

*B*arbados Audit *O*ffice



**Report
of the
Auditor General**

for the year

2011

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.



THE BARBADOS AUDIT OFFICE
Weymouth Corporate Centre
Roebuck Street, St. Michael BB11080, Barbados



Tel: (246) 426-2537
Fax: (246) 228-2731

April 25, 2012

His Honour Mr. Michael Carrington, M.P.
Speaker of the House
Parliament Building
BRIDGETOWN

Sir,

In accordance with Section 113 (3) of the Constitution of Barbados and Section 38 (5) of the Financial Management and Audit Act, 2007 - 11, I forward for laying before the House of Assembly my Report of the examination of the accounts of the Ministries and Departments of Government, and of other financial statements and accounts required to be audited by me in respect of the financial year ended March 31, 2011.

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

Table of Contents

Introductory Comments	1
------------------------------------	----------

CHAPTER 1

General Issues	3
-----------------------------	----------

Introduction	3
Contents of this Report.....	4
Public Accounts Committee.....	6
Attendance at Conferences and Workshops.....	6
Payment of Pensions to Officers in Statutory Boards	7

CHAPTER 2

Analysis of Government Financial Statements	9
--	----------

Audit Mandate and Objective.....	9
Methodology.....	10
Government's Financial Statements	10
Presentation of Financial Statements.....	13
Current Assets	15
Non-current Assets	17
Current Liabilities.....	23
Long Term Liabilities	25
Expenditure	28
Graphical Presentation of Government Expenditure and Revenue.....	31

CHAPTER 3

General Audit Concerns and Observations	35
--	-----------

Audit Mandate	35
Audit Purpose and Scope.....	35

General	36
Fixed Assets Register	37
Response to Audit Queries.....	37
Registration Department.....	38
Police Department	39
Barbados Licensing Authority.....	40
Customs and Excise Department	43
Value Added Tax Division	45
National Library Service.....	52
Ministry of Housing and Lands.....	54
Samuel Jackman Prescod Polytechnic.....	57
Land Tax Department	59
Post Office	61
Outstanding Issues from Previous Audit Reports	62

CHAPTER 4

Audit of Statutory Boards, Government Companies and Controlled Entities	70
--	-----------

Audits of Statutory Boards and other Agencies Conducted by the Audit Office	70
Audits Conducted by Private Sector Auditors.....	79
Audit of Secondary Schools.....	91
General Observations	93

Introductory Comments

I am pleased to present my 2011 Annual Report to the House of Assembly. This report provides observations, recommendations and information pertaining to the audits and examinations of Government agencies conducted by my Office during the year. The Report deals with matters pertaining to the 2010/2011 fiscal year.

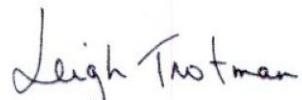
The Auditor General has responsibility for the audit and inspection of all Government accounts. It is not possible to audit all Government programmes in detail each year with the available resources. However, the Office strives to provide reasonable audit coverage on a cyclical basis. In addition to the audit of the public accounts some of the resources are used to conduct special audits where the focus is on the operational efficiency of the agency being examined.

There continues to be some concerns in relation to the presentation of information in the Government financial statements. The main issue is our inability to verify some of the large transactions on the Balance Sheet. This includes Accounts Receivable which is in excess of \$800 million; these numbers presented could not be reconciled with the numbers obtained from the ministries and departments. There were also some issues relating to the valuation of buildings and other Capital Assets which I have reported on for a number of years. These assets were never formally valued; hence the figures provided are crude estimations. This practice is unacceptable and as a result of this and other issues reported in Chapter 2 in this report, I am again unable to express an opinion as to whether these financial statements are presented fairly in accordance with the International Public Sector Accounting Standards.

The audit of a number of ministries and departments revealed a generally satisfactory state of affairs with low levels of breaches of the financial rules and regulations. I might add a bit of caution here, since the auditors only examined a sample of transactions, and it is quite possible that loss due to wastage or misappropriation could have gone undetected. The audits were however planned in such a manner to reasonably identify breaches of the financial rules and regulations.

A number of special audits were conducted during the year. These audits focus on specific operational issues of the audit entity. A number of these audits were requested by Permanent Secretaries and Heads of Departments. As a result of these audits, recommendations were provided to management to address the issues highlighted. It is however up to management to select the most appropriate course of action to deal with the issues identified. The review of one the agencies, the Barbados Water Authority, will be issued as a Special Report.

I wish to acknowledge the efforts of my staff who deserve the credit for the work reported here. I also wish to acknowledge the cooperation and courtesy received by my staff from officers in ministries, departments and other Government agencies audited during the course of the year.



**Leigh E. Trotman, CMA
Auditor General**

April 25, 2012

CHAPTER 1

General Issues

Introduction

This Annual report of the Auditor General to the House of Assembly for the year 2011 is issued in accordance with Section 38 (1) of the Financial Management and Audit Act, 2007-11 which states that:

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

- 1.2 For a number of years the Report has been submitted late to Parliament. This has mainly been as a result of inadequate levels of staffing and in some instances a slow response to requests for information from ministries and departments, as well as operational inefficiencies in the Office.
- 1.3 The 1998 Constitutional Review Committee recommended that the Auditor General be given delegated responsibility to recruit his own staff, and unless this action is taken, the Office will continue to find it increasingly difficult to recruit and train staff on a timely basis. There seems to be an absence of will by the relevant authorities to change the status quo. Each year the Office is provided with the resources to pay staff, however the lengthy recruitment process negates our Office's ability to have vacancies filled in a timely manner. This will impact on the quality and timeliness of the submission of the report.
- 1.4 The Auditor General is responsible to the House of Assembly for providing independent and objective assessments of the operations of the agencies

of Government. The Financial Management and Audit Act, as well as Section 113 of the Constitution of Barbados establish the Auditor General's mandate, responsibilities and powers.

- 1.5 The Constitution provides the Office with a modern performance audit mandate. Section 113 (2A) of the Constitution stipulates the following:-

"The Auditor General may on his own initiative carry out examinations into the financial management of ministries, departments, statutory authorities and Government-controlled entities, including the manner in which those ministries, departments, statutory authorities and Government-controlled entities use their resources in discharging their functions as regards the efficiency and effectiveness of the use of these resources."

- 1.6 The Constitution provides the Office with a mandate to audit all agencies of Government and it provides the Auditor General with the authority to require audited bodies to provide any documents needed in the performance of his duties.
- 1.7 The Audit Office is guided by, and complies with the professional standards established by the International Organization of Supreme Audit Institutions (INTOSAI). This is the umbrella organisation for public sector audit institution in countries that belong to the United Nations.

Contents of this Report

- 1.8 This report summarises the more important observations arising from the various audits conducted during 2011. More detailed information is communicated to the Permanent Secretaries and Heads of Departments by way of reports and other memoranda. Where appropriate, the

comments and reaction of these officers to my findings and recommendations are included in this report.

- 1.9** In addition to this Chapter, the Report contains three (3) other chapters as follows:-

In Chapter 2, I present my observations on Government's Financial Statements for the financial year ended March 31, 2011. I was unable to express an opinion as to whether the financial statements present fairly, in all material respects, the financial position and results of operations in accordance with the International Public Sector Accounting Standards.

The absence of supporting schedules did not allow for confirmation of certain amounts presented in the financial statements. Having reliable financial information is critical in understanding the current financial situation, for budgeting and long-term planning. The Treasury needs to improve the quality of information presented in its annual report. There also needs to be adequate supporting documentation in respect of the amounts presented in the financial statements.

Chapter 3 highlights one of my statutory responsibilities which is to give an opinion on whether the accounts of ministries and departments are kept on a proper system, that the accounts are punctually and properly posted and that checks against irregularity and fraud are adequate and effective.

Chapter 4 provides a report on the audit of statutory boards and agencies which currently do not make up a part of central Government's financial reporting. Some of these entities are audited by auditors in the private sector. The audits of a number of these boards are in arrears and this has been so for many years. Late financial reporting is contrary to legislated requirements,

precludes effective management control and creates an environment which is conducive to misappropriation and fraud. More stringent measures should be taken to ensure that the audits of these entities are brought up-to-date.

Public Accounts Committee

1.10 The purpose of this report is to assist Parliament in carrying out its responsibility to hold Government's agencies accountable for the management of public resources. It is the duty of the Public Accounts Committee to review this Report and report to both Houses of Parliament on any matters arising. The Committee can call on accounting officers and Heads of Departments for explanations and make recommendations on corrective measures. The Public Accounts Committee met during the year to review the annual budget and work plan of the Audit Office and to discuss procedural matters relevant to its operations. The Committee has not however reviewed any of the annual or special reports of the Auditor General over the past four (4) years.

Attendance at Conferences and Workshops

1.11 During 2011 personnel from the Office participated in a number of local and regional workshops. The primary aim of these workshops is to provide training to staff in modern audit techniques and to increase their knowledge on auditing and management matters. The workshops and conferences attended were as follows:-

- Senior Auditor, Ms. Pamela Humphrey attended an Auditing Workshop in Costa Rica during the period January 31 - February 11, 2011. This workshop which looked at the environmental

auditing in Government was sponsored by the Canadian Comprehensive Audit Foundation (CCAF) of Canada.

- The Auditor General's Office hosted a regional workshop on Internal Auditing during the period June 12 - 16, 2011. This workshop was sponsored by the Commonwealth Secretariat. The workshop facilitated discussion amongst delegates from the region on current trends in public sector internal auditing. There were a number of local and regional initiatives aimed at improving internal auditing which were agreed upon.
- The Barbados Audit Office in collaboration with the Commonwealth Secretariat hosted a Brainstorming Workshop during the period April 18 – 19, 2011. The focus of the workshop was to explore areas of collaboration between the internal auditors deployed in departments and the Office of the Auditor General.

Payment of Pensions to Officers in Statutory Boards

- 1.12** Employees of Statutory Boards are entitled to receive a pension after being employed for ten (10) or more years. However, in accordance with Section 32 A (1) of the Statutory Boards Pensions Act, Cap. 384, persons who were employed with Boards after September 1975 and are entitled to receive a pension shall have that pension reduced by the amount of pension payable by the National Insurance Office when this latter pension becomes due. It should be noted that those persons who were employed with the Boards prior to September 1975 would be entitled to a pension from the Board and the National Insurance Office without any reduction.
- 1.13** Our investigations revealed that the Statutory Boards have not been reducing the pensions of its former employees as required by the Law.

This has resulted in these retirees receiving payments to which they are not entitled.

- 1.14** A check with the Boards with the largest number of employees who retired, the National Conservation Commission, National Assistance Board and the Barbados Industrial Development Corporation revealed that there is some uncertainty on how to proceed with this matter. Some Boards indicated that they were waiting on ministerial directions before proceeding with the matter. In many instances, persons would have been paid excess pensions for several years.
- 1.15** This situation has arisen because the Boards failed to take appropriate action to reduce their pensions when the National Insurance pensions became due. On each pension file that is certified by the Audit Office, the Boards are informed that Section 32A (1) of the Statutory Boards (Pensions) Act, Cap. 384 should not be overlooked when pensions are being paid.
- 1.16** The result of this debacle is that there are scores of persons who have been paid pensions by the National Insurance Department and their Boards, including part of which they were not entitled to. There is some hesitancy in these agencies in addressing this matter which needs to be urgently resolved.

CHAPTER 2

Analysis of Government Financial Statements

The financial statements prepared by the Accountant General were submitted to the Barbados Audit Office in accordance with Section 22 (2) of the Financial Management and Audit (FMA) Act, 2007-11. This Act requires the Accountant General 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 March 31, 2011 were received in July 2011 and this was within the stipulated period.

Audit Mandate and Objective

- 2.2 In accordance with the provisions of Part IV, Section 36, of the Financial Management and Audit Act (FMAA), 2007-11, an audit was conducted by the Barbados Audit Office on the accounts of the Government of Barbados for the financial year ended March 31, 2011.
- 2.3 The objective of the audit was to express an opinion as to whether the financial statements presented by the Accountant General gave a true and fair view, in all material aspects, of the financial position of the Government of Barbados, that appropriate internal control systems exist and were adhered to, and that the financial statements were in accordance with International Public Sector Accounting Standards (IPSAS) to which Government adheres.

Methodology

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

Government's Financial Statements

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

Financial Measures

2.6 Some of the common terms used in the financial statements are as follows:

- Consolidated Fund Surplus or Deficit is the difference between Government's revenue and expenses. For the year ended March 31, 2011 there was a deficit of \$682 million.
- Financial Assets are cash and other assets which could provide resources to pay liabilities or finance future operations. The total Financial Assets at March 31, 2011 was \$1.1 billion.

- Net Debt is equal to the difference between the Government's total liabilities and its financial assets. The Net Debt was \$6.3 billion at March 31, 2011.
- 2.7** Barbados like most developing countries has accumulated long-term debt steadily over the years. This debt is increased whenever Government spends more than it receives in revenues and therefore borrows to finance its spending. It should be noted that borrowing is required to finance certain large capital projects which would not be affordable from current revenues.
- 2.8** During the financial year 2010/2011 there was a significant disparity between the revenue received for operating activities and payments. Approximately \$2.3 billion in receipts were received while payments totaled \$2.997 billion, a shortfall of \$682 million. This shortfall was covered with the proceeds from borrowings.
- 2.9** As Government debt accumulates, interest on that debt consumes a large part of its revenues. At present about a fifth (20.6%) of revenue collected or approximately \$500 million annually is needed to pay interest on loans. This has increased from 15.25% from the financial year 2007/2008. Therefore as interest cost increases, Government becomes constrained in its ability to provide future services unless there is growth in the economy.
- 2.10** A large accumulation of debt will also ensure that Government becomes vulnerable to fluctuations in interest rates. The local rates are currently low, but could rise in the future. I am sure that Government is aware of the risk associated with large debts and will consider appropriate strategies to reduce or contain the ratio of interest payments to total revenue.

Revenue

- 2.11** The total revenue reported for the year was \$2.41 billion and this was \$120 million less than the \$2.53 billion of the previous year. The major areas where revenue declined were Income and Profits \$55 million; Levies and Fines \$15 million; Investment Income \$35 million; and Other Income \$105 million. It should be noted that in the previous year Non-Tax Revenue was reported to have grown by \$131 million, however this change was as a result of the reclassification of an accounting estimate.
- 2.12** Revenue items showing increases during the year included Goods and Services \$90 million and Special Receipts \$16 million. Overall, revenue for the past five (5) years averaged \$2.5 billion.

Expenditure

- 2.13** The total expenditure was \$3 billion and this was \$80 million more than the previous year. Major increases of \$50 million for Subsidies and \$65 million for Debt Service were reported. There were decreases in Goods and Services by \$36 million and Grants by \$35 million.

Current Assets

- 2.14** There continues to be challenges with reconciling bank statements at the Treasury. There were large unresolved differences on these statements. As I indicated in a previous report, the absence of bank reconciliations could lead to errors or fraud going undetected.

Presentation of Financial Statements

Contingent Liabilities

2.15 Contingent liabilities indicated the possibility of additional debt to the Crown if the borrowing agencies are unable to meet their commitments when they fall due. These contingent liabilities which were reported at \$1.4 billion should be disclosed in the notes to the financial statements.

2.16 The contingent liabilities schedule for 2010/2011 contained errors which resulted in this schedule being overstated by \$13,104,919.64 as at March 31, 2011. Details are listed below:-

(i) Barbados Water Authority

A Letter of Comfort was granted to Barbados Water Authority for \$14,500,000.00 from Citicorp Merchant Bank. This amount was recorded as a contingent liability, however as at March 31, 2011 these funds were not disbursed. Hence contingent liabilities were overstated in this regard by \$14,500,000.

(ii) Barbados Tourism Investment Inc. (BTII)

The contingent liability balance of \$1,395,080.36, confirmed by the BTII, was not included in the Statement of Contingent Liabilities schedule as at March 31, 2011. Hence contingent liabilities were understated in this regard by \$1,395,080.36.

Accountant General's Response

The errors identified in relation to Barbados Water Authority and Barbados Tourism Investment Inc. have been acknowledged. Information on the Government of Barbados' contingent liabilities is submitted to the Ministry of Finance by the respective state owned entities. The information is then

forwarded to the Treasury Department. This issue highlights the need for better communication among the parties involved.

Statement of Changes in the Net Assets/Equity

- 2.17** IPSAS 1 Section 118 and 119 requires that items recognized directly in the Net Assets/Equity section of the financial statement should be adequately disclosed on the face of the statement or in the notes separately disclosing each change. However, an amount of \$27,836,717 was recorded in the Statement of changes in the Net Assets/Equity but the details of such were not disclosed as required.

Public Enterprise Investment Fund (PEIF)

- 2.18** The Public Enterprise Investment Fund (PEIF) was established by legislation to receive revenue representing the proceeds from the disposal of an enterprise or shares or any other interests in an enterprise owned by Government, and to apply such resources to finance the repayment of public debt, rehabilitation of enterprises in the public sector and specific investment projects.
- 2.19** On November 10, 2010 the PEIF Act was repealed as per the Financial Administration (Public Enterprise Investment Fund) (Repeal) Act, 2010-19. All the resources of the PEIF should have been transferred to the Consolidated Fund. This Fund held assets of over \$300 million.
- 2.20** As at March 31, 2011 the balance in the PEIF bank account was transferred to the Treasury account. However, the other relevant assets of the fund were not transferred to the Consolidated Fund as was required. This result in the assets reported in the financial statements being understated.

- 2.21** The Public Enterprise Investment Fund financial statements as at March 31, 2010 and the final statement as at November 9, 2010 were not presented for audit examination.
- 2.22** The requirements of the Financial Administration PEIF Repeal Act, 2010-19 were therefore not fully complied with.

Current Assets

Accounts Receivable

Value Added Tax

- 2.23** Receivables reported as per the Value Added Tax (VAT) Division was \$302,262,481. However, management of the VAT Division has indicated that it was not possible to determine the exact receivables balances at March 31, 2011 due to the implementation of the new IT programme. Therefore figures presented as receivables for the VAT Office could not be verified.

Inland Revenue Department

- 2.24** Receivables reported in the Financial Statements in respect of Inland Revenue Department (IRD) for March 31, 2011 was \$252,085,121.11. However this Department indicated that information from the new IRD electronic system was unreliable. Therefore figures presented as IRD receivables could not be verified.

2.25 It is recommended that:-

- These Departments need to update their information systems so that reliable information can be presented in the financial statements.

Accountant General's Response

Revenue agencies have their individual accounting/reporting systems. The Treasury depends on information from these agencies which is fed into SmartStream by way of adjustment vouchers submitted by these departments.

Inventories

2.26 Inventories shown in the financial statements as \$929,437.93 related to those items held at the Central Purchasing Department (CPD). Inventories held at other ministries or departments, for example the Drug Service, the Ministry of Agriculture and the Ministry of Public Works and Transport, were treated as expenses in the years when they were incurred.

2.27 These inventories are, in some cases, of high value and are utilized over more than one financial year.

2.28 It is recommended that:-

- The expensing of inventories at other ministries and departments be revisited and outstanding balances at the end of the financial year reported in the financial statements.

Accountant General's Response

It is agreed that the policy relating to high-value inventories which are being utilised over more than one financial year, should be revisited.

Non-current Assets

Sinking Funds

- 2.29** Sinking Funds are investments set aside to assist with the repayment of loans and are managed by the Central Bank. The financial statements reported Sinking Fund investments at \$661,016,108.
- 2.30** Issues relating to the Sinking funds were as follows:-
- (i) The opening balance of \$640,829,331.97 could not be verified in the accounting records. Thus casting doubts on the reconciliation statements.
 - (ii) It was noted that there were adjustments which resulted in an agreement of the ledger and the Central Bank totals. The origin of some of these adjustments could not be determined. Examples include amounts of \$9,987,215.29 credited to foreign sinking funds, \$14,965,391.29 debited to local sinking funds, and \$271,823.03 debited to the newly opened sinking fund cash account.
 - (iii) Sinking fund investments were made on behalf of the BTII and QEII in amounts of \$2,250,000 and \$3,000,000 respectively. However, the interests on these investments were not brought to account.

Accountant General's Response

The comments relating to sinking funds have been acknowledged. The issues will be investigated and the necessary corrections will be made.

Loans to Agencies

Barbados Tourism Investment Inc. (BTII)

- 2.31 The loan outstanding for BTII was reported by the Treasury as \$235 million and accrued interest as \$23,437,155 at the April 1, 2010. It should however be noted that accounts receivable for this loan was reported in the Government's 2011 Financial Statements at \$141,500,000 with accrued interest at \$19,351,206. The receivable and the accrued interest were therefore reduced by \$97,885,949.83 from the previous financial year. No repayments were received from the BTII during the 2010/2011 financial year.
- 2.32 The details to this reduction of the BTII receivable were not included in the Treasury's records. In the absence of the relevant supporting documentation, the totals shown in the financial statements could not be verified.
- 2.33 In my previous report, I indicated that there was no loan agreement in place between the BTII and the Government in respect of a sum of \$235 million as required by the Financial Management and Audit Act, 2007-11. Section D (31) of the Act sets out the rules applicable to advances to Government agencies. It states:

"Loans which are given by the Government enterprises shall be secured by way of a loan agreement or debenture mortgage depending on the circumstances of the loan, the terms of which are to be agreed by the Cabinet."

- 2.34 The absence of a loan agreement meant that these advances were in violation of the Act.

Accountant General's Response

The comments relating to Barbados Tourism Investment Inc. (BTII) have been acknowledged.

Hotels & Resorts Ltd

- 2.35 The current loans to Hotels & Resorts Ltd were reflected in the ledger and in the financial statements as \$107,723,938. However, an interest-free loan of \$14,496,325.61 received from the Public Enterprise Investment Fund (PEIF) was not reflected in the accounts at year end. This understated the amount owing to the Government from Hotels and Resorts Limited by \$14,496,325.61 in the financial statements.

Accountant General's Response

The matter of the interest-free loan from the PEIF to Hotels and Resorts Ltd. will be addressed in the investigation of the assets held by the PEIF.

Other Capital Assets

- 2.36 'Other Capital Assets' which were recorded at \$1,545,777,916 in the financial statements, net of depreciation, consist of buildings, equipment, vehicles, furniture and fittings, computer equipment, air-conditioning units and other assets with values over \$3,000.

- 2.37** The accounting policies disclosed in the notes to the Financial Statements stated that revaluations were to be based on the fair value of the asset, and that classes of property, plant and equipment are to be revalued at least every three (3) years. However, assets in this category were not revalued during the financial year, in accordance with this policy.
- 2.38** These assets are recorded in an Assets Management Module after purchase. The information in the Assets Management Module should be in agreement with the amount shown in the financial statements. However, as at March 31, 2011 these records differed by \$192,660,550.99 as detailed in **Table 1** below.

Table 1: Details of the differences between the Assets Management Module and the Accountant General's Report as at March 31, 2011

	Assets excluding Land	Ledger Assets @ Cost \$	Asset Management Module Totals \$	Difference \$
751	Property and Plant	1,391,036,542.79	1,330,930,431.84	60,106,110.95
752	Machinery and Equipment	199,363,742.01	148,095,567.48	51,268,174.53
753	Furniture and Fixtures	10,605,178.93	4,686,777.66	5,918,401.27
755	Software	11,734,816.85	4,493,590.25	7,241,226.60
756	Motor Vehicles	39,480,666.26	31,357,968.17	8,122,698.09
757	Infrastructure	64,924,155.34	0	64,924,155.34
		1,848,227,889.26	1,519,564,335.40	192,660,550.99

Created by: Barbados Audit Office

- 2.39** No reconciliation was provided for this difference. Such large differences cast doubt about the reliability of the information presented in the financial statements for 'Other Capital Assets'.

2.40 It is recommended that:-

- The differences that exist in these records be investigated and corrected.
- Reconciliation of these records is carried out on a regular basis.

Assets Under Construction

2.41 Assets Under Construction totaling \$131,082,787.08 was reported in the financial statements. When projects are completed, the asset should be transferred from Assets Under Construction to the relevant asset account in the Asset Management Module. However, it was observed that amounts listed as Assets Under Construction which summed to \$85,290,384.96 on some of the projects have remained constant over the last three (3) years. This would suggest that the information has not been transferred to the Asset Management Module.

2.42 It is recommended that:-

- Investigations are carried out to determine the status of these projects to ensure that all assets are properly accounted for.

Accountant General's Response

The Treasury has sought to educate departments on the importance of correct recording of assets in the system. As it relates to assets under construction, the Treasury relies on departments to submit information on completed projects; these should then be transferred to the respective asset account.

Buildings

- 2.43** The figures used in the financial statements with respect to the valuation for Buildings are provided by the Ministry of Housing. The listing submitted by this Ministry indicated that some properties were either demolished or derelict. However, the necessary adjusting entries to remove or adjust the dollar values of these properties in the accounting records of the Treasury were not prepared.
- 2.44** It should be noted that the accounting policies stated by the Treasury indicated that buildings are recorded at cost less accumulated depreciation. The Treasury is dependent on the Ministry of Housing for valuations, but this Ministry only provided information in respect of insurance valuations.
- 2.45** These valuations are inappropriate as the properties listed may not equate to the current value of the buildings. For example, the Ellerslie School was insured for \$359,000 but after being damaged by fire, the loss adjuster from the insurance company valued the property at \$6,491,600.
- 2.46** **It is recommended that:-**
- **The assets are revalued as per the accounting policies disclosed in the notes to the financial statements.**
 - **The accounting records are kept up-to-date so they correctly reflect the demolished and derelict properties.**

Accountant General's Response

The Ministry of Housing and Lands is responsible for all Crown property and plant. The Treasury's role is the recording of and accounting for these assets. Any adjustment to these assets on the Treasury's books is

therefore dependent on the relevant notification by the Ministry of Housing and Lands.

Current Liabilities

Accounts Payable

- 2.47** The Accounts Payable report presented for audit examination showed a balance of \$9,359,867.34 while the general ledger recorded a balance of \$10,044,267.22. This resulted in a difference of \$684,399.88. There was no indication that this difference was reconciled.
- 2.48** It was also found that payments which related to prior year invoices were expensed in the current financial year. This is contrary to the principles of accrual accounting, which requires the expensing of goods and services in the year to which they relate. This action resulted in the understatement of Accounts Payable in the financial statements.
- 2.49** **It is recommended that:-**
- **The Accountant General takes a leading role in ensuring that ministries and departments are aware of the requirements of accrual accounting.**
 - **The Treasury improves the accounts payable system to allow ministries and departments to better account for their accruals at the end of each financial year to avoid such adjustments.**

Accountant General's Response

It is agreed that there is need for improvement in the accounts payable system as it relates to accruals. The necessary steps will be taken to correct the existing problems and this will be communicated to the various ministries/departments in order for them to be better able to manage their accruals.

Paymaster and Pensions Accounts

2.50 The Paymaster and Pensions accounts are used for recording Payable Orders and pension cheques issued. The balances on these accounts represent Payable Orders and pension cheques not cashed. Subledgers are maintained to monitor these accounts.

2.51 As at March 31, 2011 the following differences existed between the ledger (account) and the subledgers.

Account	Ledger (bank a/c) \$	Subledger \$	Difference \$
Paymaster	34,902,038.25	33,230,724.67	1,671,313.58
Pensions	2,248,299.49	17,819,574.84	15,571,275.35

2.52 The Pensions Account reconciliation was presented for audit inspection, however, it was not correctly prepared due to the fact that incorrect balances were used to reconcile the account.

2.53 It is recommended that:-

- **Reconciliation of these accounts are done on a monthly basis and properly reviewed.**

Unclaimed Monies

- 2.54** Amounts which remain unclaimed over a period of three (3) years should be paid into the Consolidated Fund along with any interest earned. Unclaimed monies were reported as \$8,694,268.59 as at March 31, 2011. There has been no transfer of monies which have been held over three (3) years to the Consolidated Fund as required by the Unclaimed and Undistributed Monies Act, Cap. 93. It should also be noted that there are unreconciled differences between the unclaimed monies account ledger and the total stated in the Financial Statements.
- 2.55** **It is recommended that:-**
- **The Unclaimed Monies account be reconciled to the amounts in the General Ledger and monies held over three (3) years is paid into the Consolidated Fund**

Long Term Liabilities

- Caribbean Development Bank (CDB)**
- 2.56** The loan balances in respect of the CDB reported in the financial statements differ from those reported by that agency as at March 31, 2011 by \$2,880,031.03. This difference was mainly in respect of the Education Sector Enhancement Programme loan. CDB reported \$18,648,378.71 while the Treasury reported \$15,744,697.
- Inter-American Development Bank (IADB)**
- 2.57** The statement of account received from the IADB shows an overall outstanding balance of \$369,836,827.86 while the general ledger shows a balance of \$337,106,119.00, a difference of \$32,730,708.86. These

records were not reconciled to account for this difference which impacted on the figures reported in the statement of public debt.

2.58 It is recommended that:-

- **The difference between the CDB and the Treasury is investigated.**
- **Reconciliation between the IADB and the Treasury's figures is completed so as to address the discrepancies.**

Accountant General's Response

The comments relating to long-term liabilities have been acknowledged and the necessary steps will be taken to have the correct balances reflected in the accounts.

Omission of Debt due by CRL Limited

2.59 Debt taken over from state enterprises by Central Government was reported as \$53,991,325 in the financial statements. This was understated by \$12,854,436.48 due to the omission of the debt owed to the Central Bank and the Industrial Credit Fund by CRL Limited. This company had liabilities to the Central Bank of Barbados when it took over the assets and liabilities of the Barbados Development Bank on its closure. The debt was taken over by the Government. **Table 2** below shows a breakdown of the liability.

Table 2: CRL Limited debt taken over by Government

Entity	Loan Amount \$	Acc/Interest \$	Total \$
Central Bank	9,000,000.00	3,354,099.96	12,354,099.96
Industrial Credit Fund	432,159.00	68,177.52	500,336.52
Total CRL Debt	9,432,159.00	3,422,277.48	12,854,436.48

Created by: Barbados Audit Office

- 2.60** This concern was highlighted in last year's audit report but has not been corrected to date.

Tamarind Hall Compound

- 2.61** Tamarind Hall Compound was built under a Public Private Partnership (PPP) agreement. Essentially the compound was built with funds secured by the contractor to whom Government made annual lease payments. The property is recorded as a Government asset while the amount invested by the financier is recorded as a liability.
- 2.62** The lease asset for the Tamarind Hall Compound was recorded as \$20,112,541 while the lease liability was recorded as \$17,643,482. There was no explanation provided for the difference recorded.
- 2.63** **It is recommended that:-**
- All known liabilities are brought to account in a timely manner to ensure that a true reflection of the Government's financial position is presented to users of the financial statements.
 - The necessary corrections are made to regularise the transactions for the Tamarind Hall Compound

Expenditure

Ministry of Housing

- 2.64** Capital expenditure of \$84,311,497.49 was recorded in sub-programmes under the Treasury and the Ministry of the Housing and Lands (MHL) in March 2011. The amount of \$74,293,765.64 was recorded in Property and Plant, and Infrastructure under the Treasury and \$10,017,731.85 as Property and Plant under the Ministry of Housing and Lands (MHL). These amounts were not included in the estimates.
- 2.65** There is a need for a full explanation for these transactions by the Treasury. Transactions like this cast doubts on the reasonableness of the amounts presented in the financial statements.

Suspense Account

- 2.66** A balance of \$37,481,025.70 was transferred from the General Suspense Account to the Revenue Account without adequate audit trails. Several transactions were posted to this Suspense account, netted-off, and cleared either to the Consolidated Fund or to a revenue account. Examples of transactions posted to suspense accounts during the financial year 2010/2011, are as follows:

• Residual Balance of Accrued Expenses A/c	(\$2,377,930.38)
• Receipt Accrual Treasury	\$3,961,443.06
• Work on behalf of Government of Barbados – BTI re Urban Development	\$13,574,541.34
• To close PEIF and Account of BCA loan	\$8,620,161.95

- 2.67** There was insufficient documentation in support of these transactions. Hence, there was no clear audit trail to indicate that acceptable accounting practices were applied to net-off and close such transactions to the Consolidated Fund.

2.68 The amounts transferred or cleared at the end of the financial year could have a material impact on the Financial Statements, as revenue was increased by approximately \$37.5 million as a result. There is a need for transparency as it relates to the use of this account.

Pension

2.69 The pensions of those persons who enter the Public Service after 1975 are reduced by the pension paid by the National Insurance Department when this latter pension becomes payable. In some cases this was not done, resulting in excess pension being paid to these pensioners who were former employees of ministries and departments.

2.70 **It is recommended that:-**

- **The Treasury collaborates with the National Insurance Office to implement a system which informs the Treasury of the start date for all former Government workers eligible for National Insurance pensions.**

Accountant General's Response

The issue of the Treasury collaborating with the National Insurance Office in relation to the pensions of those persons who enter the Public Service after September 1975 is currently being addressed. The National Insurance Office sends this information to the Treasury on a monthly basis.

Pension Cheques Issued Prior to Notice of Death

- 2.71** A number of cheques issued before the notice of death of the pensioner was received by the Treasury totalled \$224,751.12. Of these cheques, 30% was returned to the Treasury. A concentrated effort is not made to have these monies refunded. If left unattended, this figure will accumulate overtime and will become a significant issue.

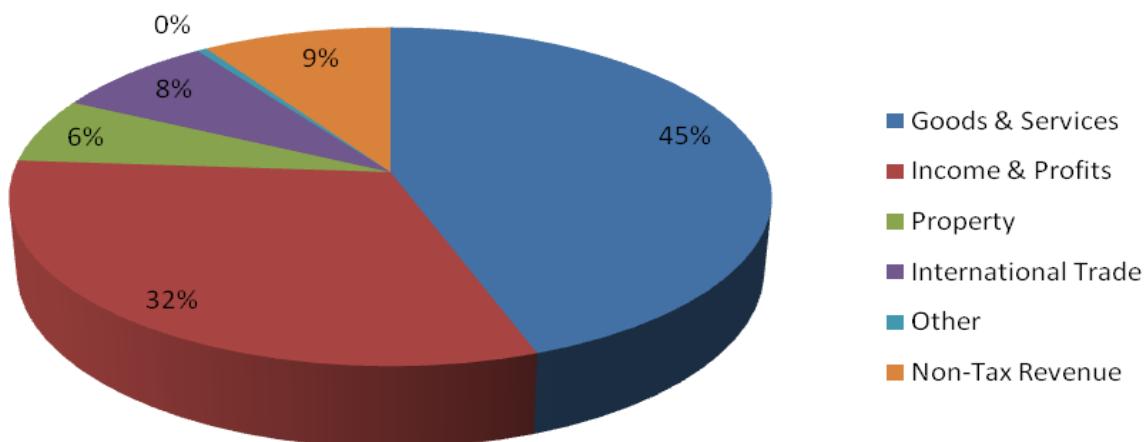
Pension Liability General

- 2.72** It has been observed that there are no provisions for Government long-term Pension Liability. It has been stated that Pensions are not a right to officers and that the current system only records approved payments due to existing pensioners as liabilities. The IPSAS and IFRS to which the Government subscribes, require that a liability be made for those persons who qualify to receive retiring awards.
- 2.73** The Government has a defined benefit plan and thousands of persons have already been approved for pensions and are already on the pension list.
- 2.74** The general practice is that persons qualifying receive their pensions at retirement age; there are few exceptions to this rule. There is therefore a clear basis for estimating Government's pension liability.
- 2.75** It will therefore be necessary for Government to carry out an actuarial review to provide the estimate of the pension liability for its employees as a liability in the financial statements. This liability is likely to be significant and will materially impact Government's financial position.

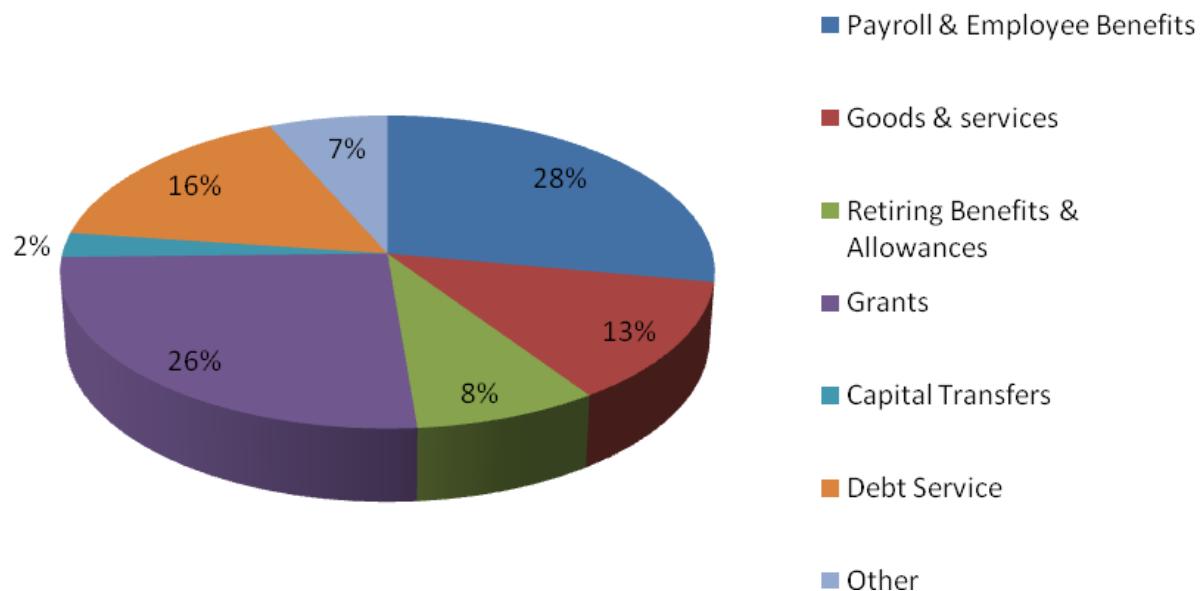
Graphical Presentation of Government Expenditure and Revenue

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

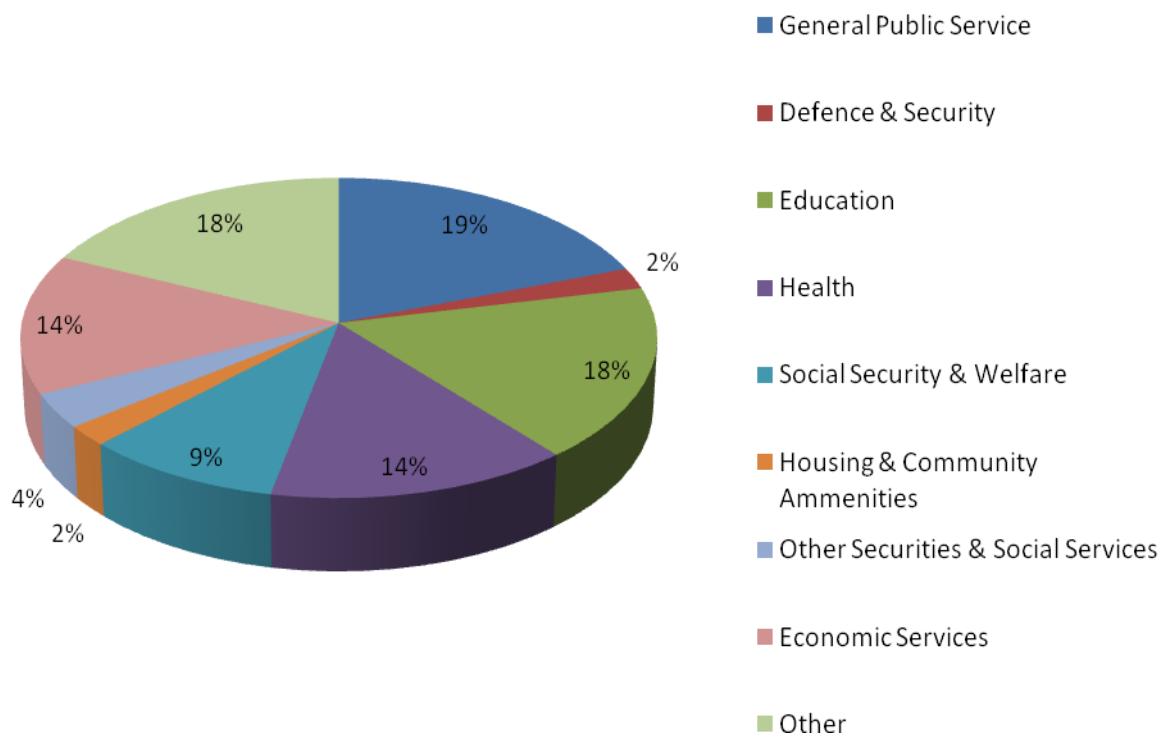
Total Revenue 2010 - 2011



Total Expenditure 2010 - 2011



Expenditure by Functional Classification 2010 - 2011



CHAPTER 3

General Audit Concerns and Observations

This chapter highlights general concerns in respect of some Ministries and Departments not complying with statutes or administrative directives. It also includes responses when provided, 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 March 31, 2011 was conducted by the Barbados Audit Office as required by Section 26 of the Financial Management and Audit Act, 2007 – 11 (FMA Act).
- 3.3 As determined by this Act, the onus for the proper discharge of financial administration and the preparation of financial statements rests on the Accounting Officers. It is the Auditor General's responsibility to form an independent assessment of compliance with the FMA Act and other administrative directives on the accounts, based on the audits carried out by this Office.

Audit Purpose and Scope

- 3.4 The Barbados Audit Office is empowered to carry out audits on Ministries and Departments so as to provide assurance that:-
- Adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to this function have been duly observed;

- Expenditure is properly controlled, has been properly authorized, and made for the purposes for which the funds have been appropriated by Parliament;
- Immovable and movable property is properly procured, recorded, controlled and appropriately disposed of;
- Public monies are expended economically and efficiently;
- The figures contained in the Revenue and Appropriation accounts are correctly and properly stated.

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

General

3.6 Ministries and Departments are required to report revenue on an accrual accounting basis. For example, tax for a financial year is treated as revenue for that period regardless of whether or not monies were received at the time. However, revenue for Ministries and Departments is generally being recorded when cash is received. This action is not compliant with the accrual principle and results in some distortions of revenue reported.

3.7 The accrual basis of accounting also requires that expenses be recorded when service has been performed or goods delivered to Departments whether or not payment is made at the time. There were numerous instances in which this principle has not been applied, resulting in expenses not being recorded in the correct periods.

3.8 Under the accrual basis of accounting, revenue and expenses should be reported in the period in which they were due, irrespective of whether cash was paid or received. This allows for the proper matching of revenue and

expenses in a financial year. The Government of Barbados has decided to adopt the accrual basis of accounting, and financial statements should be prepared in accordance with this aspect of International Public Sector Accounting Standards (IPSAS). It was however noted that revenue was not being accounted for in compliance with Government's policy.

Fixed Assets Register

- 3.9** As reported in my 2010 Report, Ministries and Departments do not have up-to-date fixed assets registers containing the various assets and their values. This makes it difficult for auditors to verify the figure of \$1.5 billion in assets reported for these agencies in the financial statements.

Response to Audit Queries

- 3.10** Before the publication of the Report all entities that were audited were given a draft copy of our findings and comments, and they were required to supply a response. This is important since I am of the view that all entities that are audited should be given an opportunity to clarify issues before they become part of the final report.
- 3.11** In a number of instances the entities audited did not provide a response. Responses were not received from the Cabinet Office, Attorney General, Ministry of Health, Ministry of Labour, Ministry of the Civil Service, Ministry of Youth, Family and Sports, Personnel Administration Department, Ministry of Education, Ministry of Transport and Works, Licensing Authority, Ministry of Agriculture, Ministry of Environment, Land Tax Department, and Post Office.

Registration Department

Court Warrants

- 3.12** It was noted that at various courts fines were imposed but the relevant warrants were not issued to the Defendants. A review of the warrants from various years showed that fines from sixty-one (61) cases totalling \$2,458,400 remained outstanding.

Suitors Account

- 3.13** The Suitors account which was created to distribute funds awarded to Complainants of civil cases showed an overdraft at May 1, 2010 of \$89,055.73. No bank reconciliations were presented for audit inspection, therefore the reason for the overdraft could not be verified. It should be noted that Financial Rule 70 requires the authorisation of Parliament for overdrafts on Government bank accounts.

Registration of Professionals

- 3.14** There is no mechanism in place to adequately monitor whether the professionals are complying with the Profession, Trade and Business Registration Act. Registrants are not issued with renewal notices and there are no follow-ups on Registrants who did not pay for subsequent years. It should be noted that the number of persons registering in 2010/2011 financial year declined significantly from the previous year and this variance should be investigated.

Bank Reconciliation

- 3.15** Bank reconciliation statements were not presented for a number of accounts with balances in excess of \$6 million. The lack of reconciliation means that fraud and error could occur and go undetected.
- 3.16** **It is recommended that:-**
- (i) **The system of the issuance and follow-up of outstanding warrants should be addressed.**
 - (ii) **The Financial Rule 70 is adhered to.**
 - (iii) **The Department ensures that the follow-up notices are issued to persons who have not re-registered.**
 - (iv) **The bank accounts are adequately monitored and statements reconciled.**

Police Department

Fire Arms

- 3.17** The Police Department maintains information on licensed fire arm holders within a customised database. A sample of sixty (60) registrants was reviewed and it was noted no payments was recorded for nineteen (19) of these for a number of years. There are no notes to indicate whether the weapon had been handed in or remained with the owner.

Late Payment of Insurance

- 3.18** Vehicle insurance premium for the Police Department of \$419,101.40 was paid on October 24, 2010 for the period April 2010 to March 2011. This resulted in police vehicles operating without insurance for approximately six (6) months. It was indicated that there was a delay in reaching an agreement with ICB.
- 3.19** **It is recommended that:-**
- **The Department ensures that an adequate system is maintained and monitored to verify that registrants' records and revenue earned are accurate.**
 - **Further investigation is needed in respect of the 19 firearms for which no recent payment has been made.**
 - **Insurance of vehicles are kept up-to-date.**

Barbados Licensing Authority

- 3.20** In a number of instances resources expended were not efficiently utilised, resulting in wastage of funds at the Barbados Licensing Authority. Examples are as follows:

Weighbridge and Weighing of Vehicles Records

- 3.21** The weight of the vehicle determines the amount of road taxes that the vehicle owner will pay. The vehicle is weighed using the weighbridge and

on the basis of the information obtained a weight certificate is issued. The weighbridge currently in use malfunctions and the weights derived are inaccurate. This weighbridge has been in place for many years and needs replacing.

- 3.22** Since March 2001, the Ministry of Transport and Works purchased a weighbridge costing over \$58,000 to replace the one currently being used but it was never installed. This weighbridge has been left in the elements on the compound to deteriorate.

Brake Testers

- 3.23** Since 1990 the Ministry has purchased three (3) brake testers costing in excess of \$200,000. Several issues were associated with these testers which have not functioned for any prolonged period.

Audit Comment

- 3.24** The purchase and installation of brake testers have not been properly managed. In one instance it took approximately nine (9) years before a tester was fully installed. The delay has impacted negatively on this aspect of the operations of the Authority. It should therefore be noted that there was little value realized from the expenditures incurred in purchasing these testers.

Road Worthy/Test Certificate

- 3.25** There is a pressing need to strengthen the controls relating to the collection of fees from road worthy certificates.

- 3.26 Private vehicles may be inspected for road worthiness by the Licensing Authority or on the request of a Transport Inspector, the Police or an insurance company but it is not an annual requirement under the law. This process costs \$125 comprising \$100 for the inspection and \$25 for the certificate.
- 3.27 In some instances no evidence was seen that the persons to whom the certificates were issued had completed an application form or paid for the certificate. The lack of adequate information on certificates made it difficult to determine whether the persons to whom they were issued had paid the Licensing Authority for the inspection and certificate.
- 3.28 The management of the process of ordering, issuing and storing of road worthy certificate books was also deficient. No records were maintained for the books received or issued and the balance of the stock. This has made it extremely challenging to verify whether all certificates were adequately accounted for.
- 3.29 There was no evidence seen of reconciliations done by the Accounts Section of the number of road worthy/test certificates issued and the monies collected for these certificates. Such action would minimize the risk of funds being lost or misappropriated.
- 3.30 This issue was reported in a previous audit report but little action has been taken to improve the controls necessary to safeguard Government's revenue.
- 3.31 **It is recommended that:-**
- **The controls relating to the issuance and usage of road worthy/test certificate books are strengthened. This can be**

achieved by the introduction of a Stock and Issue Register for all books received, issued and returned.

- **Certificates issued are reconciled with revenue received to reduce the risk of persons receiving certificates without the appropriate revenue being received.**

Customs and Excise Department

3.32 The Customs and Excise Department falls under Ministry of Finance. The core functions of the Department are the protection of the country's national borders through enforcement of the Customs Laws and the collection of Government's revenue.

Private Warehouses

3.33 Audit investigation revealed that warehouse keepers are paying incorrect fees in relation to their bond coverage. The Customs Act, Cap. 66 Section 18A (a) and (b) states that "where dutiable value of goods in private warehouse does not exceed \$200,000 a fee of \$3,000 and where dutiable value of goods in the private warehouse exceeds \$200,000 a fee of \$6,000 is payable annually". In some cases there is non-compliance with this rule, with some warehouses paying half the fee. Failure to enforce the above stated legislation has impact negatively on the collection of Government's revenue.

Under Invoicing

- 3.34** It was found that inaccurate information was used for the calculation of duties and taxes payable on an assessment. Merchandise valuing over US \$100,000 was cleared using an invoice amount of US\$15,805.02. The amount was determined by applying the unit price to a case of merchandise instead of the number of units in the case. This resulted in taxes being significantly undercharged. The Customs Department had been asked to investigate this matter.

Department's Response

This is a matter which has been under litigation. The correct duty and penalties were paid and other matters are under investigation.

Exchange Rates

- 3.35** Exchange rates used to calculate invoices which are stated in foreign currencies were not updated to reflect their current rates in the computerized system. It should be noted that a number of currencies fluctuate against the Barbados Dollar. During the financial year, the exchange rates used for selected currencies were as follows:

Barbados Dollars

Canadian Dollar (CAN)	1.64
Euro (EUR)	2.64
Great Britain Pound (GBP)	3.03

- 3.36** These exchange rates were in effect since December 11, 2008. The reasonableness of the above stated rates was tested by applying the average monthly rates used by the Treasury. Based on the rates used by

the Treasury, dutiable values would have increased by an additional \$14.2 million, and considerably more revenue would have been collected.

3.37 It is recommended that:-

- **The current practice of changing the exchange rates by Statutory Instruments (S.I.) after long periods be reviewed. The average monthly rate would be more appropriate in these circumstances**

Department's Response

The rates were changed in 2011 by S.I. 98 and are due for another change.

Value Added Tax Division

3.38 The Value Added Tax Division of the Customs and Excise Department has the responsibility for the collection of the Value Added Tax.

3.39 The notes to the financial statements state that Value Added Taxes will be recognized ‘when the assessment is raised or the undertaking of taxable activity during the period by the tax-payer’.

3.40 Monies collected daily by the VAT Division related to both collections of receivables and revenue. However, all the amounts were forwarded to the Treasury and recorded as revenue.

- 3.41** Overall the method of accounting for revenue by the VAT Division is not in keeping with the accrual system adopted by the Government, and the figures presented in the financial statements could not be verified.

VAT Division Response

VAT reported revenue on the cash basis until February 2011 when there was partial conversion from the old software system (C-VAT) to VETAS.

The accounting software which was used until February 20, 2011 did not have the facility to provide accrual accounting information. This resulted in the cash basis being used. The new system makes provision for identifying revenue and accounts receivables.

Amounts Unaccounted for

- 3.42** Two amounts totaling \$5,033,054 (2,994,047 and 2,039,007) were shown as outstanding on the VAT Office's bank reconciliation statements for in excess of five (5) years.
- 3.43** The amount of \$2,994,047.21 requested by VAT Division in December 2005 was issued by the Treasury to settle refund claims. This amount was not seen on the bank statements of the Division. It is unclear which account the money was credited to.
- 3.44** There was no information available from the Treasury on whether the cheque for \$2,039,007.39 was cashed, as the necessary documents were not furnished to the auditors at the time of writing.

Audit Comment

3.45 The issue of properly accounting for these cheques is a matter that has been outstanding for some time. Over \$5 million which was released by the Treasury has not been accounted for, and not enough effort has been made by the VAT Office to ascertain what has become of these funds. This is a serious matter which should be vigorously pursued.

3.46 **It is recommended that:-**

- **These transactions are investigated and the necessary corrective action taken to ensure that they are properly accounted.**

VAT Division Response

The Division is investigating the matter.

Refund Account

3.47 The VAT Office's refund account had a cash balance of \$11,241,699.99 at March 31, 2011. Of this amount \$8,406,859.02 was in respect of cheques written but not cashed. There was no indication of what the difference of \$2,834,840.87 represented.

3.48 Since funds are only deposited on this account to pay outstanding refunds, the Office should have a schedule of what any outstanding balance on the account represents. Any excess funds should be paid back to the Treasury.

Refunds

- 3.49** Refunds claimed and unpaid as at April 26, 2011 were **\$74,437,744.36**. Audit requests for detailed information were not provided. There is a need for accurate information on these payables since this has implications for the accurate reporting of outstanding balances in the financial statements.
- 3.50** This amount outstanding includes refunds unpaid from 1997 to the present. Currently there are 8,390 claims outstanding and action needs to be taken to process refunds in a timely manner. The Office needs to examine the method it uses to process refunds to see where greater efficiencies can be achieved.
- 3.51** In accordance with Section 47 of the Value Added Tax Act, Cap. 87 interest should be paid on refunds which are due for periods in excess of six (6) months. Interest payable on refunds claimed and unpaid, totaled approximately \$14,700,743.93 at March 31, 2011. However this liability was not brought to account in the financial statements.
- 3.52** Refunds paid during 2010/2011 summed to \$108,456,083. Some of these claims relate to periods in excess of six months, hence these registrants were entitled to interest in accordance with the VAT Act. As at March 31, 2011 interest was not paid on these refunds or accrued on these outstanding amounts.
- 3.53** **It is recommended that:-**
- **VAT put procedures in place to ensure that refunds are processed and paid punctually, hence avoiding such a large accumulation of outstanding claims and interest.**
 - **The refund process is reviewed as the current method is not effective.**

VAT Division Response

The payment of interest was not provided for under the electronic systems in operation during the period under review. Consequently all payments were manually processed. This has been corrected under the new system where interest is automatically calculated.

Compliance

- 3.54** The VAT arrears as at March 31, 2011 were reported by the Treasury as **\$302,227,186**. This was **\$46,845,889** more than was reported in the previous year's total of **\$255,381,297**. Arrears have been increasing overtime and the longer debt remains outstanding, the more unlikely it will be collected. Due to the implementation of a new information technology (IT) system, the Division was unable to provide balances for receivables at March 31, 2011. It was therefore unclear what basis the Treasury was using to arrive at the figures reported.

Debt Recovery

- 3.55** Phone calls, reminders, demand notices, installment agreements, the Waiver Programme on Interest and Penalty, garnishment orders, and unpaid tax certificate are all methods available to aid in debt recovery. Despite these methods being used, debt recovery is proving to be a challenge, as some four thousand (4,000) registrants are in arrears. The Office needs to review the work of the Compliance Section which currently carries out a variety of activities unrelated to its core functions.

Eligible Non-registrants/Unregistered Entities

3.56 The Compliance Section is also responsible for ensuring that eligible persons and companies are registered. The methods used to fulfill this obligation are third party information, media reports, and referrals from other sections. However, limited use is currently made of this information.

3.57 **It is recommended that:-**

- **The Office considers setting up a Collections Unit whose only function would be the collection of arrears.**

VAT Division Response

The efforts of the Compliance Section must be commended given that they are responsible for all aspects of accounts receivables collections, investigating the compliance of taxpayers with the VAT Act, Cap. 87 and enforcing the Public Entertainment Act, Cap. 85A. The introduction of various waivers of penalties and programmes exacerbated the situation. The Division is currently operating with a staff of sixty-five (65) officers while the establishment is one hundred and five (105) officers.

Information System - VETAS

3.58 A new information system, VETAS, was implemented on a phased basis with effect from February 11, 2011. The Division did not conduct the necessary tests to ensure that the balances brought forward agreed with balances from the old system. As a result the VAT receivable shown in the Government's financial statements could not be verified.

VAT Division Response

The necessary checks to ensure that balances from C-VAT (old IT system) and VETAS (new IT system) were reconciled were done. However, when payments were made and recorded in VETAS problems were experienced.

Audit Section

- 3.59** The Audit Section is responsible for conducting audits on registrants to ensure that the correct amount of VAT has been assessed and paid. When fully staffed, the audit section consists of twenty-four (24) persons. During the year under review the section consisted of nine (9) persons. There are approximately eight thousand (8,000) registrants and half are in arrears. The officers currently deployed are too few to provide adequate audit coverage of the registrants.
- 3.60** The number of audits completed during the year under review was not provided to audit staff as requested. However, from our observation there is not sufficient supervisory oversight to ensure that audits are completed in a reasonable time frame.
- 3.61** **It is recommended that:-**
- **The Division recruits staff or redeploys staff to correct the current shortage.**
 - **The supervisory oversight of the audit function is improved.**
 - **The Information system is properly updated showing the status of all audits.**

- Audits are completed in a timely manner and their effectiveness assessed.

VAT Division Response

To address the matter of lack of supervisory oversight, the Professional Accountant has been given access to view audit cases throughout the process in order to determine the status and actioning of cases and ensure completion in a timely manner. VETAS also updates all cases with respect to their status interalia.

The Division is unable to recruit staff at this time based on directives in view of the soon to be established Revenue Authority. With respect to redeployment of staff, several sections are already being challenged by work overload.

National Library Service

- 3.62 In response to a request from the Permanent Secretary (Culture and Sports), Ministry of Family, Culture, Sports and Youth a review of operations of the National Library Service (NLS) was carried out by the Barbados Audit Office. This involved renovation work scheduled for the Valley, Oistins and Eagle Hall branches during the financial year 2010/2011.

Audit Objectives

- 3.63 The objectives of this review were to:-

- (i) Investigate suspected irregularities in the management of building materials;
- (ii) Assess whether accounting records were adequate and that all funds collected were accounted for;
- (iii) Review and evaluate procedures for the purchase of materials and the award of contracts.

General Comments

- 3.64** The Building and Drainage Unit (BDU) of the Ministry of Transport and Works (MTW) was responsible for carrying out the construction activity and was given permission by the management of the National Library Service to order and manage the supply of materials for the renovation of the selected Branch Libraries. Contracts for the renovations done to the Valley Branch were negotiated and signed by personnel from BDU, but related payments were made from the National Library Service's funds.
- 3.65** No construction work was carried out at the Eagle Hall or Oistins branch offices of the Library during the financial year, yet materials have been ordered for these branches. These orders included items such as blocks, tiles and items with short shelf lives such as cement. Payments were also made for work and services not carried out or received.
- 3.66** The items purchased were sent to the BDU compound for storage. A visit to the compound revealed that items purchased had been utilised in work unrelated to the Library Service. The current system of financial management in Barbados requires that goods be budgeted for by ministries and departments and used as approved by Parliament. However the current practice by the National Library Service and the BDU is counter to this policy.

- 3.67 The management of materials between the National Library Service and the BDU lacked proper controls. As a result, a number of serious discrepancies occurred, such as materials being misdirected to a private address, payment for materials exceeding amounts quoted on requisitions and payment for works and service not done. These matters need to be promptly addressed and the necessary action taken to recover any resulting loss to Government.
- 3.68 Prior to payment, the delivery of these goods and services should have been certified. This control measure would have ensured that no payment was made for goods and services not delivered.

3.69 **It is recommended that:-**

- Appropriate disciplinary procedure be initiated against responsible officers in accordance with the Financial Management and Audit Act and its Regulations, and the Public Service Act.

Ministry of Housing and Lands

Insurance of Buildings

- 3.70 The Ministry of Housing and Lands (MHL) is responsible for insuring Government properties and consequently provides valuations of these properties for insurance purposes. It could not, however, be determined when these buildings were last re-valued. It was therefore unclear whether the insurance valuations were appropriate.

3.71 It is recommended that:-

- The Ministry conducts an assessment of the values used to insure its properties and where appropriate take relevant steps to ensure that properties are adequately insured.**

Ministry's Response

The Property Management Unit is currently conducting a revaluation exercise which will be an on-going exercise given the extent of the Government's property holding. The Ministry's personnel also work with the Insurance Corporation of Barbados Limited (ICBL) to ensure that the ICBL's property listing is complete and reflects the replacement values.

Payment of Insurance Claims

3.72 Several matters pertaining to insurance claims from Government buildings which sustained damages have been outstanding for long periods. One reason for the delay in processing claims was the lack of information provided to the insurer on a timely basis.

3.73 It should be noted that the settlement of claims by the insurance company was generally a fraction of the cost of the damage. This was primarily as a result of the underinsurance of the properties. For example the estimate of damage caused by a fire to the Parkinson School was \$1,079,024.36, but the amount received from the insurance company was \$282,719.

Ministry's Response

The payment of claims can be delayed due to late submission of estimates and documentation from the Ministry or Department occupying

the building. The Ministry of Housing and Lands (MHL) will emphasize the urgency of the submission of the documents and will work with the ICBL and its Loss Adjuster.

Land Acquisition Process

- 3.74** In a number of instances, the Ministry of Housing and Lands was informed by the Ministry of Transport and Works (MTW) that it had taken possession of privately owned land for its purposes, and this was without going through the legal process for acquiring land.
- 3.75** These breaches of the Land Acquisition Act increases the probability of legal action being taken against the Government.
- 3.76** **It is recommended that:-**
The legislation requirements in respect of the acquisition of land are followed

Ministry's Response

The MHL has notified the Ministries not to utilize land without completing the relevant legal processes. The MHL cannot be responsible when a Ministry without informing the MHL utilizes privately owned land. However, the Ministry will continue to emphasize to Crown agencies the necessity to follow the provisions of the Land Acquisition Act where it may be deemed necessary to utilize privately owned lands for their various projects.

Unexplained Accounting Transaction

- 3.77** An entry of \$15,789,784.85 to recognize work undertaken on behalf of the Government of Barbados by the Barbados Tourism Investment was included in the accounts. There was no supporting documentation presented for audit inspection in respect of what this work entailed.

Ministry's Response

The MHL monitors on a regular basis the accounts which are used and that are accessible. The MHL was not notified of the transaction and does not have any supporting documentation to present.

Samuel Jackman Prescod Polytechnic

A review of the financial records of the Samuel Jackman Prescod Polytechnic (SJPP or the Polytechnic) was carried out for the financial years 2008/2009 and 2009/2010. The following observations were made:

Inadequate Supporting Documentation

- 3.78** Some accounting information requested in respect of various transactions was not presented. This impacted on our ability to verify information captured in the accounting records.
- 3.79** Generally the Polytechnic has failed to make documentation available to the Auditor General and keep all documents in a safe place for the time specified in the Financial Rules.

Polytechnic's Response

All financial transactions are normally supported by relevant documentation; however, because of poor and inadequate storage facilities some documents became detached or misplaced during storage. This was compounded with the removal of the original invoices, for the period in the financial year ending 2009, for dispatch to the VAT office with retaining copies. This practice is no longer adopted since all invoices are now copied and filed with the vouchers.

Contracts

3.80 In the financial years 2008/2009 and 2009/2010, the Polytechnic entered into a number of agreements for the supply of goods and services that required the execution of contracts, as required by the Financial Rules. No contracts were presented for audit examination to determine if the payments made and the goods and services delivered were in compliance with the agreements made.

3.81 **It is recommended that:-**

- A contract register is kept and the relevant agreements are in place for expenditure which meets the threshold as required by the Financial Rules.

Property Insurance

3.82 It was indicated that the insurance valuation of \$5,126,996 used for the equipment was based on the cost of the equipment held by the Institution when it initially moved to its present location in 1982. This valuation is

therefore outdated, as equipment would have been purchased and disposed of since then.

3.83 It should be noted that a request was made for a list of equipment insured for the financial years 2008/2009 and 2009/2010, but SJPP personnel indicated that no such list was kept.

3.84 The buildings insured by the SJPP were located at Wildey, St Michael and Lot C, The Pine, St. Michael. These buildings were insured for \$28 million and \$1.85 million, respectively. It was queried how the sum insured of \$28 million was derived and whether valuations were done on the buildings in the last four (4) years. Personnel of the SJPP could not determine when the last valuation was done or how the sum insured was derived.

3.85 **It is recommended that:-**

- SJPP conducts an assessment of the values used to insure its property and equipment and where appropriate take relevant steps to ensure that properties are adequately insured.**

Land Tax Department

Revenue Collected

3.86 Government has adopted an accrual accounting system with effect from April 1, 2007, but the revenue of the Land Tax Department continues to be reported on a cash basis.

- 3.87** An adjustment of \$35,522,083.02 was credited to the Department's revenue account by the Treasury in March 2011, in respect of Land Tax. However, the Department was unable to verify accuracy of the transaction and therefore the amount reported.
- 3.88** It is the duty of the Department to ensure that its revenue is properly recorded in the general ledger of the Government and that all transactions recorded in the Land Tax account are accurate. An adjustment such as the \$35,522,083.02 should be verifiable by the Department.

Collection of Arrears

- 3.89** At March 31, 2011, there were 35,410 landowners in arrears, totaling \$160,154,921.22. Of this sum, \$49,499,708.08 was owed on 149 properties representing 31% of the arrears. There is no evidence that any concerted action was taken to recover these amounts.
- 3.90** **It is recommended that:-**
- **The Department implements systems that enable it to properly account for its revenue on an accrual basis.**
 - **The steady increase in arrears of Land Taxes needs to be addressed. A Compliance Section should be set up to deal with the large outstanding amounts.**

Post Office

- 3.91** The Revenue Account for the Post Office was prepared on the cash basis, reflecting cash received by the Post Office or direct deposits to the Treasury.
- 3.92** The Financial Management and Audit Act (FMA) 2007 - 11 stipulates that Government's financial statements should be prepared on an accrual basis. This is defined in Instruction 2 of the Director of Finance and Economic Affairs' Instructions to Ministries and Departments as: "*The method of keeping accounts which shows all expenses incurred and income earned for a given period of time, even though such expenses and income may not actually have been paid or received in cash during the same period of time.*"
- 3.93** Reporting revenue on a cash basis impairs Government's ability to (a) have an accurate picture of revenue earned during the financial year, and (b) budget accordingly.

Differences between Treasury and Post Office Figures

- 3.94** Revenue recorded by the Treasury exceeded that recorded in the books of the Post Office by \$1.7 million. This difference was mainly as a result of revenue relating to the 2011/2012 financial year being accounted for in the 2010/2011 financial year in error.

Terminal Dues

- 3.95** Revenue in respect of Terminal Dues represents amounts owed by other countries for postal services performed by the Barbados Post Office. It is recognized that billings for these dues are carried out long after the close

of the financial year. As a result, it is not possible to accurately determine Terminal Dues revenue for inclusion in the annual financial statements.

3.96 It is recommended that:-

- The Post Office determines areas in which the process of determining and collecting Terminal Dues can be accelerated. The possibility of providing estimations for reporting purposes needs to be considered.

Outstanding Issues from Previous Audit Reports

3.97 This section of the Report focuses on follow-up on action by state agencies in response to various issues raised in previous reports. It reveals that some action has been taken in a few instances, while no robust follow-up action has been taken in other instances. It should be noted that some of these matters involved legal action to recover funds owed to Government because of faulty construction work.

Ministry of Agriculture and Rural Development

Remodeling of Stalls in Speightstown

3.98 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 (the full contract sum plus a variation of \$18,805.74).

- 3.99 However, towards the end of December 2007 the contractor had commenced work on only six (6) of the thirteen (13) stalls. There was therefore no basis for the entire contract price being paid.

Ministry's Update

The Solicitor General had asked the Ministry to provide information on the percentage of the work left unfinished, and to quantify it monetarily.

However, the Ministry has indicated that it has not responded to the Solicitor General on this matter, because it is facing challenges in determining the percentage of work left unfinished, due to deterioration in the work previously undertaken.

Renovation of Roof of Oistin's Fish Market

- 3.100 The renovation to the roof of the Oistins' Fish Market was originally contracted to cost \$883,888.16 VAT inclusive. This project attracted cost overruns of nearly 100%, bringing the total cost of construction to \$1,687,112.44. There was no evidence that the variations originated with or were approved by the Ministry

Ministry's Update

According to the Project Director, the Ministry has been unable to source any additional information to pursue this matter any further.

Ministry of Home Affairs

Construction of Police Station at Crab Hill, St. Lucy

- 3.101 After repeated problems with the original contractor, a new contractor was engaged to complete the police station at a cost of \$2.5 million over twenty-four (24) weeks.
- 3.102 However, this contractor left the project with remedial work requiring hundreds of thousands of dollars to be undertaken.
- 3.103 The construction cost of this project eventually exceeded \$4 million, which was over \$2.6 million more than the original contract amount.
- 3.104 There was no evidence that the Ministry took any action to recover amounts due as a result of substandard work, and this was some cause for concern. The lack of a formal and binding contract was also a cause for concern, with possible implications for recovery of funds due to faulty construction work.

Ministry Update

No further action has been taken on this matter in terms of cost recovery from the contractor who defaulted in this contract although the remedial works have been completed by a subsequent contractor.

Department of Corporate Affairs and Intellectual Property

Transfer of Shares in Commercial Bank

- 3.105 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 in respect of Property Transfer Tax was made in July 2004.

- 3.106** The valuation of the shares was carried out in August 2006, when they were valued at \$2.10 each. This valuation resulted in an additional \$652,500 in Property Transfer Tax and Stamp Duty payable to the Government. This matter remains unresolved.

Department's Initial Response Remains Unchanged

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.

National Housing Corporation

Allocation of Lots

- 3.107** The 2004 special audit report indicated that the Corporation needed to consistently follow its selection criteria for the distribution of lots, and that the selection process should be known to applicants. It was noted that individuals were often not aware that an application was only relevant to the specific area applied for.

Corporation's Update

- (i) *The Corporation is updating the database through the Customer Service Department to determine whether persons on the list still*

need houses. Any changes in circumstances are also noted. If an applicant is no longer interested in acquiring a solution, his/her application is expunged from the list.

- (ii) *A listing is made of all persons eligible for particular areas, while legal searches are done to ensure that persons do not already own houses or land. The final list is sent to the NHC Board, which makes the selections, and the list is then forwarded to the Minister for ratification.*
- (iii) *Once an application has not been selected for a particular housing area the applicant is contacted and asked if he/she would be interested in other areas. Based on the response, other available areas would be offered and this process continues until a solution is found.*

Barbados Investment and Development Corporation

Newton Business Park

- 3.108** In October 2003 a regionally based company commenced site work to establish a business park at The BIDC's Newton Estate in Christ Church, on a fixed-price contract for \$18.5 million.
- 3.109** In March 2007 the BIDC terminated the contract. The full contract sum had been disbursed, but the project remained uncompleted.
- 3.110** An independent consultant, commissioned in November 2006 by the BIDC, determined that there were defects in the work, and indicated that the cost to correct and complete the work was in excess of \$7 million.

BIDC Update

The BIDC has indicated that it has been trying to settle the matter out of court.

Customs and Excise Department**Vehicles Exiting the Port without Duties Being Paid**

- 3.111 In sample of sixty-seven (67) vehicles for the financial years 2007 to 2009, forty-one (41) consigned to individuals, with a customs value of \$485,233.39, were shown in the Customs' records as having been released without the payment of customs duty.
- 3.112 This action, which represents a serious control failure, would have resulted in a revenue loss of approximately \$447,699 in taxes.

Department's Update

The Customs and Excise Department has indicated that it has recovered four (4) of the vehicles and the investigation of matters related to the other vehicles was referred to the Police in October 2010.

Goods Imported in Excess of Amounts Contracted with School Meals Department

- 3.113 The report pointed out that a number of suppliers to the School Meals Department had abused the import waiver certificates issued by the Department to obtain duty free goods way in excess of what had been ordered for the Department.

Department's Update

The Manager of the School Meals Department has indicated that action has been taken to strengthen the controls over the issuing of waivers. Fewer persons are allowed to sign the waiver forms and the amounts being requested by the suppliers are forwarded to the Customs and Excise Department so as to provide a check against the items shown on the suppliers' waiver certificate.

Betting and Gaming

- 3.114 Under Section 19 (2) of the Betting and Gaming Duties Act, Cap. 30, Video Lottery Terminals (VLT) are classified as electronic slot machines. Such machines normally attract an annual licence fee of \$15,000 each.
- 3.115 Inquires revealed that three hundred and forty-nine (349) gaming machines/video lottery terminals were imported by a company into Barbados.
- 3.116 However, these machines, which were altered with the permission of the Ministry of Finance, were released by the Customs and Excise Department without being classified for tax purposes. It was noted in the initial audit report that no licence fees were being paid for these machines.

Department's Update

The Department has reported that the company responsible for the operation of the machines has brought an injunction against the Government from taking action to seize the terminals for failure to pay fees. This matter is currently before the law Court.

Ministry of Foreign Affairs

Special Audit of the Embassy of Barbados in Venezuela

- 3.117 Between June and November 2009, a Barbados Embassy official requested and received approval from the State Agency for the purchase of five sums totaling US \$52,433, purportedly for overseas travel on official business. With regard to these transactions, however, it should be noted that no overseas travel was scheduled or sanctioned by the Ministry (Foreign Affairs) as required, and none was undertaken.
- 3.118 These purchases were made with the Mission's funds. Four (4) of the five (5) amounts were transferred into a personal bank account in Miami, while the other amount was paid directly to the official in cash.
- 3.119 These funds were subsequently refunded in Venezuelan currency (BsF). This, however, does not negate the serious nature of this offence.
- 3.120 The transactions above represent misappropriation of Government funds which, under the Public Service Act 2007-41, could result in the dismissal of the offending person.

Update

It is my understanding that the officer was removed from the overseas posting.

CHAPTER 4

Audit of Statutory Boards, Government Companies and Controlled Entities

- 4.1 In accordance with Section 113 (1) of the Constitution of Barbados the Barbados Audit Office is required to conduct audits of all Statutory Boards, Government companies and other controlled entities. While the Audit Office conducts audits on a number of these entities, the majority are audited by auditors in the private sector.
- 4.2 The Audit Office reports to Parliament on the status of the audits of all Government entities annually. This includes the audits conducted by the Auditor General's Office and those conducted by auditors in the private sector. Although the majority of the entities are up-to-date in respect of their financial reporting, there are still some which are several years in arrears. The following is a status report on the audits of Government Statutory Boards conducted by the Audit Office:-

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

Barbados Boxing Board of Control

- 4.3 The Barbados Boxing Board of Control has responsibility for the promotion and regulation of boxing in Barbados. The Board receives an annual grant from the Barbados Government. Regulation 16 of the Control of Boxing Act requires the Auditor General to audit the accounts of the Board. The Boxing Board has however not submitted any accounts for audit since the financial year ended December 31, 1993.

- 4.4 For a number of years I have been reporting that the Boxing Board of Control has not been submitting accounts to be audited but little so far has been done by the parent Ministry to address this situation.

Barbados Community College

- 4.5 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 accounts for the financial year ended March 31, 2009 were audited during 2011. The accounts for the financial years ended March 31, 2010 and 2011 have not been presented for audit.

Barbados Defence Force

- 4.6 The audit of the accounts for the Barbados Defence Force for the financial year ended March 31, 2011 has been completed. No material errors were found in the accounts during the course of the audit.
- 4.7 There is however an issue as it relates to the Audit of the Pension Account. The Barbados Defence Force has not provided the necessary information for the Audit Office to verify payments made on behalf of soldiers' retirement benefits. Therefore, the information in respect of this account could not be verified.

Barbados Hospitality Institute

- 4.8 The Barbados Hospitality Institute, which falls under the Barbados Community College, conducts training for persons in the hospitality industry. The audit of the accounts of the Barbados Hospitality Institute for the financial years ended March 31, 2008 and 2009 were completed

during 2011. The accounts for the financial year ended March 31, 2010 have been submitted to the Audit Office and an audit will commence shortly. The accounts for the financial year ended March 31, 2011 have not been submitted for audit.

Barbados Liaison Service - Miami

- 4.9** The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. The accounts for the financial years ended March 31, 2009 and 2010 have been submitted and the audit will commence shortly. The accounts for 2011 are currently outstanding.

Barbados Liaison Service - Toronto

- 4.10** The Barbados Liaison Service in Toronto administers a programme relating to farm workers attached to farms in Canada. The accounts of the Barbados Liaison Service for the financial years ended March 31, 2009, 2010 and 2011 have been submitted for audit and these will commence shortly.

Caribbean Centre for Development Administration

- 4.11** The Caribbean Centre for Development (CARICAD) provides assistance to the countries of the Caribbean area for the purpose of improving their administrative capability. The accounts for CARICAD for the financial year ended March 31, 2011 have been audited.

Catastrophe Fund

- 4.12** The Catastrophe Fund, which was established in April 2006, provides financial aid to any low income earner who owns and occupies a chattel house valued at not more than \$125,000, and where that house is damaged or destroyed by a catastrophe. The accounts of the Catastrophe Fund for the financial years ended December 31, 2009 have been audited. The accounts for the 2010 financial year have not been submitted for audit and therefore remain outstanding.

Central Emergency Relief Scheme

- 4.13** The Auditor General is required under Section 14 of the Central Emergency Relief Scheme to audit the statements of income and expenditure of the Central Emergency Relief Fund. The accounts for the financial years ended December 31, 2006 to 2011 were not submitted for audit, and these audits therefore remain outstanding. The general aim of this fund is similar to that of the Catastrophe Fund and the rationale for its continued existence should be examined.

Central Liaison Service

- 4.14** The Central Liaison Service (Regional Security System) is an organization supported by certain Caribbean countries. Its purposes include assisting with the fight against illegal narcotics, assisting with relevant emergencies and combating threats to national security in member states. The accounts of the Central Liaison Service for the financial year ended March 31, 2011 are currently being audited and a report will be issued shortly.

Community Legal Services Commission

- 4.15** The Community Legal Services Commission provides legal aid to persons in the community who meet certain criteria. The accounts for the Commission for the financial years ended March 31, 2010 and 2011 have not been submitted and these audits remain outstanding. The accounts for the Commission had been previously up-to-date and action is required by management to have these accounts audited on a timely basis.

Erdiston Teachers' Training College

- 4.16** The Erdiston Teachers' Training College is an educational institution established for the training of teachers. The accounts for the College for the financial years ended March 31, 2010 and 2011 are currently being audited.

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 audit of the accounts of the National Assistance Board for the financial year ended March 31, 2011 will commence shortly.

National Insurance Fund

- 4.19** As I indicated in my previous report, the Audit Office has sought the assistance of private sector auditors to bring the audit of the National Insurance funds up-to-date.
- 4.20** The audit for 2003 commenced in January 2011 however pertinent accounting information was not made available to the auditors who have indicated that they were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.
- 4.21** The audit for 2004 also commenced but has been stalled because of the absence of information requested by the auditors. The Department has also indicated that an upgrade of its computer system is scheduled for 2012 which will result in competing demands for its staff who will be heavily involved in this process while at the same time required to assist with addressing audit queries.
- 4.22** I would suggest that the National Insurance Department carry out a review of its accounting and information systems especially record keeping and the processing of contributions. Unless adequate accounting schedules and records are provided to the auditors I will not be able to express an opinion on the financial statements.

The Public Enterprise Investment Fund

- 4.23** The Public Enterprise Investment Fund (PEIF) was established by legislation to receive revenues representing the proceeds from the disposal of an enterprise, or shares, or any other interests in an enterprise owned by Government, and to apply such resources to finance the repayment of public debt, rehabilitation of enterprises in the public sector and specific investment projects.

- 4.24** During 2010 the Act governing the PEIF was repealed, hence the assets and liabilities of this fund will be transferred to the Consolidated Fund. The cash assets were transferred, however the capital assets and loans have not been transferred to the Consolidated Fund to date.

Samuel Jackman Prescod Polytechnic

- 4.25** 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 October 1, in respect of the preceding financial year, Statements of Account audited by the Auditor General.
- 4.26** The audit of the Polytechnic has been in arrears for several years, however in 2011 the accounts for the financial years ended March 31, 2010 and 2011 were presented for audit.
- 4.27** The financial statements for the period 1998-2009 were not presented for audit. I was therefore unable to express an opinion on the fairness of these accounts.

Sanitation Service Authority

- 4.28** The audit of the accounts of the Sanitation Service Authority for the financial year ended March 31, 2008 was conducted during the year. The audits of accounts for the financial years ended March 31, 2009, 2010 and 2011 are currently outstanding. The audit of the Authority is slipping into a situation that is unacceptable and prompt action needs to be taken to have the accounts available for audit in a timely manner.

Severance Payment Fund

- 4.29** The accounts of the Severance Payment Fund for the financial years ended December 31, 2007, 2008 and 2009 were audited. The National Insurance Department has indicated that it wants to present the accounts of this Fund in compliance with International Financial Reporting Standards from 2010. There is however a challenge in determining certain balances. As a consequence there will be some delays in the submission of the accounts for 2010 for audit.

Sugar Factory Smoke Control Board

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

Sugar Industry Research and Development Fund

- 4.31** The Receipts and Payments Accounts for the financial year ended December 31, 2010 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.

Sugar Workers' Provident Fund

- 4.32** The Sugar Workers' Provident Fund provides pensions and funeral grants to persons previously employed in the Sugar Industry, and who were not entitled to a contributory or invalidity pension under the National Insurance and Social Security Act.

- 4.33** This audit of the accounts for the financial years ended December 31, 2005, 2006, 2007, 2008 and 2009 were completed during the year and reports issued. The 2010 statements have not been submitted for audit. The Department has indicated that it is seeking to produce these statements in compliance with the International Financial Reporting Standards from 2010 but it has faced some challenges in determining some account balances and this will result in a delay of this audit.

Training Fund

- 4.34** 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. This Section of the Act was subsequently repealed and the legal authority for this Fund is the Public Service Act. The financial records for the Training Fund for the year ended March 31, 2011 were reviewed, however no financial statements have been submitted for audit verification.

Training Loan Fund

- 4.35** 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. This Act was subsequently repealed and the legal authority for this Fund is the Public Service Act. The financial records for the Training Loan Fund for the years ended March 31, 2009, 2010 and 2011 were reviewed; however no financial statements have been submitted for audit verification.

Unemployment Fund

- 4.36 The audit of the accounts of the Unemployment Fund for the financial years ended December 31, 2007 and 2008 were completed during the year. The National Insurance Department which has responsibility for the preparation of these accounts has indicated that the preparation of the 2010 statements will be delayed as it seeks to produce statements in full compliance with the International Financial Reporting Standards. The Department has experienced some difficulties in the establishment of its contribution receivable and benefits payable balances. These accounts were previously reported on a cash basis.

Audits Conducted by Private Sector Auditors

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

Statutory Boards and Government Companies***Barbados Agricultural Credit Trust Ltd***

- 4.38 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. The audit of the accounts for the financial year ended June 30, 2011 has been completed.

Barbados Agricultural Development and Marketing Corporation

- 4.39** 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.
- 4.40** The BADMC has indicated that the audits of the accounts for the period 2005 to 2008 were finalised during 2011 and the 2009 audit is currently in progress.

Barbados Conference Services Ltd

- 4.41** 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. The audit of the accounts for the financial year ended March 31, 2011 has been completed.

Barbados Investment and Development Corporation

- 4.42** The Barbados Investment and Development Corporation (BIDC) was established under the Barbados Investment and Development Corporation Act, 1992 – 30 for the purpose of developing Barbados' industrial, off-shore financial, export and other related activities. The Corporation has

indicated that the audit of the accounts for the financial year ended March 31, 2010 has been completed. The audit for the financial year ended March 31, 2011 is outstanding.

Barbados National Oil Company Ltd

- 4.43** 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. The BNOC has not indicated that the financial statements for the period ended March 31, 2011 have been completed.

Barbados National Productivity Council

- 4.44** 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. The audit of the accounts for the financial year ended March 31, 2011 has been completed.

Barbados Port Inc.

- 4.45** The principal activity of the Barbados Port Incorporated is to manage the Port of Bridgetown, for the main purpose of enabling the Port to operate as a commercial activity. The audit of the accounts for the financial the year ended December 31, 2010 has been completed.

Barbados Tourism Authority

- 4.46** The principal activities of the Barbados Tourism Authority (BTA) are to promote, assist and facilitate the efficient development of tourism and to design and implement suitable marketing strategies for the effective promotion of the tourism industry.
- 4.47** The Authority has indicated that the accounts for the financial years ended March 31, 2008, 2009 and 2010 have been audited and are currently with the Board for consideration. The BTA has also indicated that the audit of the accounts for the financial year ended March 31, 2011 is currently in progress.

Barbados Tourism Investment Corporation

- 4.48** The principal activities of the Barbados Tourism Investment Corporation are the facilitation of tourism investment in Barbados and the development of its vested properties in private and public partnerships.
- 4.49** The audit of the accounts for the financial year ended March 31, 2007 has been completed. The Corporation has indicated that the audits of the accounts for the financial years ended March 31, 2008, 2009 and 2010 are in progress.

Barbados Vocational Training Board

- 4.50** The National Training Board was set up under the Occupational Training Act, 1979, Cap. 42 to ensure an adequate supply of trained manpower through occupational training for apprentices and trainees. The name of the Board was subsequently changed to the Barbados Vocational Training Board (The Board) under Section (2) of the Technical and Vocational

Educational Training Act, 1994 - 11. The Mission of the Board, however, has remained unchanged.

- 4.51** The management of the Training Board has reported that the audit of the accounts for the financial year ended March 31, 2006 is in progress, and the audits are in arrears due to lost data, errors and scheduling problems with auditors. This was also the position reported in my last report.
- 4.52** The Board has indicated that it is seeking to have the audit for three years completed in 2012. It will therefore take some time before these audits are up-to-date.

Barbados Water Authority

- 4.53** The Barbados Water Authority (BWA) was established by the Barbados Water Authority Act 1980 - 42 to take over the functions, rights and liabilities of the Waterworks Department on the "appointed day", which is regarded as April 1, 1981.
- 4.54** The audit of the accounts for the financial year ended March 31, 2007 has been completed. The Authority has indicated that the audits for the financial years 2008 and 2009 are to be completed in 2012.

Caribbean Broadcasting Corporation

- 4.55** The principal activity of the Caribbean Broadcasting Corporation (CBC) is the provision of broadcasting services through radio and television. The audit of the accounts of the Corporation for the financial year ended 2010 has been completed. The audits for the financial year ended March 31, 2011 is outstanding.

Caves of Barbados Ltd

- 4.56** Caves of Barbados Ltd (CBL) is mandated under the Caves Act 2000 - 12 to manage and develop Harrison's Cave and any other caves in Barbados. CBL has indicated that the audit report for 2009 is being reviewed by the Board and the audits for 2010 and 2011 will commence during April 2012.

Child Care Board

- 4.57** The principal activities of the Child Care Board are to provide and maintain child care institutions for the safe keeping of children in need of care and protection; and to make grants to voluntary organizations or bodies operating child care institutions. The audit of the accounts for the financial year ended March 31, 2010 has been completed. The audit for the financial year ended March 31, 2011 is outstanding.

Enterprise Growth Fund Limited

- 4.58** The principal activity of the Enterprise Growth Fund Limited (EGFL) is the provision of loan financing and venture capital to dynamic, small and medium sized Barbadian companies in the productive sectors. EGFL also provides business advisory services and technical assistance to its client companies. The audit of the accounts for the financial year ended December 31, 2010 has been completed.

Fair Trading Commission

- 4.59** 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.

- 4.60** The Commission is required to promote efficiency and competitiveness, and improve standards of service and quality of goods and services supplied by service providers and business enterprises over which it has jurisdiction. The audit of the accounts for the financial year ended March 31, 2011 has been completed.

Grantley Adams International Airport Inc.

- 4.61** The Grantley Adams International Airport Inc. (GAIA) is responsible for the commercial operations and management of the airport in accordance with the Grantley Adams International Airport (Transfer of Management and Vesting of Assets) Act (Act 2003 - 3).
- 4.62** The audit for the financial year ended June 30, 2010 has not been completed. The audit of the accounts for the financial year ended June 30, 2011 is however currently outstanding.

Hotels and Resorts Limited

- 4.63** Hotels and Resorts Ltd. was incorporated under the Laws of Barbados on December 27, 1995. The principal activity of Hotels and Resorts Ltd. is the investment in, and development of hotel premises.
- 4.64** The audit of the accounts for the financial year ended December 31, 2009 has been completed. The Company has indicated that the audit work for the 2010 financial year is currently in progress and the audit for 2011 is scheduled to commence in April 2012.

Islandcrafts (Barbados) Inc.

- 4.65** The principal activity of Islandcrafts (Barbados) Inc. is the sale and marketing of indigenous handicraft items. The audit of the accounts for the financial year ended March 31, 2007 has been completed. The entity has indicated that the audit of the accounts for the financial years 2007 to 2009 has commenced but has not been completed.

National Conservation Commission (NCC)

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

National Council on Substance Abuse

- 4.68** The principal activity of the National Council on Substance Abuse (NCSA) is to advise the Ministry of Home Affairs on measures for the eradication or control of substance abuse.
- 4.69** The NCSA has submitted completed financial statements for the years ended March 31, 2008. The audits for the financial years ended March 31, 2009, 2010 and 2011 are therefore outstanding.

National Cultural Foundation

- 4.70** The principal activities of the National Cultural Foundation (NCF) are to stimulate and facilitate the development of culture, organize and assist in cultural activities and develop, maintain and manage theatres and other cultural facilities and equipment provided by the Government of Barbados.
- 4.71** The Foundation has indicated that the audit of the accounts for the financial years ended December 31, 2009 and 2010 has been completed, and that it is awaiting their submission by their auditors. The audit for 2011 is scheduled to commence shortly.

National Housing Corporation

- 4.72** The National Housing Corporation is a state agency which has responsibility for the development of land and the construction of housing units for sale or rent to low and middle-income persons. The audit of the accounts of the Corporation for the financial year ended March 31, 2007 has been completed. The audits for the financial years ended March 31, 2008 to 2011 are outstanding.

National Petroleum Corporation

- 4.73** The National Petroleum Corporation (NPC) has as its principal activity the supply of natural gas to industrial, commercial and domestic customers. The audit of the accounts of the NPC for the financial year ended March 31, 2009 has been completed. The Corporation reported that the audit of the accounts for the financial year ended March 31, 2010 is currently in progress.

National Productivity Council

- 4.74** The National Productivity Council has indicated that the Audit of the accounts for the financial year ended March 31, 2011 has been completed. This is a significant improvement from the previous year when the audit was in arrears.

National Sports Council

- 4.75** The principal activities of the National Sports Council (NSC) are to maintain and develop sporting facilities provided for public use, and to stimulate the development of sports in Barbados. The audit of the financial statements for the year ended March 31, 2011 has been completed.

Queen Elizabeth Hospital

- 4.76** The Queen Elizabeth Hospital (QEH) has as its principal activities the provision of medical care for patients, facilitating the provision of medical education and research, and providing facilities and technical support for education and training in nursing and other health related professions.
- 4.77** The audit of the accounts for the financial years ended March 31, 2006 has been completed. The audits for the financial years ended March 31, 2007 to 2011 are outstanding.

Rural Development Commission

- 4.78** The Rural Development Commission (RDC) was incorporated on August 21, 1995 under the Rural Development Commission Act, 1995-12. Its

principal activity is to improve the quality of life of persons living in rural communities in Barbados.

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

Student Revolving Loan Fund

- 4.80** The principal activity of the Student Revolving Loan Fund (SRLF) is to assist in the educational process through the provision of loans. The audit of the accounts for the financial year ended March 31, 2010 has been completed. SRLF has reported that the audit of the accounts for the financial year ended March 31, 2011 will commence in 2012.

Technical and Vocational Education and Training (TVET) Council

- 4.81** 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.
- 4.82** The Council has indicated that the audit of the accounts for the financial year ended March 31, 2011 has been completed.

Transport Board

- 4.83** The Transport Board's principal activity is the provision of transportation to the general public. The Board has indicated that the audit for the financial year ended March 31, 2009 is being finalized. The Board has reported that it has had some challenges with its accounting system, the confirmation of balances owed to a number of state agencies, and verification of certain capital assets.

Urban Development Commission

- 4.84** 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.
- 4.85** The Commission was reported in the 2010 Auditor General's Report as indicating the audits for the financial years ended March 31, 2006 and 2007 were about to commence. However, no additional information on the status of these and subsequent audits has been provided as requested by the Audit Office.

Audit of Secondary Schools

4.86 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 March 31. The status of the accounts of these schools at December 31, 2011 were as follows:

4.87 The audits of the accounts of the schools listed below have been completed for the financial year ended March 31, 2011. The accounts of these schools are therefore up-to-date as required by the Education Act.

- ***Alexandra School***
- ***Alleyne School***
- ***Alma Parris Memorial Secondary School***
- ***Deighton Griffith Secondary School***
- ***Garrison Secondary School***
- ***Grantley Adams Memorial School***
- ***The Lodge School***
- ***Parkinson Memorial School***
- ***Queen's College***
- ***Springer Memorial Secondary School***
- ***St. James Secondary School***
- ***St. Leonard's Boys' Secondary School***
- ***St. Lucy Secondary School***
- ***St. Michael School***

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

- ***Christ Church Foundation School***

4.89 The audit of the accounts of the Christ Church Foundation School has been completed for the financial year ended March 31, 2010. The audit for the financial year ended March 31, 2011 is outstanding.

- ***Coleridge and Parry School***

4.90 The audit of the accounts of the Coleridge and Parry Secondary School for the financial year ended March 31, 2007 has been completed. The audits for the financial years ended March 31, 2008 to 2011 are outstanding.

- ***Combermere School***

4.91 The audit of the accounts of the Combermere School for the financial year ended March 31, 2011 is outstanding.

- ***Ellerslie Secondary School***

4.92 The audit of the accounts of the Ellerslie Secondary School has been completed for the financial year ended March 31, 2009. The audits for the financial years ended March 31, 2010 and 2011 are currently outstanding.

- ***Harrison College***

4.93 The audit of the accounts of Harrison College has been completed for the year ended March 31, 2010. The audit for the financial year ended March 31, 2011 is outstanding.

- **Lester Vaughan School**

- 4.94** The Lester Vaughan School has reported that the audits of the accounts for the financial year ended March 31, 2010 and 2011 are in progress.

- **Princess Margaret Secondary School**

- 4.95** The audit of the accounts of the Princess Margaret Secondary School for the financial year ended March 31, 2009 has been completed. The audit for the financial year ended March 31, 2010 and 2011 are outstanding.

- **St. George Secondary School**

- 4.96** The St. George Secondary School has indicated that the audits for the financial years ended March 31, 2009 and 2010 have been completed. The audit for the financial year ended March 31, 2011 is outstanding.

General Observations

- 4.97** 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.

- 4.98** 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.

- 4.99** 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.