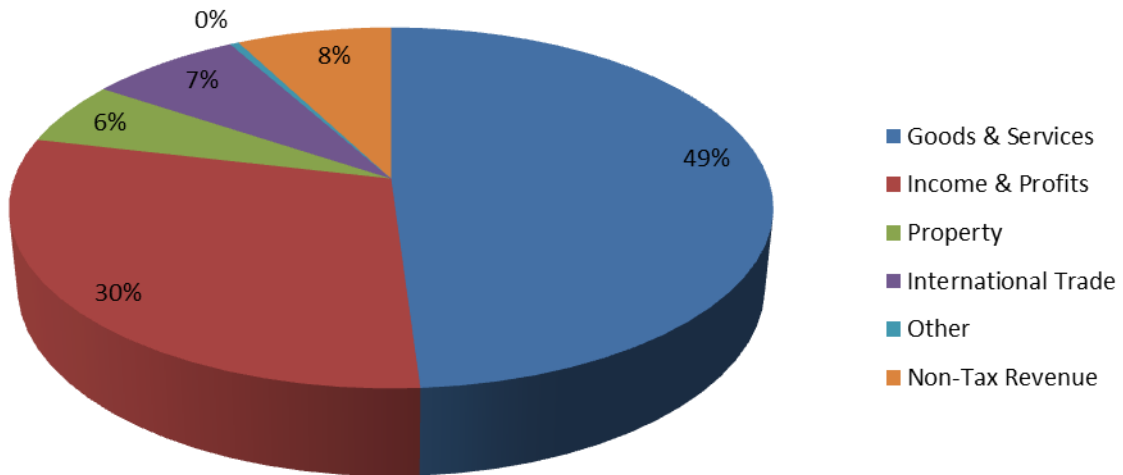
- 2.64** Several transactions posted to suspense accounts were netted-off, and cleared indirectly to the Consolidated Fund. A total of \$6.6 million was charged to expenditure, while a total of \$14.7 million was credited to revenue. There was insufficient documentation in support of these transactions. Hence, there was no clear audit trail to indicate that acceptable accounting practices were applied to net-off and close such transactions to the Consolidated Fund.

Graphical Presentation of Government Expenditure and Revenue

- 2.65** The following graphs represent the distribution of Government expenditure and revenue during the financial year.

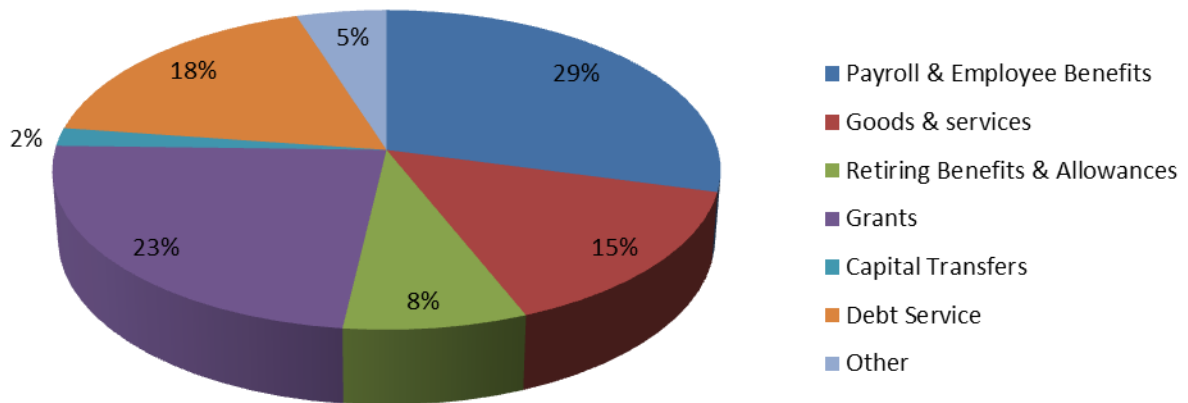


Total Revenue 2011 - 2012



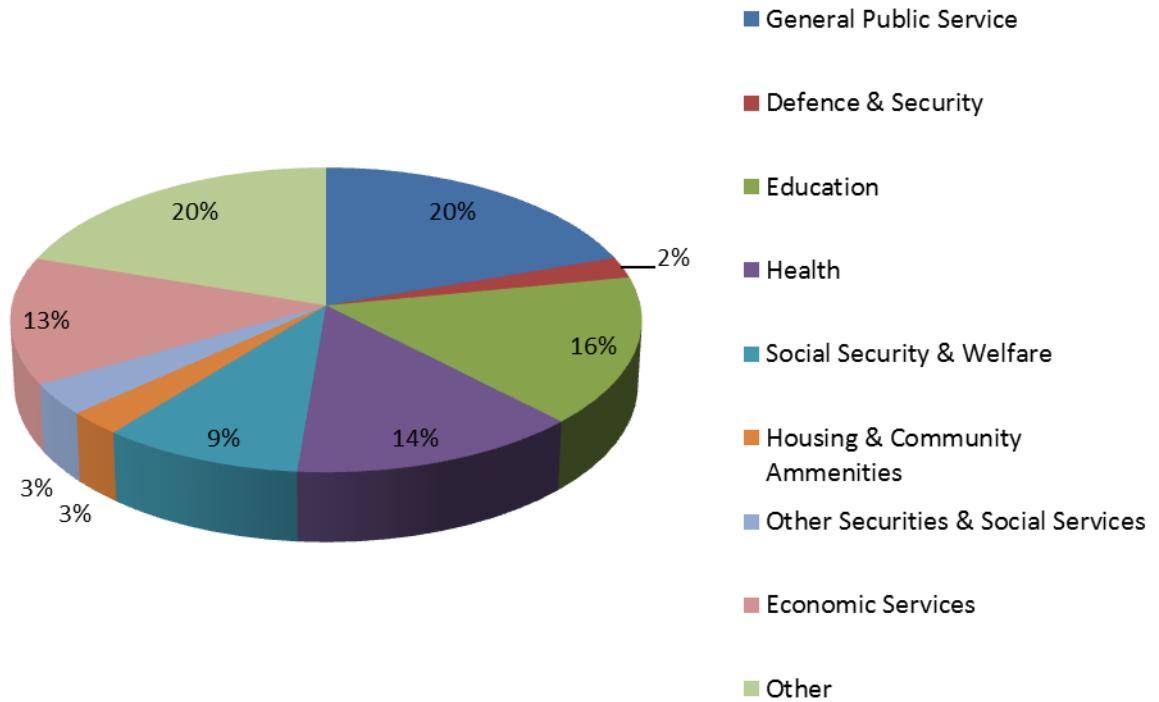


Total Expenditure 2011 - 2012





Expenditure by Functional Classification 2011 - 2012





CHAPTER 3

General Audit Concerns and Observations

This chapter highlights general concerns in respect of some Ministries and Departments not complying with statutes or administrative directives. It also includes responses when provided, to the concerns raised by the auditors. It should be noted that audits were not completed for all ministries as a result of our shortage of staff.

Audit Mandate

3.2 An audit of the accounts of the ministries and departments of Government for the financial year ended 31st March, 2012 was conducted by the Barbados Audit Office as required by Section 26 of the Financial Management and Audit Act, 2007 - 11.

3.3 As determined by this Act, the onus for the proper discharge of financial administration and the preparation of financial statements rests on the Accounting Officers. It is the Auditor General's responsibility to form an independent assessment of compliance with the FMA Act and other administrative directives on the accounts, based on the audits carried out by his Office.

Audit Purpose and Scope

3.4 The Barbados Audit Office is empowered to carry out audits on ministries and departments so as to provide assurance that:-



- Adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to this function have been duly observed;
- Expenditure is properly controlled, has been properly authorized, and made for the purposes for which the funds have been appropriated by Parliament;
- Immovable and movable property is properly procured, recorded, controlled and appropriately disposed of;
- Public monies are expended economically and efficiently;
- The figures contained in the Revenue and Appropriation accounts are correctly and properly stated.

3.5 Issues and concerns arising out of these audits are reported in the remainder of this Chapter.

General Issues

3.6 Ministries and Departments continue to report revenue, and, in some cases, expenditure on the cash basis even though the Government's basis of accounting has changed from cash to accrual. Under the accrual basis, tax due for a financial year is treated as revenue for that period regardless of whether or not monies were received. However, revenue for ministries and departments is generally being recorded when cash is received. This action is not compliant with the accrual principle and results in some distortions of what is reported as revenue.

3.7 The accrual basis of accounting also requires that expenses be recorded when service has been performed or goods delivered to departments



irrespective of whether payment is made at the time. There were numerous instances in which this principle was not applied, resulting in expenses not being recorded in the correct periods.

- 3.8** Ministries and Departments need to bring their accounting practices into line with the accrual accounting requirements, by reporting revenue and expenses according to the period in which they were due, irrespective of whether cash was paid or received. This would allow for the proper matching of revenue and expenses in a financial year.

Fixed Assets Register

- 3.9** As stated in previous reports, many Ministries and Departments do not have up-to-date Fixed Assets Registers containing the various assets and their values. This makes it difficult for auditors to verify the corresponding figure of \$1.3 billion for assets reported in the Financial Statements.

Response to Audit Queries

- 3.10** Before the publication of the Report all entities that were audited were given a draft copy of our findings and comments, and they were required to supply a response. This is important since I am of the view that all entities that are audited should be given an opportunity to clarify issues before they become part of the final report.
- 3.11** In a number of instances the entities audited did not provide a response and this is unfortunate.



Ministry of Foreign Affairs

Prior Year Expenditure

- 3.12** Sums totalling \$338,915 which related to expenditure that was incurred in prior accounting periods were paid during the 2011-2012 financial year. As a result, expenditure for the year was overstated by this amount which should have been shown as an expensed in prior periods.

Inland Revenue Department

Revenue Recognition

- 3.13** The Department is not recognizing revenue as required by International Public Sector Accounting Standards (IPSAS) to which the Government of Barbados subscribes. IPSAS 23, Revenue from Non-exchange Transactions, requires taxes to be recognized when the taxable event occurs (accrual basis).
- 3.14** Currently, the Department is recognizing revenue when cash is received (cash basis). As a result, the Audit Office was unable to verify revenue for the Department for the period under review. Therefore, no audit assurance could be placed on the revenue figure for the Department which is stated in the Consolidated Financial Statements prepared by the Treasury.

**3.15 It is recommended that:**

- The Inland Revenue Department recognizes revenue when it is earned and adequate records are provided for audit verification.

Accounts Receivable

3.16 No accounts receivable listings were presented for audit inspection as requested. As a result, no reliance could be placed on the accounts receivable figure stated in the Consolidated Financial Statements.

3.17 The accounts receivable figure reported in the Consolidated Financial Statements for the year ended 31st March, 2012 was stated as \$239,266,938. The Office's inability to verify the accounts receivable has been an on-going issue and has been reported in previous reports.

3.18 It is imperative that Inland Revenue Department, one (1) of the main revenue collecting agencies of the Government, be able to prepare a list of all outstanding monies owed to the Crown. The Department should use this information to devise a strategy on reducing the level of receivables.

3.19 It is recommended that:

- The Department ensures that an up-to-date receivables listing is kept and maintained. This information should be reported to the Ministry of Finance, Treasury Department and the Auditor General's Office as required by the Financial Management & Audit Act.



Refunds

3.20 Total refunds recorded by the Inland Revenue Department for the financial years ended 31st March, 2011 and 2012 were \$115.1 million and \$130.9 million, respectively. However, the figures recorded in the Consolidated Financial Statements for the same periods were \$113.9 million and \$125 million. This resulted in differences of \$1.2 million and \$5.9 million for the 2011 and 2012 financial years.

3.21 **It is recommended that:**

- **The Department ensures that a reconciliation of its refund figures with those reported in the Consolidated Financial Statements is carried out. These differences are material and impact on the accuracy of The Consolidated Financial Statements.**

Verification of Refund Cheques

3.22 Numerous errors involving refund cheques printed for taxpayers were discovered after the cheques were printed. These errors include:

- Duplication of cheques;
- Overpayment of refunds;
- Short-payment to taxpayers;
- Overpayment of Reverse Tax Credits;
- Incorrect assessments; and
- Payments made by taxpayers on filing being returned.



3.23 There were a number of cheques sent to taxpayers with errors and this was evidenced by a voluntary return of \$326,028.51 by taxpayers who were overpaid. Not all taxpayers would have voluntarily returned cheques, so it is unlikely that all overpayments would have been recovered.

3.24 **It is recommended that:**

- **The refunds are checked for errors before the requests for monies are sent to the Treasury.**

Refund cheques kept by Internal Audit

3.25 There were three hundred and twenty-nine (329) cheques (totalling \$1,430,621.37) in the Internal Audit Section at the time of the audit. These cheques were in respect of the period February, 2010 to March, 2012.

3.26 The Chief Internal Auditor indicated that these cheques were removed pending the outcome of further investigations.

3.27 The practise of removing cheques from their batches and keeping them for long periods should be discontinued. In the absence of adequate controls over these cheques, loss or misappropriation of funds can easily occur. In addition, numerous persons are inconvenienced as a result of the delays in being granted their refunds.

3.28 **It is recommended that:**

- **The Internal Audit Section conducts its checks in a timely manner and an adequate trail of these checks is maintained.**



Absence of Employer Information

- 3.29** There were three (3) cases out of a sample of twenty-five (25) where no employer information was seen in the system, but the taxpayer was given the reverse tax credit of \$1,300. These errors suggest that there is increased risk of taxpayers' who do not qualify for the reverse tax credits being paid.

Bank Reconciliations

- 3.30** Financial Rule 90 requires that bank reconciliation statements should be prepared not less than once a month and a copy submitted to the Treasury.
- 3.31** The audit found that no bank reconciliations were done for the periods under review. The Revenue Management Section indicated that bank reconciliations have not been prepared for the past three (3) to four (4) years.
- 3.32** Bank reconciliations are an important internal control mechanism that ensures that funds are accounted for, and errors detected. The lack of bank reconciliations has exposed the Department to the risk of not being able to detect errors and irregularities in the activities of the account, or identifying un-presented refund cheques. This matter was reported in the Auditor General's Report for a number of years but to date, no action has been taken to rectify the situation.

- 3.33** **It is recommended that:**

- **Action is taken immediately to rectify this situation since there is the risk of errors going undetected or misappropriation of**



funds occurring when bank statements are not reconciled on a timely basis.

Bank Deposits

3.34 Some taxpayers who were overpaid returned the monies to the Inland Revenue Department where it was collected and deposited into the bank. The monies deposited were \$73,066.86 less than what had been received.

3.35 Monies received from taxpayers are redeposited into the Department's refund bank account. This money should be returned to the Treasury since it was not used for the purpose intended, i.e refunds.

3.36 **It is recommended that:**

- **The Department investigates the shortfall of \$73,066.86 between monies received and deposited and take corrective action to prevent a recurrence.**
- **The monies collected from taxpayers for overpayment is paid into the Consolidated Fund.**

Internal Audit Section

3.37 The International Standards for the Professional Practice of Internal Auditing requires that the Internal Audit Section of an organization makes objective assessments of operations and shares ideas for best practices; provides counsel for improving controls, processes and procedures,



performance, and risk management; and suggests ways for reducing cost. This information should be transmitted to Senior Management. In addition, the external auditors should be able to rely on the work of the internal auditor in areas reviewed, so as to avoid duplication of effort.

3.38 No reports on internal controls tested by the Internal Audit Section for the period under review were presented for audit inspection. No evidence was seen of any documentation sent to Senior Management about weaknesses or recommended improvements to the internal controls of the Department.

3.39 **It is recommended that:**

- **The Internal Audit Section reviews all critical processes, especially where weakness have been identified and make appropriate recommendations to management.**
- **Proper documentation of work performed by the Internal Audit Section is kept.**

Electronic Tax System

3.40 The Electronic Tax System (ETAX system) was implemented in 2009 to replace the manual system used for the processing of returns and the payment of refunds. For the past three (3) years, various errors have occurred within the system; for example, duplication of refund cheques, and overpayment/underpayment of refunds, especially those relating to Reverse Tax Credits.

**3.41 It is recommended that:**

- The Department seeks to correct the errors attributed to the ETAX system.

Financial Reports

3.42 The Financial Management and Audit Act, 2007-11, Section 22:3 states that in respect of each financial year and within a period of three (3) months after the close of the financial year, accounting officers and collectors of revenue shall prepare, sign and transmit to the Director, the Auditor-General and the Accountant-General in such manner as the Director may direct, approved statements of receipts, revenue, receivables, refunds, waivers and remittances.

3.43 These statements were not submitted to the Auditor General's Office for the financial years ended 31st March, 2011 and 2012. Therefore, the audit could not confirm the balances of the accounts. This issue has been reported in the Auditor General's reports for the past two (2) years, but so far has not been rectified.

3.44 It is recommended that:

- The Department adheres to Section 22:3 of the Financial Management and Audit Act, 2007-11.



Request for Information

3.45 Numerous requests for reports were made by the Audit Office. The reports included the following:

- detailed listing of receivables;
- revenue reports;
- aging analysis of receivables;
- list of returns filed and processed by revenue type;
- list of internal audits conducted during the review period;
- list of taxpayers receiving two (2) or more refunds; and
- detailed lists of refunds granted.

3.46 To date, only a small fraction of all reports requested were received.

3.47 **It is recommended that:**

- **The Department ensures that all reports are presented for audit inspection as requested.**

Audit Comment

3.48 There are a number of significant challenges facing the Department in respect of the accounting systems and processes. The Department has been unable to provide information in respect of receivables and revenue collected as required by the Financial Management and Audit Act. The Department is a large collector of taxes and this information is critical in assisting the Audit Office to verify the revenue stated in the Consolidated Financial Statements.



- 3.49** There are a number of internal control procedures that are not being carried out and these include surprise inspections and bank reconciliations. Some of the issues highlighted in this report make it all the more essential that these activities take place on a regular basis in order to safeguard Governments' assets and the integrity of the revenue collection and refund processes.
- 3.50** The challenges facing the refund process are quite substantial and issues such as duplication of the payment of refunds have been on-going for some time. It is not clear that the source of these problems has been identified and a greater effort is required to prevent these duplications and overpayments.
- 3.51** There appears to be lax control over the movement of cheques and this has resulted in a number of them being held in various Sections of the Department for prolonged periods. In some instances, they were held for over twenty-four (24) months. There was no evidence that records of these cheques held by the Sections were kept to facilitate an adequate trail of their movement. The holding of these cheques for prolonged periods increases the risk of loss or misappropriation occurring.
- 3.52** For a number of years, the Department has been unable to provide an accounts receivable listing. This situation is unacceptable. The accounts receivable for the Department is substantial and relevant information is needed to plan strategies for its reduction. In addition, these receivables form a significant part of Government's assets and reliable figures are required for incorporation into the Consolidated Financial Statements.
- 3.53** The Electronic Tax System (ETAX System) has been operating for a number of years and members of staff have been complaining about a list of anomalies attributed to this system which include the issuing of



duplicate refunds and payments to persons not entitled. Adequate resources need to be applied to resolve this matter since the issues highlighted are numerous, and can result in considerable loss of funds to Government.

- 3.54** There have been challenges in obtaining relevant financial reports on the operation of the Department by the audit officers. In order to give assurance to the accuracy of the financial information provided and the level of controls in the Department, the Audit Office will require a variety of reports. These reports include detailed listing of receivables, revenue reports, aging analysis and detailed lists of refunds granted whether by cheque, direct deposits or tax certificate. It is hoped that this information will be available for our audit of the 2012-2013 financial year.

Land Tax Department

Revenue Collected

- 3.55** Land Tax Revenue was reported in the Consolidated Financial Statements prepared by the Treasury, as \$131.1 million. The total revenue reported by the Department during the audit was \$137.8 million.
- 3.56** The difference of \$6.7 million could not be verified. As a result there was no assurance that Land Tax revenue was accurately reported in the financial statements of Government.
- 3.57** **It is recommended that:**
- **The Department ensures that annual revenue is reconciled with the figures reported by the Treasury.**



- The reasons for the difference are investigated in collaboration with the Treasury to avoid a recurrence.

Adjustments to Revenue

3.58 Adjustments were made to the Land Tax revenue account held at the Treasury for September, 2011 and March, 2012 by the Treasury in the amount of \$1.5 million and \$35.9 million respectively. The Department was unable to substantiate these transactions.

3.59 **It is recommended that:**

- The Treasury ensures that revenue is accurately reported in The Consolidated Financial Statements.
- Any adjustments made to its revenue should be supported by relevant schedules.

Accounts Receivable

3.60 Arrears as at March 31, 2012 totalled **\$176.7 million**. It was reported that there were 36,393 land owners in arrears. No plans were submitted by the Department of its strategy for collection of arrears in accordance with Financial Rule No.167 (1).

3.61 Thirty-nine (39) plots were submitted for notice of sale; however, no properties were auctioned.



3.62

It is recommended that:

- The Department uses the options available in the Land Tax Act, Sections 29 - 34 to address the increase of arrears.
- A Compliance Unit is set up to ensure that the collection of arrears is dealt with in a timely manner.
- Financial Rule 167 is adhered to.

Response from the Land Tax Department

This area continues to receive attention from the Department. While the comments of the Auditor General are accepted, the Department was unable to follow up for a number of reasons.

The lien of the Department debt lies on the land and NOT on the individual. A Compliance Unit, although a welcomed addition, could only be effective on those persons who had agreed to pay arrears and who had reneged on their commitments.

The long awaited Central Revenue Authority, which is slated to be enacted from the 1st April, 2013 is designed to encompass all such activities throughout the four revenue collection agencies entities. It is thereby not likely that any new unit can be effectively put in place.

As stated earlier, we have lost the services of our Legal Assistant and to date there has been no replacement and given the current climate, the appointment of a substitute seems unlikely. The Legal Assistant was the main functionary dealing with Sales of Properties and with no one in the post, the brunt of the responsibility has fallen back on the Accounting



Officer. We have however continued to issue notices and will use the Power of Sale where it is appropriate.

Rebates

3.63 Agriculture rebates continued to be approved by the Department without the accompanying certificate from the Minister of Agriculture. Section 8A (2) of the Land Tax Act, Cap. 78 A states that an application made under subsection (1) (rebate of tax payable in respect of agricultural land) must be accompanied by a certificate signed by the Minister responsible for Agriculture, or by a person authorized by him, to the effect that the land is being used exclusively for agricultural purposes. Without the certificate, the Department cannot be sure of the correct land use of the applicant. This results in the risk of rebates being given when none are due.

3.64 **It is recommended that:**

- **The Department should only grant rebates when the relevant certificate is provided by the Minister of Agriculture.**

Response from the Land Tax Department

This concern has been previously raised and steps have been put in place to ensure that all rebates are issued only when full compliance with the regulations is met.



Barbados Defence Force

Pension Fund

3.65 In accordance with the provisions of Section 36 of the Financial Management and Audit Act, 2007-11, an audit of the records of the Defence Force Pension Fund for the periods ended March 31, 2010, 2011 and 2012 was carried out.

3.66 The following observations are made in this regard.

Preparation of Financial Statements

3.67 Records were kept of the Pension Fund; however, financial statements were not prepared in compliance with Section 7(1) of the Defence (Pension) Regulations 2007. An annual statement of receipts and payments showing the opening and closing balances, as well as funds received and expended during the year, was not presented for audit inspection as requested.

3.68 **It is recommended that:**

- **The Barbados Defence Force prepares financial statements for the Pension Fund to be audited in compliance with the Regulations.**



Ministry of Agriculture, Food, Fisheries and Water
Resource Management

Accounts Receivable

- 3.69** The Ministry submitted a statement of arrears to the Auditor General's Office stating that the balances of the Accounts Receivable as at 31st March, 2012 totalled \$749,222.60. This was \$133,774.75 more than the figure in the Government's Financial Statements. The Financial Statements were therefore understated by this amount in this instance.
- 3.70** Rental of Market Facilities are covered by a Memorandum of Agreement. This contract stipulates that where payments are due and owing in excess of two (2) months, the Department shall issue a notice in writing to the tenant, requesting payment of all sums due within one (1) month of the date of the said notice. If payment is not made within one (1) month, the Memorandum of Agreement shall cease to have effect.
- 3.71** An analysis of Accounts Receivable related to the above-mentioned markets revealed that the Department was not proactive in dealing with delinquent clients. Clients whose accounts were several years in arrears were identified, but no evidence was presented to show that such contracts were terminated in the absence of payment agreements.
- 3.72** **It is recommended that:**
- **The requirements of the Memorandum of Agreement are enforced as this level of arrears is untenable.**



- The Ministry must also ensure that its accounts receivable balances are accurate and reconciled with the Accountant General's financial records.

Unauthorized Expenditure

3.73 The Ministry incurred expenditure which was not provided for within the Estimates or by Supplementary Estimates, contravening Financial Rule 60. This transpired due to a lack of adequate monitoring by the relevant accounting personnel. The following should be noted.

Account No.	Estimates (Allotment) \$	Amount Incurred \$	Unauthorized Expenditure \$
26 164 0175 211	1 800,921.00	1,888,247.40	87,326.40
26 163 0173 314	235,000.00	271,390.77	36,390.77

3.74 **It is recommended that:**

- All expenses incurred are authorized by Parliament.

Training Administration Division

Reports to Parliament

3.75 According to the Public Service Act 2007-41 Section 27, the Minister shall, not later than 4 months after the end of each financial year, cause to be



laid before Parliament separate reports on the Public Service Training Fund and the Training Loan Fund showing:

- (a) in the case of each Fund, the number of awards made and in force and the amount of each award;
- (b) in the case of the Training Loan Fund, the number of loans made and the amount of each loan; and
- (c) in each case, the state of the Fund.

3.76 Reports were not submitted to Parliament as required in the Public Service Act 2007-41. No reason was given for the failure to submit these reports. This will impact on Parliament's ability to adequately monitor the operations of the Funds.

Financial Statements

3.77 Financial Statements were not presented for audit inspection for the financial years ended 31st March, 2011 and 31st March, 2012 in accordance with the Financial Rules. The Division has therefore not complied with its statutory obligations. This failure has also prevented Parliament from being provided with the relevant assurance that the accounts were being prepared in accordance with the necessary accounting standards, and were free of any misstatements.

3.78 **It is recommended that:**

- **The Financial Statements are prepared as required by the Financial Rules.**



Bank Reconciliations

- 3.79** The bank reconciliation statements have not been prepared for the financial years under review in accordance with the Financial Rules. In some instances documentation for the transactions could not be located, therefore, the bank balance could not be verified.

Training Loan Fund

- 3.80** The following observations were made in respect of the Training Loan Fund.

Recovery of Arrears

- 3.81** There is no formal policy for the recovery of arrears.
- 3.82** Statements of arrears were not submitted to the Director of Finance and Economic Affairs, Accountant General and Auditor General in accordance with Financial Rule 41.
- 3.83** The loan balance of \$2,520,041.58 indicated by the subsidiary ledgers maintained by the Training Administration Division was not recorded by the Treasury resulting in an understatement of Government's assets by this amount.

Interest Rates

- 3.84** Interest payable on training loans was incorrectly calculated. The General Orders Paragraph 7.11.8, require that a fixed rate of 4% simple interest be charged annually. However, the Division applied the 4% interest only on



the principal for the first year, resulting in a substantial undercharging of interest. This issue was drawn to the attention of the Division by the Audit Office in a previous audit report.

Ministry of Education and Human Resource Development

Accounting Transactions

- 3.85** The Government of Barbados currently uses the accrual basis of accounting to record its transactions which involves expensing goods or services when delivered or performed. In addition, all liabilities at the close of the financial year should be reported to the Treasury to be listed on the Consolidated Financial Statements.
- 3.86** It was however observed that considerable sums owed to the University of the West Indies were not listed as a liability on the Financial Statements as required. This resulted in Government's liability on The Consolidated Financial Statements being considerably understated. The University indicated that the outstanding balance was in excess of \$154 million as at 31st July 2012. The bringing to account of these transactions would also have increased Government expenditure by a considerable amount.
- 3.87** **It is recommended that:**
- **The Ministry ensures that an adequate accounting system is maintained. This would ensure that expenditure in respect of the University of the West Indies is accounted for when the**



service has been performed, irrespective of whether any funds were disbursed.

- Any amounts due but not paid are recorded as a liability.
- Information is made available so that the auditors can verify any transactions or remaining balances on the accounts.

Education Project Implementation Unit

Fixed Assets

3.88 Capital Expenditure in respect of a number of Government buildings under the Ministry were not properly brought to account in Government's financial statements. The cost of a number of projects relating to school buildings was assigned as **Assets under Construction**. However, these buildings were completed and the development cost of \$4.1 million should have been transferred to the correct asset account, which is Plant, Equipment and Furniture.

3.89 Examples were as follows:-

Name of School	Cost (\$)
Lawrence T. Gay Memorial	1,139,835.73
George Lamming Primary	262,928.15
St. Martin's Four Roads Primary	72,124.34
All Saints	327,627.20
Gordon Greenidge Primary	474,287.22



Name of School	Cost (\$)
Hilda Skeene Primary	291,540.97
Ignatius Byer Primary	316,077.40
St. Lawrence Primary	140,395.01
Springer Memorial School	472,510.35
St. Michael's School	263,285.40
Grantley Adams Memorial School	68,951.67
Christ Church Foundation	172,824.21
Alma Parris Memorial Secondary	103,109.89

3.90 Personnel in the Unit indicated that they were unaware of the necessary accounting entries. As a result, the Assets under Construction account is overstated, and the Plant, Equipment and Furniture account short stated. In addition, these assets which should have been transferred are not being depreciated as required.

3.91 **It is recommended that:**

- The appropriate records transferring the Assets under Construction to the Fixed Assets Account are prepared. The Treasury should take the lead in educating accounting personnel on correctly preparing these types of transactions.



Ministry of Health

Prior Year Expenditure

- 3.92** There were numerous payments during the year totalling in excess of \$872,000 which related to expenditure that was incurred in prior accounting periods. As a result, expenditure for the 2011-2012 financial year was overstated by this amount.

Annual Contributions and Subscriptions

- 3.93** Monies paid during the 2011-2012 financial year to three (3) organisations in respect of annual contributions and subscriptions included contributions of \$36,209.05 for the period January to March 2011. In keeping with the accrual basis of accounting, this amount should have been apportioned to the financial year 2010-2011 but was apportioned to 2011-2012. As a result, expenditure for the year was overstated by \$36,209.05.

Late Payment of National Insurance Deductions

- 3.94** Employers are required to submit National Insurance contributions on behalf of employees' not later than the 15th day of the following month. Deductions were submitted to the National Insurance Department after a delay of two (2) months. Late payments to the National Insurance Department should be avoided as this practice is not in keeping with the law.



Hotel Accommodation

- 3.95** A number of accounts involving sums advanced for hotel accommodation overseas have not been reconciled. According to information received, the persons involved did not present the relevant hotel bills on their return to Barbados.
- 3.96** Except in the case of the Governor General, the Chief Justice and members of Cabinet the relevant hotel receipts must be provided by public officers who had travelled overseas on Government business.

Barbados Drug Service

Inventory Management

Stock of Drugs Not Properly Accounted For

- 3.97** The annual stock counts carried out in March 2012 revealed numerous differences between the balances in the stock records and the corresponding stock. Inquiries revealed that these differences were not properly investigated to ascertain reasons for their occurrence, but instead, the stock records were adjusted to reflect the balances found during the stock counts.
- 3.98** This practice is unsatisfactory and should not be encouraged, since some of the differences included substantial shortages.
- 3.99** There was no documented evidence of occasional surprise checks being carried out in respect of stocks of drugs. Such checks would indicate if accurate records are being maintained and if the stock is properly



accounted for. They would also provide more timely information for management when significant differences occur.

Accounting for Expired Drugs

- 3.100** Some pharmacies did not provide a complete record of the names and values of the drugs which had expired during the year. As a result, the total value of the expired stock of drugs for 2011-2012 could not be readily determined. The provision of these details would place management in a better position to determine if there was significant wastage of the stock and where such wastage had occurred.
- 3.101** A substantial quantity of drugs purchased in 2009 in connection with the H1N1 virus alert was still in storage at the Drug Service when the audit was carried out. Inquiries have revealed that the stock, which cost in excess of \$800,000, expired in October 2011, which represents a considerable loss to Government. It is noted that efforts were made to utilise the large quantity of unused stock prior to the expiry date. Expenditure involving such large sums should be given more careful consideration before being undertaken, so as to avoid wastage of Government resources.

Contract Register

- 3.102** An up-to-date register of contracts was not in place at the time of the audit inspection. Rule 229 of the Financial Management and Audit (Financial) Rules, 2011 states that an accounting officer of a department shall maintain a Register of Contracts which shall contain the contracts



awarded for services or supplies. The Department should therefore ensure that the Financial Rules are adhered to.



CHAPTER 4

Audit of Statutory Boards, Government Companies and Controlled Entities

The Audit Office reports to Parliament on the status of the audits of all Government entities annually. Some of these audits are conducted by the Auditor General's Office and some by auditors in the private sector. The following is a status report on the audits of Statutory Boards, Government Companies and Controlled Entities conducted by the Audit Office and private sector auditors:-

Audits of Statutory Boards and other Agencies Conducted by the Audit Office

Arts and Sports Promotion Fund

- 4.1** The Arts and Sports Promotion Fund was established under the Arts and Sports Promotion Fund Act 2003. The purpose of the Fund is to provide financial assistance to activities and programmes conducted by arts and sporting organizations for the development and practise of arts and sports.
- 4.2** Revised financial statements for the financial years ended 31st March, 2008, 2009, 2010 and 2011 were requested due to discrepancies in the allocation of duties received from lotteries. The requested financial statements were not resubmitted for audit verification.



Barbados Boxing Board of Control

- 4.3 The Barbados Boxing Board of Control has responsibility for the promotion and regulation of boxing in Barbados. The Board receives an annual grant from the Barbados Government. Regulation 16 of the Control of Boxing Act requires the Auditor General to audit the accounts of the Board. The Boxing Board has however not submitted any accounts for audit since the financial year ended 31st December, 1993.
- 4.4 For a number of years I have been reporting that the Boxing Board of Control has not been submitting accounts to be audited but little so far has been done by the Ministry responsible for sports to address this situation.

Barbados Community College

- 4.5 The audit of the accounts of the Barbados Community College (BCC) is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. There was no audit of the accounts of the College during the year. The Principal had requested a delay in the commencement of the audit because the College was updating its accounting system. This request was first made in September, 2011 and was repeated in May, 2012.
- 4.6 The audit of the accounts of the College is now three (3) years in arrears. It is unacceptable that this institution which has received over \$60 million in funding over the past three (3) years could not be audited annually as required by the BCC Act, Cap. 38. I have notified the Principal in writing and inform that the assigned audit officer will be inspecting the accounts to formulate our views on their adequacy. The auditing of the accounts is necessary to give Parliament the assurance that the financial affairs of the College have been conducted in accordance with its governing



legislation, and should not be further delayed.

Barbados Defence Force

- 4.7 The accounts for the Barbados Defence Force for the financial year ended 31st March, 2012 have been submitted and this audit will commence shortly.
- 4.8 There is however an issue as it relates to the audit of the Pension Account. The Barbados Defence Force has not submitted financial statements for this fund in compliance with Section 7(1) of the Defence (Pension) Regulation 2007.

Barbados Hospitality Institute

- 4.9 The Barbados Hospitality Institute, which falls under the aegis of the Barbados Community College, conducts training for persons in the hospitality industry. The audit of the accounts of the Barbados Hospitality Institute is currently three (3) years in arrears. This is primarily as a result of that institution requesting that the audits be delayed. This action however prevents the institution from obtaining an appropriate level of oversight of its finances.
- 4.10 A review of the accounting systems and practices of the Institute will be undertaken by my Office, notwithstanding a request that the audits be rescheduled.

Barbados Liaison Service - Miami



4.11 The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. The accounts for the financial years ended 31st March, 2011 and 2012 are currently outstanding.

Barbados Liaison Service - Toronto

4.12 The Barbados Liaison Service in Toronto administers a programme relating to farm workers attached to farms in Canada. An on the spot audit of the accounts of the Liaison Service was conducted in 2012 and the relevant audit report was issued.

Caribbean Centre for Development Administration

4.13 The Caribbean Centre for Development (CARICAD) provides assistance to the countries of the Caribbean area for the purpose of improving their administrative capability. The accounts for CARICAD for the financial year ended 31st March, 2012 are currently outstanding.

Catastrophe Fund

4.14 The Catastrophe Fund, which was established in April, 2006, provides financial aid to any low income earner who owns and occupies a chattel house valued at not more than \$125,000, and where that house is damaged or destroyed by a catastrophe. The accounts for the financial years ended 31st December, 2010 and 2011 have not been submitted for audit and therefore remain outstanding.

Central Emergency Relief Scheme



- 4.15** The Auditor General is required under Section 14 of the Central Emergency Relief Scheme to audit the statements of income and expenditure of the Central Emergency Relief Fund. The accounts for the financial years ended 31st December, 2006 to 2011 were not submitted for audit and I am unaware of the continued existence of this fund which was a precursor to the Catastrophe Fund.

Central Liaison Service

- 4.16** The Central Liaison Service (Regional Security System) is an organization supported by certain Caribbean countries. Its purposes include assisting with the fight against illegal narcotics, assisting with relevant emergencies and combating threats to national security in member states. The accounts of the Central Liaison Service for the financial year ended 31st March, 2012 were submitted for audit which will commence shortly.

Community Legal Services Commission

- 4.17** The Community Legal Services Commission provides legal aid to persons in the community who meet certain criteria. The accounts of the Commission for the financial year ended 31st March, 2010 have been submitted and are currently being audited. The accounts for the years ended 31st March, 2011 and 2012 have not been submitted.
- 4.18** The audit of these accounts has traditionally been completed in a timely manner, however in recent years the Commission has been experiencing some problems with the preparation of its accounts. The Commission should seek assistance from an accounting firm in preparing the financial



statements if its in-house accounting capabilities are inadequate.

Erdiston Teachers' Training College

- 4.19** The Erdiston Teachers' Training College is an educational institution established for the training of teachers. The accounts of the College for the financial years ended 31st March, 2010 and 2011 were completed during the year; the accounts for the year ended 31st March, 2012 were not presented for audit examination.

National Assistance Board

- 4.20** The National Assistance Board provides assistance to poor and needy persons in the country. In accordance with Section 6 (2) of the National Assistance Act, Cap. 48, the National Assistance Board is required to submit its annual accounts within three (3) months of the end of each financial year, to the Auditor General for audit.
- 4.21** The audit of the accounts of the National Assistance Board for the financial year ended 31st March, 2011 was conducted during the year and a number of internal control issues were brought to the attention of management. It was observed that there were over fifty (50) persons employed in posts which were not approved by the Ministry of the Civil Service as required. The Board is now seeking to have the posts established after the fact.
- 4.22** This appears to be a growing trend in Government where agencies are unwilling to follow the established procedures in the creation of a post. Action should be taken to bring such situations under control. The accounts for the financial year ended 31st March, 2012 are currently



outstanding.

National Insurance Fund

- 4.23** The audit of the National Insurance Fund is eight years in arrears and this situation is unacceptable. The Audit Office has employed auditors from the private sector in an effort to bring the audits up to date. However, this process has not progressed as planned, the main problem being the unavailability of pertinent information in support of amounts listed on the Financial Statements. This includes obtaining third party confirmation for investments after so many years had passed.
- 4.24** The audit for the 2003 financial year concluded in January, 2013 and the audit for 2004 is expected to be completed in March, 2013. The contracted auditors have indicated that they will attempt to conduct the audit for the 2005 to 2009 financial years during the period 1st April to 31st May, 2013.
- 4.25** The timely audit of the National Insurance Fund is important for all its stakeholders and I anticipate there will be challenges in bringing the audits up-to-date during 2013. This audit can only progress quickly if appropriate resources (audit as well as accounts) are available and support schedules and information are provided in support of the amounts shown on the financial statements.

Samuel Jackman Prescod Polytechnic

- 4.26** Section 6 (1) of the Samuel Jackman Prescod Polytechnic Board of Management Order, 1983 (S.I. 1983 No. 78) requires the Board to submit to the Minister on or before 1st October, in respect of the preceding



financial year, Statements of Account audited by the Auditor General.

- 4.27** The audit of the Polytechnic has been in arrears for several years. The financial statements for the period 1998-2009 were not presented for audit. The accounts for the financial years ended 31st March, 2010 and 2011 were presented for audit but not in an acceptable format and supporting schedules were not made available. I was therefore unable to express an opinion on the fairness of these accounts.

Sanitation Service Authority

- 4.28** The audit of the accounts of the Sanitation Service Authority for the financial year ended 31st March, 2009 commenced during the year. The audits of accounts for the financial years ended 31st March, 2011 and 2012 are currently outstanding. The delay in having the accounts audited is unacceptable and prompt action needs to be taken to have the accounts available for audit in a timely manner.

Severance Payment Fund

- 4.29** The accounts of the Severance Payment Fund for the financial years ended 31st December, 2007, 2008 and 2009 were audited. However, revised statements are to be submitted due to deficiencies highlighted. Accounts for the 2010 and 2011 financial years have not been submitted for audit.

***Sugar Factory Smoke Control Board***

- 4.30 The Revenue and Expenditure Accounts of the Sugar Factory Smoke Control Board for the years ended 31st December, 2001 to 2011 have not been submitted in accordance with Section 3 (11) of the Registered Sugar Factories Smoke Control Act, Cap. 355. The audit of these accounts therefore remains outstanding.

Sugar Industry Research and Development Fund

- 4.31 The Receipts and Payments Accounts for the financial year ended 31st December, 2011 were submitted for audit as required by Section 15 (2) of the Sugar Industry Act, Cap. 270. No material errors in the financial statements were discovered during the course of the audit.

Sugar Workers' Provident Fund

- 4.32 The Sugar Workers' Provident Fund provides pensions and funeral grants to persons previously employed in the Sugar Industry, and who were not entitled to a contributory or invalidity pension under the National Insurance and Social Security Act. The accounts for the financial years ended 31st December, 2010 and 2011 have not been submitted for audit.

Unemployment Fund

- 4.33 The Unemployment Fund is administered by the National Insurance Fund. The accounts of the Unemployment Fund for the financial years ended 31st December, 2010 and 2011 were not submitted for audit and are currently outstanding.



Audits Conducted by Private Sector Auditors

- 4.34 Section 113 of the Constitution requires the Auditor General to be the auditor of Ministries/Departments and Government controlled entities; and although the following audits were not conducted by my Office, I will nevertheless continue to report the status of each entity to Parliament. It should be noted that the audits of a number of these boards or agencies are not up to date. A report on the status of these audits is as follows:

Statutory Boards and Government Companies

Barbados Agricultural Credit Trust Ltd.

- 4.35 The principal activity of the Barbados Agricultural Credit Trust Ltd (BACTL) is the management of the debt of the Barbados Sugar Industry Ltd (BSIL) and the Heavily Indebted Plantations (HIPs), a responsibility which was assumed from the Barbados National Bank in the form of a portfolio transfer. The audit for the financial year ended 30th June, 2012 has been completed.

Barbados Agricultural Development and Marketing Corporation

- 4.36 The Barbados Agricultural Development and Marketing Corporation (BADMC) consists of two (2) merged entities: the Barbados Marketing Corporation (BMC) and Barbados Agricultural Development Corporation (BADC). The principal activity under Section 10 of the Act is the management of the production, marketing and processing of produce in Barbados. The BADC was established by the BADC Act, 1965 - 21 to



stimulate, facilitate and undertake the development of agriculture and to develop and manage, on a commercial basis, Government plantations along the line of Government policies.

- 4.37 The audit of the accounts for the financial year ended 31st March, 2010 is reported to be in progress. Audits for the financial years 2011 and 2012 are outstanding.

Barbados Conference Services Ltd.

- 4.38 The Barbados Conference Services Ltd (BCSL) is responsible for the operations of Sherbourne Conference Centre and provides destination management and transport services under the brand names, 'Horizon Events' Planners and 'Horizon Coaches and Tours' respectively. BCSL has reported that the audit of the accounts for the financial year ended 31st March, 2012 has been completed and is awaiting sign-off by the Board.

Barbados Investment and Development Corporation

- 4.39 The Barbados Investment and Development Corporation (BIDC) was established under the Barbados Investment and Development Corporation Act, 1992 – 30 for the purpose of developing Barbados' industrial, off-shore financial, export and other related activities. The BIDC has reported that the audit for the financial year ended 31st March, 2012 is in progress.

Barbados National Oil Company Ltd.

- 4.40 The Barbados National Oil Company Ltd. (BNOOC), through its wholly owned subsidiary is involved in the exploration and production of crude oil,



natural gas and liquefied petroleum gas (LPG). The BNOC is also engaged in the processing of crude oil and the sale of petroleum products to the Barbados market. The BNOC has indicated that the audit of the financial statements for the period ended 31st March, 2012 is in progress.

Barbados National Productivity Council

- 4.41 The principal activities of the Barbados National Productivity Council (BNPC) are: to create and develop methodologies for measurement, management and improvement in the public service and private sector, and to provide technical advice and assistance for devising productivity related payment schedules. The audit of the accounts for the financial year ended 31st March, 2012 is outstanding.

Barbados Port Inc.

- 4.42 The principal activity of the Barbados Port Incorporated is to manage the Port of Bridgetown, for the main purpose of enabling the Port to operate as a commercial activity. The audit of the accounts for the year ended 31st December, 2011 has been completed.

Barbados Tourism Authority

- 4.43 The principal activities of the Barbados Tourism Authority (BTA) are to promote, assist and facilitate the efficient development of tourism, and to design and implement suitable marketing strategies for the effective promotion of the tourism industry.



- 4.44 The BTA has indicated that it is awaiting the return of the accounts for the financial year ended 31st March, 2011 from the auditors, and the audit of accounts for the year ended 31st March, 2012 is in progress.

Barbados Tourism Investment Inc. (BTII)

- 4.45 The principal activities of the Barbados Tourism Investment Corporation are the facilitation of tourism investment in Barbados, and the development of its vested properties in private and public partnerships.
- 4.46 The Corporation has reported that the audit of the accounts for the financial year ended 31st March, 2011 is in progress, and the audit for the year ended 31st March, 2012 remains outstanding.

Barbados Vocational Training Board

- 4.47 The National Training Board was set up under the Occupational Training Act, 1979, Cap. 42 to ensure an adequate supply of trained manpower through occupational training for apprentices and trainees. The name of the Board was subsequently changed to the Barbados Vocational Training Board (The Board) under Section (2) of the Technical and Vocational Educational Training Act, 1994 - 11. The Mission of the Board, however, has remained unchanged.
- 4.48 The management of the Training Board has reported that the audit of the accounts for the financial year ended 31st March, 2006 is in progress, and that generally the audits are in arrears due to lost data, errors and scheduling problems with auditors. This was also the position reported in my last report.



- 4.49 The Board has indicated that it is seeking to have the audits for three (3) years completed in 2012. It will therefore take some time before these audits are up to date.

Barbados Water Authority

- 4.50 The Barbados Water Authority (BWA) was established by the Barbados Water Authority Act 1980 - 42 to take over the functions, rights and liabilities of the Waterworks Department on the “appointed day”, which is regarded as 1st April, 1981.
- 4.51 The BWA reported that the audit of the accounts for the financial year ended 31st March, 2009 is near completion. The audits for the financial years ended 31st March, 2010, 2011 and 2012 remain outstanding.

Caribbean Broadcasting Corporation

- 4.52 The principal activity of the Caribbean Broadcasting Corporation (CBC) is the provision of broadcasting services through radio and television. The audit for the financial year 2012 is outstanding.

Caves of Barbados Ltd

- 4.53 Caves of Barbados Ltd (CBL) is mandated under the Caves Act 2000 - 12 to manage and develop Harrison’s Cave and any other caves in Barbados. The CBL has reported that the audit for the financial year ended 2010 is in progress.

**Child Care Board**

- 4.54** The principal activities of the Child Care Board are to provide and maintain child care institutions for the safe keeping of children in need of care and protection; and to make grants to voluntary organizations or bodies operating child care institutions. The Board reported that the audit for the financial year ended 31st March, 2012 is in progress.

Enterprise Growth Fund Limited

- 4.55** The principal activity of the Enterprise Growth Fund Limited (EGFL) is the provision of loan financing and venture capital to dynamic, small and medium sized Barbadian companies in the productive sectors. EGFL also provides business advisory services and technical assistance to its client companies. The audit of the accounts for the financial year ended 31st December, 2011 has been completed.

Fair Trading Commission

- 4.56** The principal activity of the Fair Trading Commission (FTC) is to enforce the Utilities Regulation Act, Cap. 282, the Telecommunications Act, Cap. 282B, the Fair Trading Competition Act, Cap. 326C and the Consumer Protections Act, Cap. 326D.
- 4.57** The Commission is required to promote efficiency and competitiveness, and improve standards of service and quality of goods and services supplied by service providers and business enterprises over which it has jurisdiction. The audit of the accounts for the financial year ended 31st March, 2012 has been completed.

**Financial Services Commission**

4.58 Financial Services Commission (FSC) commenced operations on 1st April, 2011 under the Financial Services Commission Act, 2010. The Commission represents an amalgamation of the former Registrar of Co-operatives, the Securities Commission and the Supervisor of Insurance and Pensions.

4.59 The functions of the Financial Services Commission (FSC) include the supervision and regulation of the operations of financial institutions, the establishment of standards for institutional strengthening for the control and management of risk in the financial services sector and for the protection of customers of financial institutions as well as creditors and the public, and the promotion of stability, public awareness and public confidence in the operations of financial institutions. The audit of the accounts for the financial year ended 31st March, 2012 has been completed.

Grantley Adams International Airport Inc.

4.60 The Grantley Adams International Airport Inc. (GAIA) is responsible for the commercial operations and management of the airport in accordance with the Grantley Adams International Airport (Transfer of Management and Vesting of Assets) Act (Act 2003 - 3).

4.61 GAIA has reported that the audit of the accounts for the financial year ended 30th June, 2012 is in progress.

***Hotels and Resorts Ltd.***

- 4.62** Hotels and Resorts Ltd. was incorporated under the Laws of Barbados on 27th December, 1995. The principal activity of Hotels and Resorts Ltd. is the investment in, and development of, hotel premises.
- 4.63** The Company has indicated the audit of the accounts for the financial year ended 31st December, 2011 is currently in progress.

Islandcrafts (Barbados) Inc.

- 4.64** The principal activity of Islandcrafts (Barbados) Inc. is the sale and marketing of indigenous handicraft items. Islandcrafts reported that the audit of the accounts for the financial year ended 31st March, 2008 and 2009 are to be submitted by the auditors. The entity has indicated that the audits of the accounts for the financial years ended March, 2010 to 2012 are outstanding.

National Conservation Commission

- 4.65** The principal activity of the National Conservation Commission (NCC) is the management, maintenance and development of the public parks, beaches and open areas of Barbados.
- 4.66** Audits of the accounts of the Commission have been completed up to the financial year ended 31st March, 2007. The Commission has reported that the audits of the accounts for the financial years ended 31st March, 2008 and 2009 are in progress. The audits for the financial years ended 31st March, 2010 and 2011 have not commenced.

**National Council on Substance Abuse**

- 4.67** The principal activity of the National Council on Substance Abuse (NCSA) is to advise the Ministry of Home Affairs on measures for the eradication or control of substance abuse.
- 4.68** The Council reported that the audit for the financial year ended 31st March, 2009 is in progress and the audits for the years ended March, 2010, 2011 and 2012 are outstanding.

National Cultural Foundation

- 4.69** The principal activities of the National Cultural Foundation (NCF) are to stimulate and facilitate the development of culture, organize and assist in cultural activities, and develop, maintain and manage theatres and other cultural facilities and equipment provided by the Government of Barbados.
- 4.70** The Foundation has indicated that the audits of the accounts for the financial years ended 31st December, 2011 and 2012 are outstanding.

National Housing Corporation

- 4.71** The National Housing Corporation is a state agency which has responsibility for the development of land and the construction of housing units for sale or rent to low and middle-income persons. The Corporation has reported that it is awaiting the submission of the audits for the financial years ended 31st March, 2008 to 2011. The audit for the financial year ended 31st March, 2012 is outstanding.

***National Petroleum Corporation***

- 4.72** The National Petroleum Corporation (NPC) has as its principal activity the supply of natural gas to industrial, commercial and domestic customers. The audit of the accounts of the NPC for the financial year ended 31st March, 2010 has been completed. The Corporation reported that the audits of the accounts for the financial years ended 31st March, 2011 and 2012 are currently in progress.

National Productivity Council

- 4.73** The National Productivity Council has indicated that the audit of the accounts for the financial year ended 31st March, 2012 has not been completed.

National Sports Council

- 4.74** The principal activities of the National Sports Council (NSC) are to maintain and develop sporting facilities provided for public use, and to stimulate the development of sports in Barbados. The audit of the financial statements for the year ended 31st March, 2012 has been completed.

Queen Elizabeth Hospital

- 4.75** The Queen Elizabeth Hospital (QEH) has as its principal activities the provision of medical care for patients, facilitating the provision of medical education and research, and providing facilities and technical support for education and training in nursing and other health related professions.



4.76 The audits for the financial years ended 31st March, 2009 to 2012 are outstanding.

Rural Development Commission

4.77 The Rural Development Commission (RDC) was incorporated on 21st August, 1995 under the Rural Development Commission Act, 1995-12. Its principal activity is to improve the quality of life of persons living in rural communities in Barbados.

4.78 The Commission had reported that the audits of the financial statements for the years ended 31st March, 2005 to 2007 were in progress. No additional information has been provided on the status of these and subsequent audits, as requested by the Audit Office. The audit of the Commission is therefore several years in arrears.

Student Revolving Loan Fund

4.79 The principal activity of the Student Revolving Loan Fund (SRLF) is to assist in the educational process through the provision of loans. SRLF has reported that the audit of the accounts for the financial year ended 31st March, 2011 is in progress. The audit for the financial year ending 31st March, 2012 is outstanding.

Technical and Vocational Education and Training (TVET) Council

4.80 The principal activities of the Technical and Vocational Education and Training (TVET) Council are to provide advice on policy, and to prepare plans and establish standards for technical and vocational education at the tertiary



level, in accordance with national policies and economic needs.

- 4.81** The Council has indicated that the audit of the accounts for the financial year ended 31st March, 2012 is in progress.

Transport Board

- 4.82** The Transport Board's principal activity is the provision of transportation to the general public. The audits of the financial statements for the years ended 31st March, 2010, 2011 and 2012 are still outstanding. External assistance has been sought to help with the verification of stock balances.

Urban Development Commission

- 4.83** The principal activities of the Urban Development Commission (UDC) are to undertake slum clearance and improve social amenities in urban areas. The UDC also provides loans to individuals with small enterprises, and for assistance in house acquisition, repairs and improvements.
- 4.84** The audit of the accounts for the financial years ended 31st March, 2008 to 2012 is outstanding.



Audit of Secondary Schools

4.85 Section 20 (1) (b) of the Education Act requires that the audited accounts of secondary schools be submitted to the Minister not later than six months after the close of the financial year which ends on the 31st March. The status of the accounts of these schools at 31st December, 2012 was as follows:

4.86 The audits of the accounts of the schools listed below have been completed for the financial year ended 31st March, 2012. The accounts of these schools are therefore up-to-date as required by the Education Act.

- ***Alleyne School***
- ***Deighton Griffith Secondary***
- ***The Lodge School***

4.87 The audits of the accounts of the following schools were not up-to-date as required by the Education Act.

- ***Alexandra School***

4.88 The audit of the accounts of the Alexandra School for the financial year ended 31st March, 2012 is outstanding.

- ***Alma Parris Secondary School***

4.89 The audit of the accounts of the Alma Parris Secondary School for the financial years ended 31st March, 2012 is in progress.



- ***Christ Church Foundation School***

4.90 The audits of the accounts of the Christ Church Foundation School for the financial years ended 31st March, 2011 and 2012 are outstanding.

- ***Coleridge and Parry School***

4.91 The audit of the accounts of the Coleridge and Parry Secondary School for the financial year ended 31st March, 2007 has been completed. The audits for the financial years ended 31st March, 2008 to 2012 are outstanding.

- ***Combermere School***

4.92 The audits of the accounts of the Combermere School for the financial years ended 31st March, 2011 and 2012 are outstanding.

- ***Daryll Jordan Secondary School***

4.93 The audit of the accounts of the Daryll Jordan Secondary School for the financial year ended 31st March, 2012 is outstanding.

- ***Ellerslie Secondary School***

4.94 The audits of the accounts of the Ellerslie Secondary School for the financial years ended 31st March, 2010, 2011 and 2012 are currently outstanding.



- **Graydon Sealy Secondary School**

4.95 The audit of the accounts of the Graydon Sealy Secondary School for the financial year ended 31st March, 2012, is currently outstanding.

- **Grantley Adams Memorial School**

4.96 The audit of the accounts of the Grantley Adams Memorial Secondary School for the financial year ended 31st March, 2012 is currently outstanding.

- **Harrison College**

4.97 The audits of the accounts of Harrison College for the financial years ended 31st March, 2011 and 2012 are outstanding.

- **Lester Vaughan School**

4.98 The Lester Vaughan School has reported that the audits of the accounts for the financial years ended 31st March, 2010 and 2011 are being finalised and the audit for the year ended March, 2012 is in progress.

- **Parkinson Memorial School**

4.99 The audit of the accounts of the Parkinson Memorial School for the financial year ended 31st March, 2012 is outstanding.

- **Princess Margaret Secondary School**

4.100 The audits of the accounts of the Princess Margaret Secondary School for the financial years ended 31st March, 2011 and 2012 are outstanding.



- **Queen's College**

4.101 The audit of the accounts of Queen's College for the financial year ended 31st March, 2012 is outstanding.

- **Frederick Smith Secondary School**

4.102 The audit of the accounts of Frederick Smith Secondary School for the financial year ended 31st March, 2012 is outstanding.

- **Springer Memorial Secondary School**

4.103 The audit of the accounts of Springer Memorial Secondary School for the financial year ended 31st March, 2012 is outstanding.

- **St. George Secondary School**

4.104 The audits of the accounts of the St. George Secondary School for the financial years ended 31st March, 2011 and 2012 are outstanding.

- **St. Leonard's Boys' Secondary School**

4.105 The audit of the accounts of the St. Leonard's Boys' Secondary School for the financial year ended 31st March, 2012 is outstanding.

- **St. Michael School**

4.106 The audit of the accounts of the St. Michael School for the financial year ended 31st March, 2012 is outstanding.



General Observations

- 4.107** The audits of a number of Government agencies are in arrears and this must be of concern for Government. These agencies have received hundreds of millions of dollars and should have had the accounts audited annually as required by law.
- 4.108** The main reason for this state of affairs is the poor state of their accounts which prevents the submission of accounts for audit in a timely manner. These agencies, whose audits are in arrears, need to re-examine their accounting systems, processes and staffing to see how they can be improved.
- 4.109** The submission of accounts long after the due period often leads to problems in finalizing the audits. This is contrary to statutory requirements and can create an environment where fraud can thrive and remain undetected.



CHAPTER 5

Special Audits

This chapter consists of a number of special audits conducted by the Audit Office. These include audits of the Barbados International Business Promotion Corporation (Invest Barbados) and the Barbados Vocational Training Board (BVTB).

Special Audit of the Barbados International Business Promotion Corporation (Invest Barbados)

Executive Summary

- 5.1** Barbados International Business Promotion Corporation (Invest Barbados) is a Statutory Corporation that was established to market and promote Barbados as an international business and financial services centre. In this regard, it is responsible for attracting, winning and sustaining international investment for Barbados, as well as “unleashing the export potential of the indigenous services sector and helping to develop and manage the Barbados Business brand” (what Barbados offers to the investors including tax treaties and the facilitative environment).
- 5.2** Invest Barbados (IB) has a Head Office in Bridgetown and overseas offices located in London, New York and Toronto. At the time of the audit, IB had two (2) main Divisions, Investment Promotion and Facilitation (IPF) and Indigenous Services Export (ISE). The ISE Division was transferred to



the Barbados Investment Development Corporation (BIDC) from 1st July, 2012.

- 5.3** The role of the IPF Division is to attract foreign investments into Barbados using locally registered companies and Barbados' double tax treaty and investment protection treaty network. It also facilitates those investors throughout the process. The ISE Division was responsible for facilitating the promotion and export of indigenous services.
- 5.4** The Barbados International Business Promotion Corporation (BIBPC) Act, 2005-25 outlines the powers of the Board and the Minister relating to recruitment and compensation of the Corporation. IB indicated that it is guided by the General Orders (Government wide Human Resource policies). It is also guided by Cabinet directives applicable to Statutory Boards.
- 5.5** As at March, 2012, IB had received \$70.3 million in funding from the Government of Barbados.
- 5.6** The audit was conducted to assess whether IB:
- achieved its targets for the following aspects of its mandate:
 - a) marketing and promoting the development of international business in Barbados;
 - b) encouraging and facilitating investment in Barbados;
 - c) facilitating the establishment of new and indigenous enterprises for exporting services;
 - followed the guidelines as outlined in the policies and procedures adopted by the Board in relation to financial and human resource matters.



5.7 IB's operations were examined for the period 1st April, 2007 to 31st March, 2011.

Performance Measurement

Targets used

5.8 IB developed performance measures and related targets to determine success in the achievement of its mandate. The following are some of the annual performance measures developed by the company:

- new investments;
- corporation tax revenues from international business;
- jobs created;
- number of financial services registrations;
- new client visits;
- new companies (non-financial services);
- export sales;
- increase in foreign exchange earnings; and
- executed projects receiving technical assistance.

5.9 IB did not provide the basis for its targets. Its personnel indicated that they had tried to set logical targets but then realized that the information required could not be obtained. IB needs to conduct further research to determine the extent to which their efforts are resulting in increased investments in Barbados.

5.10 As part of its strategy to market, promote and encourage investments, Invest Barbados contracted companies and individuals as sales representatives to seek potential candidates for foreign direct investment



into Barbados. These investments were to be sought from Asia, North America, Europe and England.

- 5.11** No written reports were submitted on the activities of the sales representatives as required by the contracts. IB, in acknowledging that no investments were realized from the use of these sales representatives, discontinued the contracts.
- 5.12** In addition to their base retainer, the sales representatives were to be paid a percentage of the value of investments that they guided to Barbados. All sales representatives were paid only the base retainer as outlined in their contracts. There were no incentive payments, as the sales representatives did not guide any investments to Barbados.

Financial Management

- 5.13** Monies were paid to companies and a sales representative without written contracts being in place. This was evident in the payment of \$228,000 to a sales representative hired to attract investments from Asia, and the payment of approximately \$108,000 to a company as special advisor to the Board for a four (4) month period.
- 5.14** IB did not adhere to International Accounting Standards (IAS) 24 which requires that related parties be disclosed in the financial statements. This refers to cases where persons who have control of and/or significant influence within an entity, hold key management positions in companies with which that entity has business relationships.



Conclusion

- 5.15** IB has been operating for the past five (5) years and the majority of these years have been challenging economic times worldwide. Although marketing and promoting of Barbados was done, IB was unable to fully link its activities with direct investments into the country. It was not possible to determine whether IB was receiving good value for funds expended.
- 5.16** IB has spent \$1.8 million in facilitating the promotion and export of Barbadian services, but it has not provided documentary evidence to show that there were any significant increases in these services being exported as a result of this support.
- 5.17** Over \$70 million has been invested in the activities of IB, so it is extremely important for IB to determine the success of its programs. Such information is useful for decision making, for example, which markets to target, especially in the current economic conditions. Government has invested considerable sums in IB and it is essential that a system is in place to demonstrate the benefits of this investment.
- 5.18** Formal evidence, by way of Board minutes, of the Board's involvement in the decision making process for some pertinent matters was lacking. This is a cause for concern, since Board minutes provide evidence that the Board is fulfilling its oversight role, which is a necessary element for ensuring that funds from the Consolidated Fund are well spent. Proper documentation of decisions made by the Board is necessary for effective policy implementation and review.



Introduction

Primary Objectives of Invest Barbados

- 5.19** Barbados International Business Promotion Corporation (Invest Barbados) is a Statutory Corporation that was established to market and promote Barbados as an international business and financial services centre.
- 5.20** The responsibilities of the Corporation under the Barbados International Business Promotion Corporation Act, 2005 – 25, are to:-
- market and promote the development of international business in Barbados;
 - conduct and facilitate research into the expansion of the international business sector;
 - encourage and facilitate investment in Barbados and to facilitate the establishment of new and indigenous enterprises in the international business and financial services sector;
 - collaborate with private sector bodies as a means of ensuring that Barbados' appeal as an international business is maintained; and
 - do such other things as may be necessary for the proper performance by the Corporation of its function.
- 5.21** Invest Barbados (IB) replaced the International Business Division of the Barbados Investment and Development Corporation (BIDC). The staff of this Division formed the nucleus of IB's staff.
- 5.22** IB has two (2) main divisions: the Investment Promotion and Facilitation (IPF) Division and Indigenous Services Export (ISE) Division.



5.23 The IPF Division is responsible for attracting investment in Barbados through foreign direct investment, by encouraging off-shore banks and international business companies to establish their business on the Island. The ISE Division is responsible for facilitating the promotion and export of Barbadian services.

5.24 IB's budget has increased from \$10 million in 2007-2008 to \$19 million in 2010-2011. It was reduced to \$18.9 million in 2011-2012. Over the past five (5) years, IB received \$70.3 million in funding from the Government of Barbados. IB had been running a surplus for a number of years and at 31st March, 2011 the bank balances totalled \$16 million. The surplus was used to fund operations for the year 2011-2012 because no funding was provided to IB by the Government of Barbados.

Audit Scope

5.25 The audit examined the operations of IB for the period 1st April, 2007 to 31st March, 2011.

Audit Objectives

5.26 The objectives of the audit were to assess whether IB:

- achieved its targets for the following aspects of its mandate;
 - a) marketing and promoting the development of international business in Barbados;
 - b) encouraging and facilitating investment in Barbados;



- c) facilitating the establishment of new and indigenous enterprises in the international business and financial services sector;
- followed the guidelines as outlined in the policies and procedures adopted by the Board in relation to financial matters and human resources.

Audit Methodology

5.27 Interviews were conducted with the Chief Executive Officer and other Senior Personnel of Invest Barbados. A discussion was held with the Chairman. Discussions were also held with the Executive Director of the Barbados International Business Association and officers from the International Business and Financial Services Unit of the Ministry of International Business and International Transport. The review involved examination of accounting information and systems, personnel information, divisional reports, board minutes and supporting legislation.

Mandate

5.28 The audit was conducted under the provisions of Section 113 (2A) of the Barbados Constitution, which allows the Auditor General to “carry out examinations into the financial management of ministries, departments, statutory authorities and government-controlled entities, including the manner in which those ministries, departments, statutory authorities and government-controlled entities use their resources in discharging their functions as regards the efficiency and effectiveness of the use of those resources”.



Performance Measurement

Introduction

- 5.29** Invest Barbados (IB) was established to market and promote Barbados as an international business and financial services centre, in order to attract financial and other investments into Barbados. IB does this through a number of strategies. These include road shows (where IB carries a high-level team to a number of cities overseas to meet with fifteen (15) to twenty (20) targeted tax advisors and clients in one-on-one meetings over a three (3) to four (4) day period. Trade shows, seminars, conferences and advertises in journals and on the internet.
- 5.30** Support strategies include contracting companies and individuals to make contacts with individuals and businesses in foreign jurisdictions, and to advise on the best markets to target. A Canadian public relations agency is utilized to provide on-going public relations and marketing services, and target companies in Canada that could contribute significantly to employment.
- 5.31** IB also has a website that provides information for potential investors on procedures for setting up businesses and the available incentives. The Investment Promotion and Facilitation (IPF) Division is instrumental in IB's efforts to secure foreign direct investment into Barbados.
- 5.32** This chapter examines whether IB achieved the targets for the following aspects of its mandate:
- Marketing and promoting the development of international business in Barbados;
 - Encouraging and facilitating investment in Barbados; and



- Facilitating the establishment of new and indigenous enterprises to export services.

Performance Measures

5.33 IB established a number of measures to assist in appraising the performance of their programs. The following are the three (3) performance measures selected by the Audit Office for review:

- New Investments;
- Corporation Tax revenues from international business; and
- Jobs Created.

5.34 The performance measures for 2007-2008 were not examined because IB was still in the transition phase. The results for these performance measures as reported by IB are shown in **Table 1** below.

Table 1: Performance Measures for Financial Years 2008 to 2011

Performance Measure	2008-2009		2009-2010		2010-2011	
	Target	Result	Target	Result	Target	Result
New Investments	\$70M	None provided	\$35M	Not seen	\$20M	None provided
Corporation Tax revenues from international business	N/A		\$300,000	\$240.2M	\$200M	\$185.8M
Jobs created	2,000	433	800	207	500	None provided

Created by: Barbados Audit Office

5.35 IB admits that the results for “New Investment” could not be measured. In addition, when the measure “Corporation Tax Revenues From International Business” was introduced in 2009-2010, the data to measure



this target was not available. Data was only obtained after a study was carried out in the latter half of 2011.

- 5.36** Further, IB indicated that it discontinued reporting on “Jobs Created” in 2010-2011. For this measure, IB had relied on information collected by Barbados Investment Development Corporation (BIDC) but the information collected did not include the financial services sector and only related to employment in the industrial estates. IB’s personnel indicated that they tried to set logical targets but then realized that the information required could not be obtained.

Audit Comment

- 5.37** IB was not in a position to determine if the results for the performance measures it had designated were solely linked to its efforts. As a result, it was not possible to use these measures as any gauge of the success of their promotional efforts. IB should endeavour to establish performance measures that are linked solely to its strategies. This information is necessary as a management tool to assist in decision making, evaluation of programs and the allocation of resources.

Investment Promotion and Facilitation (IPF) Division Performance Measures

- 5.38** IB had other performance measures that were specific to the IPF Division. The results of the following performance measures were also examined for the period April, 2008 to March, 2011:
- New companies established in the non-financial services sector,
 - The amount of new financial services registrations,



- The amount of clients visiting from overseas,
- The amount of companies that will commence operations imminently,
- Mandate extensions (businesses expanding into new activities).

5.39 IB could not determine the percentage of registrations attributable to its efforts. The other targets and the results reported by IB are in **Table 2** below.

Table 2: IPF Performance Measures for Financial Years 2008 to 2011

Performance Measure	2008-2009		2009-2010		2010-2011	
	Target	Result	Target	Result	Target	Result
New companies (non-financial services)	7	8	5	4	5	3
Financial Services Registrations	500	538	400	437	350	549
The amount of companies that will commence operations imminently	Not provided	5	Not provided	9	5	5
Amount of clients visiting from overseas	40	52	30	67	40	56
Mandate extensions (businesses expanding)	4	1	2	0	2	0

Created by: Barbados Audit Office

Audit Comment

5.40 The majority of the targets were reported as met. For example “Financial Services Registrations” was reported as having surpassed its targets. However, IB was not in a position to determine its contribution to the results achieved in respect of this target. Therefore, using this performance measure to determine the effectiveness of IB’s efforts is unreliable.



Indigenous Services Export (ISE) Division Performance Measures

- 5.41** Indigenous Services Export Division is responsible for facilitating the promotion and export of Barbadian services. To execute this function, ISE supports clients in the creation of export development strategies and the identification of technical and financial assistance required for their implementation. Financial assistance is provided to assist clients with various needs including the preparation of business proposals, marketing and attendance at international trade shows.
- 5.42** IB provided results for only one (1) measure: “Identify and execute twenty (20) projects per year to receive technical assistance”, for the year 2010-2011. Projects in this context represent clients who are being assisted. The result achieved was twenty-seven (27) compared to the target of twenty (20).

Audit Comment

- 5.43** IB has spent \$1.8M in facilitating the promotion and export of Barbadian services but it has not provided documentary evidence to show that there were any significant increases in these services being exported.
- 5.44** Measuring performance is important to decision making, especially in an environment of scarce resources.

The comments of IB

The targets and measures we identified over the last several years have been well-intentioned trial and error attempts to establish meaningful



targets, none of which, as the report correctly points out, were effective, either because of inadequate data, or inconclusive 'results to efforts' links. In some cases, while we may have set a target, our efforts to get at the data were thwarted by sister agencies because of concerns about breach of confidentiality or lack of resources to provide the data. In some cases, the data was imperfect, or unattainable.

In any event, export marketing and exposure does not automatically produce immediate results, and since there were not that many export ready service companies approaching IB for grant assistance, we provided funding for development work, once we were satisfied that the services company or entrepreneur had foreign exchange earning potential.

Contracted Services

- 5.45** IB contracts companies and individuals as sales representatives in its efforts to bring investments to Barbados. The services being contracted require expertise and skills in attracting foreign direct investment to Barbados from Asia, North America and England. To attract investors, it was expected that these sales representatives would have contacted high profile business persons, including tax advisors.
- 5.46** In addition to the sales representatives, contracts were issued in respect of marketing, public relations and facilitation. In excess of \$5.66 million was paid for these services.
- 5.47** A sample of sixteen (16) contracts was examined and it was observed that each specified the required job requirements. Sixty-three per cent (63%) of the contracts required that reports be provided specifying



whether the deliverables were achieved. Some reports were to be produced monthly and others quarterly.

- 5.48** No documentary evidence was presented to verify that deliverables were achieved. Very few reports were presented and IB did not insist that they be produced. The CEO indicated that he had discussions with each sales representative and thought that they were beneficial.
- 5.49** Review of the Board minutes revealed only one (1) record of any discussions on the achievement of the deliverables by the sales representatives. The minutes seen indicated that no business materialized from expenditures in excess of \$200,000 spent on this consultant.
- 5.50** It should however be noted that based on their performance, none of the sales representatives received any incentive payments. This programme was subsequently discontinued.

Audit Comment

- 5.51** The provision of reports was integral to IB monitoring the work of the sales representatives. IB could not provide documentary evidence of the benefits of these services as the relevant reports were not produced as outlined in the signed contracts. Verbal reports cannot be relied on to determine if the deliverables were met in analyzing the performance of the sales representatives.
- 5.52** It was IB's responsibility to ensure that the benefits derived from having these sales representatives could have been verified and measured. The remuneration paid to the sales representatives should primarily have been based on the investments derived from their work rather than the base retainers paid.



Conclusion

5.53 Although IB has developed performance measures and targets to determine success, some of them cannot be solely linked to its strategies and are therefore not appropriate measures. A critical element in the entire process, i.e. the collection of data and reporting of results, was missing for some performance measures. Therefore, there is no conclusive evidence that IB is successful in:

- marketing and promoting the development of international business in Barbados;
- encouraging and facilitating investment in Barbados; and
- facilitating the establishment of new and indigenous enterprises in the international business and financial services sector.

The comments of IB

We did express our concerns to the Prime Minister in late 2010 that, in the past three (3) years, we estimated that close to US\$300M in potential investment was lost as a result of bureaucratic delays or decisions that chased investors away, that more projects on which we had worked were still in jeopardy, and that about US\$200M in potential business identified from marketing trips could have already been enjoyed if legislative changes required had been made three years ago on a timely basis.

5.54 IB should increase its focus on the measuring and reporting of the results of its strategies. This is absolutely necessary in order to assess the success of its programs. Performance measures selected for assessing performance must be linked directly to IB's activities. In addition, IB needs



to ensure that it can determine the benefits of using contracted services and that those benefits outweigh the costs.

The comments of IB

When we were satisfied that the individuals had been working for a sufficiently reasonable period to enable us to form a judgment on their lack of effectiveness in securing investment, we terminated the program. It was a proactive attempt to get results which did not work, but the one thing it did achieve was that Barbados as an investment jurisdiction was promoted.

The fact that we were able to come to a decision to terminate the program is evidence that we were monitoring their activities, and we have already stated that the CEO kept in touch and received verbal updates on their progress or problems. Our responsibility and attention was on the substance of the exercise, not on the form.

5.55 It is recommended that:-

- **IB reviews its performance measures for relevancy and direct linkage to its efforts.**
- **IB establishes systems to collect data relevant to all of its performance measures such as new companies' registrations and jobs created as a result of IB's efforts.**
- **IB ensures that data is readily available for the performance measures that it chooses.**



- **IB enforces the terms and conditions of all contracts ensuring that there is full adherence to them.**
- **The Board sets a policy that ensures contract performance is effectively managed.**



Financial Management

Actions taken without documented Board approval

- 5.56** Our inquiries revealed that there was difficulty verifying what decisions were made or ratified by the Board in relation to the hiring and remuneration of certain senior personnel and consultants. There was no formal notation in the Board minutes to substantiate such matters being approved or ratified by the Board. As a result, there was no evidence that the Board was providing the necessary oversight of the Corporation in these matters.

Audit Comment

- 5.57** The lack of formal approval or ratification by the Board in respect of the appointment and remuneration of certain employees/consultants calls into question the involvement of the Board in key decisions. It is unusual and a cause for concern that there was no formal ratification in the Board minutes of the recommendation and approval of someone to fill the position of CEO. It is pertinent that the Board's involvement in matters of such importance is adequately and clearly noted in its minutes, since the Board is collectively responsible for the organization.

Contracts

- 5.58** Written contracts are put in place to safeguard the parties involved and to ensure that the terms and conditions between parties are formally agreed. Rule 126 of the Financial Administration and Audit (Financial) Rules, 1971 (these were the Rules in force when the following matters occurred) states



that a contract or written agreement should be drawn up in a form approved by the Solicitor General which shall be entered into between the contractor and the accounting officer before any work under such agreement is commenced by the contractor. Anomalies relating to contracts were as follows:

- (i) IB entered into a contract with an individual to seek foreign direct investment from North America to or through Barbados. However, fees were paid to a company instead of to the person contracted.
- (ii) A consultant and the Special Advisor to the Board were paid without having signed a contract. **Table 3** below shows the monies paid to these persons.

Table 3: Monies paid to persons without a signed contract

Payee	Period	Amount paid \$
Consultant	October 2008 to March 2010	228,481.15
Special advisor to Board	May to August 2008	113,727.17

Created by: Barbados Audit Office

Audit Comment

5.59

Contract payments should be made to the person or company named in the contract. It should also be noted that making payments without the necessary contract being in place is in contravention of the Financial Rules.

**The comments of IB**

It is accurate to state that the sales representative was paid without a contract being signed. A contract was drawn up, but the representative, who had been working from October, 2008 on soliciting Chinese investment, and had brought two separate contingents of investors to Barbados, refused to sign the contract because he wanted higher incentive payments. Eventually this individual was terminated after refusing to sign the agreement, refusing to provide reports requested, and failing to bring any investment during the period employed. Some \$60k of the \$228k shown in the report related to this representative was not fees, but for reimbursement of overseas travel expenses for the two trips to Barbados.

Medical Transcription Programme

- 5.60** IB indicated that the receipts and payments of the Medical Transcription Programme were reported in their financial statements during the period 2007-2011. However the financial activities and position of the programme were not adequately disclosed, hence it could not be determined what resources were held by IB on behalf of the programme.

Related Parties

- 5.61** International Accounting Standard (IAS) 24 states that a person is related to a reporting entity if the person has control and/or significant influence over the reporting entity and is a member of the key management personnel of the reporting entity. This relationship should be disclosed in the notes to the financial statements. The disclosures should state the



nature of the relationship, information about the transactions and any outstanding balances.

- 5.62 Inquiries revealed there were persons on the Board of Invest Barbados who satisfied the criteria of related parties in IAS 24, but these relationships were not disclosed.

Audit Comment

- 5.63 IB's failure to disclose information on the related parties contravened IAS 24.

The comments of IB

We were not aware of our non-adherence to IAS 24, and this had not been raised by our external auditors. Furthermore, the CEO was of the opinion, albeit incorrectly, that disclosure was based on materiality, and none of the related party transactions were material in relation to the Corporation's total budget. These disclosures will be made in future financial statements.

- 5.64 **It is recommended that:-**
- **IB ensures that consultants are approved by the Board and sign a contract before they begin to work.**
 - **All matters relating to the recruitment of staff/consultants and payment to consultants are approved by the Board.**



- The Board ensures that key decisions relating to all financial matters are reviewed by them before monies are spent.
- The Board reviews its level of participation in the decision making process of IB and the adequacy of its minutes.
- IB adheres to the International Accounting Standards on related parties.
- IB ensures all information relating to financial matters is included in the financial statements.

The comments of IB

The recommendations in paragraph 5.64 are all accepted and in line with what the Board and management generally try to achieve.



Special Audit of the Barbados Vocational Training Board

Introduction

- 5.65** The Barbados Vocational Training Board (BVTB/the Board) began operations in March 1980 as the National Training Board. It received its current designation in 1993. As a teaching institution, it seeks to fulfill its mandate of providing occupational training for persons over the age of sixteen (16) in Barbados, through the Apprenticeship, Skills Training and Evening Programmes.
- 5.66** These programmes are funded through grants received from Government annually. For the period 1st April, 2009 to 31st March, 2012, the BVTB received \$37.5 million to finance its operations.
- 5.67** The day-to-day activities of the BVTB are managed by the Director of Training who is responsible for one hundred and sixty (160) employees, and reports to a Board of Directors.

Reason for the Audit

- 5.68** This audit was conducted in response to a request made by the Barbados Vocational Training Board (BVTB) to the Barbados Audit Office for a review of the operations of the Apprenticeship Programme, and the Automotive Refinishing Workshop project.



Audit Scope

- 5.69** The audit examined the operations of the Apprenticeship Programme and the management of the Automotive Refinishing Workshop Project for the period 1st April 2009 to 31st March 2012.

Audit Objective

- 5.70** The audit sought to determine whether:
- Controls were in place to monitor, evaluate and manage the operations of the apprenticeship programme to ensure compliance with internal policies and the Occupational Training Act.
 - Procedures were in place to ensure that students under the Apprenticeship Programme completed the course of study and met the qualification criteria in order to be certified.
 - the management of the Project, including its system of controls and processes, was conducted with due diligence and was compliant with Government-wide policies and procedures.

Audit Methodology

- 5.71** Information was collected through:
- Interviews
 - Review of relevant legislation, files, Board Minutes and reports
 - On site visits



Apprenticeship Programme

Introduction

- 5.72** The Apprenticeship Programme is offered through training schemes which are developed by BVTB in twelve (12) occupational trades.
- 5.73** These training schemes establish the vocational skills and knowledge each apprentice must acquire to gain certification. Details for each training scheme are outlined in booklets for each occupational trade, and are given to the respective employers.

Training Provided under the Programme

- 5.74** There are two (2) elements to the Apprenticeship Programme:
- i **Practical (on-the-job) Training** which is executed through contractual arrangements between companies (employers) approved by the BVTB and the apprentices. Employers are required to provide apprentices with at least 75% of the vocational skills specified in the training schemes. This is evidenced by the evaluation of the Apprentice/Trainee Practical Training Record (Form 6), which must be submitted by the employer, to ensure that the training delivered complied with the stated objectives.
 - ii **Course work** which is delivered by the Samuel Jackman Prescod Polytechnic (SJPP) to apprentices through courses specified by the BVTB for each occupational trade. Apprentices are released by the employer one day a week to attend these courses. The SJPP is required to submit the Apprentice/Trainee Technical Training



Record (Form 5) each semester. This record contains the courses attended and the respective grades attained.

Certification of Apprentices

- 5.75** On the successful completion of the programme the apprentice is awarded a certificate. Certification is dependent on an assessment of the apprentice file by the Curriculum Development Officer (CDO), who reviews each file to ensure that the apprentice has completed the relevant course of study, gained the experience, and passed all the relevant exams.

Audit Findings

- 5.76** The audit revealed that there is a deficiency in respect of officers fulfilling their duties and following through with procedures. This has subsequently impacted on BVTB's compliance with the Occupational Training Act and its Regulations, namely, the certification of apprentices. Details are below:

Visits not conducted as required

- 5.77** According to the Occupational Training Act one of the functions of the Board is 'to protect and promote the welfare of apprentices'. Hence, as part of its duties, the Inspectorate is required, with respect to each apprenticeship, to visit the employer's site every three (3) months as well as to monitor the progress of the apprentice, the performance of the employer, assess any challenges faced, and make any needed recommendations.



- 5.78** The Inspectorate is required to complete a form for each visit conducted. This form is signed and dated by the Inspector, and placed on the apprentice file.
- 5.79** From a total of two hundred and fifty-seven (257) apprenticeships scheduled to complete their programmes between 1st April 2009 to 31st March 2012, the audit selected a sample of one hundred (100) to determine whether visits were conducted by the Inspectorate as required. Ninety-five (95) apprentice files were presented for examination and five (5) were not.
- 5.80** Of the ninety-five (95) files examined, fifty-seven (57) did not contain the forms indicating that visits were conducted. In cases where there were visits, these were conducted on an ad hoc basis rather than every three (3) months as required.
- 5.81** It should also be noted that of the above sample, twelve (12) apprentices were certified but no evidence was on file to indicate that visits were carried out.

Audit Comment

- 5.82** The absence of evidence to show that if visits were made and the failure to submit reports is an indication that the apprenticeships were poorly monitored. This has significantly impacted on the integrity of the Apprenticeship Programme, specifically as it relates to: providing oversight of the apprentices, evidence that the employer and the apprentice adhere to the terms and conditions outlined in their contractual agreement, and assurance that the apprentice is equipped with the vocational skills required by the end of the programme.



Inadequate Record Keeping

- 5.83** In ensuring that the Apprenticeship Programme complies with the Act and its Regulations, the Board requires the Inspectorate to maintain a file for each apprenticeship. This file enables the Inspectorate to assess whether the apprentice has acquired the vocational skill and has passed the relevant courses for certification to be awarded. When this information is not available, the apprentice cannot be appropriately assessed and hence the process for certification is impeded.
- 5.84** This is evident with forty-eight (48) apprentices who were not certified because there was insufficient evidence (training records) on file to determine whether the apprentices can be certified.
- 5.85** As part of their duties, the Inspectorate is required to maintain and update the apprentice files with the appropriate training records. Based on the audit findings, the Inspectorate has failed in this regard. According to an internal review “this failing on the part of the Inspectors to keep records up to date was noted from as far back as 1990”.
- 5.86** It should also be noted that the lack of supervision over the work of the Inspectorate is also a contributing factor. No evidence was seen to indicate that action was taken by management to address the issue.

Audit Comment

- 5.87** The success of the Apprenticeship Programme is highly dependent on the Inspectorate performing its duties. It is therefore vital that the work of these officers is managed effectively.



Failure of the SJPP to submit apprentice records affecting the operations of the Apprenticeship Programme

- 5.88** The course work element of the Apprenticeship Programme is currently provided by the Samuel Jackman Prescod Polytechnic (SJPP). On the written request of the BVTB, the SJPP coordinates classes via the allocation of rooms and workshops, and the sourcing of instructors to deliver the training required. These instructors are paid by the BVTB for delivering the course content to the apprentices.
- 5.89** At the end of each semester, the SJPP is required to submit records of the courses attended and passed by the apprentices. Timely submission of these records is essential to the assessment and certification of the apprentices at the end of their periods of apprenticeship.
- 5.90** The Inspectorate is responsible for liaising with the SJPP to ensure that the records are submitted each semester for evaluation and placement on the apprentices' files.
- 5.91** The audit found that training records were not submitted at the end of each semester, as required. Of the files examined, thirty-six (36) were missing training records from the SJPP.
- 5.92** Personnel of the BVTB indicated that it was challenged in getting the SJPP to submit the course work records for the apprentices. This was supported by the Principal of the SJPP who indicated that the Heads of the Division are required to supervise the instructors and ensure that the training records are prepared, but this was not done. In addition, instructors were sometimes not aware that forms were to be completed for apprentices.



- 5.93** These instructors were paid by the BVTB even though records were not submitted for apprentices. It should be noted that for the period 1st April 2009 to 31st March 2012, the BVTB spent a total of \$270,065.30 in instructor fees.
- 5.94** Although the SJPP is required to submit the course work records, it is the duty of the BVTB to liaise with this institution to ensure that relevant systems are put in place for the effective delivery of its course work.
- 5.95** Subsequently, both the BVTB and the SJPP sought to address the issue by establishing a committee comprising representatives from both parties. Two (2) officers at the SJPP have been assigned the responsibility of overseeing the collection of training records from the instructors and submitting the same to the BVTB. In addition, instructors (part-time) are not paid if records are not submitted for apprentices.

Audit Comment

- 5.96** It is the responsibility of both the BVTB and the SJPP to ensure that the relevant systems are in place to ensure that the arrangement functions effectively. By establishing the committee both entities have at least shown their interest to address the issue and find a reasonable solution.

Conclusion

- 5.97** The main aim of the Apprenticeship Programme is to assist young persons in acquiring skills for the world of work in a number of occupational trades. To ensure that the programme is proceeding as intended, it must be adequately monitored, evaluated and assessed. This would allow personnel from the Board to determine whether participants



were progressing as required, and whether they met the criteria for certification.

- 5.98** The Inspectorate of the Board performed poorly in monitoring and evaluating the apprentices. There was the lack of information on the files of apprentices which has impacted on the BVTB's ability to certify apprentices and ensure that the employers and the apprentices adhere to the terms and conditions outlined in their contractual agreement. This has been an ongoing issue and is referenced in previous reports of the Board.
- 5.99** Approximately 60% of the files examined did not contain information that visits were conducted by the Inspectorate of the Board. Such action runs the risk of the BVTB certifying persons who have not received the required training, or, alternatively not certifying those persons who have met the criteria.
- 5.100** The SJPP is required to submit records of the courses attended and passed by the apprentices at the end of each semester, but this was not being done. The absence of this information has significantly impacted on the integrity of the Apprenticeship Programme.
- 5.101** Overall, there is a relatively low level of certification of persons leaving the programme; this was approximately 20% of the persons whose files were examined. Those officers in the Inspectorate need to be held accountable for their actions or lack thereof.



The Automotive Refinishing Workshop Project

- 5.102** Under the Skills Training Programme, the BVTB offers a course in Auto Body Repairs which includes units such as stripping vehicles, mixing and applying body filler, preparing body filled surfaces, disc-sanding and filling, and leveling and priming panels. Automotive painting was not included in the module.
- 5.103** In January 2009, the BVTB approved the construction of an Automotive Refinishing Workshop constructed for the Skills Training Programme. The Board approved the construction of this project on the recommendation of the executive management.
- 5.104** The Workshop was constructed on the compound of the C. Lomer Alleyne “Skills Training” Centre at Sayes Court, Christ Church.

Audit Findings

Cost of the Workshop

- 5.105** On 27th January, 2010 the Board of Directors approved a budget of \$157,000 towards the construction of the Automotive Refinishing Workshop inclusive of materials \$100,000 and labour \$57,000. The labour estimate was low because the Board proposed utilising Skills Training trainees to minimize the cost.

Funds spent on Workshop

- 5.106** The sum of \$259,036.39 was disbursed over the life of the Workshop project. This was \$102,036.39 more than was budgeted and at the time of the



review, the sum of \$13,483.49 was still owed to three (3) suppliers who were part paid.

5.107 The variance occurred due to:

- additional materials and labour for electrical and plumbing installations;
- remedial work to facilitate renovations.

5.108 The original estimate did not include provision for this work.

Construction of Workshop

5.109 Before constructing a building, permission must be obtained from the Town and Country Development Planning Office (TCDPO) and the Environmental Protection Department. These departments are responsible for property development in Barbados. Plans and drawings approved by the Chief Town Planner, the head of TCDPO, provide a level of surety that planning regulations for Barbados are being compiled with.

5.110 The BVTB could provide no evidence that planning permission had been obtained from the Town and Country Development Planning Office and the Environmental Protection Department to construct the Workshop.

5.111 Work on the project started on 18th January, 2010 based on the floor plan prepared by the Project Administrator. This plan included washroom facilities but none were provided. This clearly was an oversight. As a result, instructors and trainees have to traverse a distance of over two hundred and forty-five (245) feet for restrooms.



Audit Comment

5.112 Correspondence on file indicates that as far back as January, 2009 the Board took the decision to construct the Workshop, whereas the project commenced in January, 2010 – one year later. The BVTB therefore had sufficient time to plan all aspects of this project and have the building drawings approved by the relevant Government agencies.

Monitoring of the Project

5.69 Based on the work completed and claims submitted by the contractor, the Project Administrator was required to determine if works were carried out satisfactorily before recommending the disbursement of funds. Once satisfied, he submits written recommendations to the Director of Training for payment to be authorized.

5.70 A breakdown of the stages for construction and the budgeted associated costs would have been useful for monitoring the progress of the project and assessing whether it was within its budget. In the absence of this information, it was difficult to adequately monitor how the project was progressing against its budget.

Independent Engineering Assessment

5.113 In June, 2012, the BVTB commissioned an independent engineer to conduct a structural assessment of the Automotive Refinishing Workshop project and provide an opinion on the status of the building.



5.114 The structural engineer determined that the standard of construction of the building was poor in a number of areas. A summary of the conclusions is as follows:

- (i) The walls of the building should have had a mid-height beam at door height to add resistance to horizontal wind pressure, in the event of a storm or hurricane because of the height. This was not done.
- (ii) Roofs with slopes of less than about 30 degrees are subjected to higher wind uplift. In this context, the lack of hurricane straps on the building in question makes it easy for the roof to be lifted off in a significant storm or hurricane.
- (iii) There is no evidence that the walls of the building extend below the base concrete slab on which the building was sitting. Poor construction at ground level will cause the building to be susceptible to cracking. This is a departure from standard foundation construction where the supporting foundation for the block walls is buried below the ground surface. See **Photo 2** below:



Photo 2: Supporting foundation not buried below the ground surface



Source: Errol Clarke Associates Limited

(iv) Other deficiencies mentioned are: the absence of mortar between the block work, walls built with blocks not properly joined at corners of the building, holes in a concrete beam which resulted in the steel work rusting, and the absence of guttering. See **Photos 3 to 6** in the **Appendix**.

5.115 The report concluded that “it would be expensive to retrofit this building to bring it to acceptable standard.” The engineer however advised that in the meantime it should be “adequately insured to the extent possible.”



Audit Comment

- 5.116** The BVTB should therefore be guided by the fact that managing projects requires substantial project monitoring and supervision skills. Limited project management expertise would have contributed to the defects not being detected on a timely basis and construction not meeting requisite standards. The deficiencies in monitoring and evaluating the project resulted in the BVTB paying for work that was not up to standard.
- 5.117** The Automotive Refinishing Workshop is being utilized, but the project is not fully completed. Based on the expert assessment it would be a waste of funds to invest further in this project.
- 5.118** The BVTB initiative in commissioning a structural assessment is commendable. However, it would have been more effective to have had an engineer involved in the project from inception and this would have prevented some of the major construction errors which occurred.

Other Concerns

Post of Project Administrator

- 5.119** The job description for the post of Project Administrator stipulates that the holder of the post should possess a degree, a certificate or diploma in Project Management with ten (10) years relevant experience. A review of the qualifications for the officer who acted as Project Administrator indicated that he did not meet the criteria for the position.



Overpayment

5.120 A company was contracted to provide services on the Automotive Refinishing Workshop for the sum of \$34,996. An additional amount of \$4,400 was paid to this company for plastering. However, the Workshop is not plastered.

Audit Comment

5.121 Monies paid to contractors for work not done should be recovered.

Conclusion

5.122 BVTB was challenged in the construction of the Automotive Refinishing Workshop. In an obvious oversight, it did not seek planning approval from the relevant agencies of Government. Monitoring of this project rested heavily on the Project Administrator, who did not display the project management skills and knowledge to ensure there was a high level of competency in the construction process. In light of the assessment report, there were also serious qualitative shortcomings in the construction work provided by the workmen contracted.

5.123 Based on the construction deficiencies, the Audit Office is of the view that the current system of project management at the Barbados Vocational Training Board is in need of urgent review.

**5.124 It is recommended that:**

- Management should ensure that it selects persons with appropriate skills and experience to manage its building projects.
- Artisans or firms with the experience and skill to perform quality construction work should be employed.
- BVTB should acquire additional expert assistance for large or medium projects where the expertise is not available.
- Approval should be sought from the Town and Country Development Planning Office and the Environmental Protection Department before the commencement of building activity.
- BVTB should ensure that work has been satisfactorily completed before any payments are made.