

# BARBADOS AUDIT OFFICE



## REPORT

of the

## AUDITOR GENERAL

for the year 2007

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**of the**

**AUDITOR GENERAL**

**for the year**

**2007**

**THE BARBADOS AUDIT OFFICE**

**Weymouth Corporate Centre**

**Roebuck Street, St. Michael BB11080, Barbados**

*Tel:(246)426-2537*

29<sup>th</sup>February 2008

His Honour Mr. Michael Carrington, M.P.

Speaker of the House

ParliamentBuilding

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 31stMarch 2007.

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**

## **MISSION STATEMENT**

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

## **THE GOAL**

The goal of the Audit Office is to promote staff development, ensure achievement and maintenance of a high standard of auditing and accounting in the public sector, and contribute to the general efficiency and effectiveness of public service financial management.

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# CHAPTER 1

## General Audit Issues

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### Introduction

**T**his is my Annual Report to the House of Assembly for the year 2007. It is issued in accordance with Section 38 (1) of the Financial Management and Audit Act, 2007 - 11 which states:

“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.”

### Mandate of the Auditor General

**1.2** This Report is a compilation of the results of the audit of accounts of Ministries and Departments in accordance with the provisions of the Financial Management and Audit Act, 2007 - 11.

**1.3** Section 113 of the Constitution of Barbados requires the Auditor General, at least once in every year, to audit and report on the accounts of the Supreme Court, the Senate, the House of Assembly and all Departments and Offices of the Government. The mandate of the Office is further outlined under Part IV of the Financial Management and Audit Act, hereafter referred to in this Report as

F.M.A. Act. The section of this Act which sets out the responsibility of the Audit Office is listed at Appendix 1.

**1.4** I have examined the accounts of the Ministries and Departments of Government for the year ended 31<sup>st</sup> March 2007. I have also examined the accounts of such other public authorities and regional agencies as prescribed by law or agreement. This Report contains significant observations and recommendations arising from these audits. Where Ministries and Departments or other agencies of Government have provided responses to matters raised they have been included in the Report.

**Scope of Audit**

**1.5** The F.M.A. Act places the onus for the proper discharge of financial statements on the Accountant General and Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on the accounts and statements examined based on the audits carried out by his Office.

**1.6** The audits were conducted in accordance with the Constitution of Barbados, the F.M.A. Act and administrative directives, applying Generally Accepted Auditing Standards. The International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards were used as guidelines in the conduct of audits. The audits conducted do not in anyway relieve Accounting Officers of their responsibility to ensure that there are adequate internal controls and that the Financial Rules and other regulations are adhered to.

**1.7** An audit includes an examination on a test basis of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The audits do not cover or draw conclusions upon areas that have not been examined.

**1.8** The audits were not designed to disclose every error in the accounts but to ascertain whether the accounts were using acceptable systems, were punctually and properly posted, that checks against irregularities and fraud were adequate



and effective, and to give reasonable assurance that the financial statements were free of material misstatements.

**1.9** The audits were also designed to evaluate internal controls and to a limited extent, the efficiency of the use of resources in Ministries and Departments. Audit findings are discussed with the Ministry or Department concerned and the entity is requested to provide a written response to any matters conveyed in our management letter.

**1.10** Provided at the end of this Report is my opinion on the Financial Statements of the Government for the year ended 31<sup>st</sup> March 2007 along with the Statements of Assets and Liabilities, the Consolidated Fund as well as a Statement of Public Debt and Sinking Fund.

### **Audit Methodology**

**1.11** A main function of the Audit Office is the responsibility to ensure that there is accountability for public funds. This responsibility is discharged through the conduct of financial audits. This work includes obtaining evidence supporting compliance with Government laws, regulations and procedures, and the evaluation of internal controls. In order to provide an independent and professional audit service, the Barbados Audit Office adheres to the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards for guidance.

**1.12** Senior Officers in the Audit Office are requested to prepare annual audit programmes for audits to be undertaken during the calendar year. This includes audits of all Ministries and Departments and some Statutory Boards. The auditors seek to provide an overall assurance of the general accuracy and propriety of the Government's financial and accounting transactions. Although undertaken in accordance with prescribed standards, the audits do not guarantee absolute

accuracy of the accounts, nor the detection of every accounting error, financial irregularity and loss through fraud or otherwise.

### **Financial Management and Audit Act**

- 1.13** During 2007 the Financial Administration and Audit Act was repealed and replaced with the Financial Management and Audit Act, 2007 - 11. The main changes introduced through the new Act were the transitioning of the accounts of the Government from cash based accounting to accrual based accounting, and the provision of a greater degree of independence to the Office of the Auditor General.
- 1.14** As a result of these changes the accounts of the Government will be reported on an accrual basis from 31<sup>st</sup> March 2008. These accounts will be governed by the International Public Sector Accounting Standards issued by the International Federation of Accountants. An essential feature of the Accrual Accounting System is that revenues are reported when due even if no cash has been received, while expenses are recorded when services are provided or goods received even if no cash payments were made. Another important feature in accrual accounting relates to the accounting treatment of large capital purchases such as buildings. In the cash based system all payments made in respect of these capital purchases would have been immediately expensed while under the accrual system such purchases will be amortized over their useful life.
- 1.15** The shift from cash to accrual accounting is likely to be very challenging. Adequate and timely record keeping is critical and staff in the Ministries and Departments must be familiar with the accounting standards so that transactions can be properly recorded. It is highly unlikely that the accounts of Government will comply with the International Public Sector Standards by March 2008.
- 1.16** The change to accrual accounting will also present some challenges to the Audit Office. Substantial training of existing officers and the recruitment of additional

qualified personnel will be required if the Office is to adequately fulfill its mandate. In my 2006 Report I had indicated that the Office as it is presently constituted cannot adequately fulfill its mandate and one year later the situation has improved marginally. In December 2007 the Ministry of the Civil Service approved the reorganization of the Office and action now has to be taken on the recruitment of staff approved by that Ministry.

**1.17** One change introduced in the Financial Management and Audit Act which directly affects the Office relates to the Estimates of Expenditure for the Office. Section 38 (3) of the Act states that the Estimates of Expenditure of the Office of the Auditor General shall be transmitted to the House of Assembly through the Public Accounts Committee. The Committee can also make suggestions for the revision of the estimates. There is some uncertainty over this provision since the Constitution states that the Minister of Finance is responsible for the laying of the estimates of the Government. I have submitted the Estimates to the Public Accounts Committee as requested and forwarded a copy to the Ministry of Finance for incorporation into the general estimates. It is time however that the Office has greater control over its annual allocations which should be approved on a lump sum basis. This would allow the Office more discretion in how its votes are utilized.

**1.18** Another change introduced in the Financial Management and Audit Act is that it grants the Public Accounts Committee the right to request the Auditor General to conduct audits of the accounts of any person or organization:-

(i) who has received moneys by way of grant or loan out of funds voted by Parliament; or

(ii) in respect of whom financial aid from the Crown is sought.

**1.19** At a meeting of the Public Accounts Committee held on 7<sup>th</sup> November 2007 its members decided that a legal opinion should be sought on this matter so that the Committee does not request audits on entities over which it has no oversight role.

The Chairman indicated that it was important that the Committee not exceed its powers.

## **Constitutional Amendment**

- 1.20** In addition to the changes resulting from the introduction of the Financial Management and Audit Act there was also an amendment to the Constitution which impacted on the Role of the Audit Office. The Office now has overall responsibility for the audit of Government controlled entities and can also carry out investigations on the efficiency and effectiveness of their use of resources. These entities currently have their own private auditors. My Office will however be reporting annually to Parliament on the status of the audits of all Government entities.

## **Recommendations of the Constitution Review Commission**

- 1.21** The 1998 Constitution Review Commission had made a number of recommendations towards strengthening the role and functions of the Auditor General's Office and a number of these recommendations have since been legislated.
- 1.22** There is however one recommendation which has not been legislated to date and this relates to the delegation to the Auditor General of the power to directly recruit staff. The current practice of Government is for the Personnel Administration Division (PAD) to recruit staff for Ministries and Departments. However, for the past ten years the Audit Office has been allowed the facility where it interviews persons and then makes recommendations to the Personnel Administration Division. This practice has had some success but would be strengthened if the recruitment process was delegated to the Audit Office.

- 1.23** It is imperative that there be a delegation of this function to the Office since its needs are not being efficiently met by the traditional method. It would also place the Office in line with best practices in many countries where it has been recommended that as far as practical the Audit Office should not be dependent on an entity it audits for resources. I would be willing to meet with the Public Service Commission to discuss this matter at the earliest opportunity as the current practice does not allow for the timely recruitment of staff.

### **Public Accounts Committee Meetings**

- 1.24** During 2007 there were a number of meetings of the Public Accounts Committee at which the Audit Office was represented. These meetings tended to focus on issues arising from my 2006 Report and a number of Ministries and Departments were required to give testimony before the Committee. I think that this is a positive development. Officers from Ministries and Departments need to know that their actions in respect of public accounts will be scrutinized and that they will have to provide answers to issues that develop under their stewardship.
- 1.25** I look forward to deepening ties between the Public Accounts Committee and the Audit Office in 2008.

### **General Audit Concerns**

- 1.26** The main issues mentioned in this Report are in keeping with the Financial Management and Audit Act, 2007 - 11 which requires the Auditor General to report on any failure to observe the enactments or other laws of Barbados, whether adequate internal controls are in place in respect of accounting for the

collection and use of public funds; and whether the funds are being used efficiently and effectively.

### Public Private Partnerships

- 1.27** The operations of Government have been expanding and at the same time growing in complexity. One area in which this is particularly evident is the number of Public Private Partnership (PPP) arrangements which have been undertaken.
- 1.28** Essentially a Public Private Partnership arrangement is where a Private Sector agency finances and constructs a property for the use of a Government agency. The Government then leases the property over some period of time. During this period the Private Sector agency will maintain the asset and return it to the Government after a defined period at a nominal fee.
- 1.29** The main advantage of these types of projects over the traditional method where Government borrows funds and invites tenders is in the assignment of risk amongst the contracting parties. For example, if Government has been plagued with cost overruns when constructing buildings, then a PPP arrangement could be utilized where it is up to the contracting firm to assume the risk of providing a building on a timely basis for a prescribed price. Any cost overruns would be the responsibility of the contractor.
- 1.30** There are a number of such projects in place in Barbados and these include the expansion of the ABC Highway (\$132 million estimated), the construction of the Judicial Centre (\$70 million), the Tamarind Hall Complex (\$16 million), the Prison at Dodds (\$293 million), Coast Guard Relocation (\$59 million) and a road construction project (\$34 million). In addition, there was also a PPP arrangement for the Newton Business Park Development (\$18.5 million).
- 1.31** As I indicated earlier, this type of arrangement is relatively new to Barbados but occurs in countries such as the United Kingdom and Australia. This type of arrangement was initially seen in some countries as a way of increasing capital assets without increasing the National Budget. However, with the change in

Barbados from the cash basis to the accrual basis, PPP projects are considered as capital leases and will be included in the National Debt.

- 1.32** There have been two PPP projects completed to date and these are the Prison at Dodds and the Coast Guard Relocation Project. This type of arrangement is not without risk as can be seen with the Newton Business Park Development Project, where there was poor construction of the building and termination of the contract (See Chapter 5).

#### Contract Management

- 1.33** Contract management generally has been problematic in Government and has resulted in considerable losses and wastage of resources; this can be seen in major contracts at the Ministry of Home Affairs and the Ministry of Agriculture. These projects have resulted in loss of Government funds.

#### Loss of Funds

- 1.34** Other issues that are of concern include theft of Government funds. This is an annual problem and certain entities such as the Post Office and Magistrates Courts seemed to be at the greatest risk.

## Access to Information

- 1.35** Gaining access to information is also a matter of concern. In a number of instances some senior Government Officials appeared to be ignorant of the provisions of the Financial Administration and Audit Act which required the Audit Office to have access to all information. In some cases the work of the Audit Office was held back as a result a lack of cooperation by Ministry Officials.
- 1.36** In other cases, information could not be located, for example, in relation to the VauxhallSeniorCitizensVillage construction project. Even now critical pieces of information, such as responses to audit queries have still not been made available to my Office. I would like to advise Ministries, Departments, Statutory Boards and all Government controlled entities that according to the Constitution of Barbados, the Barbados Audit Office is responsible for the audit of all Government entities, and I therefore expect their full cooperation in any audit investigation. What transpired during the past year was unacceptable in some instances.

## **Training and Conferences**

- 1.37** The Audit Office hosted a regional workshop of the Caribbean Organization of Supreme Audit Institutions (CAROSAI) during the period 19<sup>th</sup> to 24<sup>th</sup> August 2007. The main purpose of the workshop was to develop a strategic plan for CAROSAI and to provide training for senior officers in Audit offices throughout the region. The workshop was attended by representatives from eighteen(18)countries, and at its close the participants had achieved their objectives of producing a draft strategic plan for the region. Sincere thanks must go to the INTOSAI Development Initiative for funding the workshop.
- 1.38** The Audit Office was represented at a number of conferences and workshops during the year. Included among these was the 7<sup>th</sup> Global Forum on Reinventing Government hosted by the United Nations in Vienna. This workshop focused on



ways of reinventing Government and it targeted Government Ministries, Senior Government Officials, Civil Society Organizations and the Private Sector. The theme for the 7<sup>th</sup> Forum was “Building Trust in Government”. The Audit Office was also represented at a World Bank sponsored seminar in conjunction with the United States General Accountability Office and the INTOSAI Development Initiative in WashingtonD.C. during the period 12<sup>th</sup> to 16<sup>th</sup> November 2007. This seminar provided an opportunity for the Auditors General from 25 countries to meet and share experiences on moving Public Sector auditing forward.

### **Other Issues**

- 1.39** There have been some complaints about the availability of the annual Reports to members of the public and in this regard a decision was taken by the Audit Office to establish an internet presence. The Reports of the Office for a number of previous years can be found on our webpage [www.bao.gov.bb](http://www.bao.gov.bb). Also available are relevant pieces of legislation relating to the Audit Office and this includes the Financial Management and Audit Act; the Public Accounts Committee Act; and extracts from the Constitution. It is hoped that through this medium members of the public can provide feedback on our reports and on issues relating to the Public Sector that are of concern to them.

### **Acknowledgements**

- 1.40** Appreciation is extended to members of staff for their support during the year. The support and co-operation of Accounting Officers, Heads of Department, other state agencies and their staff is also appreciated.

## **CHAPTER 2**

### **Analysis of the Financial Statements of the Accountant General**

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## INTRODUCTION

**T**he financial statements of the Accountant General were submitted to the Barbados Audit Office in accordance with Section 12(2) of the Financial Administration and Audit Act, Cap. 5 (now repealed). The Accountant General is required to prepare, sign and submit financial statements to the Auditor General within four months after the close of the financial year. The financial statements for the year ended 31<sup>st</sup> March 2007 were received in July 2007 and this was within the stipulated time frame.

- 2.2** The Report of the Accountant General consists of a number of statements which include a Statement of Transactions of the Consolidated Fund, a Statement of Public Debt, a Statement of Assets and Liabilities and a Statement of Loans Guaranteed by the Government. Readers are advised to refer to the Report of the Accountant General for the financial year 2006/2007 to gain a comprehensive understanding of the accounts of the Government.
- 2.3** These accounts do not include physical assets, accounts of Government owned companies, statutory boards or other entities fully or partially owned by the Government. The value of fixed assets held by the Government is neither consolidated in the Statement of Assets and Liabilities nor disclosed by way of notes to the accounts. In view of the cash basis of accounting adopted for the preparation of the financial statements, the Statement of Assets and Liabilities of the Government does not reflect the net worth of the Government for any given period, but presents various account balances in the Treasury Accounts.
- 2.4** As indicated, this section of the Report should be read in conjunction with the Annual Report of the Accountant General for the financial year ending 31<sup>st</sup> March 2007. My analysis and observations relating to the audit of the statements listed in the Accountant General's Report are as follows:-

## CONSOLIDATED FUND

- 2.5** The Consolidated Fund, which is established in accordance with Section 107 of the Constitution, is credited with all revenue collected on behalf of the Government, and debited with withdrawals arising from annual appropriations and charges arising from other provisions of the law. The debit balance on the Consolidated Fund, as reflected in the Statement of Assets and Liabilities, represents the accumulation of deficits over the years.
- 2.6** Revenues include all levies, taxes, rates, duties, fees, penalties, forfeitures, rents and dues, proceeds of sale and other receipts of the Crown from whatever sources arising, over which Parliament has the power of appropriation. This does not include the proceeds of short term loans such as Treasury Bills and temporary borrowings from the Central Bank of Barbados.
- 2.7** Expenditure comprises those charges arising by virtue of any provision of the Constitution or any other enactment, and amounts approved by Parliament. Expenditure does not include advances to state enterprises made from the Treasury Accounts.

## **Revenue**

- 2.8** Revenue is classified as either current or capital. Current revenue is primarily derived from taxes while capital revenue is the proceeds of medium and long term loans.
- 2.9** For the financial year under review current revenue was reported as \$2.242 billion, and this was \$48 million more than in the previous year. In terms of comparisons, taxes on income and profits were budgeted at \$594.4 million; however the actual revenue was \$804.7 million, which was \$210.3 million more than had been anticipated. This could be attributed to increases in corporation taxes collected.

**2.10** While taxes on income and profits did better than expected, taxes on goods and services, and taxes on international trade were lower than had been budgeted for. Taxes on goods and services were budgeted at \$1.021 billion; however actual revenue was \$939.3 million, a short fall of \$82 million. Taxes on international trade were budgeted at \$226.4 million; however \$173.8 million was collected resulting in a short fall of \$52 million.

**2.11** Overall revenue was \$68.4 million more than had been budgeted for. A five year trend for current revenue is depicted in the table below:-

<b>Financial Year</b>	<b>Current Revenue</b>
	<b>\$</b>
2002/2003	1,716,405,362
2003/2004	1,865,693,324
2004/2005	1,897,406,244
2005/2006	2,142,753,048
2006/2007	<u>2,223,366,595</u>
<b>Total</b>	<b><u>9,845,624,573</u></b>

**2.12** The table shows that current revenue has been increasing steadily over the past five years. The range in increases was from \$31 million to \$245 million, the highest movement being in the 2005/2006 financial year when revenue increased by \$245 million. As can be seen from the Analysis of the Main Sources of Revenue chart below, Value Added Taxes (VAT) and Corporation Tax are the main reasons for the rise in current revenue. VAT receipts moved from \$494.6 million in the 2002/2003 financial year to \$681.8 million in the 2006/2007 financial year, while Corporation Tax moved from \$220 million to \$445 million during this same period.

### **Capital Revenue**

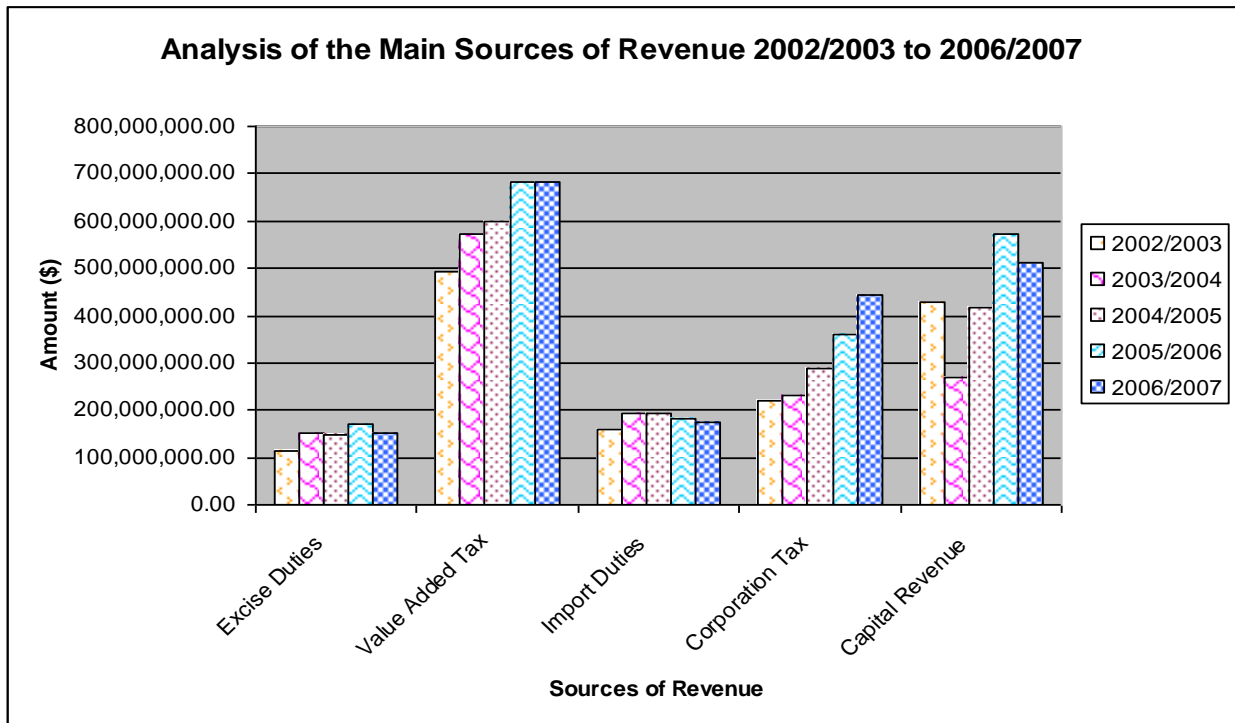
**2.13**

Capital revenue, as alluded to earlier, is the proceeds of medium and long term borrowing. During the year 2006/2007 capital revenue was \$512 million. Over the past five year period this revenue was as follows:

Financial Year	Capital Revenue \$
2002/2003	429,585,324
2003/2004	270,240,247
2004/2005	415,899,585
2005/2006	571,625,685
2006/2007	<u>512,357,509</u>
<b>Total</b>	<b><u>2,199,708,350</u></b>

**2.14**

As can be seen from the chart, the Value Added and Corporation taxes and Capital Revenue (borrowings) have been the main sources of revenue over the past five years.



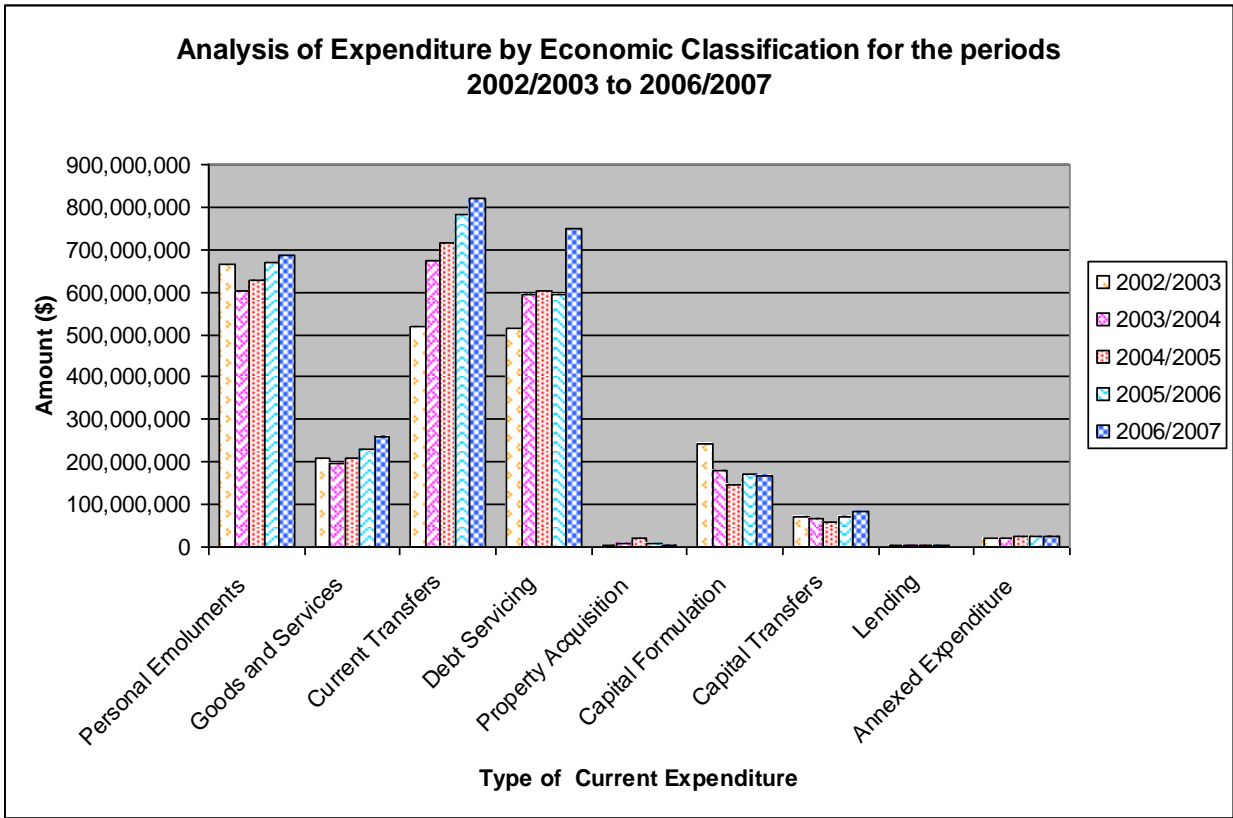
**2.15** A summary of the Consolidated Fund's revenue and expenditure for the financial year is as follows:

	\$	\$
Current Revenue	2,242,032,452	
Capital Revenue	<u>512,357,509</u>	
<b>Total Revenue</b>		<b>2,754,389,961</b>
Current Expenditure	2,543,404,223	
Capital Expenditure	<u>257,994,482</u>	
<b>Total Expenditure</b>		<b><u>2,801,398,705</u></b>
<b>Surplus/(Deficit)</b>		<b><u>(47,008,744)</u></b>

**2.16** As shown above, the deficit on the Consolidated Fund at 31<sup>st</sup> March 2007 was \$47 million. The accumulated deficit was \$297.5 million and this was made up of the deficit from 2006/2007 plus a deficit of \$250.5 million brought forward from previous years.

### **Expenditures by Economic Classification**

**2.17** Expenditures for the year, when analyzed by economic classification, revealed that Current Transfers accounted for the largest expenditure. This expenditure was \$821 million. This was followed by Debt Services which was \$747.3 million and Personal Emoluments which was \$687.8 million. An analysis of expenditure by economic classification over the past five years is presented below. The main components of expenditure over this period were Personal Emoluments, Debt Servicing and Transfers to Statutory Boards, Commissions and other state agencies.



**2.18** Current Transfers rose from \$520.9 million in the 2002/2003 financial year to \$821.3 million in 2006/2007, and accounted for the largest share of Government expenditure. During this same period Debt Servicing moved from \$516 million to \$747.3 million, and the other main expenditure item was Personal Emoluments which rose at a slower rate, moving from \$665.8 million to \$687.8 million.

**Statement of Current Assets and Liabilities**

**2.19** The financial report of the Accountant General includes a Statement of Current Assets and Liabilities. This is not a statement of all Government assets and liabilities but merely the summary balances of certain below-the-line accounts (accounts other than the Consolidated Fund). The statement is useful in that it records information such as the balance of the liabilities and assets from short



term borrowings, and movement of funds and loans made to Government enterprises.

**2.20** Loans from the Central Government to state enterprises totaled \$397 million and this was some \$90 million more than in the previous year. The major reason for the increase relates to additional loans made to the Barbados Tourism Investment Inc.

**2.21** The list of loans made to Government enterprises at 31<sup>st</sup> March 2007 was as follows:

	\$
Barbados Tourism Investment Inc.	184,300,000
Hotels and Resorts Ltd	145,328,264
Enterprise Growth Fund	30,000,000
Caribbean Broadcasting Corporation	20,609,446
Fund Access	<u>5,000,000</u>
<b>Total</b>	<b><u>385,237,710</u></b>

**2.22** Section 25A of the Financial Rules gave the Government the authority to grant loans to governmental and non-governmental enterprises. It also requires that these loans shall be secured by way of a loan agreement or debenture mortgage, the terms of which are to be agreed by the Cabinet. It should be noted that these loans were advanced from the funds of the Treasury without any reference to Parliament.

**2.23** Under the new Financial Management and Audit Act, 2007 - 11 such loans would have to be made from a capital contribution authorised by Parliament. This, in my opinion would strengthen Parliamentary control over this process.

## **Loans Advanced by Government**

### Barbados Tourism Investment

**2.24** During the Financial year ended 31<sup>st</sup> March 2007 a sum of one hundred million (\$100m) dollars was disbursed from the Accountant General to the Barbados Tourism Investment Inc. (BTII) for the Kensington Oval Redevelopment Project.

**2.25** However, no agreement was presented for audit examination. Loan agreements containing the terms of repayment should be in place and made available for audit verification.

### Caribbean Broadcasting Corporation

**2.26** The Caribbean Broadcasting Corporation was granted a loan of \$20.6 million. The loan was in two parts with an amount of \$8.8 million to be converted into equity over a four year period, and an amount of \$11.8 million at an interest rate of \$7.25 per annum on the reducing balance accruing daily. Interest and principal repayments were due from 31<sup>st</sup> October 2003. To date, no interest or principal repayments have been received, and interest due on the loan stood at \$4,813,213 at 31<sup>st</sup> March 2007. The decision of Cabinet has not been adhered to as it relates to the equity injection of \$8 million.

### Small Hotels Investment Inc

**2.27** The balance shown under the Enterprise Growth Fund Ltd. – Small Business Fund was \$30 million at 31<sup>st</sup> March 2007. However according to the “Letter of Intent” between the Government of Barbados and the Small Hotels Investment Fund, two million dollars (\$2m) of the funds were in respect of a grant for the marketing plan of Small Hotels of Barbados Inc. As a result of the inclusion of the grant the balance on this fund was overstated by \$2 million.

### Hotelsand Resorts Limited

**2.28** The Government of Barbados loaned Hotels and Resorts Limited BDS \$145,328,264 in July 2002 at the rate of 7.25% interest over a period of twenty (20) years in semi-annual installments payable on 30<sup>th</sup> June and 31<sup>st</sup> December of each year. A moratorium existed on the interest and principal of the loan until December 2005. However, in accordance with the contract, interest should have accrued from the date of disbursement. Interest and principal repayments were due to commence on 30<sup>th</sup> June 2006. No repayments have been made to date. Interest due to Government as at 31<sup>st</sup> March 2007 was approximately \$48,306,012.

**2.29** *Treasury's Response*

*Barbados Tourism Investment Inc. (BTII)*

*No loan agreement was presented for examination by the auditors because the final loan agreement was not yet available from the Ministry of Finance.*

*Caribbean Broadcasting Corporation*

*The accounting records will be adjusted during the financial year 2007/2008 to reflect the loan amount of \$11,809,726 instead of \$20,609,446. The adjustment would relate to the conversion of \$8,799,720 from loan to equity.*

*Small Hotels Investment Fund*

*An adjustment will be made to the accounting records during the financial year 2007/2008 to reflect the grant of two million dollars (\$2m) to the Small Hotels Investment Fund.*

### Hotels and Resorts

*The total amount loaned to Hotels and Resorts Ltd. was \$159,824,878. Of this amount \$145,328,264 was advanced from the Treasury account and \$14,496,325 was advanced from the Public Enterprise Investment Fund (PEIF).*

### **Contingent Liabilities**

#### **2.30**

Contingent liabilities stood at \$869,481,774 at the end of the financial year. It should be noted that National Debt has increased in recent years partly as a result of the Government taking over contingent liabilities. An analysis of the financial statements of some state agencies would indicate that many of these loans will eventually have to be taken over by the Central Government since these enterprises are unlikely to be able to service their debts.

### **OTHER FUNDS HELD AT TREASURY**

#### **Sugar Levy -Barbados Workers Union (BWU) Loan**

#### **2.31**

A loan disbursed to the Barbados Workers Union on 24<sup>th</sup> August 1979 had a balance of \$500,000. The period of the loan was scheduled for ten (10) years from the date of disbursement at an interest rate of four percent (4%). The BWU continues to pay the interest on this loan annually. However the last payment made towards the principal was in June 1997. The Accountant General should liaise with the BWU in order to have this debt settled as soon as possible.

## **Pensions Account Reconciliation**

- 2.32** The Pensions Account was not reconciled as at 31<sup>st</sup> March, 2007. It was explained that the section is experiencing technical problems in reconciling this account.
- 2.33** Unpresented pension cheques as at 31<sup>st</sup> March, 2007 totaled \$14,630,780. Some cheques remained outstanding from the year 1999. It is recommended that a thorough analysis of unpresented cheques should be undertaken and the necessary adjustments made where appropriate.
- 2.34** Reconciliation is an important control measure for detecting possible errors and unauthorized transactions on the bank account, and should therefore be performed in a timely manner. Every effort should be undertaken to have technical problems rectified.

## **Schedule of Deposits**

- 2.35** The Schedule of Deposits at Appendix VI of the Accountant General's Report showed a balance of \$37,926,457. However, several of these accounts remained inactive. Such accounts should be monitored and where necessary investigated to ascertain whether they should be closed.

## **Bank Reconciliation Statements**

- 2.36** Reconciliation statements checked on behalf of the Central Bank, First Caribbean International Bank and the Barbados National Bank revealed that there were unreconciled differences for which no adequate explanations were given. These unreconciled differences should be further investigated and where necessary adjusted to the Consolidated Fund.

## Tax Reserve Certificates

2.37

A number of Amortization and Interest expenses related to Tax Reserve Certificates were incorrectly adjusted during the month of March 2007. This resulted in the statements of Debt Management expenses being overstated by \$21,132,855 as follows:

	\$
Tax Reserve Certificates - Amortization	17,708,855
Tax Reserve Certificates - Interest	<u>3,424,000</u>
	<b><u>21,132,855</u></b>

## *Treasury's Response*

2.38

### Pensions

*The Excel spreadsheet containing the unrepresented pension cheques listing as at 31<sup>st</sup> March 2007 shows a total of \$14,630,780. Efforts are being made to rectify the technical problems.*

### Tax Reserve Certificates

*There was an error in recording the transactions resulting in the overstatement of the accounts.*

### **Public Debt**

- 2.39** The particulars of outstanding loans can be seen in the Statement of Public Debt and Sinking Fund Schedule of the Report of the Accountant General. Total Public Debt at 31<sup>st</sup> March 2007 was recorded as \$4,211,732,165. This figure did not include outstanding balance in respect of the Elta System loan. This omission resulted in a short statement of the total Public Debt at 31<sup>st</sup> March 2007 by \$26,477,640.

### **Revenue and Expenditure Analysis**

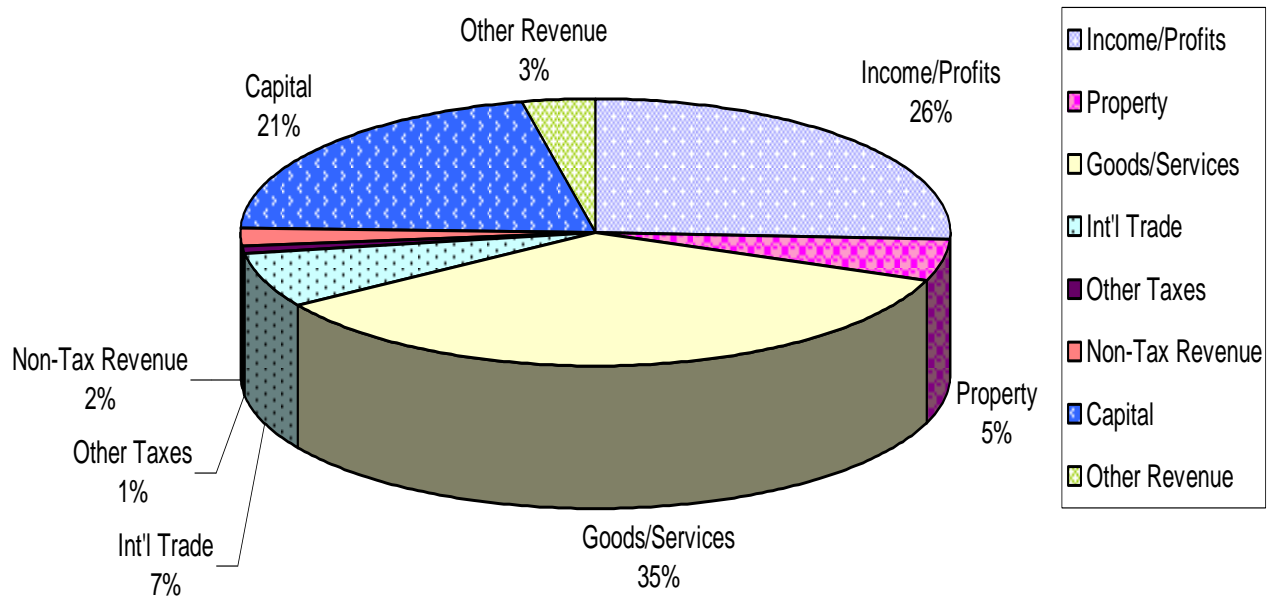
- 2.40** Following are the main charts that show:

- Main sources of revenue
- Distribution of actual expenditure according to Ministries
- Expenditure by Economic Classification.

# **TOTAL REVENUE 2006 - 2007**

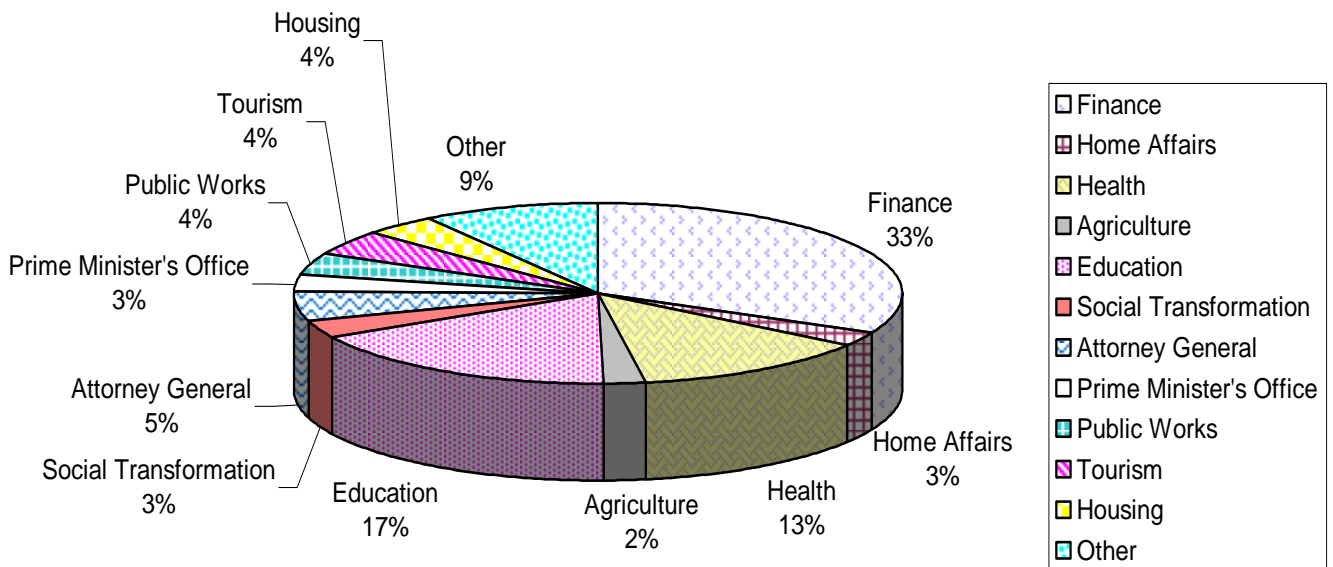
CLASSIFICATION BY REVENUE AREA



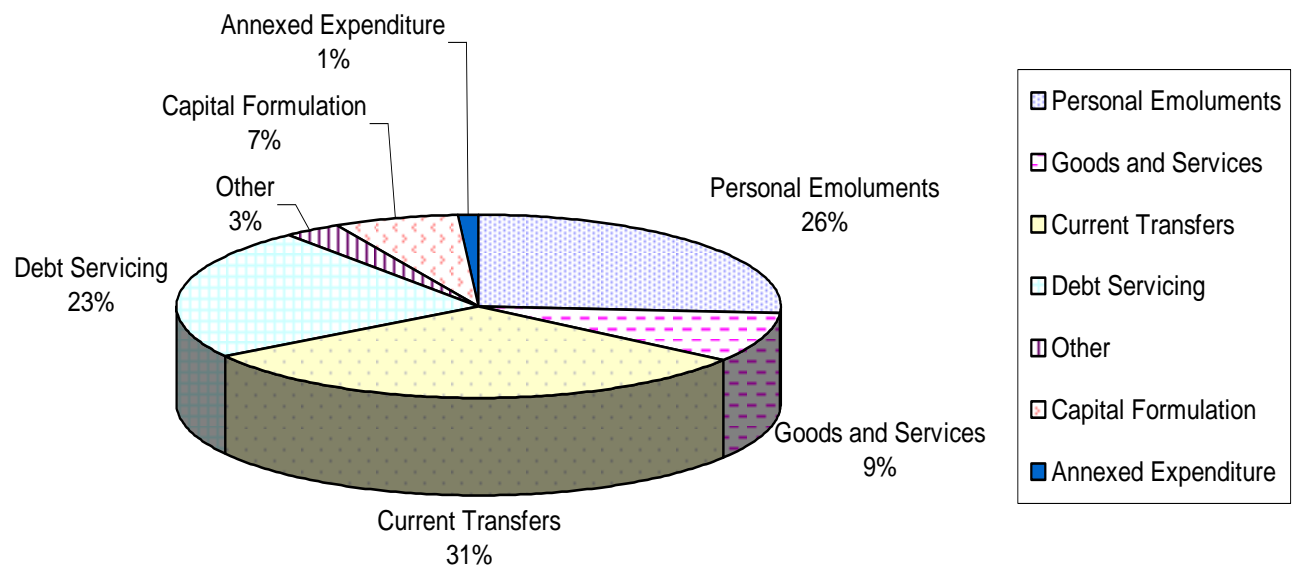


# TOTAL EXPENDITURE 2006-2007

## CLASSIFICATION BY MINISTRY



# EXPENDITURE BY ECONOMIC CLASSIFICATION 2006 - 2007



## CHAPTER 3

### General Audit Concerns and Observations

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**T**

his chapter highlights general accounting concerns observed during the course of the audits of Ministries and Departments. It also includes responses by Ministries/Departments to the concerns raised.

#### **Audit Mandate**

**3.2** An audit of the accounts of the Ministries and Departments of Government for the financial year ended 31<sup>st</sup> March 2007 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 the Financial Management and Audit Act, 2007 - 11 the onus for the proper discharge of financial administration and the preparation of financial statements rests on the Accounting Officer. It is the Auditor General's responsibility to form an independent opinion on the accounts, based on the audits carried out by this Office.

#### **Audit Purpose and Scope**

**3.4** The Barbados Audit Office is empowered to carry out audits so as to provide assurance that:-

- Adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them 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 the 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.

## **Ministry of Agriculture and Rural Development**

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**3.5** The objectives of this Ministry include the guiding and directing of agricultural and fisheries development in the country and improving the livelihood of residents in rural areas.

**3.6** The audit revealed that there were numerous instances of poor project management practices at the Ministry, with the result that contracts were paid for even though the relevant projects were not completed; and variations were made without authorisation. It was also observed that the necessary checks and balances were not performed by Ministry personnel to ensure that services were completed before payments were made. These issues are highlighted as follows:-

### **Remodeling of Stalls in Speightstown**

**3.7** A construction company was hired by the Ministry in November 2005 to remodel thirteen (13) stalls near the Speightstown Bus Terminal for an agreed sum of \$72,804.90. By July 2006 this firm had been paid \$91,610.64 which included a variation of \$18,805.74.

- 3.8** It should be noted that towards the end of December 2007 the contractor had commenced work on only six of the thirteen stalls. There was therefore no basis for the entire contract price being paid.



**Speightstown Vendors' Stall to be Remodelled**

- 3.9** The contractor was therefore overpaid in respect of the actual works carried out and efforts should be made to recover the amount overpaid.
- 3.10** The accounts personnel should only make payments after the work has been satisfactorily completed as mandated by Rules 48 and 128 of the Financial Administration and Audit (Financial) Rules 1971. In the event of any losses to the Ministry, the person who authorized such payments should be surcharged.

#### **Repairs to the Roof of the Veterinary Laboratory**

- 3.11** The Ministry awarded a contract to a construction company to repair the roof of the building housing the Veterinary Laboratory and the Animal Nutrition Unit for the sum of \$98,679.78 VAT inclusive. This contract was to commence on the 12<sup>th</sup> August 2004 and the date of completion should have been 30<sup>th</sup> March 2005. Clause 2 of the agreement stated that there should be no variation of the price unless agreed to by both parties in writing and signed on their behalf.

- 3.12** However, at the start of the project the contractor submitted a variation for \$89,867.14 for the removal and carting away of the existing roof, resulting in a project cost of \$188,546.00
- 3.13** The Audit Office has not been provided with any information that the variation was approved by the Ministry in accordance with clause 2, of the signed agreement between the Ministry and the contractor.
- 3.14** However, based on submissions made by other contractors for the replacement of the roof and its removal, it was evident that in excess of \$100,000.00 would have been required for this project, and it should have been put out to public tender in accordance with the Financial Rules. The payment for additional work for the removal of the roof was therefore an attempt to circumvent the Financial Rules. There is a definite need for penalties for persons who flagrantly violate the Financial Rules.

#### **Renovation of Roof of Oistins' Fish Market**

- 3.15** The renovation to the roof of the Oistins' Fish Market was originally contracted to cost \$883,888.16VAT inclusive. This project had cost overruns of nearly 100%, bringing the total cost of construction to\$1,687,112.44.
- 3.16** It would be expected that any variation would be agreed upon by the Ministry and the contractor. It was however observed that the claims for variations originated with the contractor and did not have the approval/agreement of the Ministry. Indeed every claim from the contractor contained a variation. It is extraordinary that the Ministry would agree to such a system, in which it relied on the contractor for assessing what additional work was to be carried out,and determining the cost associated with this work. Such a practice opens the Ministry to claims that could be excessive or inaccurate. It should also be noted that the claims were sent to the Permanent Secretary who approved the payments.
- 3.17** The Ministry paid a consultant \$84,355.62 to oversee this project but there is no evidence that the consultant approved any claims for the roof. In a project of this magnitude the claims from the contractor should be first evaluated by the project consultant, who would determine the value of the work submitted and approve

payment. It is however not clear on what basis payment was approved by the Permanent Secretary, who should be asked to account for his actions in this regard.

### **Release of Surety**

**3.18** On 22<sup>nd</sup> March 2005, the Ministry issued a letter to the Accountant General authorizing the release, to the contractor, of the surety of \$90,000.00 on the Oistins Fish Market contract. This was done without the instruction of the consultant for the project, and before the defects liability period had started. The defects liability period should have commenced on 30<sup>th</sup> March 2005 and would have ended on 30<sup>th</sup> March 2006.

**3.19** This surety should not have been released before the end of the defects liability period, and only after the issue of the final Certificate of Completion. This surety ensures that the Ministry could recover funds if the contractor's work was deficient during this period, and should therefore have remained in place during this period.

### **Renovation of Palmetto Mall**

**3.20** On the 28<sup>th</sup> February 2005, a construction company was hired to carry out renovations and extensions to the old Griffith's Reliance Pharmacy Building, Palmetto Square, Bridgetown, for the sum of \$2,504,012.80 VAT inclusive. As part of this arrangement the contractor was required to secure a performance bond. The performance bond is generally obtained by way of security with a bank or an insurance company, and it provides the Government with recourse to recover damages if there is poor workmanship or breach of contract. This performance bond is obtained (at the contractor's expense), and should be in place at the start of the project.

**3.21** There was never an executed performance bond. In a most unusual occurrence, it was observed that the contractor claimed expenses pertaining to



the performance bond and funds were actually paid by the Ministry in this regard. The contractor also claimed additional expenses for insurance of the building site, although this was the contractor's responsibility. This contractor received \$12,500.00 for performance bond expenses and \$20,000.00 for insurance which he had no right to.

### **Absence of Contracts**

- 3.22** With respect to the projects at Speightstown and Palmetto Square, it is to be noted that no written contracts were entered into. The Financial Rules require that written agreements be entered into, and that these agreements should contain safeguards for the satisfactory completion of work. The absence of such agreements presents risk to the Ministry in cases where there is disagreement about the nature or value of work completed.

### **Payments not Sanctioned by Technical Staff**

- 3.23** Two companies were paid \$12,336.20 and \$19,500.00 respectively for removal of asbestos sheets from a roof at the Animal Nutrition Unit, and demolition and removal of a soft stone building from an area at the Unit.
- 3.24** These claims were not certified by the technical staff of the Ministry, who have the knowledge and skill to determine the quality and cost of the work performed. This action was not in compliance with Rule 48 of the Financial Administration and Audit (Financial) Rules 1971.
- 3.25** The basis on which these payments were certified remains unclear.

### **Register of Contracts**

**3.26** The Ministry has not been providing an up-to-date register of contracts as required by the Financial Rules. Keeping the register up to date allows management or reviewers such as the Audit Office to have an overview of all contract activity being carried out, and this Register should be updated as required.

### **Duty Free Vehicles**

**3.27** The Ministry of Agriculture can facilitate the purchase of duty free vehicles to farmers who meet certain criteria which include:

- (i) Annual sales in excess of \$60,000.00;
- (ii) At least a quarter acre of land under production;

(iii) Show a need for a vehicle to undertake such activities as are normally associated with the farmer's operations.

**3.28** Farmers who are granted these concessions are required to keep the vehicles for a period of five years before they can be sold without attracting a refund of duties. Failure to comply with this requirement would entail the purchaser having to repay the relevant duties on the vehicle.

**3.29** A sample of thirty (30) farmers who received duty free vehicles was chosen to ascertain their compliance with the Ministry's guidelines. It was observed that two farmers sold their vehicles before the stipulated five year period, and there is no evidence that these individuals paid the necessary duties as required by the Ministry.

**3.30** These breaches indicate that there is a need for the Ministry to introduce measures that would allow it to monitor the ownership of these vehicles over the five year period. This could be done by liaising with the Licensing Authority on the status of ownership of the vehicles annually, or as required.

## **Revenue**

### **Sale of Ice**

- 3.31** During the Financial Year 2006/2007, the Ministry received \$695,419.55 from the sale of 2,897 tons of ice. However, the Ministry has been concerned about controls in respect of the sale of this commodity for sometime. Our audit examined this matter and pointed to a number of control issues in this regard.
- 3.32** The Bridgetown Fisheries Complex supplies ice to fish markets which do not produce this commodity. The ice is then retailed at these markets.
- 3.33** The current recording practices at the markets, however, do not allow for adequate accountability for the ice received, since the quantity of ice received is generally not recorded. This makes it difficult to compare the quantities of ice received for sale with the quantities actually sold.

### **Under-utilization of Fish Market**

- 3.34** The Audit Office observed that at the Paynes Bay Market only \$1.50 was collected from fish sellers for use of the market for the Financial Year 2006/2007. The Market was only used by fish sellers on two (2) occasions during the financial year under review and not at all (up to the time of investigation) during the 2007/2008 financial year. This matter should be reviewed by the Ministry, and efforts made to discover the factors responsible for the underutilization of this market.

## **Arrears of Revenue**

**3.35** The Ministry did not prepare a statement of Arrears of Revenue and Monies outstanding to Government at March and September as required by the Financial Rules. It should however be noted that there is a high level of rent arrears at the Public Markets. At some markets all renters were in arrears.

**3.36** The Ministry should make an effort to recover the outstanding amounts since defaulters are likely to increase when it is understood that there are no consequences as a result of their non payment.

## **3.37 Ministry's Response**

### **(a) Remodeling of stalls in Speightstown**

*The contractor appears to have been overpaid in respect of the actual works carried out. Efforts would be made to recover the amount over-paid.*

### **(b) Repairs to the roof of the Veterinary Laboratory**

*The Ministry is continuing its examination of this matter since the contractor has not yet completed the job and no further payments are being considered. Instead, steps would be taken to determine the contract and to seek any necessary redress.*

### **(c) Renovation of roof of Oistins' Fish Market**

*The Ministry is unable to offer any additional immediate clarification on this subject. However, as a result of the issues raised this matter would be reviewed to determine the specific reasons for the doubling of the original contract price and to make*

*recommendations to tighten the procedures dealing with approval of major renovations.*

**(d) Release of Surety (Oistins' Project)**

*Arrangements have been put in place to ensure that there are no future lapses in this regard and the requisite rules and procedures are followed.*

**(e) Renovations of Palmetto Mall**

*The matters raised - payments made in the sums of \$12,500.00 and \$20,000.00 representing performance bond expenses respectively - are still being researched and a final position would be communicated as soon as the investigation is completed. However, the Ministry would seek to recover any amounts overpaid from the contractor.*

**(f) Register of Contracts**

*Proper arrangements have now been made for the Contracts Register to be up-to-date through effective communication between the Projects Unit and the Accounts Section. Because of the length of time it takes to have formal contractual agreements executed it is very difficult to fulfill all of the requirements of the Financial Rules. This situation places a lot of pressure on Accounting Officers to meet obligations in a timely manner while at the same time adhering strictly to the Rules.*

**(g) Duty Free Vehicles**

*While the Ministry assists the Ministry of Finance with the implementation of this scheme, it is not this Ministry's responsibility to supervise the sale or disposition of these vehicles. This query is therefore incorrectly directed to this Ministry. However, it appears that if an appropriate coding system is instituted at the Licensing Authority to assist in monitoring the transfer or sale of these vehicles before new registration requirements are completed, the problem identified might be eliminated.*

**(h) Sale of Ice**

*The amount of ice delivered to the rural stations should be recorded and signed for on arrival. However, this part of the procedure has not been followed. Action will be taken to ensure that the procedure is followed in the future.*

**(i) Under-utilization of Fish Markets**

*This situation is presently being examined to determine the way forward.*

## **Department of Corporate Affairs and Intellectual Property**

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**3.38** The Corporate Affairs Department has responsibilities for adjudicating the transfer of shares in private companies operating in Barbados, and for offshore companies registered in Barbados but with operations outside the country. The Department collects in excess of \$2.5 million in fees annually.

## **Valuation and Transfer of Shares**

- 3.39** Subsection 1(d) of Section 9 of the Property Transfer Tax Act, CAP. 84A, allows the Commissioner of Valuations to consult with the Commissioner of Inland Revenue in determining the fair market value of shares.
- 3.40** The expertise required for share valuation other than property lies with the Commissioner of Inland Revenue and not the Commissioner of Valuations. Governing legislation may have to be reviewed to make this process more efficient.

## **Internal Control Issues**

- 3.41** It was observed that one officer at the Corporate Affairs Department was primarily responsible for the activities relating to the issue of share transfer instruments. Such activities include obtaining a valuation, calculating the property transfer tax payable (based on a valuation), adjudicating the transfer and the keeping of the relevant records. The calculated tax was approved without the computation being certified correct by a second officer. Such an arrangement reflects a deficiency in the internal controls, and could result in fraud or errors going undetected.

**3.42** ***Department's Response***

*It is agreed that the Department would make the calculation of the Property Transfer Tax and Stamp Duty more transparent with the involvement of the Assistant Accountant in the exercise. In this regard, it was therefore agreed that upon receipt of an assessment, the Deputy Registrar will continue to make a determination as to the quantum of Property Transfer Tax and Stamp Duty payable. However, he will now be required to present the Instrument together with the assessment made by the Commissioner to the Assistant Accountant for verification before the*

*matter is referred to the Cashier for payment. This process will bring greater transparency to the process involved in the adjudication of share transfers.*

### **Transfer of Shares in Commercial Bank**

**3.43** An application for adjudication was made in July 2004 by a company which was desirous of transferring 25,000,000 shares in a commercial bank to another bank. In this regard an advance payment of \$3,806,250.00 in respect of Property Transfer Tax was made in July 2004.

**3.44** The valuation of the shares was carried out in August 2006, when they were each valued at \$2.10. This action resulted in an additional \$652,500.00 in Property Transfer Tax and Stamp Duty payable to the Government.

**3.45** Section 10 (1) of the Property Transfer Tax Act allows for objections to be lodged by persons against the Commissioner of Valuation's determination of the fair market value of the shares, within 14 days of the giving, or the serving of notice of the determination. Such objections must be posted to, or lodged with, the Commissioner in writing, stating the grounds relied on and the reasons for such reliance.

**3.46** No objections were lodged against the valuation, so it is not clear why there has not been any action taken to collect the outstanding amounts.

**3.47** ***Department's Response***

*The Corporate Affairs and Intellectual Property Office has no authority to compel a transferor to complete a given transaction. A transferor is clearly within his right to change his mind with respect to the transfer of shares after a valuation has been received. If however, the Instrument of transfer is not adjudicated then the title does not pass.*



## **Auditor's Note**

- 3.48** Notwithstanding the comments of the Department, the Audit Office is still of the view that the Department should seek to collect the outstanding taxes and duties, since all available evidence would indicate that the Commercial Bank has been sold.

# Ministry of Education, Youth Affairs and Sports

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- 3.49** The Ministry of Education is responsible for general management of all educational services established in accordance with existing legislation, and the initiation and review of policy affecting education in the country. The Ministry is allocated a large portion of Government's annual budget. Actual Expenditure for the financial year 2006/2007 was \$475,961,268.00. Audit concerns in respect of this Ministry were as follows:-

## **Utilities**

- 3.50** A number of schools had water bills which appeared to be excessive when compared with other schools with similar student rolls. In some cases these monthly bills were ten times higher. In addition a number of bills were paid which had credit balances. These balances would indicate that these bills were overpaid.
- 3.51** The Ministry should consider liaising with the BWA with the aim of seeking explanations for the cause of any large variances in billings, and ensuring that payments are not made in respect of bills with credit balances.

## **Funds Allocated to the National Cultural Foundation**

- 3.52** The National Cultural Foundation is allocated funds on behalf of the Youth Development Programme to facilitate programmes which are carried out by the Foundation. However, there are no reports produced by the Foundation indicating how the funds were expended.
- 3.53** The Foundation should be providing reports to the Ministry to show how these funds were utilised. These reports should be analysed to determine whether the programme is receiving value for the money advanced to the Foundation. For

the financial year 2006/2007 a total of \$435,290.00 was allocated to the National Cultural Foundation by the Ministry.

## **Contract/Tender**

### **Consultancy Fees**

- 3.54** An amount of \$285,350.89 was paid to a consulting firm for the provision of consultancy services for the construction of a Parade Square. Cabinet agreed that the provisions of Rule 137A of the Financial Administration and Audit (Financial) Rules, 1971 could be invoked, but this was after the work had been completed. There was no contract prepared for this service.
- 3.55** The consulting firm charged \$37,219.00 in respect of Value Added Taxes (VAT). There was no VAT registration number quoted on the document provided for payment. A check was made at the VAT Division on the status of the firm. This revealed that the company was not a registrant of the VAT Division.
- 3.56** The Office has noticed a number of instances in which companies charged VAT but are neither registered nor make payments to the VAT Division. In this particular instance it was noted that the consulting firm's prices were VAT inclusive.
- 3.57** Value Added Tax should not be paid by the Ministry of Education to suppliers unless an official invoice is received which includes a VAT registration number.

## **School Meals Department**

- 3.58** During the financial year under review a number of payments in excess of over \$200,000.00 were made to suppliers of goods and services without contracts being drawn up.
- 3.59** Contracts act as a safeguard for Government when substantial expenditure is involved. Rule 127 of the Financial Rules requires the invitation of tenders and the drawing up of a contract when expenditure in respect of the supply of goods or the undertaking of works or services is in excess of \$100,000.00. The tendering process should have been followed given the magnitude of the expenditures incurred, except otherwise authorised by the Cabinet, in circumstances set out under Rule 137A of the Financial Rules.
- 3.60** The above legislative requirements were communicated to the Department in previous management letters. It is reiterated that the Department needs to adhere to the procedures outlined in the Financial Rules, Cap. 5, Part XII, Government Contracts.

**3.61** ***Ministry's Response***

*Utilities*

*The Ministry has been having on-going discussions with the Barbados Water Authority with respect to the inordinately large sums of money submitted as the water bills for some schools. Investigations by both parties sometimes jointly or independently, often reveal that bills have been submitted without the supporting evidence that the water meters have been read for the particular period. This has resulted in large credit balances on these accounts which are then traded off against those schools with genuine outstanding balances.*

*Additionally, the Project Unit of the Ministry has begun a programme of monitoring the taps and other water installation at Primary Schools to ensure that there are no malfunctions which can contribute to the increase in the water bills.*

## Ministry of Energy and the Environment

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**3.62** The Mission of the Ministry of Energy and the Environment embodies the provision of an efficient, reliable energy sector, which is self-sufficient in the supply of the country's energy needs; and the promotion and facilitation of the sustainable use of our resources, by encouraging the involvement of all citizens, and the integration of environmental considerations into all aspects of national development.

### Contracts

**3.63** There were a number of payments made which were in excess of \$100,000.00 and would have necessitated that the tendering process being entered into and contracts issued according to the Financial Rules, 1971. It was however noted that there was no tendering process, and no contracts entered into for these services.

**3.64** Audit investigations revealed the following:

- (i) Payments totaling \$2,616,245.96 were made to a construction company during the financial years 2005/2006 and 2006/2007 in respect of the Welches Beach Improvement Project which was completed during the financial year 2006/2007; but a formal contract in compliance with Rules 126 and 127 of the Financial Rules, 1971 was not made available for audit examination.
- (ii) A contract with a firm ended on 31<sup>st</sup> August 2005. Payments totaling \$1,432,692.77 were made during 2006/2007 to this firm, and contract extension was cited as the authority for payment. However, no contract existed at the Coastal Zone Management Unit in respect of these additional payments.
- (iii) Payments totaling \$222,637.47 and \$191,594.39 were made to two suppliers respectively for the supply of plants for the Beautify Barbados Project. It was however observed that no formal

agreements were entered into as required by Rules 126 and 127 of the Financial Rules, 1971.

- 3.65** Of particular concern is the issuing of contracts without any competitive bidding. The purpose of obtaining competitive bids is to allow for comparison of prices amongst service providers. In the absence of this competition, it is not clear that the service obtained was for the best price available.

### **Estimates**

- 3.66** No provision was made in the 2006/2007 Estimates for civil works under this Project. However, payment was made to a construction company in the sum of \$315,645.93 for construction work in respect of this project. This payment was not authorized by Parliament.

### **Appropriation Accounts**

- 3.67** The Appropriation Account of the Ministry shows the actual expenditure made for the various sub-programmes compared with the budget amounts. The audit revealed that there were differences between the figures on the Appropriation Accounts and the records of the Treasury as follows:

<b>Sub-programme</b>	<b>Appropriation Account</b>	<b>Treasury Accounts</b>	<b>Difference</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>
Botanical Gardens	218,077.00	206,123.97	11,953.03
Environmental Protection Department	2,140,125.00	2,079,222.63	60,902.37
Environmental Unit	337,496.00	312,718.56	24,777.44
General Management	312,560.00	305,257.35	<u>7,302.65</u>

&Coordination Services

**104,935.49**

**3.68** The accounts for the 2006/2007 financial year were reported on a cash basis; therefore the Appropriation Account should consist of actual payments made during the year. The inclusion of encumbrances (claims not yet paid) therefore resulted in the Appropriation Account being overstated by \$104,935.49. These amounts should not have been included in the Appropriation Account.

**3.69** ***Ministry's Response***

***Contracts***

*At the time of the audit the contracts for the contractor for the execution of the WelchesBeach Improvement Project and consultancy services were being prepared by the Solicitor's General Office. The Coastal Zone Management Unit (CZMU) has since received the contract for the beach project. The CZMU will continue to request the final draft contract for the consultancy services.*

*The two companies which supplied the plants to BeautifyBarbados proved to be reliable suppliers. It would appear that most suppliers, especially around that time were limited in the available varieties and amounts required. In future the Department will seek to have formal arrangements in place.*





## **Ministry of Health**

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- 3.70** The objectives of the Ministry of Health are to promote health, provide comprehensive health care and to ensure that environmental concerns are considered in all aspects of national development.

### **Children's Development Centre**

#### **Renovation of the Education Unit**

- 3.71** Items purchased for the renovation of the Education Unit included one hundred (100) gallons of automotive paint and fifty gallons of thinners at a total cost of \$20,867.50. An audit inspection of the relevant records and the related stores carried out on 2<sup>nd</sup> July 2007, revealed that seventy-eight gallons of the paint and forty gallons of the thinners remained in storage after the completion of virtually all of the painting at the Education Unit.
- 3.72** No satisfactory explanation was provided for the substantial difference between the quantity of paint purchased and the quantity used on the Education Unit. This suggests that control and monitoring of the ordering process was deficient and requires remedial action, as it has resulted in the over ordering of substantial quantities of paint, wastage and misuse of resources.

### **Environmental Sanitation Unit**

#### **Late Payment of Insurance Premium**

- 3.73** A renewal premium of \$11,234.94 was paid to the Insurance Corporation of Barbados Ltd. through payment request No. 16 dated 4<sup>th</sup> May 2006 as coverage for the years 2005/2006 and 2006/2007 for three vehicles with registration

numbers MP 809, MP 855 and MP 867. Due to the late payment of the premium, the vehicles were not insured during the year 2005/2006.

**3.74** The failure to insure vehicles on time presents an unnecessary risk to workers travelling in these vehicles and is also in violation of the Laws of Barbados.

**3.75** ***Ministry's Response***

**(a)** ***Insurance Premiums***

*These payments were made in 2006 because of a lack of follow-through on the Accounts Department. The Ministry acknowledges that greater vigilance is necessary to ensure that vehicle coverage is kept up to date.*

**(b)** ***Renovation of the Education Unit***

*The Ministry of Health agrees that systems must be implemented to minimise the incident of wastage through poor inventory management and placement of orders for excessive quantities of material.*



## Ministry of Housing and Lands

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- 3.76** The objective of this Ministry includes improving the quality and standards of living in Barbados, through providing improved housing, acquiring lands for public purposes, and the provision and administration of surveying services in the island.

### Land Acquisition

- 3.77** Acquisition of land by the Government is governed by the Land Acquisition Act, Cap. 228. The Act stipulates that property can be acquired for public purposes. This responsibility rests with the Legal Unit in the Ministry of Housing. The process consists of a series of stages whereby ownership of the land acquired passes to Government against payment of compensation to the owner.

- 3.78** Depending on the purpose for which these lands are intended it may be necessary to vest these lands in a specific Government Agency. Provisions for the vesting of Lands are by virtue of the Crown Lands (Vesting and Disposal) Act, Cap. 225.

- 3.79** There has been some concern raised about the lengthy period which persons are required to wait before being compensated. The Audit Office examined the factors which were resulting in the delays in completing the process, and the extent to which Government agencies have been following the process for acquiring private property for public purposes in the following locations:-

### Searles to Six Roads

- 3.80** As a result of Road Construction work by the Ministry of Public Works a number of persons living in the vicinity of the road from Searles, ChristChurch, to Six Roads, St. Philip had to be relocated. In this regard, a number of houses were built in Leadville, ChristChurch to accommodate persons who had to be relocated.

The arrangement for compensation included the payment of moneys for those persons whose lands were being acquired, replacement of house and land in cases where the owners occupied their properties, and tenancy or purchase agreements for those persons who were previously renting properties.

**3.81** With respect to the Tenancy Agreements it has been six years since relocation has taken place and the terms of these agreements are yet to be determined. This process has been lengthy and needs to be resolved as a matter of urgency. The persons have been living in these houses for the past six years without any rental agreement in place, or the payment of any rent, and this is unacceptable.

**3.82** Those persons who were to be supplied with land and house as compensation for their former properties have been relocated but have not received their Conveyances to date. It is however important that the process be completed and persons have legal title to their properties, which they may wish to dispose of or pledge as security.

**3.83** ***Ministry's Response***

*The Leadvale Development was under the World Bank Second Road Maintenance and Rehabilitation Project under the Ministry of Public Works and Transport and that Ministry was responsible for the activities related to persons affected by that project. Unfortunately, planning permission had not been obtained prior to relocating the residents. Subsequently the MHL was engaged to regularise the occupancy of these lots.*

**Harrison's Cave Land Acquisition**

**3.84** In 1986 eleven parcels of land were acquired by Government to provide an access road to the Harrison's Cave, and an additional eight parcels were acquired for the establishment of the Cave. The Audit Office sought information on the completion of the process in relation to these acquisitions; however, available evidence indicated that only four persons were compensated.

**3.85** The objective of the land acquisition process is to enable Government to carry out its infrastructural work and also to ensure that the property owners are properly compensated in a timely manner. It has been suggested that a number of persons were not compensated because they were unaware of the process and this matter should be further examined by the Ministry.

**3.86** ***Ministry's Response***

*This project was implemented in different phases over a relatively long period and the acquisition related to the earlier phases encountered difficulties relating to the settlement of estates. However, the acquisitions since 2006 were relatively speedily concluded.*

**ChurchVillage Acquisition and Relocation**

**3.87** In 1981, the Government acquired several properties at ChurchVillage, Bridgetown in order to redevelop the area. In 1986 property owners were compensated; however, it was observed that one of the properties acquired by the Government was rented out by a private citizen for in excess of 20 years. It is not clear why this activity would have gone unnoticed for such a long period of time. Private persons have no legal right to lease Government properties to others. Government's property management personnel should be more vigilant in ensuring Government property is not misused. It should be noted that the property was demolished in December 2007.

**3.88** In November 2002, eleven (11) persons were relocated from ChurchVillage to Lower Burney, St. Michael, where the Ministry had built replacement homes. These persons were to enter into a contract with the National Housing Corporation to purchase lots. Nine of these eleven persons have started the process of purchasing lots while two have not started after four years of occupancy.

**3.89** Between May 2003 and August 2004 another fourteen (14) residents from ChurchVillage were relocated to their new home at Lower Burney with the similar

proviso to purchase lots. Of these fourteen (14), one (1) person has purchased a lot; four (4) have started the process to purchase and nine (9) have not started after over two years of occupancy.

- 3.90** It should be noted that the former residents had signed agreements to purchase houses after occupancy, but in some cases four years had elapsed without any action being taken. This matter needs to be addressed with a greater sense of urgency.

### **Information Management**

- 3.91** The Ministry does not have an up to date information system in relation to land acquired over the years. As a result important information, such as amounts owed to land owners in respect of acquisitions, is not readily available.

- 3.92** The Ministry needs a system that can provide critical information on such matters as the amounts owed to land owners, and the nature and status on outstanding acquisitions. In this regard an IT database which records the history and current status of all acquisitions should be instituted.

### **Implications for Delays in Compensation**

- 3.93** The accumulation of outstanding compensation payable to the owners for land acquired by the Government has been building up over time, and various factors would have contributed to this situation, including lack of reliable management information and delays in the acquisition process. It should be noted that the rate of appreciation of the value of land will have a critical impact on the price that Government will have to eventually pay by way of compensation, as land prices in Barbados are increasing at a rapid rate.

- 3.94** The amount of compensation outstanding is currently unknown. However, Government incurs a six percent (6%) penalty for delaying payment to land owners after the publication of the notice as required under Section 5 of the Land



Acquisition Act, Cap. 228. It is therefore in Government's interest that the acquisition process be concluded as soon as possible.

**3.95** ***Ministry's Response***

*It may be noted that the timing of these activities is not determined by the Ministry of Housing and Lands but is undertaken by the other Government agencies/departments based on their individual priority listing since these agencies/departments are also undertaking work on behalf of other agencies. The speedy conclusion of the acquisition process therefore does not rest solely with the MHL.*

**Management of Government Commercial Properties**

**3.96** In 2003, Government acquired a parcel of land at Weston, St James where a shop is operated by a private citizen. However, to date there is no Rental/Lease Agreement between the Government and the shop owner. It is therefore not certain on what legal basis this property is being occupied.

**3.97** This situation needs to be regularised and appropriate arrangements put into place between the Government and the shop owner.

**Commercial Lease Agreement**

**3.98** A number of commercial lease accounts did not have the relevant Cabinet decisions authorising the Lease Agreement on file. It should be noted that it is the Cabinet who has the sole authority to determine the rates for the rental of commercial properties. Hence it is important that this information be made available so that the auditors can evaluate whether the Rental Agreement was properly authorised. The rates were as low as \$0.75 per annum and are clearly outdated.

**3.99**            **Ministry's Response**

*The Commissioner of Land Tax advises the MHL with respect to rentals and this informs the negotiations on the rates with tenants. Each tenancy is unique and although some rates may be a bit dated, rental rates are a reflection of the terms of the lease agreement.*

**Squatting on Government Properties**

**3.100**            There have been reports that persons are illegally occupying Government property by setting up unauthorised housing units. A visit to Blenheim, St. Michael revealed that there was extensive squatting on Crown Lands located there. These houses were provided with electricity and water and were generally made of wood with galvanized roofs, and at the time of our visit additional houses were being constructed. The land is in a Zone 1 area and this means that the establishment of these houses is a threat to the quality of the underground water.

**3.101**            The incidence of squatting is not confined to Blenheim but exists in other areas as shown below:

- (i) Belle View and Belle Gap, St. Michael - 47 structures
- (ii) Blenheim, St. Michael - 19 structures
- (iii) President Kennedy Drive, St. Michael - A shop
- (iv) Speightstown, St. Peter - A shop
- (v) Weston, St. James - 3 structures
- (vi) Six Mens, St. Peter

**3.102**            Persons should not be allowed to illegally occupy Crown Land. This practice if allowed to continue will result in an escalation of such activity. The regulatory authority responsible needs to take enforcement action to ensure that development takes place in a planned fashion and within the laws of the land.

### Inadequacy of Insurance Coverage

#### 3.103

For a number of years this Office has been expressing concern about the inadequacy of insurance coverage on Government buildings. During 2007 the Property Management Unit made a concerted attempt to upgrade the insurance on these buildings and its efforts should be commended. There are however some properties that appear to be under-issued and this is inclusive of some buildings which have undergone substantial renovations. Examples are as follows:

<b>Ministry</b>	<b>Location</b>	<b>Insured Value</b> \$
Ministry of Agriculture	Speightstown Fish Market	25,000.00
Prime Minister's Office	Government Headquarters	1,040,000.00
Prime Minister's Residence	Illaro Court	1,000,000.00
Attorney General's Office	National Council of Substance Abuse	125,000.00
Ministry of Agriculture	Skeete's Bay Fish Market and Jetty	200,000.00

### Absence of Insurance Coverage

#### 3.104

A number of properties were not insured by the Property Management Unit of the Ministry of Housing during the Financial Year 2006 -2007. Examples are as follows:

<b>Ministry</b>	<b>Building</b>
Agricultural and Rural Development	Animal Nutrition Unit/Veterinary Lab
Agricultural and Rural Development	Veterinary Administrative Building

Public Works and Transport	MPW Depot, Bath, St. John
Public Works and Transport	MPW Depot, Belleplaine, St. Andrew
Public Works and Transport	Booths at Princess Alice Highway, St. Michael
Public Works and Transport	MPW Depot, Jerusalem, St. Peter
Public Works and Transport	MPW Depot, Prospect, St. James

**3.105** Relevant action should be taken to correct the above deficiencies and ensure that Government buildings have appropriate insurance coverage.

**3.106** ***Ministry's Response***

*The MHL has carried out an extensive survey and revaluation of all Government buildings for insurance purposes. All Government buildings are adequately insured for their replacement value.*

*Please be advised that the properties listed below are insured by the MHL as follows:*

<i>Speightstown Fish Market</i>	<i>(error to be corrected immediately)</i>
<i>Government Headquarters</i>	<i>\$10,500,000</i>
<i>Illaro Court</i>	<i>\$4,000,000</i>
<i>National Council for Substance Abuse</i>	<i>\$1,500,000</i>
<i>Skeete's Bay Fish Market and Jetty</i>	<i>\$1,000,000</i>

**Auditor's Note**

**3.107** The insured values listed by the Audit Office relate to the period ending 31<sup>st</sup> March 2007, and the schedules from the insurance company support the conclusion that these properties were substantially underinsured at that time.

## Inland Revenue Department

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**3.108** The Inland Revenue Department is one of Government's major revenue collecting agencies. The responsibilities of this Department include the collection of revenue from taxes on income and profits, property and international trade. During the financial year ending 31<sup>st</sup> March 2007, the Department collected approximately \$946.7 million in revenue out of which \$111.8 million was refunded. The major taxes collected were in respect of the following:

	\$
Corporation Tax	445,787,820.60
Income Tax	305,140,693.03
Withholding Tax	54,149,667.80
Bank Asset Tax	12,938,037.50
Taxes on Insurance Premiums	15,327,772.28
Taxes on Remittances	<u>1,464,369.57</u>
	<b><u>834,808,360.78</u></b>

### **Tax Refund**

**3.109** The current system permits the refund of corporation tax to companies which fail to submit PAYE deductible from employees' salaries and wages. It was also noted that insurance companies with outstanding assessments were also refunded corporation tax.

**3.110** The refund of any category of tax should only be authorised when the taxpayer is not indebted to the Crown for any other category of tax. To achieve this, the Department's tax systems would have to be fully integrated to allow for the cross checking of information relating to refunds and assessments.

**3.111**      ***Department's Response***

*The payment of Tax on Insurance Premium had not been properly enforced within recent years. Revenue Management Division is at this time developing a master file of Insurance Companies, after which, those companies delinquent will be pursued and the relevant penalties and interest charged. The current System does not allow for off-setting outside of tax type. The new system will automate off-sets.*

**Share Valuations**

**3.112**      For purposes related to the payment of Property Transfer Tax, Subsection 1(d) of Section 9 of the Property Transfer Tax Act, Cap. 84A, allows the Commissioner of Valuations to consult with the Commissioner of Inland Revenue with respect to the valuation of property consisting of shares.

**3.113**      The audit revealed that shares were valued, signed off and submitted to Corporate Affairs by a single officer of the Inland Revenue Department. There was no up-to-date share valuation register, and official documentation was not provided to the Audit Office substantiating the computations used for share valuations as requested. In a recent case a commercial bank sold shares in excess of twenty five (25) million, with taxes and duties payable exceeding \$4 million; however the relevant documentation on the share valuation was not made available for inspection.

**3.114**      In another case the shares were initially valued at \$5.27 each but were subsequently valued at \$1.30 per share. However there was no evidence available to show how this new share value was arrived at. There is therefore a risk that shares can be substantially undervalued resulting in loss of revenue to Government.

**3.115** There is a need for the establishment of acceptable standards and guidelines to ensure that there is consistency and accountability in the process. A suitably qualified officer should review and sign off the share valuations before they are sent back to the Department of Corporate Affairs for adjudication. In addition an up-to-date share valuation register should be properly maintained to track the status of share valuation requests.

**3.116** Although the Property Transfer Tax Act permits the Commissioner of Valuations to consult with the Commissioner of Inland Revenue in arriving at share values, the responsibility for the valuation rests with the Commissioner of Valuations. However, in light of the absence of the relevant skills in the Commissioner of Valuation's Department to review shares, a legislative change should be considered whereby the Commissioner of Inland Revenue takes the lead responsibility.

**3.117** ***Department's Response***

*The Department has a policy on the valuation of shares, which if followed correctly, yields an approximate value of the shares. The duties of valuing shares are segregated but on occasions, one officer has disregarded the policy of the Division and that is the reason for the inconsistencies in the valuation of shares.*

*The recommendations suggested however, have been noted and the necessary procedures have been put in place to have them implemented as a matter of urgency.*

**Processing of Objections**

**3.118** Section 57 of the Income Tax Act makes provision for a taxpayer to object to an assessment. On receipt of the notice of objection the Commissioner of Inland

Revenue is required to review the assessment and either confirm it or make a re-assessment.

**3.119** Audit investigation revealed that generally a single officer reviewed assessments, determined what tax should be refunded and entered the information into the computer system facilitating the generation of the refund. There is a need for adequate segregation of duties in this area to reduce the risk of fraud or error occurring.

**3.120** ***Department's Response***

*Even though physical proof of independent supervision might not be evident in most cases, there is a high degree of consultation with supervisors and regular reports are prepared by officers.*

*It is regretted that the Objections Register has not been kept up-to-date and in this regard, the Department has already commenced the up-dating of this register.*

**Tax Returns**

**3.121** Sections 52 and 79(c) of the Income Tax Act require companies and individuals, except those exempted, to file a return of assessable income annually. The Tax Roll Section is responsible for the maintenance of the taxpayers roll, identifying and monitoring non-filers, and providing information on non-filers to the audit section.

**3.122** A review of the tax roll revealed that of approximately 12,727 organisations registered at 31<sup>st</sup> December 2005, some 8,000 did not file for all or part of the period 2001-2005. The analysis of the information selected showed that less than 3% non-filing companies and individuals were contacted as a result of this delinquency. Only one officer was assigned to this section.



**3.123** The Department needs to contact non filers on a timely basis as the chances of recovering outstanding amounts diminish overtime. The staff compliment in this section needs to be strengthened.

**3.124** ***Department's Response***

*Some companies are no longer in existence, but for one reason or another, they are still active on the tax system. A recommendation has been made to have these companies removed from the system. The new computerized system would address this problem. There are some individuals and companies that should be filing but are not. Letters have been sent out and some of them have agreed to file.*

**Monitoring Companies with Reported Losses**

**3.125** Section 23 of the Income Tax Act allows for the deduction of any loss of income, during a tax year, from the assessable income filed by an individual or a company for that year. The Income Tax Act also states that where the loss exceeds the assessable income from all other sources, the amount of the excess can be deducted systematically from the assessable income of ensuing years up to the ninth (9<sup>th</sup>) year following the income year in which the loss occurred.

**3.126** Analysis of the data made available revealed that less than 3% of companies reporting losses over a three year period was audited by the Department. The total number of companies reporting losses for the said period was 632. The reason given for the low level of audits was that the Department has challenges in monitoring companies with reported losses.

**3.127** The Inland Revenue Department should seek to improve the effectiveness of monitoring companies with reported losses, by ensuring that more audits are conducted, since there is a risk that some of these losses may have been overstated.

### Administration of Pay As You Earn (PAYE)

- 3.128** The inspection of reconciliation statements made available showed that significant differences existed between the PAYE (Income Tax) withheld by some employers, as per TD5 Slips submitted, and PAYE (Income Tax) remitted to the Commissioner of Inland Revenue during the income years 2003-2005.
- 3.129** The existence of significant variations between information on the TD5 Slips submitted, and actual remittances, indicate that there is a need to improve the analysis of reconciliations received, to ensure the correct amount of taxes are reported.

### Arrears of Revenue

- 3.130** Arrears reported as at 31<sup>st</sup> March 2007 remained high. The figure was \$182,795,507.48, resulting in an increase of \$12 million over the financial year ending 31<sup>st</sup> March 2006. A comparative list of arrears is shown below:

Tax Category	Arrears		
	2007	2006	Increase (Decrease)
	\$	\$	\$
Corporation Tax	39,914,796.01	35,190,283.55	4,724,512.46
Income Tax	93,086,072.77	82,835,393.55	10,250,679.22
PAYE	<u>49,794,638.47</u>	<u>52,755,191.72</u>	<u>(2,960,553.25)</u>
<b>Total</b>	<b><u>182,795,507.25</u></b>	<b><u>170,780,868.82</u></b>	<b><u>12,014,638.43</u></b>

### General Comments

**3.131** The Department needs to review the internal controls in its various operations. Too many critical processes are executed without verification or supervisory sign-off. In such cases, a single officer is responsible for the computation, or assessment and determination, of the value or tax payable or refundable, and this poses some risk of errors or fraud occurring.

**3.132** The absence of an integrated tax system has significantly impacted on the Department's ability to effectively monitor taxpayers in relation to their overall tax position. Hence, refunds were made without taking into consideration the taxpayer's indebtedness to the Commissioner of Inland Revenue in respect of other tax categories. The integration of the Department's tax systems is a critical requirement for effective tax management.

## **Magistrates Courts**

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**3.133** The Magistrates Courts of the Attorney General's Office are responsible for the collection of revenue in respect of criminal, civil, and advertising fees,

and the issue of sellers' and occasional liquor licences. Other monies are collected, which do not form part of Government's revenue, including maintenance, suitors' and magistrates' fees, as well as compensation.

### **Fees and Fines**

**3.134** An analysis of Court Order Books at selected Magistrates Courts revealed several instances where fines and other monies imposed by the Court were not paid within the time specified. The following table shows unpaid fines outstanding at March 31, 2007 at selected Magistrates Courts.

<b>Magistrates Court</b>	<b>Unpaid Fines</b>
	<b>\$</b>
District E - Speightstown	30,000.00
District E -Holetown	55,000.00
District D	20,000.00
District A -Traffic	7,000.00

**3.135** The Magistrates Courts should investigate this situation and implement necessary corrective measures to ensure that the records are up-to-date, so as to allow action to be taken to reduce these outstanding fines in a timely manner.

### **Transactions Not Properly Accounted For**

**3.136** A number of discrepancies were observed in the accounting records of various Magistrates Courts. Amounts collected were neither brought to account in the cash books nor shown to have been paid into the Treasury.

**3.137**

***Department's Response***

*The Registration Department has enlisted the assistance of the Accountant General in designing and implementing a database to better manage the recording of judgements, and the receipt of fines applicable. In other areas, the management processes will be enhanced to bring about greater efficiency to the entire process of managing Fees and Fines within the Courts.*

*Thorough investigations will be carried out to determine the cause of these discrepancies with the view of instituting any corrective measures necessary.*

## **Prisons Department**

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**3.138**

The purpose of Her Majesty's Prison is to provide safe custody for persons committed in accordance with the Law, and to provide training, education and skills in a manner designed to provide their rehabilitation.

**Reconciliation of Bank Account**

**3.139** A bank balance of \$148,647.01 was shown on the salaries account at 31<sup>st</sup> March 2007 with a substantial portion of this balance being brought forward throughout the year.

**3.140** The reason for this large balance remaining in the account was not determined. In addition, since a cash book containing the salaries transactions was not maintained, proper bank reconciliation could not be carried out in accordance with Rule 69 of the Financial Rules. An analysis of this account should be carried out as soon as possible and any sum remaining unclaimed in the bank account for an extended period of time should be paid into the Treasury.

**3.141** *Department's Response*

*The bank Balance of \$148,647.01 on the salaries account is definitely too excessive and the reasons for this situation have not yet been identified. However, every measure will be put in place to determine why the account is in this state and as soon as the analysis of the accounts is completed, excess funds will be paid into the Accountant General's Office.*

## **The Ministry of Public Works and Transport**

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**3.142** The Ministry of Public Works and Transport is responsible for providing policy guidance, planning and technical services in the area of works and electrical services; planning, designing and developing a comprehensive road network system; making provision for the maintenance and rehabilitation of roads;

planning, designing, construction and maintenance of public buildings; and the development, maintenance and regulation of road transport. Actual Expenditure for the financial year 2006/2007 was \$147,443,562.

### **Arrears of Revenue**

**3.143** Section 41 of the Financial Administration and Audit (Financial) Rules 1971, requires that a statement of arrears of revenue and other monies outstanding to Government be prepared at the 30<sup>th</sup> September and 31<sup>st</sup> March in each year, within two (2) months of the date to which they relate, and submitted to the Ministry of Finance and the Audit Office.

**3.144** It was observed that the Ministry has not been complying with these requirements. The required statements should be prepared and the information used to monitor the management of arrears over time.

### **Rental of Crane**

**3.145** The Ministry rented its Crane in 1997 to a firm on certain conditions, which included semi-annual payments of \$4,000.00 to the Ministry.

**3.146** Based on information on file and records in the accounts section of the Ministry, the Company is in arrears of rent for the period October 2000 to April 2007 for an amount of \$44,000.00. It should also be noted that the Ministry has been paying the firm for the use of the crane on its projects.

**3.147** The Ministry needs to take prompt action to recover the outstanding amounts. Furthermore, the Ministry should not be making payments to the company for use of this crane when the company owes the Ministry rent. This rental agreement has been in place since 1997, and the terms should be reviewed at the earliest opportunity.

**3.148** *Ministry's Response*

*Correspondence has been sent to the General Manager of the company in question informing him of the outstanding debt and asking for prompt settlement. Instructions have been given that no further payments are to be made by the Ministry for the rental of the crane.*

### **Rental Agreements**

**3.149** The Ministry has relocated a number of vendors from the Jubilee Gardens to stalls on the Princess Alice Highway. Stalls were built and rented at an agreed monthly rental fee.

**3.150** Examination of the records revealed however that some vendors have breached their agreements and have not been paying their rent. In some cases vendors were as much as four (4) years in arrears. The Ministry needs to take prompt action to recover outstanding amounts; the longer these amounts remain outstanding the more difficult it will be to collect them.

**3.151** ***Ministry's Response***

*Officers from the Ministry of Public Works and Transport are making every effort to recover all outstanding monies owed by the vendors for the rental of the booths in the Princess Alice Terminal.*

### **Breach of Internal Controls**

**3.152** In a number of cases involving contracts, several payments were certified and paid based on invoices from the contractor rather than on signed valuation certificates from the Quantity Surveyor, whose responsibility it is to measure the value of the work performed after conducting on-site visits. The following were examples:



- Payment of \$1,944,015.20 to a firm for improvements to roads at Wakefield Road, St. John; Oughterson, St. Philip to Sealy Hall, St. John; and Highway 7 - Top Rock to Thornbury Hill, Christ Church. A number of tax invoices from the Contractor were the basis for this payment.
- Payment of \$151,512.50 to a firm for the demolition and rebuilding of guard walls in front of Worthing Police Station and West Indies International Tours; constructing a new footpath in front of the aforementioned premises; tidying up existing curb and footpath edges; re-hanging gates; relocating a flagpole and a sign; and replanting trees.

**3.153** These payments suggest that the Ministry's internal procedures are not working as intended. There have been similar occurrences in the past and the reasons for this continued action are not readily available. This matter needs to be dealt with as a matter of urgency to avoid situations in which funds are paid without any verification that work has been carried out. There clearly needs to be penalties for persons who operate in such a manner.

**3.154** ***Ministry's Response***

*The incidences mentioned above are not new ones as these were queried in the Auditor General's Report for the Financial Year 2005/2006.*

*All officers who work in the Financials (Vote Book) Section and who deal with payments are aware of what the procedures are and the consequences of not complying with these procedures as the Financial Controller is constantly reminding them and continues to do so. Officers are asked to be very vigilant and to make more effort not to be swayed to break the Financial Rules.*

**Auditor's Note**

**3.155**

The issues raised in relation to breaches in internal controls were similar but not identical to those raised in the 2006 Report.

# **Construction of Police Station at Crab Hill, St. Lucy**

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## **Background Information**

**3.156** In October 2002, after several years of substantial repairs being carried out at Crab Hill Police Station, St. Lucy, the Office of the Attorney General procured the civil/structural engineering and quantity surveying consultancies required for the construction of a new Station, and the demolition of the existing building. Approval for the construction of the new Station was given in August 2003. The construction started on 31<sup>st</sup> January 2005, following the exchange of letters of offer and acceptance between the Project Unit of the Office of the Attorney General and the contractor approved by the Tenders Committee.

## **Scope and Methodology**

**3.157** During the period July to September 2007, the Barbados Audit Office assessed the progress of the Ministry in successfully executing this project.

**3.158** The Audit Office investigation was primarily limited to activities carried out up to September 2007, although where applicable due consideration was given to any new developments after this period. Appropriate files and tender documents were examined, and interviews conducted with the Project Manager, Ministry and officials of the contracting firms. In addition a number of site visits were made to ascertain the status of the project.

**3.159** The practices examined in this Report were:

- The planning process
  
- The tendering process

- Project and contract management activities undertaken on the Police Station.

### **Pre Tender Estimates**

**3.160** The relevant copies of the design drawings and Bills of Quantities were made available to prospective tenders, and the Project Manager was appointed from the Ministry. Before the tendering process commenced a Pre-Tender estimate of \$1,614,868.47 was used as a guide in assessing bids submitted by contractors.

### **Tendering Process**

**3.161** The project was put out to tender in the local press in accordance with the Financial Rules. The bids were examined by a consulting firm which recommended that the contract be awarded to a contractor who submitted the lowest bid and had also indicated that it would complete the project in the shortest period. The consulting firm advised that it had scrutinized in detail the tender of the company and recommended that the company appeared capable of undertaking the works in a construction period of thirty (30) weeks. By way of an exchange of letters with the company, the Ministry accepted the offer of the company to construct the Police Station.

### **Audit Findings**

**3.162** The consultants for the Ministry, who evaluated the tenders, as evidenced by their technical report, had not delved into the financial and technical capabilities of the companies. A main factor in the award of the tender related to the submission of the lowest bid. The consultants concluded that, given the financial constraints of the project, only the tender of the contractor was analysed in detail.

**3.163** To ensure that value for money can be obtained when awarding contracts it is important to establish that the entity selected to perform the work can provide the best combination of quality and price. Any technical assessment that merely focuses on lowest bids and shortest construction time period, and ignores the financial capabilities, manpower requirements for the project, and previous experience, is deficient.

### **Recommendations**

**3.164** Against this background, the Audit Office is recommending that there be established comprehensive procedures to govern the evaluation of tenders. This would involve an examination of the track record of the companies in executing similar projects, their financial capabilities to finance and complete the work, and evidence that the contractor has access to suitably qualified and experienced staff.

### **3.165** *Ministry's Response*

*It should be noted that the tender of only one company was analysed in detail. The Quantity Surveyor did not carry out any financial analysis of the company, although it seems that it was required to do by 1.4.1. of Appendix A of the contract. The Tenders Committee accepted the recommendation of the Quantity Surveyor, based on the analysis of only one of the nine (9) tenders. The Ministry and Project Manager had no valid basis at that time on which to seek to change the recommendation. The Office of the Attorney General considers it important that this report be forwarded to the Tenders Committee for its comments also.*

## **Contract**

**3.166** No formal contract was signed but the main contractor took possession of the site on 14<sup>th</sup> December, 2004. According to the Project Manager, the standard (J.C.T, I.F.C 98) Intermediate Agreement was named in the bills of quantities as part of the documents which would make up the Contract. The formal contract document was not prepared and the parties therefore operated on the exchange of letters of offer and acceptance between the contractor and the Ministry. The work commenced on 31<sup>st</sup> January, 2005 with a proposed completion date of 28<sup>th</sup> August 2005, at an agreed price of \$1,483.485.28.

## **3.167** *Ministry's Response*

*The formalistic and bureaucratic handling of the acquisition of two booklets to accompany the contract, by the Project Unit and Solicitor General's Chambers respectively, as well as the Office of the Attorney General, lasted for more than a year, and ended without the formal contract being finalized.*

*The Office of the Attorney General regrets sincerely this serious management failure and intends to make the necessary recommendations, and set in place improved procedures and systems, to prevent such an occurrence from being repeated.*

## **Performance Bond**

**3.168** As part of the contract arrangement the contracting firm was required to take out a performance bond of 10% of the contract price. The Audit Office requested a copy of the bond from the Ministry. To date the Ministry has not provided the Audit Office with a copy of this bond.

**3.169** A performance bond allows the Ministry to recover damages where the contractor has defaulted on the contract. The absence of this bond presents risk to Government in cases where there are defects to the building arising out of the work of the contractor, and expenditure needs to be recovered.

**3.170** ***Ministry's Response***

*It should be noted that the Performance Bond is normally 10% of the cost of the project and is intended to cover the monies advanced to the Contractor for Mobilisation. In this case the Performance Bond would normally amount to \$148,348. The mobilisation fee advanced is repaid in installments as each Interim Certificate is paid. So far some of the amount advanced has been repaid by the contractor. This Office will establish the amount still owing and seek the advice of the Solicitor General on the options for recovering the total monies advanced for the mobilisation fee.*

**Problems Encountered During Construction**

**3.171** The actual construction process was plagued with a number of problems which resulted in major delays in the completion of the project, and a considerable increase in its costs. These problems included:

- Incorrect setting out of the building and faulty construction work, with the resulting need for remedial work;
- A nation wide shortage of hollow concrete blocks;
- Late contractual payments.

**3.172** The project was determined(terminated) by the contractor on two occasions, and eventually had to be turned over to a new contractor for completion.

**3.173**      **Ministry's Response**

*The major impediment to the smooth running of the contract on the part of the contractor seems to have been one of cash flow. The contractor tried to obtain finance for the purchase of materials by including these sums in the interim certificate. A contract of this size cannot be financed from certificate to certificate.*

*In determining the contract in the first instance, using clause 7.9.1 of IFC 98, the contractor gave late payment of certificate as his reason. It has been revealed that the time span of 14 days as recommended in the contract (clause 4.2) is too short a period, taking into account the procedures in Government necessary to effect payment.*

**Late Payments and Terminations**

**3.174**      In July 2005 the contractor gave notice to the Ministry that it was in default of making payments in a timely manner as required by Clause 7.9.1 of the "contract". In correspondence dated 8<sup>th</sup> August 2005, the contractor indicated that he was owed an amount of \$73,971.74 re: valuation No.3 and this had affected his cash flow situation. The reason for late payment to the contractor has not been ascertained. Such action would slow the progress of the project and give the contractor grounds for its termination.

**3.175**      In a letter dated 1<sup>st</sup> September 2005 the contractor determined the contract citing Clause 7.9.3 of the conditions of the contract. This section of the J.C.T Agreement relates to condition for the payment of the contractor. It stipulates that the contractor should be paid within fourteen (14) days after the submission of an interim certificate. The contractor indicated that outstanding amounts were due on interim certificate number (3) which was issued on 29<sup>th</sup> June 2005. The contractor was eventually paid on 19<sup>th</sup> September 2005.

**3.176**      The contractor was invited by the Ministry in February 2006 to return and complete the job, upon withdrawal of his letter of termination and submission of



his claim for all outstanding payments. The contractor submitted a claim for \$279,000. However, a negotiated settlement of \$190,000 was agreed to.

**3.177** On 10<sup>th</sup> May 2006 the Ministry received a letter from the contractor informing that he had rescinded his letter of determination and had restarted work on 20<sup>th</sup> February 2006. The Contractor was granted permission to complete the project within a time-frame of 6-7 months with a new completion date of 1<sup>st</sup> October 2006. This additional time frame would suggest that the original schedule of 30 weeks was inadequate.

**3.178** ***Ministry's Response***

*Where offices are separated, the payment process is made more difficult and lengthy and sometimes may require the input of three (3) offices, in three (3) different physical locations, involving file transit and messenger logistics and depending on priorities in any of the offices at a given time.*

*It is clear, therefore, that any commitment to make an accurate payment respecting accounting procedures in fourteen (14) days is practically impossible. However, as the contracts used by the Project Unit are UK contracts, and they contain a requirement for Interim valuations to be paid within fourteen (14) days of receipt, this has been included in the contract documents. It is now necessary for the Project Unit and the Solicitor General to consider revising this period in the model construction contracts perhaps to twenty eight (28) days rather than fourteen (14) days.*

**Construction Deficiencies**

- 3.179** The monitoring of the project was found to be deficient and it was the contractor's foreman who informed the consulting engineers of cracks in the structure. These cracks comprised an area covering 30% of the floor space.
- 3.180** The faulty work was investigated by a consultant engineering firm which reported cracks in the floor slab and perimeter walls. The engineering firm concluded that the cracks on the floor was as a result of backfill material not meeting specification and in respect of the foundation wall sitting on poorly graded compacted fill materials. For a project of this magnitude it has not been clearly explained how such work went undetected for such a long period of time.
- 3.181** The degree of the faulty work stated by the consulting engineers was extensive and their reports suggest in part a poorly constructed foundation. It should be evident that regular on-site supervision was not carried out during the course of work.



### **Crab Hill Police Station**

**3.182** The former contractor has left the project with remedial work requiring hundreds of thousands of dollars to be undertaken. There is no evidence that the Ministry has taken any action to recover amounts due as a result of substandard work, and this is some cause for concern. The lack of a formal and binding contract may have implications for recovery of funds due to faulty construction work.

**3.183** ***Ministry's Response***

*No action has yet been taken to recover the cost of the remedial works, because the remedial works in themselves are not complete and have not been costed.*

*The exchange of letters (between the Ministry and the contractor) was seen as a contract therefore, the project was allowed to start. The Solicitor General will need to advise on the legal approach to recover damages when all the information is to hand.*

### **Award of Contract for Continuation of Works**

- 3.184** As a result of the second termination of the project by the initial contractor, it was decided that a selective tendering process would be undertaken for the completion of the project. Essentially this entailed receiving submissions from certain selected contractors. These bids were then examined by the quantity surveyor who made a recommendation to the Ministry.
- 3.185** A contractor was awarded the contract for the completion of the police station at a cost of \$2.5 million over 24 weeks. The shorter time frame for the construction of the project was a main factor in the contract being awarded to the contractor whose bid was higher than the other main bidders. The other bidders estimated completion time was between 40 and 45 weeks.
- 3.186** This project was restarted and was scheduled to be completed by 15<sup>th</sup> September, 2007. To date, however, the project remains incomplete. The possibility of the project not being completed in the time allocated was alluded to by the Project Manager even before the work recommenced. The selection of contractors based primarily on time frames quoted needs to be carefully assessed.
- Conclusion**
- 3.187** The construction cost of this project has been rising steadily as a result of the discovery of additional defects, and the current estimated cost is \$3 million. When this is added to what has been paid to the previous contractor the total cost of the project will exceed \$4 million and this is over \$2.6 million more than the original contract.
- 3.188** The Project Manager in a report dated 28<sup>th</sup> February 2006 noted the following: *“This contract suffered for two reasons: lack of competent construction personnel, and finance. In short, a company which is not a construction company is trying to operate in a field alien to its capabilities”*.
- 3.189** The payments to the contractor for poor construction work constitutes a waste of Government's funds, which could probably have been avoided had more care and attention been given to the company's track record in this field of work, and a more pro-active approach adopted by the Ministry in monitoring the work of the contractor.

### 3.190

#### **Ministry's Response**

*An amount of \$787,717.63 has been paid to the first contractor so far out of the original estimate of \$1,483,485. Approximately \$3 million is estimated to be the final cost of the construction under the contract with the second contractor. That brings the estimated cost of the construction to just under \$4 million. This cost overrun due to the apparent incapacity of the selected company to carry out the work, for various reasons, is of grave concern to the Office of the Attorney General. It will seek to establish final figures for the new phase of construction at the earliest available opportunity.*

*It is clear that all the actors concerned (e.g. Quantity Surveyor, Project Unit, OAG, Solicitor General's Chambers, and Police Accounts) need to review our systems, procedures, and basic documents, at the earliest possible opportunity, to ensure that the required tasks to protect Government spending are carried out, e.g. (a) verifying that the human resource capacity, experience/expertise and financial capacity exists in the company selected, in the interest of ensuring value for money projects, and (b) ensuring that the overseeing offices have the capacity to monitor the projects properly. It also appears necessary for the Tenders Committee to be advised of the concerns of the Audit Office.*

# **Review of the Tendering Process and Contract Management of the Vauxhall Senior Citizen's Village**

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## **Introduction**

- 3.191** The Vauxhall Senior Citizen's Village was a project conceptualized by the National Assistance Board. It comprised several wooden buildings constructed to house senior citizens. The village was constructed at a cost in excess of \$3.8 million and was opened in 2004. The Cabinet approved construction of the village on 26<sup>th</sup> April 2002 and the Ministry of Social Transformation took responsibility for its implementation.

## **Audit Objective**

- 3.192** The objective of the audit was to determine whether the procedures used in the tendering process were in compliance with the requirements of the Financial Administration and Audit (Financial) Rules 1971, and to assess the internal controls, project management and monitoring activities of the project.

## **Methodology**

- 3.193** Appropriate files and reports were examined and interviews were conducted with personnel from the Ministry of Social Transformation and the National Assistance Board. In addition, a site visit was made to ascertain the status of the project.



**Vauxhall Senior Citizen's Village**

## **Tendering Process**

### **Contractor**

- 3.194** The Audit Office sought to ascertain whether the contract for the project was put out to tender and, if so, to review the tender documents. The Audit Office was informed that a prequalification notice was placed in the local newspapers requesting companies to express an interest in the project. According to the information on file a number of companies were asked to submit tenders.
- 3.195** The Audit Office was however unable to obtain copies of the tender documents. It is important for the Ministry to provide such documents for inspection to the Audit Office. Without them the Office was unable to assess whether the arrangement was transparent and offered the best value for money.
- 3.196** The Ministry did not adhere to the Financial Rules, in particular Rule 129 (1) which outlines the composition of the Tenders Committee. The Tenders Committee for this project included the Project Manager, Project Coordinator, and Directors of the National Assistance Board and the Urban Commission. The Tenders Committee should be headed by the Chief Supply Officer and include a legal officer and other public officers, but this requirement was not adhered to.

## **Project Management Services**

### **3.197**

There was no evidence that the company chosen to perform project management services was selected through any competitive process, as required for the provision of goods and services in excess of \$100,000 by Rule 127 of the Financial Rules. There was also no contract between the project manager and the Ministry. There was a letter of intent from the project management company which outlined the terms under which that company operates, but there was no evidence that the terms and conditions were approved by the Ministry. Given the amounts which were paid for this service, there should have been a competitive selection process, in compliance with the Financial Rules. In the circumstances the process for the selection of the contractor lacked transparency.



## **Performance Bond**

- 3.198** It is a requirement of Rule 139 of the Financial Administration and Audit (Financial) Rules 1971 that any person or entity that has been awarded a contract must provide a surety of not less than 10% of the contracted price. This payment allows the Ministry/Department the possibility of recovery of funds if the work is not up to standard.
- 3.199** The public notice to contractors inviting them to tender for this project indicated that one of the conditions required of the successful tenderer would have been the provision of a performance bond. The absence of the bond would have resulted in difficulty in recovering funds in cases where there were deficits caused by the work of the contractors, and therefore the bond should have been in place.
- 3.200** To date, however after verbal requests to the Ministry, no evidence has been provided of the existence of the performance bond.

## **Scope of Works**

- 3.201** The Scope of Works details the nature of the work that the contractor has been assigned. It gives a breakdown of the various components and their associated costs. Given the number of variations to this project the Scope of Works document would have been useful to the Audit Office, in determining the extent of work to be carried out and whether all the work contracted was done. It would also have been useful in allowing for a distinction between the original contract price and the variations that would have subsequently occurred. The Audit Office was however unable to obtain a copy of the Scope of Works document from the Ministry, and this posed a challenge in verifying what work was to be paid for under the original contract.

## **Retention Fee**

**3.202** In accordance with the agreement a retention fee of 5% should have been deducted from each payment to the contractor. However, this procedure was only followed in one instance when a sum of \$2,080.00 was deducted. In this regard a sum of \$2,985.00 was eventually refunded to the contractor, who was therefore overpaid by \$905.00.

**3.203** Based on payments to the contractor the retention fee on this project should have been approximately \$145,000.00. This fee should have been deducted as it would have enabled the Ministry to recover funds in the event that defective work was carried out.

### **Project Completion**

**3.204** In June 2004 the Architect from the Ministry of Public Works conducted an assessment of the project and indicated that there were over 500 defects which needed to be corrected. These defects included tiles which needed to be replaced, and painting defects. The majority of these defects were corrected prior to the issuing of the Certificate of Substantial Completion.

**3.205** On the 2<sup>nd</sup> October 2006, the Chief Technical Officer, Ministry of Public Works and Transport, issued the Certificate of Substantial Completion, along with another list of items to be completed or corrected within 180 days from the date of the issue of this certificate.

**3.206** On the 7<sup>th</sup> December 2007, the Audit officers conducted an interview with the Consultant Architect on this project. The architect reported that the project had not been completed to her satisfaction and no Certificate of Final Completion had been issued. Based on the above, the Ministry should have withheld \$72,500.00 in retention monies from the contractor.

### **Payments to Contractors**

**3.207** The contractor received payments totaling \$2.9 million over the life of the project, and this was \$0.7 million more than had been awarded under the contract. The

valuation certificates were poorly prepared by the project management team resulting in the following:

- There was no evidence on any of the valuation certificates that the mobilization fee of \$332,000.00 paid at the beginning of the project was ever deducted from subsequent valuations.
- Payments in respect of variations were not identified on the valuation certificates.
- In a number of instances it was not certain what was being paid for.

**3.208** There were cases where payments were made in respect of certificates which were signed by the Project Manager but not by anyone in the Ministry. These payments should have been approved by the Ministry.

### **Management of the Project**

**3.209** The Vauxhall Senior Citizen's Village Project was started by the National Assistance Board but later came under the responsibility of the Ministry with payment being made through the Board. This arrangement created some challenges to the project as follows:

- The National Assistance Board received no clear instruction on the payment certificates as to how to treat retention fees.
- Although it was agreed that payments would be based on certificates certified by the Project Manager and approved by the Project Coordinator, a number of payments were made without the signature of the Projector Coordinator on the certificate.

**3.210** It was noted that a firm was employed to provide services as Project Manager, Construction Manager, Engineer and Quantity Surveyor. The firm was employed to supervise the construction of the project, and this role would have been in conflict with other duties it would have performed, such as Engineer and Quantity Surveyor. In addition, the project management firm would have had to certify its own payments for other services provided and this would have been a conflict of interest. The same firm should not have been given such conflicting responsibilities.

### **Conclusion**

**3.211** There have been a number of challenges relating to the construction of the Vauxhall Senior Citizen's Village. These include an absence of competitive bidding for project management services and the absence of controls on expenditures. The submission of variation certificates were deficient as they did not show the value of the work completed, nor did they refer to any variations.

**3.212** The unavailability of critical information on the project by the Ministry and the Board is also a cause for concern. When the Audit Office sought information on the tendering process, it was told that the documents were with the company who provided the project management services. After months these documents have not been provided for review. This demonstrates a deficiency in record keeping and a disregard for the tenets of accountability.

**3.213** Based on the facts that the project has not been completed to the satisfaction of the Consultant Architect after the expiry of the defects liability period (180 days measured from the date of substantial completion, i.e. 2<sup>nd</sup> October 2006), and the final Certificate of Completion has not been issued, the Ministry should take appropriate action to ensure that all defects have been rectified.

## **CHAPTER 4**

### **Audit of Statutory Boards, Government Companies and Controlled Entities**

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- 4.1** The Barbados Audit Office is required to conduct audits of all Statutory Boards, Government companies and other controlled entities in accordance with Section 113 (1) of the Constitution of Barbados (Constitutional amendment April 2007). The Audit Office however does not conduct audits of all these entities as some of these audits are conducted by auditors in the private sector. The Audit Office will however report to Parliament on the status of the accounts of all Government entities annually. This includes the audits conducted by the Auditor General's Department and those conducted by auditors in the private sector. The following is a status report on the audit of Government statutory boards and companies known to the Audit Office.

#### **Barbados Boxing Board of Control**

- 4.2** 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 31<sup>st</sup> December 1993.
- 4.3** This matter should be investigated by the relevant Ministry to ensure that the Boxing Board complies with the provisions of the Boxing Act. A suspension of the subvention should be considered, given the lengthy period in which the accounts have not been submitted for audit.

#### **Barbados Community College**

- 4.4** The audit of the accounts of the Barbados Community College is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. The audit of the accounts of the College for the financial year ended 31<sup>st</sup> March 2004 was conducted during 2007. The audits of the accounts for the financial years ended 31<sup>st</sup> March 2005 and 2006 are currently in progress and the Office will seek to bring these audits up to date in 2008.

#### **Barbados Defence Force**

- 4.5** The accounts of the Barbados Defence Force for the financial year 2007 were submitted for audit. However there has been an issue, relating to the proper disclosure of receipts and payments with these accounts, which needs to be resolved with the Defence Force before the audit reports are issued.

#### **Barbados Hospitality Institute**

- 4.6** The Barbados Hospitality Institute, which falls under the Barbados Community College, conducts training for persons in the hospitality industry. The relevant accounts for the financial year ended 31<sup>st</sup> March 2006 were submitted and the audit was completed. No material errors were found during the course of the audit. The audit for the financial year 2006/2007 is outstanding.

#### **Barbados Liaison Service -Miami**

- 4.7** The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. The audits for the financial years 2005/2006 and 2006/2007 are currently outstanding and will be conducted during 2008.

#### **Barbados Liaison Service -Toronto**

- 4.8** The Barbados Liaison Service in Toronto administers a program relating to farm workers attached to farms in Canada. The audits for the financial years 2005/2006 and 2006/2007 are currently outstanding and will be conducted during 2008.

#### **Caribbean Centre for Development Administration**

- 4.9** The Caribbean Centre for Development Administration (CARICAD) provides assistance to the countries of the Caribbean area for the purpose of improving their administrative capability. The accounts of CARICAD for the financial years ended 31<sup>st</sup> March 2003, 2004, 2005 and 2006 were audited during the year. No material errors in the financial statements were discovered during the course of the audits. The audit of the accounts for 2006/2007 is therefore outstanding.

#### **Caribbean Support Initiatives**

- 4.10** CARICAD also performs administrative functions for Caribbean Support Initiatives (CSI) a parent-support project aimed at improving child-rearing practices in the Caribbean. The accounts of Caribbean Support Initiatives (CSI) for the financial year ended 31<sup>st</sup> December 2005 have been audited. No material errors were found during the course of the audit. Audit of the accounts for 2005/2006 is in progress.

#### **Caribbean Institute for Meteorology and Hydrology**

- 4.11** The Caribbean Institute for Meteorology and Hydrology is a training and research organization funded by Governments in the Caribbean region. Receipts and Payments accounts for the year ended 31<sup>st</sup> December 2006 were audited. No material errors in the financial statements were discovered during the course of the audit. The audit for 2006/2007 is therefore outstanding.

#### **Central Emergency Relief Fund**

- 4.12** 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 year ended 31<sup>st</sup> December 2006 were not submitted for audit during the year, and this audit therefore remains outstanding.

#### **Central Liaison Service**

- 4.13** 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 audits of the accounts for the 2005/2006 and 2006/2007 financial years are outstanding and these audits will be conducted during 2008.

#### **Community Legal Services Commission**

- 4.14** 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 31<sup>st</sup> March 2007 were audited. No material errors in the financial statements were discovered during the course of this audit.

#### **Erdiston Teachers' Training College**

- 4.15** The accounts of the Erdiston Teachers' Training College for the financial year ended 31<sup>st</sup> March 2006 were audited during the course of the year. No material errors in the financial statements were discovered during the course of the audit. The audit for the financial year ended 31<sup>st</sup> March 2007 is therefore outstanding.

#### **Land Reclaimers Limited**

- 4.16** The Land Reclaimers Limited has ceased operating as a company in 2002. Any outstanding funds relating to this entity should be paid to the shareholders.

#### **National Assistance Board**

- 4.17** 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.



- 4.18** The accounts of the National Assistance Board for the financial year ended 31<sup>st</sup> March 2006 have been audited. No material errors were discovered in the financial statements during the course of the audit. The accounts for the financial year 2006/2007 have been submitted to the Audit Office and will be audited during 2008.

#### **National Insurance Fund**

- 4.19** The audit of the accounts of the National Insurance Fund has been a source of concern for some time. This audit is currently seven years in arrears. As previously stated by this Office, audits conducted several years after the period in which they were due do not assist the accountability process and are of little help to decision makers.

- 4.20** The accounts of the National Insurance Fund need to be brought up to date. The longer that audits remain outstanding the more difficult it will be to respond to issues that may be raised during the auditing process. I have increased the number of auditors who are reviewing these accounts. As I indicated in my previous report, the National Insurance Board needs to deploy appropriate resources to assist in the preparation of the outstanding accounts.

#### **Public Enterprise Investment Fund**

- 4.21** The Public Enterprise Investment Fund provides funding for specific investment projects, the rehabilitation of enterprises in the public sector and the repayment of public debt. The Fund receives revenue arising out of the disposal of shares or other interests in enterprises owned by the Barbados Government. The Accounts of the Fund for the financial year ended 31<sup>st</sup> March 2007 were audited during the course of the year. No material errors were discovered during the course of the audit.

#### **Samuel Jackman Prescod Polytechnic**

- 4.22** 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 1<sup>st</sup> October, in respect of the preceding financial year, Statements of Account, audited by the Auditor General.

**4.23** The Polytechnic has submitted financial statements for the six financial years up to 31<sup>st</sup> March 2003. The accounts of the Polytechnic have been found to be deficient with information not being available to support amounts stated in the financial statements.

**4.24** It is time that the Ministry of Education takes appropriate steps to rectify this situation as the Polytechnic staff appears to lack the capabilities of producing the relevant financial statements and keeping the accounts in good order.

### **Sanitation Service Authority**

**4.25** The accounts of the Sanitation Service Authority for the financial year ended 31<sup>st</sup> March 2006 were audited during the course of the year. No material errors were discovered in the financial statements during the course of the audit. The Audit Office is however awaiting financial statements from the Authority for the year ended 31<sup>st</sup> March 2007.

### **Severance Payment Fund**

**4.26** The audit of the accounts of the Severance Payment Fund for the financial year ended 31<sup>st</sup> December 2005 has been completed. No material errors were found during the course of the audit. The audit for the financial year ended 31<sup>st</sup> December 2006 is currently in progress.

### **Social Investment Fund**

**4.27** The accounts of the Social Investment Fund for the financial year ended 31<sup>st</sup> March 2007 have been audited as required by Section 9 of the Social Investment Act. No material errors in the financial statements were discovered during the course of the audit.

### **Sugar Factory Smoke Control Board**

- 4.28** The Revenue and Expenditure Accounts of the Sugar Factory Smoke Control Board for the years ended 31<sup>st</sup> December 2001 to 2006 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**

- 4.29** The Receipts and Payments Accounts for the financial year ended 31<sup>st</sup> December 2006 were submitted and audited 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. Audit of the accounts for the year 2006/2007 is outstanding.

#### **Sugar Workers' Provident Fund**

- 4.30** 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.
- 4.31** The absence of relevant schedules in respect of payments from this Fund has held up this audit for a number of years. The inability of the National Insurance Office to provide this basic information has been an area of concern for sometime. It is my understanding that this information has recently been made available and the audits for 2000 and 2001 financial years should soon be concluded.

#### **Training Fund**

- 4.32** The Training Fund was established under Section 3 (1) of the Training Act, Cap. 35 for the purpose of financing training courses for officers in the Public Service. An attempt was made to audit the accounts of the Training Fund for the financial

years 1992/1993 to 1997/1998. However, because of missing information, the expenditures reported on the financial statements could not be verified. A report on the 2003/2004 audit has already been issued. The audits for the financial years 1998/1999 to 2002/2003 and 2004/2005 to 2006/2007 have been completed and reports will be issued shortly.

### **Training Loan Fund**

- 4.33** The Training Loan Fund was established under Section 4 (1) of the abovementioned Act for the purpose of providing loans to assist persons in pursuing courses of study or for training courses as approved by the Minister responsible for training. An attempt was made to audit the accounts of the Training Loan Fund for the financial years 1992/1993 to 1997/1998. However, because of missing information, the expenditures reported on the statements could not be verified. A report on the 2003/2004 audit has already been issued. The audits for the financial years 1998/1999 to 2002/2003 and 2004/2005 to 2006/2007 have been completed and reports will be issued shortly.

### **Unemployment Fund**

- 4.34** **The audit of the accounts of the Unemployment Fund for the financial year ended 31<sup>st</sup> December 2005 has been completed. No material errors were found during the course of the audit. The audit for the financial year ended 31<sup>st</sup> December 2006 is currently in progress.**

## **Audits Conducted by Private Sector Auditors**

- 4.35** Section 113 of the Constitution requires the Auditor General to be the auditor of Ministries/Departments and Government controlled entities; and though these audits were not conducted by my Office I will be reporting the status of each entity to Parliament. A report on the status of these audits is as follows:

### **Barbados Agricultural Credit Trust Ltd**

- 4.36** 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), which was assumed from the Barbados National Bank in the form of a portfolio transfer. Audit of the accounts for the financial year ended 30<sup>th</sup> June 2007 has been completed.

### **Barbados Agricultural Development and Marketing Corporation**

- 4.37** The Barbados Agricultural Development and Marketing Corporation (BADMC) consists of two 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. Audit of the accounts of the Corporation has been completed for the financial period ended 31<sup>st</sup> December 2003.

- 4.38** The BADMC has reported that the audit for the financial period ended 31<sup>st</sup>December2004 is in progress. The Corporation is hoping to have the 2005 and 2006 audits completed by the end of 2008.

#### **Barbados Conference Services Ltd**

- 4.39** 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. Audit of the accounts for the financial year ended 31<sup>st</sup>March 2006 has been completed. BCSL has reported that financial statements for the period ended 31<sup>st</sup>March 2007 are currently being audited.

#### **Barbados Investment and Development Corporation**

- 4.40** 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. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2007 has been completed.

### **Barbados National Oil Company Ltd**

- 4.41** The Barbados National Oil Company Ltd (BNOc), 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. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2006 has been completed. The BNOc has reported that the audit for the financial year ended 31<sup>st</sup> March 2007 will be completed on the resolution of a number of outstanding matters.

### **Barbados National Productivity Council**

- 4.42** The principal activity of the Barbados National Productivity Council (BNPC) is 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. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2007 has been completed.

### **Barbados Port Inc.**

- 4.43** 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. Audit of the accounts of the Barbados Port Incorporated has been completed for the financial year ended 31<sup>st</sup> December 2006.

### **Barbados Tourism Authority**

**4.44** 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. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2005 has been completed.

**4.45** The BTA has reported that the financial statements for the period ended 31<sup>st</sup> March 2006 are currently being audited and the audit for the period ended 31<sup>st</sup> March 2007 would commence on completion of the 2006 audit.

#### **Barbados Tourism Investment Corporation**

**4.46** 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 partnership. Audit of the financial statements for the year ended 31<sup>st</sup> December 2005 has been completed. The Corporation has reported that its fiscal year end has been changed to 31<sup>st</sup> March with effect from the 2007 reporting period and that the relevant information will be submitted when the audit for the period 1<sup>st</sup> January 2006 to 31<sup>st</sup> March 2007 has been completed.

#### **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. Audit for the financial year ended 31<sup>st</sup> March 2005 has been completed. The Board has reported that the audits for the years ended 31<sup>st</sup> March 2006 and 2007 should be completed by July 2008.



### **Barbados Water Authority**

- 4.48** The Barbados Water Authority 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 1<sup>st</sup> April 1981. Audit of the accounts of the Authority for the financial period ended 31<sup>st</sup> March, 2005 has been completed. Barbados Water Authority has reported that the audit of the financial statements for the period ended 31<sup>st</sup> March 2006 is in progress, and that the audit for the period ended 31<sup>st</sup> March 2007 is scheduled to begin in February 2008.

### **Caribbean Broadcasting Corporation**

- 4.49** The principal activity of the Caribbean Broadcasting Corporation (CBC) is the provision of broadcasting services through radio and television. The audited accounts of the Corporation up to the financial year ended 31<sup>st</sup> December 2005 have been submitted to the Audit Office. The Corporation has reported that the audit report on the financial statements for the year ended 31<sup>st</sup> December 2006 has been completed and has been submitted to the Prime Minister’s Office for laying in Parliament.

### **Caves of Barbados Limited**

- 4.50** Caves of Barbados Ltd is mandated under the Caves Act 2000 - 12 to manage and develop Harrison’s Cave and any other caves in Barbados. Audit of the accounts for the financial period ended 31<sup>st</sup> December 2004 has been completed. Caves of Barbados has reported that their auditors are in the process of auditing the financial statements for the period ended 31<sup>st</sup> December 2005 and 2006. These audits are therefore outstanding.

### **Central Bank of Barbados**

**4.51** The principal activities of the Central Bank of Barbados are to regulate the issue, supply, availability and international exchange of money, promote monetary stability, and foster conditions conducive to the orderly and sustained economic development of Barbados. Audit of the accounts of the Central Bank of Barbados for the financial year ended 31<sup>st</sup> December, 2006 has been completed.

#### **Child Care Board**

**4.52** 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. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2007 has been completed.

#### **Enterprise Growth Fund**

**4.53** 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. Audit of the accounts for the financial year ended 31<sup>st</sup> December 2006 has been completed.

#### **Fair Trading Commission**

**4.54** The principal activities of the Fair Trading Commission (FTC) are to enforce the Utilities Regulation Act, Cap. 282, the Telecommunications Act, Cap. 282B, the Fair Trading Competition Act 326C and the Consumer Protections Act, Cap 326D. The Commission should promote efficiency, competitiveness; improve standards of service and quality of goods and services supplied by service providers and business enterprises over which it has jurisdiction. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2007 has been completed.

#### **Grantley Adams International Airport Inc.**

- 4.55** The Grantley Adams International Airport Inc. 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). Audit of the accounts for the financial year ended 31<sup>st</sup> March 2007 has been completed.

#### **Hotels and Resorts Limited**

- 4.56** Hotels and Resorts Ltd. was incorporated under the Laws of Barbados on 27<sup>th</sup> December 1995. The principal activity of Hotels and Resorts Ltd. is the investment in and development of hotel properties. The company has reported that the audits of the accounts for the financial years ended 31<sup>st</sup> December 2002, 2003, 2004 and 2005 are to be finalized, and that their auditors have committed to starting the audits for 2006 and 2007 in February 2008.

#### **Islandcrafts (Barbados) Inc.**

- 4.57** The principal activity of Islandcrafts (Barbados) Inc. is the sale and marketing of indigenous handicraft items. Audit for the financial year ended 31<sup>st</sup> March 2005 has been completed. Islandcrafts (Barbados) Inc. has reported that financial statements for the years ended March 2006 and 2007 are currently being audited.

#### **National Conservation Commission (NCC)**

- 4.58** 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. Audits of the accounts of the Commission have been completed up to the financial year ended 31<sup>st</sup> March 2005. The Commission has reported that their auditors have completed preliminary work for the financial year ended 31<sup>st</sup> March 2006, and work would commence on the financial statements for the period ended 31<sup>st</sup> March 2007 as soon as the 2006 audit is completed.

### **National Council on Substance Abuse**

- 4.59** 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. Audit for the financial year ended 31<sup>st</sup> March 2004 has been completed. The NCSA has reported that their auditors are in the process of auditing the financial statements for the period ended 31<sup>st</sup> March 2005. The NCSA has reported that the delay is due to staff shortages and that it aims to have the financial statements up to date by the end of the 2007/2008 financial year.

### **National Cultural Foundation**

- 4.60** 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. The audited accounts of the Foundation for the financial year ended 31<sup>st</sup> December 2005 have been submitted to the Audit Office. NCF has reported that the audit for the financial year ended 31<sup>st</sup> December 2006 has been completed and is awaiting the approval of its Board.

### **National Housing Corporation**

- 4.61** The principal activity of the National Housing Corporation (NHC) is managing the development of areas designated for development and related purposes. Audit of the accounts of the Corporation up to the financial year ended 31<sup>st</sup> March 2004 has been completed. The Corporation has reported that audits for the years ended 31<sup>st</sup> March 2005 and 2006 are currently being conducted, and that it is in the process of completing its financial statements for the financial year ended 31<sup>st</sup> March 2007.

### **National Petroleum Corporation**

- 4.62** The National Petroleum Corporation (NPC) has as its principal activity the supply of natural gas to industrial, commercial and domestic customers. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2006 has been completed. The NPC has reported that the audit for the financial year ended 31<sup>st</sup> March 2007 has been delayed because the auditors are awaiting information from the Barbados National Oil Company.

### **National Sports Council**

- 4.63** 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 sport in Barbados. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2007 has been completed.

### **Queen Elizabeth Hospital**

- 4.64** 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. Audit of the accounts of the QEH has been completed for the financial year ended 31<sup>st</sup> March 2004, and the Hospital has reported that the audit for the year ended March 31<sup>st</sup> 2005 is in progress.

### **4.65 Rural Development Commission**

The Rural Development Commission (RDC) was incorporated on 21<sup>st</sup> 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. Audit of the accounts of the Commission for the financial period ended 31<sup>st</sup> March 2004 is being finalized. The Commission has reported that “preliminary” work for the years ended 31<sup>st</sup> March 2005 and 2006 has been completed.

### **The Securities Commission**

- 4.66** The Securities Commission’s principal activities are to maintain surveillance over the securities market in order to ensure that fair, equitable and proper practices are maintained, and to act as a regulatory body over all organizations involved in the business of securities, so as to protect the rights of the investing public. The audited accounts for the financial years ended 31<sup>st</sup> March 2006 and 2007 have been submitted to the Audit Office. However, the Commission has reported that the audited financial statements for the period ended 31<sup>st</sup> March 2007 have not been laid before Parliament.

### **Student Revolving Loan Fund**

- 4.67** The principal activity of the Student Revolving Loan Fund (SRLF) is to assist in the educational process through the provision of loans. Audits of the accounts of the Student Revolving Loan Fund have been completed up to the financial year ended 31<sup>st</sup> March 2001. The SRLF has reported that current audits are not up to date due to challenges such as the failure of their loan information system, delay in activating a new loan system and lack of adequate human resources. The SRLF has also reported that their current auditors have promised to complete, in 2008, audits for the financial years up to 31<sup>st</sup> March 2006.

### **Technical and Vocational Education and Training (TVET) Council**

- 4.68** The principal activities of the Technical and Vocational Education and Training (TVET) Council are to provide advice on policy, prepare plans and establish standards for technical and vocational education at the tertiary level, in accordance with national policies and economic needs. Audit of the accounts of

the TVET Council for the financial period ended 31<sup>st</sup> March 2007 has been completed.

### **Transport Board**

- 4.69** The Transport Board's principal activity is the provision of transportation to the general public. Audit of the accounts of the Board for the financial year ended 31<sup>st</sup> March 2006 has been completed. The Board has reported that audited financial statements for the year ended 31<sup>st</sup> March 2007 would be submitted in February 2008.

### **Urban Development Commission**

- 4.70** 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.
- 4.71** Audit of the accounts of the Commission for the financial year ended 31<sup>st</sup> March 2003 has been completed. The Commission has reported that the audit for the financial year ended 31<sup>st</sup> March 2004 is in progress. The Commission has reported that the delays are due to staff/scheduling problems, and every effort will be made to have the audits current during 2008.

## **Audit of Secondary Schools**

- 4.72** 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 31<sup>st</sup> March. The status of the accounts of these schools at 31<sup>st</sup> December 2007 was as follows:

#### **AlexandraSchool**

- 4.73** The audit of the accounts of the AlexandraSchool has been completed for the financial years ended 31<sup>st</sup>March 2006 and 2007. The accounts of this school are therefore up to date as required by the Education Act.

#### **AlleyneSchool**

- 4.74** The audit of the accounts of the AlleyneSchool has been completed for the financial year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

#### **AlmaParrisMemorialSecondary School**

- 4.75** The audit of the accounts of the AlmaParrisMemorialSecondary School has been completed for the financial year ended 31<sup>st</sup>March 2007. The accounts of this school are therefore up to date as required by the Education Act.

#### **ChristChurchFoundationSchool**

- 4.76** The audit of the accounts of the ChristChurchFoundationSchool has been completed for the financial year ended 31<sup>st</sup> March 2006. The school has reported that the audit for the financial year ended 31<sup>st</sup> March 2007 is currently in progress and would be submitted upon completion. The accounts of this school are therefore in arrears.



### **Coleridge & ParrySecondary School**

- 4.77** The audit of the accounts of the Coleridge & ParrySecondary School has been completed up to the financial year ended 31<sup>st</sup> March 2005. Audits for the financial years ended 31<sup>st</sup> March 2006 and 2007 are currently outstanding.

### **CombermereSchool**

- 4.78** The audit of the accounts of the CombermereSchool has been completed for the year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

### **DeightonGriffithSecondary School**

- 4.79** The audit of the accounts of the DeightonGriffithSecondary School has been completed for the year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

### **EllerslieSecondary School**

- 4.80** The EllerslieSchool has reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2005 has been completed, however the accounts were not forwarded to the Audit Office as requested. Audits for the financial year ending 31<sup>st</sup> March 2006 and 2007 are outstanding.

### **GarrisonSecondary School**

**4.81** The audit of the accounts of the GarrisonSecondary School has been completed for the financial year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

#### **GrantleyAdamsMemorialSchool**

**4.82** The audit of the accounts of the GrantleyAdamsMemorialSchool has been completed for the year ended 31<sup>st</sup> March 2006. Audit for the financial year ended 31<sup>st</sup> March 2007 is currently outstanding.

#### **HarrisonCollege**

**4.83** HarrisonCollege has indicated that the audit of accounts for the financial year ended 31<sup>st</sup>March2007 is currently in progress and will be forwarded upon completion. Audit of the accounts of this school is therefore in arrears.

#### **LesterVaughanSchool**

**4.84** The audited accounts of the LesterVaughanSchool for the financial year ended 31<sup>st</sup> March 2006were submitted to the Audit Office. The School has reported that the substantial work on the audit of the financial statements for the financial year ended 31<sup>st</sup>March 2007 has been completed and the necessary audit report will be shortly prepared.

#### **LodgeSchool**

**4.85** The audit of the accounts of the LodgeSchool has been completed for the financial year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

#### **LouisLynchSecondary School**

- 4.86** The audit of the accounts of the LouisLynchSecondary School has been completed for the financial year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

#### **ParkinsonMemorialSchool**

- 4.87** The audit of the accounts of the ParkinsonMemorialSchool has been completed for the financial year ended 31<sup>st</sup>March2007.The accounts of this school are therefore up to date as required by the Education Act.

#### **PrincessMargaretSecondary School**

- 4.88** The audit of the accounts of the PrincessMargaretSecondary School has been completed for the financial year ended 31<sup>st</sup> March 2006. Audit for the financial year ended 31<sup>st</sup> March 2007 is currently outstanding.

#### **Queen's College**

- 4.89** The audit of the accounts of Queen's College for the financial years ended 31<sup>st</sup> March 2006 and 2007 are currently outstanding. Audit of the accounts of this school is therefore two years in arrears.

#### **St.GeorgeSecondary School**

- 4.90** The audit of the accounts of the St.GeorgeSecondary School has been completed up to the financial year ended 31<sup>st</sup> March 2004. Audits for the financial years ended 31<sup>st</sup> March 2005, 2006 and 2007 are currently outstanding. Audit of the accounts of this school is therefore three years in arrears.

#### **St.JamesSecondary School**

- 4.91** The audit of the accounts of the St.JamesSecondary School has been completed for the financial year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

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

- 4.92** The audit of the accounts of the St. Leonard's Boys' Secondary School for the financial years ended 31<sup>st</sup> March 2005, 2006 and 2007 is currently outstanding. Audit of the accounts of this school is therefore three years in arrears.

#### **St.LucySecondary School**

- 4.93** The audit of the accounts of the St.LucySecondary School has been completed for the financial year ended 31<sup>st</sup> March 2007. The accounts of this school are therefore up to date as required by the Education Act.

#### **St.MichaelSchool**

- 4.94** The audit of the accounts of the St.MichaelSchool has been completed for the financial year ended 31<sup>st</sup> March 2006. The audit for the financial year ending 31<sup>st</sup> March 2007 is outstanding.

#### **SpringerMemorialSecondary School**

- 4.95** The audit of the accounts of the SpringerMemorialSecondary School has been completed for the financial years ended 31<sup>st</sup> March 2006 and 2007. The accounts of this school are therefore up to date as required by the Education Act.

### **General Observations**

- 4.96** The audits of a number of Government agencies are currently in arrears and this is cause for concern. The main purpose of the audit is to provide stakeholders of the entity with independent assurance on the accuracy of the information on the financial statements.
- 4.97** It is evident that not enough attention is being paid to insuring that audits are completed on a timely basis. Those entities that are in arrears in their audits need to make a serious effort to bring these accounts up to date expeditiously. In some cases they will require some assistance from outside the organization. Boards of Management/Directors of these entities should always view the non-submission of audited financial statements with a degree of concern.
- 4.98** 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 Report on the NewtonBusinessPark**

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# Introduction

## Objectives of the Report

**5.1** The NewtonBusinessPark (the “Project”) was selected for review from several projects which are being carried out by the Government of Barbados as Public Private Partnerships (“PPP”) with private developers and contractors. The purpose of this report is to:

- (i) review the procedures applied in selecting the contractor/developer of the Project;
- (ii) evaluate the PPP structure adopted against best international practices;
- (iii) assess the quality of the legal documentation used;
- (iv) examine and appraise the project supervision and implementation;  
and
- (v) offer preliminary recommendations for improving the execution of similar PPP projects in Barbados.

## Scope of Evaluation and Methodology

**5.2** An examination of the various project reports, memoranda and legal documents was carried out, and supplemented with interviews during the week of 18<sup>th</sup> to 24<sup>th</sup> November 2007. There were also interviews with key officials of the Barbados

Industrial Development Corporation (BIDC), various consultants, and representatives of financial institutions involved in the Project. Because the Design Build Contract had been terminated, and there remained several important unresolved disputes between the parties, it was not possible to arrange meetings with representatives of the contracted company. However, interviews were conducted with several members of the contractor's project team including Architects, Mechanical Engineers, Quantity Surveyors, Civil and Structural Engineers and the contractor's Project Manager, all of whom provided very valuable information about the Project and its implementation. Also interviewed was retired senior management at the BIDC who were involved in the Project in its early stages.

## **Summary of Main Findings**

**5.3** The BIDC is seeking to establish a business park at its Newton Estate in ChristChurch to facilitate the promotion of knowledge-based industries (See 5.13). Requests for Proposals (RFP) for building design and construction were advertised, and a fixed price contract was awarded to a regionally based company for \$18.5 million, while site work commenced in October 2003. The contract was terminated by the BIDC in March 2007 and the BusinessPark presently remains uncompleted. A summary of the main findings and recommendations are as follows:

- (i) The Project was one of the first (PPPs), in which the contractor was responsible for both the design and construction of buildings, in the Public Sector. It was designed to be an important specialized business park to attract high-end technology investors from throughout the world.
- (ii) There were only three proposals received for this project, however strong competition is essential if PPP deals are to achieve the optimal mix of price and quality. The absence of strong competition for this contract suggests that this type of project was not attractive to developers, and this would have limited the Corporation's choices in selecting a developer.

- (iii) Financing of \$18.5 million was obtained to construct the BusinessPark. This sum was disbursed to the contractor even though the project was not completed. The payment regime should have been structured in such a manner that the amount left to be earned in the contract exceeds the cost to complete the project.
- (iv) In November 2006 the BIDD commissioned an independent consultant who determined that there were defects in the work and indicated that the cost to correct and complete the work was in excess of \$7.0 million. The projected expenditure to complete the project was subsequently estimated at \$10.0 million giving a new project expenditure of \$28.5 million. If the arrangement had worked as intended the construction cost would have been capped and the contractor would have been responsible for any cost overruns.
- (v) The Company was given time to rectify the defective work and to complete the project. The relevant action was not taken and the contract was eventually terminated by the BIDD which now has to institute legal action against the contractor in respect of any default on the contract.
- (vi) The Performance Bond (surety) of \$1.8 million was put in place, but was allowed to lapse, resulting in the BIDD not having access to funds to draw on as a result of the default.
- (vii) A key feature in a PPP project is the appropriate transfer of risk to those better experienced to manage it. The way the project was organized transferred construction risk to the developer during the period of the contract. However, the absence of the performance bond limited the Corporation's ability to access funds for the correction of defects.



- (viii) Inadequate monitoring of the project would have contributed to the defects not being detected on a timely basis.
- (ix) In spite of the challenges faced during construction of this project the BIDC should be commended for its attempt to develop the Business Park which, when completed, should help to meet the requirements of the growing information sector.

#### **5.4 Recommendations**

- (i) In developing PPP projects feasibility analysis should be required to determine whether a PPP option is more advantageous than the traditional procurement method before this option is taken.
- (ii) Design-Build procurement contracts should be carefully studied before they are applied to any project, especially where innovative technologies are to be provided by a private contractor.
- (iii) BIDC should upgrade their appraisal capabilities and use experienced national and international consultants to support existing staff in both PPP and traditional Public Sector procurement for large projects.
- (iv) BIDC should be guided by the acknowledged fact that PPPs and other non-traditional procurement techniques require substantial project monitoring and supervision. There should be a dedicated project implementation team for any such projects.
- (v) Standard PPP implementation agreements, concessions, and loan agreements will need to be designed for use by the Public Sector, following international best practices. Accordingly, there should be standard contracts and regulatory guidelines for all PPP projects.

All financing agreements for PPP projects should be carefully vetted and approved by counsel, supported by experienced outside international counsel if necessary.

- (vi) PPP regulations and policy guidelines should be developed, and should include practical criteria to be used in determining the cost savings to be achieved with PPP procurement, as against traditional procurement methods. Using criteria such as the need to finance a project off budget should be avoided.

## Project Description

### Project History

- 5.5** The Strategic Plan of the Barbados Investment and Development Corporation (BIDC) for the triennium 1997 - 1999 identified Information Technology (IT) as a major growth sector for investment promotion. This was after the Corporation's overseas offices had attracted the interest of an increasing number of clients in the implementation of projects in software development, call centers, e-commerce and medical transcription.
- 5.6** In order to fuel this new thrust, the BIDC decided to use 23.5 acres of land at the Newton Estate in ChristChurch, adjacent to the existing industrial park, with which it had been vested by the Government for on-going industrial development, for the establishment of a specialized *BusinessPark*. The idea was to create an estate designed for stateof theart buildings, in order to promote the continued growth and expansion of knowledge-based industries.



### NewtonBusinessPark

- 5.7** The transformation of the Newton Estate into a specialized BusinessPark was conceived in five (5) phases. Phase 1 comprised two components. The first

component envisaged the development of the first ten (10) acres, including infrastructural development such as roads, utilities and landscaping. The second component contemplated the construction of two (2) office buildings covering an area of sixty-one thousand (61,000) square feet for high-tech and/or information processing operations. The completion of these two buildings was seen as the fore-runner to further development of the remaining acreage in the other four (4) phases.

## **Mode of Execution and Financing**

### **Mode of Execution**

- 5.8** At the time of conception Consultant Engineers of this project, the B IDC was operating under a directive from the Government that required it to seek private funding for its capital development.
- 5.9** In keeping with this new emphasis, and given the need to develop the new estate in as short a time as possible in order to take advantage of the opportunities identified in the high-tech and IT sectors, the B IDC decided on a fast-track procurement model that would benefit from external funding. Accordingly, a decision was taken in July 1997 to invite proposals from local and overseas companies, or joint ventures between local and foreign firms, for operation of a concession or other contract to finance the project by a Build, Operate, Transfer (BOT) Scheme, or any variation of this model consistent with a PPP arrangement as described in this Report.
- 5.10** In response to the Request For Proposals (RFP), three proposals were submitted from companies from the United States of America, Canada and Trinidad and Tobago. Of the three, an evaluation committee selected the proposal of the Trinidadian company, and recommended that the Management of B IDC negotiate a concession contract to be financed by a Trinidadian bank through its Finance Corporation.

### **Project Cost and Financing**

- 5.11** The Project was approved by the Board of the B IDC on 27<sup>th</sup> May 1999, and by the Cabinet on 1<sup>st</sup> December 2000, while construction began on 23<sup>rd</sup> October 2003. The Project was to be constructed at a cost of \$18.5 million through a PPP

scheme covering 20 years. However, since the financing plan envisaged the capitalization of interest payments during construction, the total projected cost was estimated at \$19.3 million.

- 5.12** The original financing structure contemplated that the BIDC, as sponsor, would lease the land to Newton Business Park Project Company Ltd. (NBPPCL), a subsidiary of BIDC, for a period of twenty-five (25) years. This subsidiary would, in turn, enter into a construction contract with the contractor to carry out the construction of the two buildings, covering an area of sixty-one thousand (61,000) square feet over a period of twelve (12) months. The BIDC would commit to twice yearly lease payments to its subsidiary, commencing six (6) months after completion of the buildings.

### **Scope of Works**

- 5.13** As described in the tender documents, the buildings were to be “state of the art intelligent buildings” providing telecommunications and information technology to businesses in software development, e-commerce, call centers, medical supplies and related high-tech operations. The Project also involves construction of infrastructure such as roads, utilities and landscaping.

### **Variations**

- 5.14** In January 2002, Cabinet approved a number of changes in the Project, including: (i) an increase in the building area from 61,000 to 68,523 square feet in order to better utilize the land area; (ii) a reduction in the term of the loan from 25 to 20 years to provide for recovery of the Value Added Tax (“VAT”); (iii) an increase in annual payments from \$2.3 million to \$2.6 million, as a result of financing over the shorter amortization period of 20 years, and the capitalization of legal and other fees; and (iv) a concessionary rental rate for Building B to facilitate and retain an existing client. In addition, the Ministry of Finance issued a Letter of Comfort, in which the Government pledged to underwrite any shortfall in the semi-annual payments due under this long-term lease-back arrangement.
- 5.15** The specifications of Building B were modified to meet the requirements of an existing BIDC client. In 2004, this client decided not to use the facility because of delays encountered in completing the work. The client moved to another building

owned by a private company elsewhere in Barbados.

## PPP Procurement Strategy

**5.16** There are no universally recognized definitions of PPPs, but most authorities would agree with the European Union Guidelines for Successful Public Private Partnerships published in 2003, which stated: “Under PPP arrangements, Private Sector contractors become long term providers of services rather than simply upfront asset builders, combining the responsibilities of designing, building, operating and possibly financing assets in order to deliver services to the Public Sector.”<sup>1</sup> All PPP arrangements involve a contractual relationship between a Public Sector entity and a private contractor, which transfers substantial risks from the Public Sector to the Private Sector in providing a service or facility for public use.

**5.17** According to BIDC, the Project was to be carried out as a Build, Operate, Transfer style PPP, based on the following rationale:

“The main purpose of PPP is to allow Government to expand and improve infrastructure by tapping resources outside of its own budget allocations and other commitments”.

For the projects being considered the PPP option would:

- Provide foreign financing;
- Allow a faster model for procurement of goods and services, development of infrastructure, and construction of new buildings;
- Commence the development of the new BusinessPark,

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<sup>1</sup>EU Guidelines for Successful Public Private Partnerships, Director General of Regional Policy

create 50,000 sq. ft. of new state of the art information technology buildings, and repair 55,432 sq. ft. of existing building in two years;

- Develop infrastructure and construct new buildings in a short time;
- Permit transfer of the entire facility at the end of the concession contracts;
- Permit the Corporation to more readily achieve strategic objectives.”

**5.18** To facilitate the process a call for technical and financial proposals to develop a business park under a PPP scheme was placed in newspapers locally, regionally and internationally.

**5.19** It was clear from all of the memoranda and recorded decisions of Cabinet and the Ministry of Economic Affairs that the PPP strategy was strongly endorsed by Government. For instance, the paper which was presented to Cabinet, dated 5<sup>th</sup> December 2000, stated in pertinent part: “The financing arrangement, Build, Own, Operate, Transfer (BOOT) is in keeping with Government’s expressed policy of encouraging Private/Public Sector partnerships in financing, rather than direct use of Government funding or loan financing.”

**5.20** Government entities, especially those with limited experience in PPP procurement, should not undertake PPPs without careful preparation and feasibility studies. There is not a lot of experience in PPP projects in Barbados. In Europe where they are more prevalent, the European Union “Guidelines for Successful Public-Private Partnerships” states: “PPP arrangements should not be entered into merely for the sake of undertaking a PPP project. A detailed review of the costs and benefits of Private Sector involvement versus public alternatives must be undertaken to ensure that a PPP enhances the public

benefit. The degree of private involvement needs to be carefully matched to the objectives and needs of the project and the public. Appropriateness, cost and the ability to effectively implement and manage should be paramount considerations in selecting a PPP structure”<sup>2</sup> (underscoring added).

**5.21** In relation to this project, it was evident that although the criteria for evaluation of proposals were extensive in scope, criteria for assessing the contractor company’s technical and financial qualifications and prior experience were not included.

### **Project Risk**

**5.22** The essence of a Public Private Partnership initiative is the identification of risk associated with each component of the project, and the allocation of that risk factor to the parties best able to manage those risks. This process minimizes costs while improving performance. Examples include design risks, construction/implementation risks and operating risks.

**5.23** An underlying objective of a PPP is to have the Private Sector assume some of the operational risks which are transferred back to the Government at the end of the term. Value for money<sup>3</sup> in a PPP is achieved through lower costs, for construction and operation during the project’s life cycle, than would be incurred if the traditional Government procurement model was used.

**5.24** In this Project, the contractor assisted in arranging the financing, but did not assume any financial risk for the Project. Under the Design-Build Construction Contract (“DB Contract”)<sup>4</sup>, the contractor was responsible for the design of the

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<sup>2</sup> EU Guidelines

<sup>3</sup> Value for Money (VFM) is defined as the all-in present value cost of the project during its life cycle achieved in a PPP compared to the risk adjusted all-in present value costs of the same project using traditional Public Sector procurement. In other words, VFM is a sophisticated financial and economic tool used to quantify the relative costs to government resulting from using PPP procurement compared to traditional government procurement. Where the costs of PPP procurement exceed those obtained under traditional government procurement, the government should follow its conventional procurement procedures.

<sup>4</sup> A Design Build Construction contract is a contract where the contractor assumes responsibility for the project designs as well as the physical construction of the facility. The proposal included a DB Contract prepared using the International Federation of Consulting Engineers (FIDIC) forms for **Conditions of Contract for Plant and Design Build** of 1999.



facility and its construction under a fixed price equal to \$18,563,266.00, as stated in its proposal letter to BIDC dated 14<sup>th</sup> September 1998. Meanwhile, under this proposal, BIDC retained virtually all of the project risks both before and after project completion.

**5.25** If the Project was abandoned, or construction was not completed within 90 days of the scheduled completion date in the Design Build Contract, there would be a default and the BIDC would be required to repay the full amount of the loans outstanding as stated in Section 8.3 of the Implementation Agreement. Following Project Completion, the repayment obligation on the loans is to be carried out through lease payments from BIDC to the Project Company. These payments are fully guaranteed by the Government of Barbados under the Comfort Letter from the Ministry of Finance dated 14<sup>th</sup> January 2003.

**5.26** The contractors' risks were confined to the construction phase. The proposed project was nevertheless a PPP, because it contemplated significant risk transfer to the contractor through the Design Build contract. Design Build contracting is also an innovative form of construction procurement, which is especially difficult to implement in small countries or regions where the construction industry is controlled by a few small contractors.

### **Design-Build Option**

**5.27** It should perhaps be noted that Design Build contracts are ideally suited to situations where the Government is anxious to cap construction costs with a fixed price contract. In a Design Build contract, the contractor will be assuming the design risks and therefore will be barred from requesting price adjustments based on design defects. Design Build contracts are supposed to be more efficient in synchronizing the work of the contractor and the design architects, and thus create a better template for managing construction costs.

**5.28** In deciding whether to use Design Build contracting or traditional Design-Build procurement, owners typically are expected to carefully consider the suitability of the project to the form of tendering.

- 5.29** Most public procurement specialists will want to ascertain how many contractors are able and willing to contract under Design Build parameters. For instance, if there are few companies in the local market capable of assuming the greater risks involved in Design Build contracting, it may not be reasonable to expect that a Request for Proposals will elicit enough qualified bidders to produce a suitable level of competition.
- 5.30** The available evidence suggests that some projects lend themselves to Design Build contracting more than others. For instance, repetitive types of projects that allow the use of standard designs such as tract housing or franchise restaurants may be good candidates for Design Build contracts.
- 5.31** It is therefore not surprising that BIDD only considered two proposals for this PPP, and that there were no Barbadian Companies which expressed an interest in bidding.

#### **NewtonParkPPP Evaluation**

- 5.32** The evaluation reports show that consideration was given to a Guaranteed Government Bond Issue or commercial bank loan, but it was concluded that these options obtained negative net present value results. It was concluded that the contractor's proposal offered the best option because it would reportedly attract foreign financing and allow the transaction to remain off budget.
- 5.33** An examination of the evaluation criteria also revealed that BIDD was particularly impressed by the quality of the designs of the contractor's proposal under the Design Build contract. Interviews with BIDD officials confirmed that the designs and power point presentations were very effective in convincing BIDD of the superior merit of its designs. Visits by these officials to Trinidad and Tobago to examine the contractor's projects, such as the Hilton Hotel in Tobago, further strengthened the contractor's proposal. But there was no evidence that the contractor had ever carried out a Design Build contract similar to the one contemplated here. In addition, there was no evidence that BIDD had subjected these designs to an appraisal by its own independent architects and engineers. This would have been an effective means of quantifying the relative merits of PPP procurement versus traditional procurement.

## **Project Implementation and Supervision**

### **Project Supervision and Reporting**

**5.34** During its gestation, the Architects responsible for designs, and the Civil and Structural Engineers and Quantity Surveyors responsible for assembling costs, formed part of the contractor's construction team that provided inputs to the contractor's Proposals. Interestingly, the contractor had developed a team of local consulting engineers and architects to participate in the design and implementation of the Project. However, the record shows that it gradually replaced them with in house staff during the course of the construction. It is not clear whether this contributed to the problems that arose during construction, but many of those familiar with the Project believed that this decision by the contractor weakened its ability to efficiently manage and execute the construction works.

**5.35** A Senior Management Team within BIDD was assigned to the Project Implementation Unit. While BIDD retained administrative oversight for the Project, local consulting engineers were commissioned after construction started to supervise the Project on behalf of BIDD. As noted later in this report the supervision procedures applied by BIDD rested heavily on the role of the consulting engineers.

**5.36** The duties and responsibilities of the engineers are described in the letter agreements which they exchanged with BIDD during that period. These included:

(i) Review of Architects' drawings in order to ascertain the general specifications and requirements, and the sufficiency of information for construction;

(ii) Review of civil and structural engineering drawings and

specifications in order to ascertain the various design parameters and their appropriateness, in addition to the sufficiency of information for construction;

(iii) Prepare and submit a report on the findings from their review of the drawings;

(iv) Construction Stage:

- Make periodic visits to the site to determine that the works were generally being carried out in accordance with the drawings and specifications, and otherwise in accordance with good building practice;
- Prepare records of deviations or deficiencies that were found during site visits. Any such deviations or deficiencies would be drawn to the attention of the contractor so that proposals could be provided for correcting the deficiency. The consulting engineers would comment to the Client on the acceptability or otherwise of these proposals, and advise on the minimum action that should be taken in such situations to rectify unsatisfactory work;
- Review all relevant reports required under the contract and in accordance with the specifications;
- General review of shop drawings.

### **5.37**

The consulting engineers were also identified in the Facility Agreement between the Loan Agency, the Project Company (“Borrower”) and the Trustee. Under the Facility Agreement, disbursements could only be authorized if the consulting

engineers gave the relevant approval to the Project Lender certifying that all conditions precedent had been complied with. In accordance with standard practice for such agreements, one of the key conditions precedent for disbursement is that there be no default or potential event of default in the project. This meant that the consulting engineers should not have authorized disbursements if, at any time, they concluded that there was in fact either a default or potential default under the Design Build Contract.

**5.38** A representative of the consulting engineers stated in an interview that he had pointed out to BIDD that his firm's responsibilities under the various contracts were not properly aligned with its terms of reference under its contract with BIDD.

**5.39** A sample of the certificate prepared by the consulting engineers and forwarded to BIDD and the Loan Agency merely stated: "We hereby certify for payment to the Contractor, the sum of \$\_\_\_\_\_ as shown on our Interim Certificate No. \_\_\_\_\_ enclosed." The Interim Certificate states simply: "We certify that the Works and Services for which payment is due have been completed to the value indicated in accordance with terms and conditions of the contract between the BIDD and the Contractor". From discussions with the consulting engineers and comments received from BIDD on this report, it appears that there was some confusion about the role of the engineers in monitoring and approving disbursement of funds under the Facility Agreement and the construction contract.

**5.40** There was a difference between the various agreements which were in place on respect of the project. The facility agreement between the lenders and BIDD precluded disbursement of loan funds if there was Event of Default or circumstance which with the passage of time would eventually result in an Event of Default ("Potential Event of Default"). On the other hand, the agreement with BIDD and the contractor restricted the right of the Engineer to withhold an Interim Certificate for payment once such work was completed.

**5.41** Consistent with best practices the standard construction contract used in this Project should have been adjusted and synchronized with the financing

arrangements to better protect the interests of BIDC and its subsidiary in the event of substantial delays or other likely default in project construction.

- 5.42** Provisions in other recognized international construction contracts and project loan agreements more clearly address the problems that arise when a contractor is unable to meet the scheduled completion date, and should have been considered before the execution of this contract.

### **Full Disbursement of Loan Although Project Not Completed**

- 5.43** The consulting engineers should have played a more proactive role in the Project. In my view, the consulting engineers should have alerted the BIDC of any likelihood that the Project would not realistically achieve completion as defined in the Design Build Contract. This is more evident when we consider that the last valuation was submitted by the Contractor on 16<sup>th</sup> June 2006, with the corresponding certification (No. 19) from the consulting engineers for payment on 2<sup>nd</sup> July 2006, even though it was already clear by that time that scheduled completion would not be achieved.

- 5.44** **It should be noted that all loan funds under the Facility Agreement with the Loan Agency have been fully disbursed, even though the Project has not been completed.** If funds had been withheld from the contractor at an earlier stage when problems were obviously delaying construction, the parties might have been able to avoid total shut down of construction.

### **Reporting**

- 5.45** While the interim certificates prepared by the consulting engineers were not consistent with international best practices, their monthly reports were generally well prepared and timely delivered to BIDC. In the early stages of construction, a typical report would provide a technical accounting of works in progress or completed, review the valuations presented for payment, and determine, based on the engineer's review, whether the amounts charged were fair and reasonable, and consistent with the technical requirements and specifications of

the Contract. In many instances, there were adjustments and reductions in the authorized amounts for disbursement. For instance, the first monthly progress report was prepared by the consulting engineers for BDC, dated April, 2004. This report set the stage for a detailed informative summary of work up to the end of the reporting period. At that time, earthwork and substructure construction works were completed. Overall construction of both buildings was 32% completed, with the contractor estimating that works were three weeks behind schedule.

**5.46** The reports also indicated approximate dates for full completion which were significantly beyond the scheduled completion date. Over time, it was noted that there was a decline in the substance and content of the reports, which focused mainly on project cash flow and disbursements. The consulting engineers' reports considerably understated the degree of compliance achieved in terms of time or costs. Under these circumstances, it is difficult nevertheless to understand why BDC did not, at an earlier date, seek reassurances from the contractor concerning the completion date, and require further details about the viability of the financing plan.

**5.47** Obviously concerned about the delays and reported difficulties with the contractor, at the end of 2006, BDC commissioned a firm to conduct a condition survey of the buildings and provide an opinion on the current status of the buildings. The firm was also instructed to identify any defective work uncovered through their inspection of the buildings, including any electrical or mechanical aspects of the Project. The firm's report, prepared in late 2006 and presented in January 2007, provides a third party technical assessment of the project works. Its conclusions therefore were helpful in understanding the nature of the implementation problems which affected the Project.

**5.48** The report concluded that although Building A was incomplete at the time of the inspection, several aspects of this building were found to be non compliant with the specifications as stipulated in the Architect's and Engineer's drawings, and required by good engineering practice. It was therefore concluded that a significant amount of retrofitting needed to be carried out to make this building suitable for its intended use.

- 5.49** With respect to Building B, the report concluded that the structure was generally complete, although there were several issues that needed to be addressed to provide a durable building that can provide effective use for its economic life.
- 5.50** The BIDC initiative in commissioning the firm's report is commendable. However, it would have been more helpful to have conducted this study when there were still undisbursed loan funds, which might have been applied to improving performance.
- 5.51** It appears that the quality of the work and its execution were not consistent with the Government's intended reason for applying a PPP procurement strategy. Sadly, the Project was delayed well beyond the original scheduled completion date, was over budget, and was not executed in accordance with good engineering practices.

## **Review of Legal Structure**

### **PPP Legal Documents**

- 5.52** In the United Kingdom and other countries which have aggressively developed PPP programs, there was an early recognition that PPPs require the development of standardized documents to ensure consistency across the Public Sector, in the allocation of risks between the parties, and to help reduce the transaction costs and legal fees associated with PPP procurement.
- 5.53** According to the counsel who were involved in the early discussions of the Project with the contractor, the legal structure that was developed by the contractor and its counsel were presented to the BIDC and its attorneys for their review, shortly after the contract awarded. That same document listed all of the relevant legal documents which were to be executed at financial closing. These included the Implementation Agreement ("IA"), the Facility Agreement ("Loan"), Deed of Charge/ Mortgage, the Lease Transfer Agreement ("Lease") and the Deed of Agreement ("Deed").



**5.54** The Implementation Agreement is a tripartite agreement between the BIDC, the Project Company, and the contractor. Such agreements are normally intended to outline the rights and obligations of the key parties with respect to the project. In this Project, the BIDC is liable for the repayment of the loan from the Loan Agency. Under Section 8, BIDC committed itself to repaying the loan if there is any event of default under the Design Build Contract or the Facility Agreement. In addition, BIDC's obligations are counter guaranteed by the Government of Barbados under the Comfort Letter, dated 14<sup>th</sup> January 2003. The Implementation Agreement thus represents a guarantee of the financing, and thereby removes all repayment risk from the contractor and the Project Company to the statutory corporation, BIDC and the Government. The Implementation Agreement also allowed the lender to insulate the loans from any underlying project risk arising either from the construction or operation of the Project.

**5.55** The Loan was entered into by the Loan Agency, the Project Company and BNB Finance and Trust Corp. Although the agreement was clearly a standard financing agreement applied by the lender bank, it contains few of the features which are used for project financing. This may be because, as noted in the discussion on the Implementation Agreement, the lender was not bearing project risks. Its repayment obligations are fully secured and guaranteed by the Government. In addition, it has been granted collateral in the form of mortgages on the property of the Project Company, and a performance bond from the contractor equal to 10% of the Contract sum. Under these circumstances, the Loan Agency is not assigned any specific role in monitoring execution of the project or the Design Build Contract with the Contractor. The latter role was assigned to the consulting engineers, acting as agent for BIDC. This was also consistent with the original Term Sheet from the contractor and the Loan Agency which was presented to BIDC in 1999.

#### **Lease Between BIDC and its Subsidiary**

**5.56** The legal structure deployed in the Project was consistent with the objectives outlined by the BIDC in its original presentations to Cabinet. However, it is difficult to understand why it was necessary to use a lease between BIDC and its subsidiary NBPPCL to repay the loan. Typically when a Build Lease Operate

(BLT) structure is applied in project financing, the objective is to provide the lessee with certain tax advantages under a capital lease which allow the private party to use the depreciation allowance, and thereby improve its overall return on its investment.<sup>5</sup> However, in this case, the private contractor plays no role in the financing and therefore would not derive any advantage from repaying the loans through a lease payment. Lawyers for the BIDD who participated in the negotiations were unable to explain the legal justification for this structure. They stated that it was recommended by the contractor and the lender, who had developed all of the legal documents for BIDD's review.

## **Security**

**5.57** The Loan was structured as a secured loan with the security consisting of the following key elements:

- Assignment of the lease payment from BIDD to the Loan Agency which would become operative following completion of the construction (ref to Loan Agreement);
- A Performance Bond equal to 10% of the Contract Amount in favor of BIDD, and assigned to the Trustee Bank;
- Assignment of the contractor's All Risk Insurance policies to the lenders in an amount sufficient to cover "the usual perils", including hurricanes related to the preconstruction period;
- A Letter of Comfort from the Government of Barbados assured the settlement of any shortfalls in the lease payments of BIDD during the life time of the lease;
- Mortgages on land and building issued to the Loan Agency as Mortgagee.

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<sup>5</sup>See Peter Nevitt & Frank Fabozzi, Project Financing (7<sup>th</sup> Edition, Euromoney 2000), Ch 13-14.

**5.58** From the above it appears that in some circumstances, the loans may have been over-guaranteed. Since the BIDD was liable for any default by the contractor under Section 8.3 of the Implementation Agreement, and its obligations were guaranteed under the Comfort Letter issued by the Ministry of Finance, it is difficult to understand the significance of the mortgages in favor of the lenders on the property. It may be that this structure was borrowed from an earlier transaction carried out by the contractor in Trinidad, since its attorneys had worked closely with the Loan Agency in developing the documentation which was used in the Project. Attorneys for BIDD indicated that their role during the negotiation of the legal documentation was limited to reviewing and commenting on the documents presented by the Loan Agency and the contractor.

## **Performance Bond**

**5.59** A performance bond is a surety issued by a financial institution, and guarantees that in the event of a contractor defaulting on a contract, funds are available to assist in the finishing of the Construction Project. For reasons that are still unclear, the bond was allowed to lapse. The importance of this event cannot be understated since, without the performance bond issued by a creditworthy entity, the BIDD and the lenders had no third party guarantees to support project performance up to completion. Moreover, in case of a default by the contractor, BIDD will have to pursue legal remedies against the contractor, which at that time may be declared bankrupt or in receivership. Under those circumstances, the chances of recovery of damages by the BIDD or the Loan Agency is severely limited.

**5.60** Failure to maintain the performance bond constitutes an event of default under the Design Build Contract and the Loan. The Audit Office was not able to review the procedures applied by the Trustee Bank to which the performance bond was assigned. Its contract with the Loan Agency and BIDD did not specify whether the Trustee Bank was expected to take timely action to ensure that the Performance Bond was effective at all times. However, there is no evidence in the written record that any such preemptive actions were taken by any of the parties of the Loan to avert the default. As noted previously, this defect should have been highlighted by the Engineer who was expected to certify that there was no default under the loan facility.

- 5.61** It is recommended that BIDD make sure that in future PPP agreements, it deploys legal instruments which contain monitoring and oversight provisions, to avoid impairing the project security offered by private contractors to mitigate the performance risks assumed by BIDD or statutory corporations. When coupled with earlier observations about monitoring of disbursements, it is easy to see how these shortcomings could prove costly.

## Conclusions and Recommendations

- 5.62** A review of the written record related to the NewtonBusinessPark project and the interviews conducted with many of the people involved in its planning and execution cannot accurately capture the full dimension of the difficulties encountered in planning and executing this innovative facility. It is difficult to assess any complex project being carried out over a seven year period.
- 5.63** BIDD should be credited with trying to develop this project through an innovative procurement strategy, using a fixed price design build contract to comply with a Government directive to minimize the budgetary impact of the financing. However, as noted throughout this report, PPPs are not easily implemented in the absence of in depth feasibility analysis, which would quantify the benefits and costs of this procurement strategy, and compare them with the costs achieved under traditional procurement. Without a serious feasibility analysis, it will be difficult, if not impossible to know whether the PPP procurement will yield positive present value.
- 5.64** In the Project it was observed that few people within the BIDD were familiar with PPPs. The Contractor's proposal was selected because it appeared to offer an opportunity to fast track the construction while keeping the transaction off budget. However, careful review of the contracts has revealed that BIDD was assuming virtually all of the risks, and would be relying on the Fixed Price BuildingContract to protect it against cost overruns and contractor defaults. Under the circumstances, it was therefore critical that an appraisal committee conduct a careful, in depth due diligence on the contractor and its performance record in similar projects. I did not see anything in the record to confirm that such due

diligence was done.

- 5.65** Measures for optimal performance need to be built into the contractual structure to ensure that the private contractor fully complies with its commitments to the Public Sector. In this Design Build contract, reliance was placed on the liquidated damages provisions, the retainages and the performance bond, to compel contractor performance. In many instances these contractual remedies may be sufficient. However, if the contractor is relatively inexperienced in this type of project, is facing financial difficulties and does not have sufficient funds to maintain 100% performance throughout the term of the contract, costly delays can accumulate. Agencies must remain actively involved in monitoring their construction projects even where the contractor is operating under a fixed price contract. This will allow timely efforts to maintain full contractor performance, or its early termination and replacement with another qualified contractor.
- 5.66** Monitoring of this Project rested heavily on the consulting engineers. However, it was observed that the consulting engineers' disbursement certificates were issued with no consideration given to the inability of the Contractor to comply with the scheduled completion date. Also, in light of the report prepared by the reviewing firm, there were serious qualitative shortcomings in the construction works that had been certified for payment. International best practice in project finance assigns to the Independent Engineer considerable power to withhold loan funds from contractors in any situation where the Independent Engineer determines that the contractor is actually or potentially in default of its commitments under the Design Build Contract. The Audit Office concludes that BIDC should strengthen the role of its engineering consultants in the monitoring of its projects in future contracts.
- 5.67** The absence of a valid performance bond was also of some concern. The performance bond of \$1.8 million should have remained in force, and this would have given the BIDC recourse to funds, given the defects discovered on the Project by the reviewing engineers. In addition, 5% of the contract funds should have been retained until a Certificate of Completion was approved. It is inexplicable that all funds could be disbursed while the Project remains uncompleted.
- 5.68** Finally, it was noted that the Loan Agency assumed very limited project risks

under the terms of its Facility Agreement with the Project Company. The Loan Agency was given a Comfort Letter which effectively insulated it from any risks related to the operation and leasing of the facilities. It also had no construction risks since under the terms of the Implementation Agreement it could call the loans if the contractor defaulted on its obligations under the Design Build Contract. The Contractor, it was seen, had assumed the design and construction risks but, in case of bankruptcy, would not be able to cover its liabilities to the Government or BIDD. The absence of a valid performance bond should have been promptly addressed by the Trustee Bank or the consulting engineers.

### **Recommendations**

- 5.69** PPP guidelines should be developed with the assistance of experienced consultants to assist Government ministries and statutory corporations in planning and executing PPP procurement.
- 5.70** PPP projects will initially require the support of experienced advisors and consultants who should be engaged throughout the project cycle.
- 5.71** Government should continue its training programs in PPPs and Project Finance and ensure that key personnel are given opportunities to deepen their understanding of all facets of PPP procurement in the relevant ministries and statutory corporations.
- 5.72** PPPs should only be undertaken where a comprehensive “value for money” analysis has been performed quantifying the likely benefits to be derived under PPP procurement. PPPs should not be chosen solely to achieve short term off budget advantages.
- 5.73** Legal instruments should be developed with the assistance of experienced lawyers to be used in PPP projects. To the extent possible, such contracts should be based on model contracts such as those followed by the UK, South Africa and Australia. These contracts will contain standardized legal

documentation. Government should therefore study the economic and financial benefits and costs involved in using Design Build contracts in Public Sector procurement. In any move towards PPP procurement, the focus should be always on the *value for money* using the latest techniques adapted to small markets.

#### **5.74**

In undertaking PPPs, Government should carefully review and negotiate any financing agreements used in these projects, to ensure that it is not left with unintended repayment obligations to the lenders, when the developer or contractor is in default on underlying project documents such as the construction contract. This can only occur if disbursements are closely monitored as well as any security offered to support the obligations of the contractor/developer. Therefore, as consideration for providing its guarantees to the project lenders, Government should also require the lenders to assist in monitoring the contractor's performance by tying disbursements to the presentation of a project performance certificate.

#### **5.75**

##### ***BIDC's Response***

*The BIDC retained and expected the consultant engineers to supervise the Project in specific accordance with international best practices. Article A7 of the Agreement states that the consultant engineers, is responsible for monitoring the construction for the work required for the erection of new buildings and associated infrastructure.*

*As noted in your Report the consultant engineers failed to provide qualitative opinion or comment on the work. Indeed, the consultant engineer's reports considerably understated the degree of compliance achieved in terms of time or costs.*

*Although the Project certainly has encountered issues, the BIDC is unprepared to conclude that the design-build method, directed by the Government and followed by the BIDC, delayed completion of the Project.*

*The facts demonstrate that it was the Contractor's failure to properly implement its plans on schedule and the consulting engineers failure to supervise and manage the Contractor in accordance with its contractual obligations that prevented the Project from being completed on scheduled.*

*Your Report makes a point about contractual arrangements which allow the Engineer to withhold "Loan Funds" where the contractor is actually or potentially in default relative to completion dates. The (FIDIC) Contract expressly stipulates the contractual provisions for certifying payments, and failure to comply can give rise to breach of contract. British case law supports the importance of cash flows as the life blood of the construction industry and the practice recommended by your Report may be inappropriate for the traditional Standard Forms in use, and certainly did not apply to the( FIDIC Design Build) contract which governed this project.*

## **LIST OF ACRONYMS**

**BIDC** Barbados Industrial Development Corporation

**BLT** Build Lease Transfer

**BOOT** Build, Own, Operate, Transfer

**BOT** Build, Operate, Transfer

**DB** Design Build

**DBFO** Design, Build, Finance and Operate

**EU** European Union

**IA** Implementation Agreement

**IT** Information Technology

**LA** Loan Agreement



**LD** Liquidated Damages

**NBPPCL** Newton Business Park Project Company Ltd.

**PPP** Public Private Partnerships

**RFP** Request for Proposals

## **Appendices**

## **FINANCIAL MANAGEMENT AND AUDIT ACT, 2007-11**

### **PART IV**

#### *The Audit Office*

- 36.** (1) The Auditor-General is the auditor of the financial statements of the Government of Barbados.
- (2) The Auditor-General shall also
- (a) be responsible for the audit and inspection of all public accounts whether such accounts are of general revenue credited to and expenditure met from the Consolidated Fund, special funds or departmental accounts and statutory bodies which receive all or part of their funds from the Consolidated Fund;
  - (b) apply to the public accounts, such an examination as will enable him to ascertain that in his opinion the accounts are kept on a proper system, that they are punctually and properly posted and that checks against irregularity and fraud are adequate and effective;
  - (c) prepare and deliver an audit opinion to the entity whose statements have been audited;
  - (d) satisfy himself that all standing instructions, enactments and other laws of

Barbados relating to finance and accounts are strictly observed; and

- (e) examine and report in accordance with the outcome of his examination the several statements and accounts which are required to be submitted to him under this Act
- (3) The Auditor-General may carry out examinations 'into the economical, efficient and effective use of resources of any Ministry or Department or any other entity required to be audited by him.
- (4) Subsection (3) shall not be construed as entitling the Auditor General to review the meritsof the policy objectives of Government in respect of any Ministry, Department or statutory body.
- 37.** The Auditor-General shall examine the calculations and computations of all pensions and gratuities or similar awards before any award is made and shall certify that they are arithmetically correct and are in accordance with all statutory provisions relating thereto.
- 38.** (1) 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.

(2) Notwithstanding subsection (1), the Auditor-General may at any time, if it appears to him to desirable, transmit to the House of Assembly a special report on any matter incidental to his power and duties under this Act.

(3) The estimates of expenditure of the office of the Auditor-General shall be transmitted to the House of Assembly through the Public Accounts Committee; and the Public accounts Committee shall consider the estimates in accordance with subsection (4).

(4) In considering the estimates. of expenditure under subsection (3), the Public Accounts Committee shall ensure that the estimates of expenditure are adequate to enable the Auditor-General to fulfill the responsibilities of the office of Auditor-General and for this purpose may make comments for the consideration of the Auditor-General who shall consider the comments and, if necessary, revise the estimates of expenditure for resubmission to and the approval of the Public Accounts Committee.

(5) Every report of the Auditor-General<sup>1</sup> shall be addressed to the Speaker of the House of Assembly who shall lay the report before the House of Assembly as soon as possible after the report is received by him.

(6) A copy of every report of the Auditor-General shall also be transmitted to the

Senate far information.

- 39.** (1) For the purpose of } is examination under section 36 the Auditor-General is at all times entitled to
- (a) have access to all books, records, including data held or stored electronically, vouchers, payment requests, documents, returns, cash, stamps, securities, stores or other property in whatever form existing in the possession of the audited body; and every facility shall be given for carrying out the examination;
  - (b) send for and have custody of any books, accounts, vouchers, payment requests, paper: data held or stored electronically or any other information in whatever form existing under the control of the audited body relating to the matter under examination and to keep such books, accounts, vouchers, payment requests or papers for such time as he may require them;
  - (c) call upon any officer for any explanation and information the Auditor-General may require in order to enable him to discharge his duties;
  - (d) require any department concerned to furnish him from time to time or at regular period with accounts of the transactions of such department up to the date as he may specify;
  - (e) without payment of any fee, cause a search to be made in, and extracts to be taken from, any book, document or record in any public office;
  - (f) summon and examine upon oath, declaration or affirmation (which oath, declaration or affirmation the Auditor-General is hereby empowered to administer) all persons whom he thinks fit to examine respecting
    - (i) the receipt or expenditure of money;
    - (ii) the receipt or issue of any stores affected by this Act; and
    - (iii) all other matters and things whatever necessary for the due performance of his functions;

and any person so summoned is upon production of a certificate of the Auditor-General entitled to payment for his attendance in accordance with the provisions of the *Witnesses and Interpreters (Payment) Act* as if he were a witness attending a legal proceeding in obedience to a summons issued at the instance of the Crown; but the Auditor-General may, if he thinks fit in any case, disallow the whole or any part of such payment;

- (g) to require every person employed in the office of the Auditor-General who has to examine the accounts of a department to comply with any security

requirements applicable thereto and to take any oath of secrecy required to be taken by persons employed in that department.

- (2) Any person summoned under paragraph (f) of subsection (1) who without reasonable excuse fails to obey the summons is guilty of an offence and is liable on summary conviction to a fine of \$5 000 or to imprisonment for a term of 12 months.

**40.** (1) The Auditor-General may authorise any officer in the office of the Auditor-General to perform on his behalf any of his functions under this Act or any other Act other than the administering of oaths and the certifying of and reporting on accounts for the House of Assembly.

(2) Where it appears to the Auditor-General that

- (a) any irregularities have occurred in the collection, custody or expenditure of public moneys or in the accounting for the same;
- (b) any irregularities have occurred in the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores, or other property of the Crown or in the accounting for the same;
- (c) any loss of or damage to the property of the Crown has not been duly reported to the Director,

the Auditor-General shall immediately bring the matter to the notice of the accounting officer and where the case is serious, report the circumstances to the Director.

**41.** (1) The Auditor-General shall, if required by

- (a) a resolution of the House of Assembly;
- (b) the Public Accounts Committee of Parliament; or
- (c) the Minister,

examine the accounts of any person or organisation

- (i) who has received moneys by way of grant or loan out of funds voted by Parliament; or
- (ii) in respect of whom Financial aid from the Crown is sought,

and shall submit a report on the results of the examination to the House of Assembly or to the Minister.

- (2) Where the Minister fails within a reasonable time to present the report referred to in subsection (1) to the House of Assembly the Auditor-General shall transmit the report to the Speaker of the House of Assembly to be presented by him to the House of Assembly.
- 42.**
  - (1) The Auditor-General may, subject to approval by the Minister, charge a fee for auditing the accounts of a person or body whose expenditure is not met from the Consolidated Fund.
  - (2) Any fees received by the Auditor-General under subsection (1) shall be credited to the Consolidated Fund.
- 43.**
  - (1) The Auditor-General may engage the services of professionally competent persons to assist in the conduct of audits, and payment for such services shall be charged on the Consolidated Fund.
  - (2) Where under subsection (1) the Auditor-General engages a private auditor to conduct the audit of a Government entity, the auditor of the entity shall make available all working papers and other documents to the Auditor-General.
- 44.** The Audit Office shall consist of the Auditor-General and such other officers and employees as are assigned to him.



## **AUDITOR GENERAL'S OFFICE**

**BARBADOS**



### **REPORT OF THE AUDIT OF THE ACCOUNTS OF THE ACCOUNTANT GENERAL FOR THE FINANCIAL YEAR ENDING 31<sup>ST</sup> MARCH, 2007**

In accordance with Section 26 of the Financial Administration and Audit Act Cap. 5, I have audited the Public Accounts of Barbados for the year ended 31<sup>st</sup> March, 2007. These financial statements are the responsibility of the Accountant General. My responsibility is to express an opinion on these statements based on my audit.

The financial statements included the Receipts and Payments Accounts of the Consolidated Fund; Statements of Assets and Liabilities; Advances and Loans; Public Debt and Sinking Funds; and Special Funds.

The audit has been conducted in accordance with the International Organization of Supreme Audit Institutions (INTOSAI) auditing standards. These standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. Audit procedures include examining, on test basis, evidence supporting the amounts and other disclosures in the accounts and the evaluation of accounting policies used as well as evaluating the overall financial statement presentation.

In my opinion, except for the matters included in my Annual Report to Parliament the statement of accounts properly presents the receipts and payments of the Treasury for the year ended 31<sup>st</sup> March, 2007.

**Leigh E.Trotman**

**Auditor General**

**2008-02-29**

### **Theft and Losses Reported to the Auditor General**

The following reports of missing funds were submitted to the Auditor General during 2007:-



<b>Ministry/Department</b>	<b>Amount Reported Missing/Stolen \$</b>
General Post Office	2,895.11
General Post Office	3,583.42
District 'A' Court	4,620.00
Post Office – St. George	13,100.00
District 'C' Court	65,529.97
<b>Total</b>	<b>89,728.50</b>

	2007 \$	2006 \$
Current Revenue	2,223,366,595	2,142,753,048
Capital Revenue	512,357,509	571,625,685
<b>Total Consolidated Fund Revenue</b>	<b>2,735,724,104</b>	<b>2,714,378,733</b>
Less: Total Expenditure	2,775,016,368	2,525,471,157
<b>Surplus/(Deficit)</b>	<b>(39,292,264)</b>	<b>188,907,576</b>
Annexed Revenue - Post Office	18,665,857	22,184,056
Annexed Expenditure - Post Office	26,382,336	25,742,623
<b>Surplus/(Deficit) on Annexed Estimates</b>	<b>(7,716,479)</b>	<b>(3,558,567)</b>
<b>Surplus/(Deficit) for the Year</b>	<b>(47,008,743)</b>	<b>185,349,009</b>
<b>Accumulated Deficit Brought Forward</b>	<b>(250,537,293)</b>	<b>(435,886,302)</b>
<b>ACCUMULATED DEFICIT CARRIED FORWARD</b>	<b>(297,546,036)</b>	<b>(250,537,293)</b>



Accountant General  
31st July 2007

**SCHEDULE OF ADVANCES AND LOANS**  
As at March 31st 2007

**APPENDIX I**

**SCHEDULE OF ADVANCES**

Other Gov'ts and Administrations Advances	689,840.63
Postmaster General Advances	1,720,011.19
Cash Imprest Accounts	12,872.97
Pension Advances	31,584.38
Pension Advances	2,228,844.19
Queen Elizabeth Hospital	(174.57)
National Housing Corporation	134,562.95
LIAT Advance	10,175,000.00
Caves of Barbados	2,505,973.04
Advance to Statutory Corporations	50,411.15
Central Purchasing Inventory Account	1,062,722.17
	<b>18,611,648.10</b>

**APPENDIX II**

**SCHEDULE OF LOANS**

	<b>\$</b>
Barbados Tourism Investment Inc.	184,300,000.00
Caribbean Broadcasting Corporation	20,609,446.00
Fund Access - Bed and Breakfast	5,000,000.00
Enterprise Growth Fund Ltd. - Small Business	30,000,000.00
Hotels and Resorts	145,328,264.23
P.O.L.T.A Insurance Loans	3,225.71
Public Officers Loans and Travelling Allowances	12,038,576.20
<b>TOTAL</b>	<b>397,279,512.14</b>

**SCHEDULE OF FUND INVESTMENTS  
For Year Ended March 31st 2007**

**APPENDIX IV**

<b>SCHEDULE OF TRUST FUND INVESTMENTS</b>	<b>\$</b>
Barbados National Oil Company Investment	13,877.09
Trust Fund Investments	995,012.66
Attorney General Trust	1,160,932.01
<b>TOTAL</b>	<b>2,169,821.76</b>

**APPENDIX V**

<b>SCHEDULE OF SPECIAL FUND INVESTMENTS</b>	<b>\$</b>
C'bean Court of Justice Investment	27,000,000.00
Public Employee Fund	1,955,342.91
Sugar Industry Scholarship Invest.	330,765.04
Sugar Levy - Bds. Workers Union Loa	500,000.00
Sugar Industry Research & Dev. - BN	3,852,881.98
<b>TOTAL</b>	<b>33,638,989.93</b>

**ANNUAL ABSTRACT ACCOUNT OF RECEIPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECEIPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2007**

	\$
<b>CONSOLIDATED FUND</b>	
<b>Current Revenue</b>	
Taxes on Income and Profits	804,728,601
Taxes on Property	151,233,497
Taxes on Goods and Services	939,341,076
Taxes on International Trade	173,847,865
Other Taxes	26,877,146
Non-Tax Revenue	65,851,822
Special receipts	59,287,112
Loans and Advances	2,199,476
<b>TOTAL CURRENT REVENUE</b>	<b>2,223,366,595</b>
Post Office	18,665,857
<b>TOTAL CURRENT AND ANNEXED REVENUE</b>	<b><u>2,242,032,452</u></b>

**ANNUAL ABSTRACT ACCOUNT OF RECEIPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECEIPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2007**

	<b>BDS\$</b>
<b>Capital Revenue</b>	
<b>LOCAL LOANS</b>	<b>354,693,812</b>
Debentures	340,242,900
Barbados Government Savings Bonds	13,507,612
Tax Refund Certificates	943,300
Tax Reserve Certificates	-
Barbados Treasury Notes	-
<b>FOREIGN LOANS</b>	
<b>INTER-AMERICAN DEVELOPMENT BANK</b>	<b>4,639,269</b>
Justice Improvement Project	256,998
Educational Sector Enhancement Programme 1154/OC-BA	3,867,162
Coastal Infrastructure Programme	75,109
Modernisation of Customs, Excise & Vat	440,000
<b>CARIBBEAN DEVELOPMENT BANK</b>	<b>7,450,332</b>
Educational Sector Enhancement Programme	4,589,323
Secondary Education Project	5,034
Urban Rehabilitation Project 16OR/BAR	2,855,975
<b>WORLD BANK (IBRD)</b>	<b>7,323,321</b>
HIV/Aids Prevention & Control Project	7,323,321
<b>Total Loans</b>	<b>374,106,734</b>
<b>OTHER LOANS</b>	<b>4,011,081</b>
BNS - Royal Barbados Police Force	4,011,081
<b>N.S.G</b>	<b>1,542</b>
MPT Vehicles and Equipment	1,542
<b>FOREIGN DEBENTURES</b>	<b>131,856,942</b>
Deutsche Bank 6.625% Notes 2035	131,856,942
<b>CAPITAL GRANTS</b>	<b>2,381,210</b>
Health Services Rationalization Programme	2,381,210
<b>Total Capital Revenue</b>	<b>512,357,509</b>
<b>TOTAL CONSOLIDATED FUND REVENUE</b>	<b>2,754,389,961</b>

**ANNUAL ABSTRACT ACCOUNT OF RECEIPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECEIPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2007**

<b>Balance Brought Forward</b>	<b>\$</b>	<b>\$</b>
		<b>2,754,389,961</b>
<b>OTHER RECEIPTS</b>		
Advances	52,100,757	
Deposits	389,673,352	
Loans	17,778,684	
Treasury Bills	1,757,906,798	
Temporary Borrowings	1,468,052,734	
Special Funds	123,705,841	
Trust Fund	5,388,351	
Trust Fund Investments	455,321	
Special Fund Investments	-	
Suspense	102,095,441	
<b>Total Other Receipts</b>		<b>3,917,157,279</b>
<b>TOTAL CONSOLIDATED FUND AND OTHER RECEIPTS</b>		<b>6,671,547,240</b>

**ANNUAL ABSTRACT ACCOUNT OF RECEIPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECEIPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2007**

	\$	\$
<b>CONSOLIDATED FUND</b>		
<b>CURRENT EXPENDITURE</b>		
10:Governor General	1,445,069	
12:Parliament	7,809,999	
13:Prime Minister's Office	95,892,581	
14:Ministry of Finance	985,732,455	
15:Cabinet Office	14,628,681	
17:Ombudsman	552,906	
18:Audit	2,494,126	
20:Ministry of Commerce, Consumer Affairs and Business Development	8,587,428	
23:Ministry of Health	326,271,764	
24:Ministry of Social Transformation	53,871,259	
25:Ministry of Agriculture & Rural Development	44,454,372	
27:Ministry of Tourism and International Transport	79,641,336	
28:Ministry of Home Affairs	40,512,589	
29:Office of the Director of Public Prosecutions	1,017,324	
30:Attorney General	120,373,894	
32:Ministry of Foreign Affairs and Foreign Trade	40,710,595	
37:Ministry of Public Works and Transport	114,039,372	
38:Ministry of Housing and Lands	42,373,631	
43:Ministry of Education, Youth Affairs & Sports	439,031,411	
47:Ministry of Economic Affairs and Development	33,008,874	
49:Ministry of Energy and the Environment	36,418,044	
51:Ministry of Labour and Civil Service	29,155,284	
	<b>2,518,022,994</b>	
50:Post Office	25,381,229	
<b>Balance carried forward</b>		<b>2,543,404,223</b>



<b>Balance Brought Forward</b>	<b>\$</b>	<b>\$</b>
		2,543,404,223
<b>CAPITAL EXPENDITURE</b>		
10:Governor General	17,609	
13:Prime Minister's Office	19,364,999	
14:Ministry of Finance	10,813,159	
15:Cabinet Office	814,140	
17:Ombudsman	11,550	
18:Audit	14,864	
20:Ministry of Commerce, Consumer Affairs and Business Development	4,126,949	
23:Ministry of Health	32,961,546	
24:Ministry of Social Transformation	11,439,336	
25:Ministry of Agriculture & Rural Development	16,988,836	
27:Ministry of Tourism and International Transport	9,442,402	
28:Ministry of Home Affairs	6,239,635	
29:Office of the Director of Public Prosecutions	19,129	
30:Attorney General	20,037,702	
32:Ministry of Foreign Affairs and Foreign Trade	941,812	
37:Ministry of Public Works and Transport	33,404,189	
38:Ministry of Housing and Lands	10,059,349	
43:Ministry of Education, Youth Affairs & Sports	36,929,856	
47:Ministry of Economic Affairs and Development	22,654,122	
49:Ministry of Energy and the Environment	16,049,547	
51:Ministry of Labour and Civil Service	4,662,644	
	<u>256,993,375</u>	
50:Post Office	1,001,107	
<b>Total Capital Expenditure</b>		<b>257,994,482</b>
<b>TOTAL CONSOLIDATED FUND PAYMENTS</b>		<b>2,801,398,705</b>
<b>OTHER PAYMENTS</b>		
Advances	50,954,802	
Deposits	419,796,674	
Loans	120,859,006	
Treasury Bills	1,813,750,753	
Central Bank- Temporary Borrowings	1,401,652,734	
Special Funds	78,843,214	
Trust Funds	4,860,544	
Trust Fund Investments	487,376	
Special Fund Investments	763,951	
Suspense	97,035,809	
<b>Total Other Payments</b>		<b>3,989,004,863</b>
<b>TOTAL CONSOLIDATED FUND AND OTHER PAYMENTS</b>		<b>6,790,403,568</b>
<b>Increase (Decrease) in Cash</b>		<b>(118,856,328)</b>

		\$	\$
<b>Change in cash balance represented by:</b>			
	<b>Opening Cash Balance</b>		<b>82,690,980</b>
Cash on Hand Treasury	842,375	6,660,640	
Cash on Hand Other Departments	1,477		
Bank Accounts Current	3,298,035		
Overseas Missions	2,518,753		
<b>Special Deposits</b>			
Central Bank			
IADB - Multi-Sectoral Pre-Investment Programme	1,651,925		
Coastal Infrastructure Programme	1,700,000		
Accountant General's Special Deposit Account	66,044,019		
IADB Education Sector Enhancement Programme	3,867,162		
Bridgetown Roads and Safety Improvement	3,263,107		
Justice Improvement Project 1332	844,780		
UNEP-GEP Biosafety Project	106,000		
Barbados Health Sector Programme	2,381,210		
Modernisation of Customs Project	440,000		
European Commission Fund	14,500		
	<hr/>	80,312,703	
Crown Agents General Account	197,814	197,814	
BNB - Public Enterprise Investment Fund	20,721		
BNB - Social Investment Fund	2,244,225	2,264,946	
<b>Outstanding Payments</b>			
Paymaster		(122,908,405)	
Pension Payments		(2,693,046)	
	<b>Ending Cash Balance</b>		<b>(36,165,348)</b>
	<b>Change In Cash Balance</b>		<b>(118,856,328)</b>



Accountant General  
31st July 2007

## **Notes to the Financial Statements**

**March 31st 2007**

### **1. General**

The financial statements of the Treasury consist of the following:-

- Annual Abstract Account of receipts and payments of the Consolidated Fund and of other receipts and payments;
- A detailed statement of revenue actually paid into the Consolidated Fund as compared with the estimates of revenue;
- A detailed statement of capital expenditure;
- A statement of the current assets and liabilities of the Crown at the end of the financial year;
- A statement of public debt and sinking funds;
- A statement of special funds.

### **2. Accounts**

- (i) The revenue and expenditure accounts of the Treasury are kept on a cash basis. Transactions are recorded only when moneys are received or paid. As a consequence, amounts due to or owed

by the Treasury are not shown in the Financial Statements but are kept in records in Ministries and Departments.

- (ii) Assets such as buildings, motor vehicles, furniture and fittings, plant and equipment are not recorded as assets.
  
- (iii) The statements are in Barbados (BDS) dollars.

### **3. Accounting Entity**

The Financial Statements comprise the accounts of Ministries and Departments of Government. They do not include the accounts of Statutory Corporations, Boards and Government Owned Companies.

### **4. Financial Year**

The Financial year in respect of which the Financial Statements are prepared covers the period 1<sup>st</sup> April, 2006 to 31<sup>st</sup> March, 2007.

### **5. Contingent Liabilities**

The contingent liabilities in respect of loans guaranteed by the government of Barbados at 31<sup>st</sup> March, 2007 amounted to \$869,481,774.00.

### **6. Balance Sheet**

Schedules in respect of the Statement of Assets and Liabilities can be found at Appendix 5.

### **7. Advances**

Advances include funds advanced to state agencies for pension and cash imprests and other advances made on behalf of other governments and administrations.

**8. Loans**

There are a number of loans made to government owned corporations. The loan schedule also includes vehicle loans made to public officers.

**9. Trust Fund Investments**

The trust fund investments are funds held in trust by the Treasury for individuals and organizations. These investments totaled \$2,169,821.76 at 31<sup>st</sup> March 2007.

**10. Schedule of Special Fund Investment**

These are a number of special funds established by various Acts and administrated by the Accountant General. At 31<sup>st</sup> March 2007, the balance on these investments was \$33,638,989.93.

**11. Deposits**

Deposits consist of funds paid into the Treasury by state agencies and associations in respect of activities not directly related to the Consolidated Fund. The balance on these deposits totaled \$37,926,457.90 at 31<sup>st</sup> March, 2007.

**12. Public Debt and Sinking Fund**

- a. Net proceeds of foreign currency loans at March 31, 2007 showed differences from amounts at March 31, 2006 as a result of revaluation of the loan portfolio at March 31, 2007.
- b. The nominal value of loans issued in foreign currency is converted to Barbados dollars at the prevailing rate on the day the agreement was signed.
- c. Information with respect to net proceeds for these debt instruments has not been submitted to the Treasury to effect complete recording of these transactions.
- d. Differences exist between some of the balances shown in the Loans Ledger and the statements submitted by the loans agencies. These differences reflect the foreign exchange rates used in recording the transactions.
- e. The drawdowns have been shown at historic value.

### **Statement of Revenue Remitted**

Section 11(2) of the F.A.A. Act, Cap. 5 reads as follows: -

*"Subject to this Act, and to any other enactment, no sums due to the Crown by way of revenue, and no other public moneys may be remitted except:-*

- (a) in the case of sums not exceeding \$5,000 under the authority of the Minister; and*

(b) *in the case of sums exceeding \$5,000 under the authority of Cabinet, and a statement of all amounts so remitted shall be submitted by the Auditor General to the House of Assembly, in accordance with Section 28."*

A Statement of Sums Waived during the financial year ended 31<sup>st</sup> March, 2007 was submitted by the Ministry of Finance. The Statement comprises a waiver of levies, taxes, duties, and penalties. It was however not possible for the Audit Office to verify this Statement, which follows: -

<b>Department</b>	<b>Tax</b>	<b>Amount</b>
		<b>\$</b>
Land Tax	Penalty	9,132.34
	Interest	178,797.08
	Relief Granted	334,082.40
Customs		1,433,023,570.92
Registrar of Titles	Property Transfer Tax	917,661.22
Inland Revenue		10,739.90
		1,729,409.11
<b>Total Tax Remitted</b>		<b>1,436,203,392.97</b>





