

# **BARBADOS AUDIT OFFICE**



## **REPORT**

**of the**

## **AUDITOR GENERAL**

**for the year**

## **2006**

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**of the**  
**AUDITOR GENERAL**  
**for the year**  
**2006**

Office of Auditor General  
Weymouth Corporate Centre  
Roebuck Street  
St. Michael BB11080  
BARBADOS

2<sup>nd</sup> February, 2007

His Honour Mr Ishmael A. Roett, M.P.

Speaker of the House

Parliament Building

BRIDGETOWN

Sir,

In accordance with Section 113 (3) of the Constitution of Barbados and Section 28 (3) of the Financial Administration and Audit Act, Chapter 5, I forward for laying before the House of Assembly my Report of the examination of the accounts of the ministries and departments of Government and of other financial statements and accounts required to be audited by me in respect of the financial year ended 31st March, 2006.

A copy of the Report is transmitted to the Senate for information, in accordance with Section 28 (4) of the above mentioned Act.

Yours faithfully,

**Leigh E. Trotman**  
**Auditor General**

## **MISSION STATEMENT**

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

## **THE GOAL**

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

# Table of Contents

<b>Auditor General's Overview</b>	1
<b>Chapter 1 – General Audit Issues</b>	
Audit Mandate.....	5
Scope of Audit.....	5
Special Audits of Urban and Rural Development Commissions .....	6
Other Matters.....	7
General Audit Issues.....	7
Training and Conferences.....	9
Transition.....	10
Acknowledgements.....	10
<b>Chapter 2 – Analysis of Financial Statement of the Accountant General</b>	
Introduction.....	11
Consolidated Fund.....	12
Statement of Current Assets and Liabilities.....	16
Contingent Liabilities.....	17
Other Funds held at the Treasury.....	18
<b>Chapter 3 – General Audit Concerns and Observations on Ministries and Departments</b>	
Audit Mandate.....	24
Audit Purpose and Scope.....	24
<b>Ministry of Health</b> .....	26
Psychiatric Hospital.....	30
Barbados Drug Service.....	35
<b>Ministry of Agriculture and Rural Development</b> .....	39
<b>Office of the AttorneyGeneral</b> .....	42
Police Department.....	44

# Table of Contents

## **Ministry of Finance**

Inland Revenue Department .....	46
Land Tax Department.....	48
Customs and Excise Department .....	48

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

Highway Construction and Maintenance.....	56
Major Works and Renovations.....	62
Vehicle and Equipment Workshop.....	65
Barbados Licensing Authority.....	67

<b>Prime Minister's Office.....</b>	<b>71</b>
-------------------------------------	-----------

## **Ministry of Home Affairs**

Post Office.....	73
------------------	----

## **Ministry of Housing and Lands**

Insurance of Government Buildings.....	75
--	----

## **Chapter 4 – Special Fund and Other Accounts**

BarbadosCommunity College.....	78
Barbados Hospitality Institute .....	78
BarbadosDefence Force.....	79
Barbados Boxing Board of Control.....	79
Barbados Liaison Service.....	79
Caribbean Institute for Meteorology and Hydrology.....	81
Caribbean Centre for Development Administration.....	81
Central Emergency Relief Fund.....	81
Central Liaison Service.....	81
Community Legal Services Commission.....	82
Erdiston Teachers' Training College .....	82
Land Reclaimers Limited .....	82
National Assistance Board.....	83
National Insurance Fund.....	83
Public Enterprise Investment Fund.....	83

# Table of Contents

Sugar Workers' Provident Fund.....	84
Severance Payment Fund.....	84
Samuel Jackman PrescodPolytechnic.....	84
Sanitation Service Authority.....	85
Social Investment Fund.....	87
Sugar Factory Smoke Control Board.....	87
Sugar Industry Research and Development Fund.....	87
Special Audit of Training Funds.....	87
Unemployment Fund.....	100
General Observations.....	100
Appendices.....	101

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## Auditor General's Overview

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This is my first Annual Report to Parliament as Auditor General, having been appointed on 20<sup>th</sup> July, 2006. In this Report I will be outlining the work of the Audit Office for 2006 and some of the challenges facing this organization as it seeks to position itself to become even more effective than it has been in the past.

2. The Audit Office is currently facing a number of challenges. One of these involves the recruitment and retention of quality staff to enhance its organizational capacity. This matter is being addressed by a re-organizational proposal which is currently before the Ministry of the Civil Service. In my view, the Audit Office as presently constituted and staffed cannot adequately fulfill its mandate. It is therefore hoped that during 2007 the Office will be reorganized with a staff complement capable of meeting the challenges of its mandate as well as meeting the expectations of our stakeholders such as Parliament and the people of Barbados.
  
3. The Government of Barbados has signaled that its accounts will be reported on an accrual basis from the 2007/2008 financial year and this will require the repositioning of the Office to respond to new professional accounting standards. The recording of payables and assets has been deficient in ministries and departments and this deficiency will certainly pose a major challenge in accurately identifying and valuing assets and liabilities. Our challenge is to ensure that we perform the due diligence required to determine whether Government's overall summary financial statements include any significant misstatements, and this will become more challenging as these statements include financial statements of the whole of Government's operations including statutory boards and other state entities.



4. A third challenge is to provide Parliament with assessments on how well state entities are managing their programs and services. This is a more complex type of assessment but I believe that this type of assessment is critical for a reformed Public Service. Ministries and Departments should not only be providing end of year financial reports but also performance reports on their results when compared with targets set at the beginning of the financial year. In this manner, Parliament would be more informed about the activities and performances of these agencies.
5. The independence of the Office of the Auditor General needs to be further strengthened. The Report of the Constitution Review Commission (1998) made a number of recommendations in respect of the Audit Office and some of these recommendations have been implemented. However, I would like to see some of the additional recommendations introduced at the earliest possible opportunity.
6. One of the recommendations of the Commission relates to the use of the annual budget of the Audit Office. Currently in our annual budget, monies voted for one item cannot be used to offset other items where there is a shortfall. This can necessitate a request for a supplementary provision involving even small sums of monies. In addition, when there are shortages of staff as is currently the case, the Office is not in a position to use its budgeted funds to contract out some of its work thereby keeping its audit work up to date. I am of the opinion that the Budget of the Office should be provided on a lump sum basis as this would allow the Office to better utilize its funds. This process would be in keeping with the recommendations of the Constitution Review Commission, and worldwide trends for Audit Offices. The independence and efficiency of the Audit Office is clearly compromised when it does not have full control over its budget allocation.
7. Another area in which I would like to see some changes in respect of the Office relates to the recruitment of staff. The Office should have delegated responsibility for the recruitment of its staff, as this would also be in keeping with the recommendations of the Commission's Report and worldwide trends in other Audit Offices where it is generally accepted that audit offices should not be in a position to be influenced by any organizations they audit. The current situation clearly affects the independence of the Office. In this regard it should be noted

that a committee of Parliament, the Public Accounts Committee, has been given an oversight role of the Office as it relates to staffing and funding matters.

- 8.** The relation between the Public Accounts Committee and the Office could also be enhanced. In many jurisdictions the Audit Office and the Public Accounts Committee discuss the audit plans of the Office at the start of the audit cycle and the concerns of the Committee are taken into account when the Office is formulating its work programs.
- 9.** I would like to thank my staff for their contribution to the work of the Office as we seek to provide Parliament and the people of Barbados with independent assessment and advice to enhance accountability and performance across the Public Sector.
- 10.** The way forward is challenging but my overall objective is to lead the Barbados Audit Office in providing the best possible service to Parliament while meeting all auditing standards of the profession.

# CHAPTER 1

## General Audit Issues

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### Audit Mandate

**T**his Report is a compilation of the results of the audit of accounts of Ministries and Departments in accordance with the provisions of the Financial Administration and Audit Act.

- 1.2** Section 113 of the Constitution of Barbados requires the Auditor General, at least once in every year, to audit and report on the accounts of the Supreme Court, the Senate, the House of Assembly and all departments and offices of the Government. The mandate of the Office is further outlined under Section 26 of the Financial Administration and Audit Act, Cap. 5, hereafter referred to in this Report as F.A.A. Act, Cap. 5. The section of this Act which sets out the responsibility of the Audit Office is listed at Appendix 1.
- 1.3** I have examined the accounts of the Ministries and Departments of Government for the year ended 31<sup>st</sup> March, 2006. I have also examined the accounts of such other public authorities and regional agencies as prescribed by law or agreement. This Report contains significant observations and recommendations arising from these audits. Where Ministries and Departments or other agencies of Government have provided responses to matters raised they have been included in the Report.

### Scope of Audit

- 1.4** The F.A.A. Act, Cap. 5 places the onus for the proper discharge of financial administration and the preparation of financial statements on the Accountant General and Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on the accounts and statements examined based on the audits carried out by his Office.
- 1.5** The audits were conducted in accordance with the Constitution of Barbados, the F.A.A. Act, Cap. 5 and administrative directives, applying generally accepted auditing standards. The International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards were used as guidelines in the conduct of audits. The audits conducted do not in anyway relieve Accounting Officers of their responsibility to ensure that there are adequate internal controls and that the Financial Rules and other regulations are adhered to.
- 1.6** An audit includes an examination on a test basis of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The audits do not cover or draw conclusions upon areas that have not been examined.
- 1.7** The audits were not designed to disclose every error in the accounts but to ascertain whether the accounts were kept using acceptable systems, were punctually and properly posted, that checks against irregularities and fraud were adequate and effective, and to give reasonable assurance that the financial statements are free of material misstatements.
- 1.8** The audits were also designed to evaluate internal controls and to a limited extent, the efficiency of the use of resources in Ministries and Departments. Audit findings are discussed with the Ministry or Department concerned and the entity is requested to provide a written response to any matters conveyed in our management letter.

- 1.9** Provided at the end of this Report is my opinion on the Financial Statements of the Government for the year ended 31<sup>st</sup> March, 2006 along with the Statements of Assets, Liabilities, and the Consolidated Fund as well as a Statement of Public Debt and Sinking Fund.

### **Special Audits of the Urban and Rural Development Commissions**

- 1.10** In addition to the Financial Audits of Ministries and departments, the Office completed two **special audits** during the year. These were in respect of the **Urban and Rural Development Commissions**. These special audits were published as separate volumes and transmitted to the House of Assembly in July 2006.

### **Other Matters**

- 1.11** During the year, I have also conducted a survey detailing the progress of the audit of accounts of all Statutory Boards which receive all or part of their funding from the Consolidated Fund. The audits of most of these entities were up to date. However, there were a few that were several years in arrears. The results of this survey are included in this Report at Appendix 2.
- 1.12** I can report that I was not subject to the direction or control of any persons or authority in exercising my auditing and reporting functions.

### **General Audit Issues**

- 1.13** There are a number of issues that the management of Government agencies need to pay greater attention to. These include cash and inventory management

and the adequacy of insurance coverage for vehicles and buildings. The agencies also need to identify the risks that may hinder them from adequately carrying out their mandates, and develop strategies to reduce these risks.

- 1.14** In 2006, in excess of \$2 million was reported stolen or missing from Ministries and Departments and some of these losses were not detected in a timely manner. (See Appendix 3) Poor inventory management practices were also observed, with many instances of items purchased at considerable expense to Government not adequately insured or properly accounted for.
- 1.15** The insurance coverage of Government properties continues to be deficient. One would have thought that given our recent experiences with the fire at Glendairy Prison where it was found to be only insured for a fraction of its value, the relevant lessons would have been learnt. Many other buildings continue to be underinsured, exposing the Government to the likelihood of huge losses should they be damaged or destroyed.
- 1.16** Inadequate internal control is also an area of concern. Internal controls relate to the institution of safeguards to ensure that Government's assets and records are properly protected and that fraud or misappropriation cannot be easily perpetuated. One control measure commonly used by Government relates to the process for approving payments. This is generally carried out by two persons as a means of control. These officers should ensure that the service for which payments are being made has been performed and that all criteria for which the payment is being made have been fulfilled. Our investigations have revealed that in hundreds of cases this control mechanism has not been complied with. Often approval was done by one person contrary to the Financial Rules.
- 1.17** The issue of advance payments also features prominently in this Report. For example, contractors working for the Ministry of Public Works and Transport had been paid millions of dollars for work before it was performed. There appears to be a breakdown in the payment controls process at this Ministry.

- 1.18** Inadequate record keeping has also been a source of concern. The Government has indicated that the system of accounting will be changed from acashto an accrual basis by April 2007. For this process to be successful, Ministries and Departments will be required to keep records of building, furniture and other capital assets which will form part of the balance sheet of Government's financial statements. This will require that these assets be properly valued and adequately accounted for. However, there are some Ministries/Departments which have not taken this activity seriously enough and this has implications for proper accountability and a fair presentation of the Financial Statements.
- 1.19** In addition to physical assets, financial assets are not being adequately accounted for. Our current Financial Rules require each revenue collecting department to submit reports on the level of outstanding arrears to the Audit Office at the end of the financial year but this is hardly done by Ministries and Departments. This is one area that needs urgent attention. Government should be in a position to know what the outstanding arrears are, the factors leading to any increase and the action taken to reduce or contain their build up. It should also be noted that these arrears will be listed as assets under the accrual system. These arrears need to be properly assessed to ensure that the correct amounts are included.
- 1.20** There were also instances in which contractors or suppliers were given contracts without the tendering process being employed as required by the Financial Rules. Obtaining additional quotations is good business sense, in that it gives the Ministry or Department an idea of what the market prices are, thus allowing for better decision making and greater transparency in the process.
- 1.21** Information technology is playing an increasing role in the operations of Government. The Treasury Department and most of the revenue collecting departments have computerized information systems, and this has resulted in the Audit Office requesting information in an electronic form for analysis and review. However some of these departments find it very difficult to supply the Office with the required information in electronic format and this factor has implications for the quality of audit work performed.

**1.22** This deficiency has often resulted in the Office being unable to verify the relevant transactions which places the operations of the various entities at greater risk, since there is no oversight being provided. My Office is willing to work with the departments to overcome these issues.

**1.23** These were some of the major issues arising out of the audits for the financial year ending 31<sup>st</sup> March, 2006.

### **Training and Conferences**

**1.24** The Audit Office was represented at a number of conferences and workshops during the year. Included among these was the Seventh Congress of the Caribbean Organization of Supreme Audit Institutions (CAROSAI) which was held in the Bahamas during the period 16<sup>th</sup> to 20<sup>th</sup> October, 2006. At this conference the Auditor General of Barbados was elected to the Executive Council of this Organization.

**1.25** The primary objectives of CAROSAI are to promote the interchange of ideas, experience, and to provide opportunities for training and continued education amongst audit institutions in the Caribbean. This Organization has secured funding from international financial institutions to strengthen the training capacity of its members and has conducted a number of regional workshops at which the Barbados Audit Office was represented.

**1.26** Other workshops and conferences at which the Office was represented include an international conference held by the International Consortium on Government Financial Management held in Miami during the period 8<sup>th</sup> to 12<sup>th</sup> May, 2006. The program focused attention on how Government's Financial Officers can use good



financial management practices to fight corruption, improve transparency and strengthen accountability.

- 1.26** The Office was also represented at a training course entitled “Public Private Partnerships, Strategies, Methods and Project Structuring Techniques.” This course was offered by the Training Division and was delivered by representatives from the Institute of Public Private Partnership Inc. of Washington, D.C. In light of the Government’s decision to be involved in these types of partnerships, more of our decision makers need to be exposed to these types of workshops.

### **Transition**

- 1.27** During the course of the year, the Office lost two of its longstanding members. These were Auditors Mrs Judy Tull and Miss June Daniel both of whom spent over 30 years of unbroken service in the Audit Office. Our condolences go out to the families of these Officers.

### **Acknowledgements**

- 1.28** I also take this opportunity to thank my predecessor, Mr. Hallam Phillips, the Auditor General for the last seven years, for his contribution to the Audit Office, and his dedication to the Public Service over a thirty-four year period. Mr. Phillips retired from Office on 20<sup>th</sup> July, 2006. I wish him the very best in his retirement.
- 1.29** Appreciation is extended to members of staff for their support during the year. The support and co-operation of Accounting officers, Heads of Departments, other state agencies and their staff is also appreciated.

## CHAPTER 2

# Analysis of the Financial Statements of the Accountant General

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### INTRODUCTION

**T**he financial statements of the Accountant General, for the year ended 31<sup>st</sup> March, 2006, were submitted to the Barbados Audit Office in accordance with Section 12(2) of the F.A.A. Act, Cap. 5. The Accountant General is required to prepare, sign and submit financial statements to the Auditor General within four months after the close of the financial year. The Annual Report of the Accountant General was received on the 18<sup>th</sup> July, 2006 and this is within the stipulated time frame.

- 2.2** The Annual Report of the Accountant General includes a statement of the Consolidated Account and other funds administered by the Treasury as well as Statements of Public Debt and Sinking Fund and a statement of loans for which the Government has given a guarantee.
- 2.3** These accounts do not give a comprehensive view of all Government operations since they do not include physical assets, accounts of companies, statutory boards and certain other entities of the Government.
- 2.4** This Report should be read in conjunction with the Annual Report of the Accountant General for the 2005 to 2006 financial year. My analysis and observations relating to the audit of the Statements listed in the Accountant General's Report are as follows: -

## **CONSOLIDATED FUND**

- 2.5** The Consolidated Fund is the main Fund of the Government of Barbados into which all revenues are paid and out of which sums are charged for the purpose of meeting the cost of running the Public Service.
- 2.6** Revenues include all levies, taxes, rates, duties, fees, penalties, forfeitures, rents and dues, proceeds of sale and other receipts of the Crown from whatever sources arising over which Parliament has the power of appropriation. This does not include the proceeds of short term loans such as Treasury Bills.
- 2.7** Expenditure comprises those charges arising by virtue of any provision of the Constitution or any other enactment, and amounts approved by Parliament. Expenditure does not include advances to state enterprises made from the Consolidated Fund.

### **Revenue**

- 2.8** Revenue is classified as either current or capital. Current revenue is primarily derived from taxes while capital revenue is the proceeds of medium and long term loans.
- 2.9** For the financial year, current revenue was reported as \$2.165 billion and this was \$246.6 million more than in the 2004/2005 financial year. The major contributing factor to this increase was Value Added Tax \$50.6 million, Corporation Tax \$78 million and Income Tax \$31.4 million. Import Duties however declined by \$50.5 million.

### **Understatement of Capital Revenue**

- 2.10** Capital revenue (the proceeds of borrowing) was reported at \$571.6 million. There were however a number of discrepancies which affected what was reported by the Accountant General. These discrepancies were as follows:-

- (i) An amount of US \$5,584,501 borrowed from the Caribbean Development Bank under the "Industrial Credit Loan" was not brought to account in the records of the Treasury. This omission resulted in an understatement of revenue by Bds \$11.065 million.
- (ii) A loan from First Caribbean International Bank in respect of the Sanitation Service Authority of US \$5 million was reported as Bds\$9.987 million resulting in an understatement of revenue by \$12,422.00.
- (iii) An Amount of one (1) million Euros in grant financing from the European Union was not brought to account in the records of the Treasury during the financial year. This grant was deposited to the Treasury Account in the Central Bank in February 2006. As a result of this omission capital revenue was short stated by some Bds \$2.381 million.

**2.11** These errors in the accounts show the need for prompt reconciliation of the Treasury's bank accounts at the Central Bank with the Treasury's records and this should result in the bringing to account of all deposits made to the Treasury accounts by the Central Bank. These differences resulted in Capital Revenue being understated by \$13.8 million.

**2.12** ***Treasury's Response***

*The amount of US \$5,584,501.48 related to a loan to the Government of Barbados drawn down from the Caribbean Development Bank (CDB) under the "Industrial Credit Loan". The relevant information was not available in order to bring the transaction to account before the Accountant General's Annual Report was completed. This transaction will be brought to account at the end of the 2006/2007 financial year when the accumulated balance of the Consolidated Fund is computed as part of the opening balance, as a prior period adjustment under accrual accounting.*

*The Accountant General did not receive any information relating to the one million Euro transaction prior to it being recorded in August 2006, when the advice was received from the Central Bank of Barbados.*

## Statement of Consolidated Fund Revenue and Expenditure

**2.13** A summary of the Consolidated Fund's revenue and expenditure was as follows:-

	\$	\$
Current Revenue	2,142,753,048	
Capital Revenue	571,625,685	
Post Office Revenue	<u>22,184,056</u>	
<b>Total Revenue</b>		2,736,562,789
Current Expenditure	2,272,323,041	
Capital Expenditure	253,148,115	
Post Office Expenditure	<u>25,742,624</u>	
<b>Total Expenditure</b>		<u>2,551,213,780</u>
<b>Deficit /Surplus</b>		<u><b>185,349,009</b></u>

**2.14** The surplus on the Consolidated Fund is shown as \$185,349,009, and this indicates that revenues were in excess of expenditure by this amount. The surplus cash was utilised in the following manner:-

- Advance to the Barbados Tourism Investment Inc. \$85 million
- Advance to Enterprise Growth Fund \$30 million.
- Advance to Fund Excess \$5 million
- Increase in bank balances \$58.3 million.

## **Expenditures**

**2.15** There were several items of expenditure in the Accountant General's Annual Report which appeared to be incorrect. These differences resulted from posting errors and omissions. Examples were as follows:-

- (i) An amount of \$282,000 in expenditure in respect of the Prison was cancelled but however appeared as expenditure, resulting in an overstatement of the accounts.
- (ii) Under the Ministry of Social Transformation, Subprogram 070: a \$20,000 adjustment was posted in error, resulting in this Program's account being overstated.
- (iii) A payroll journal amount of \$33,032.09 in respect of the Ministry of Agriculture, Subprogram 160, was omitted from the ledger, resulting in an understatement of the accounts.
- (iv) Expenditure under the Ministry of Health, Subprogram 383, was overstated by \$48,537.00. The expenditure should have been \$40,089,440.77 but was reported as \$40,137,977.77, resulting in the overstatement.

**2.16** These errors suggest that this matter needs to be urgently addressed to ensure the integrity of the system and the accuracy of the Accountant General's Annual Report.

## **2.17 Treasury's Response**

*It should be noted that all transactions of an expenditure nature originate at the departments whose responsibility is to ensure that all*

*transactions are recorded and accounted for in the Votes. Any discrepancies should be brought to the attention of The Treasury for investigation and further action.*

*All discrepancies will be investigated and the necessary action taken as we re-state the financial statements at the end of the year as part of the process of transitioning to the accrual basis.*

## STATEMENT OF CURRENT ASSETS AND LIABILITIES

### Loans to State Agencies

- 2.18** Loans from the central Government to state agencies totaled \$306,880,163.30 at 31<sup>st</sup> March, 2006; this was an increase of \$119,854,152 from the previous year. Section 25A of the Financial Rules gives the Government the authority to grant loans to governmental and non-governmental enterprises. It also requires that these loans shall be secured by way of a loan agreement or debenture mortgage, the terms of which are to be agreed by Cabinet.
- 2.19** In 2003 the Government of Barbados made a loan of \$145,328,264.00 to Hotels and Resorts Ltd. The loan agreement stipulated that interest and principal repayments should commence from 30<sup>th</sup> June, 2006, however interest would accrue from the date of the loan. At the 31<sup>st</sup> March, 2006 interest payments due were in excess of \$37 million.
- 2.20** The loan to Hotels and Resorts Ltd is currently listed as an Advance in the accounts of the Treasury. An assessment of this investment should be made to see if it is irrecoverable. Currently there is not enough information available on the financial status of Hotels and Resorts Ltd to make this assessment.
- 2.21** The Caribbean Broadcasting Corporation was granted a loan of \$20,609,446.00. The loan was in two parts with an amount of \$8 million to be converted into equity over a four year period, and an amount of \$11 million at an interest rate of \$7.25 per annum on the reducing balance accruing daily. Interest and principal repayments were due from 31<sup>st</sup> October, 2003. To date, no interest or principal repayment has been made and interest due on the loan stood at \$4.051 million at 31<sup>st</sup> March, 2006. The decision of the Cabinet has not been adhered to as it relates to the equity injection of \$8 million.



## CONTINGENT LIABILITIES

**2.22** Contingent Liabilities are loans guaranteed by the Government of Barbados on behalf of state enterprises and other agencies. During the year a number of loans were added to the list of guarantees and these were as follows:-

<b>State Agency</b>	<b>Amount Guaranteed</b>
	<b>\$</b>
Barbados Transport Board	10,000,000
Barbados Investment Development Corporation -	7,901,983
Natural Petroleum Corporation	501,911
Caribbean Broadcasting Corporation	10,500,000
Caves of Barbados	1,443,296
QueenElizabethHospital	25,000,000
Barbados National Terminal Company Ltd -	29,000,000
Coast Guard Relocation Inc	17,000,000
3s Structural Steel Solutions Ltd USA	7,000,000
Commonwealth Construction Canada Ltd	<u>40,000,000</u>
<b>Total</b>	<b><u>148,347,190</u></b>

**2.23** During the course of the year a number of contingent liabilities totaling \$151 million were taken over by the Central Government and now form a part of the National Debt. These included the following:-

	\$
National Housing Corporation	7,500,000
Transport Board	36,941,571
Barbados Tourism Investment	25,000,000
Barbados Tourism Authority	25,000,000
Barbados Agricultural Management Company	<u>56,666,667</u>
<b>Total</b>	<b><u>151,108,238</u></b>

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

##### **Export Promotion and Marketing**

**2.24** In the Accountant General's Report the figure, \$30,501,385.53, listed under the Statement of Special Funds as "Enterprise Growth Fund" should have been under the "Export Promotion and Marketing Fund" instead.

##### **Sugar Export Levy Fund**

**2.25** The balance in this account was overstated by twenty thousand dollars (\$20,000.00). The revenue from the Sugar Export Levy should have been distributed with nine tenths (9/10) going to the Capital Investment Fund and one tenth (1/10) going to the Small Holders Mechanisation Fund. However, the total amount was allocated to the Sugar Export Levy Fund resulting in this Fund being over stated by \$20,000.00 and the Small Holders Mechanisation and Capital Funds being understated.

## **Public Enterprise Investment Fund**

- 2.26** During the course of the financial year shares in the Insurance Corporation of Barbados Ltd were sold for \$51 million. The Public Enterprise Investment Act which governs the operations of this Fund requires that funds raised from the sale of shares in some Government operations including the ICBL should be paid into the Public Enterprise Investment Fund. However, a total of \$5.1 million remained in the Treasury Account. It was not clear on what basis these funds remained in the Treasury's Accounts since they should have been paid into the Public Enterprise Investment Fund.

## **Enterprise Growth Fund**

- 2.27** A total of \$30 million was advanced from the Treasury Account to the Enterprise Growth Fund during the course of the financial year. Rule 20A of the Financial Rules requires that when funds from the Treasury Account are advanced to Government enterprises the transaction should be covered by a debenture mortgage, the terms of which are to be agreed to by the Cabinet. There was no evidence of any mortgage agreement being undertaken. This transaction was therefore not in keeping with the requirements of the Financial Rules.

## **Loan to the Barbados Tourism and Investment Inc.**

- 2.28** A total of \$85 million was advanced from the Treasury Account to the Barbados Tourism and Investment Inc. during the financial year. There was no evidence of any mortgage agreement being undertaken. This transaction was therefore not in keeping with the requirements of the Financial Rules.

## **Bank Reconciliation Statement**

- 2.29** A number of bank reconciliation statements were provided to the Audit Office for inspection by the Treasury Department. These statements showed a number of entries in the bank account which were not brought to account in the Treasury's ledger, and likewise a number of entries in the Treasury's ledger which were not reconciled to figures in the bank account. These entries have been outstanding for some time and it is time that they are properly brought to account.

## 2.30

### **Treasury's Response**

*The additional twenty thousand dollar (\$20,000.00) balance in the account related to funds which had to be transferred to the Capital Investment Fund and the Small Holders Mechanization Fund bank accounts at Barbados National Bank. The amount was transferred during the 2006/2007 financial year.*

*The funds relating to the PEIF which remained in the Treasury's account were transferred during the 2006/2007 financial year.*

*In relation to the \$30 million advanced to the Enterprise Growth Fund, the loan agreement had not been completed at the time the Accountant General's Annual Report was completed. The loan agreement is being worked on.*

*A total of \$85 million was advanced to BTII during the financial year 2005/2006. An exchange of letters was however done bearing in mind that this represented part of the total funds to be advanced to BTII. The remainder is to be advanced in the 2006/2007 financial year.*

*Bank reconciliations are on-going and are kept up-to-date. However, due to the fact that departmental transactions can be brought to account years after the fact, we have taken a decision to carry at least three years of transactions on the reconciliation statement. These are being investigated and will be written off at an appropriate time as have been done in past years.*

### **Internal Control Issue**

## 2.31

Rules 47 and 48 of the Financial Rules, 1971 require the approval of at least two persons before payments are made for goods or services as a control measure. It was however observed that there were hundreds of instances in which one person approved the payments in various ministries and departments.

## 2.32

The Treasury Department has responsibility for the management of Government's computerized accounting system. Consideration should therefore be given by the Treasury Department to the strengthening of the relevant control in the computer system (Smartstream) to prevent this practice from reoccurring since the current situation presents opportunities for abuse of the system.

## **Revenue and Expenditure Analysis**

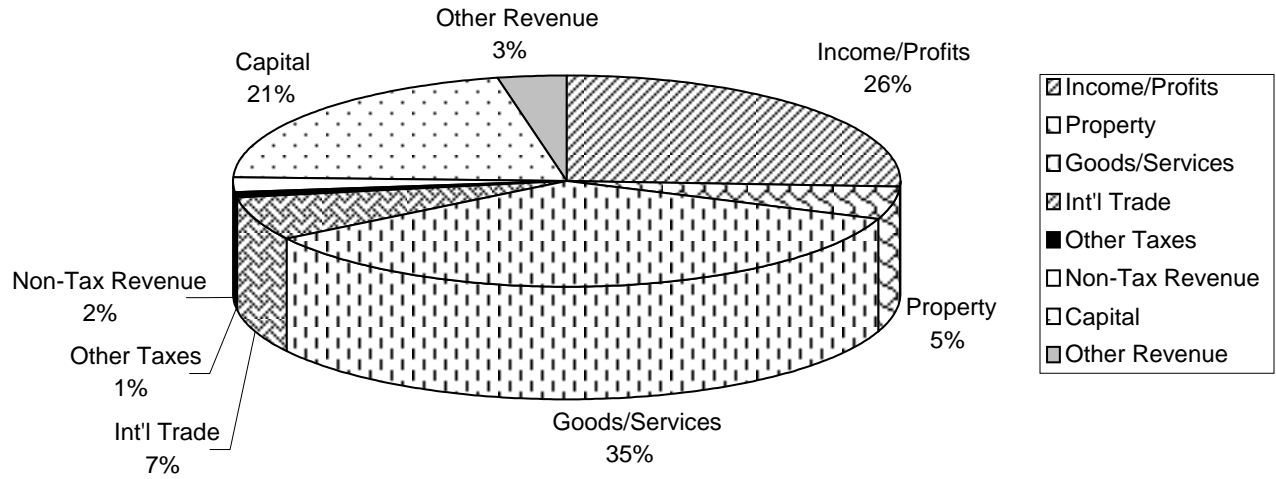
**2.33**

Following are the main charts that show:-

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

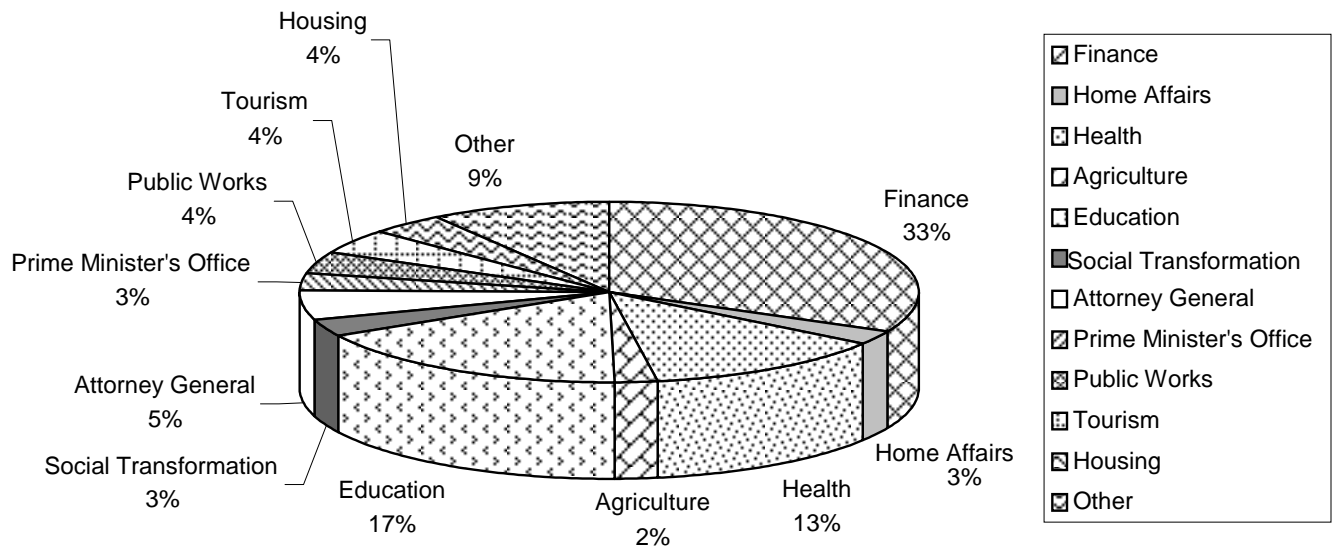
# TOTAL REVENUE 2005 – 2006

## CLASSIFICATION BY REVENUE AREA

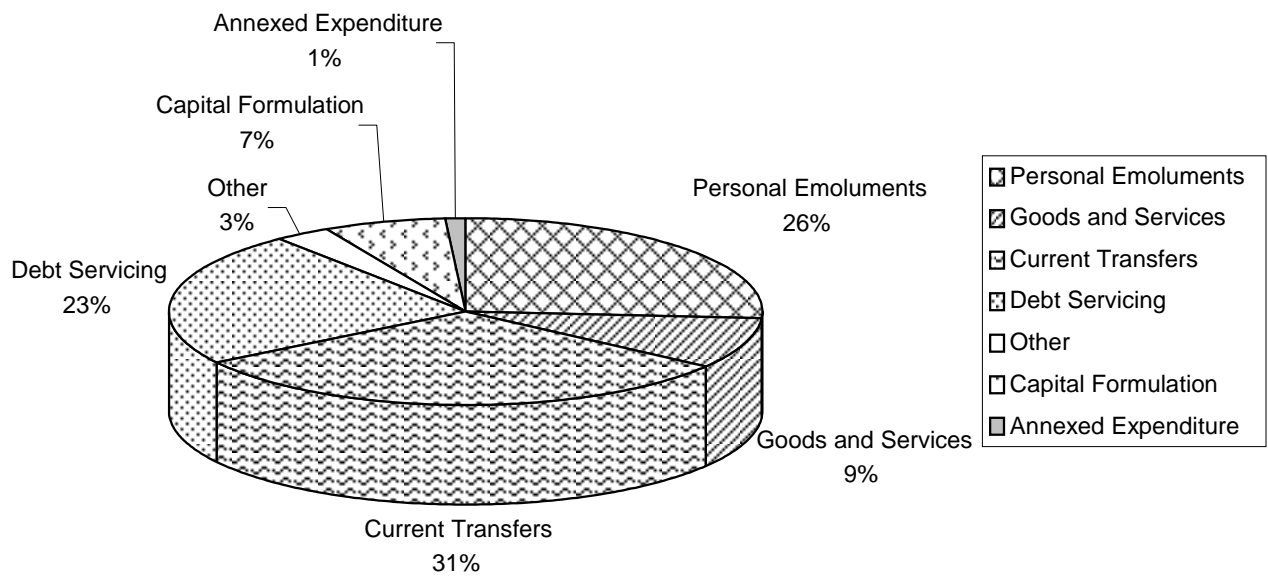


# TOTAL EXPENDITURE 2005 – 2006

## CLASSIFICATION BY MINISTRY



# EXPENDITURE BY ECONOMIC CLASSIFICATION 2005 - 2006





## CHAPTER 3

### General Audit Concerns and Observations

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**T**his chapter highlights general accounting concerns observed during the course of the audits of Ministries and Departments.

#### **Audit Mandate**

**3.2** An audit of the accounts of the Ministries and Departments of Government for the financial year ended 31<sup>st</sup> March, 2006 was conducted by the Barbados Audit Office as required by Section 26 of the F.A.A. Act, Cap. 5.

**3.3** As determined by the 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 opinion on the accounts, based on the audits carried out by this Office.

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

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

- Adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them have been duly observed;

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

# Ministry of Health

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**3.5** This section of the Report contains the findings of the audit of the accounts of the subprograms under the Ministry as well as those of the Psychiatric Hospital and the Barbados Drug Service. The objectives of this Ministry include the promotion of health, providing comprehensive health care and ensuring that environmental concerns are considered in all aspects of the country's national development. This audit did not examine the accounts of the QueenElizabethHospital, that task having been performed by auditors in the private sector. The results of the audit of the Sanitation Service Authority are contained in a separate report.

## **Absence of Support Information**

**3.6** There were several instances in which documents requested by the Audit Office were not presented by the Ministry for inspection as requested. These included certain payment vouchers and a number of contracts.

**3.7** The Ministry needs to adequately ensure that its documents are properly filed and secured, as this is a basic internal control function. Ministry personnel should have information readily available for decision-making and review. In addition, it should be noted that the provision of information to the Audit Office is a statutory requirement as provided for in the Laws of Barbados. Not being provided with the requested information shows a deficiency in the Ministry's filing system which needs to be rectified.

## **Travel Advances**

- 3.8** The General Orders, which govern the conditions of service of Public Officers, require that accommodation advances made to Officers traveling abroad on Government business should be accounted for within three weeks after officers return from abroad. However, on several occasions officers failed to account for funds advanced to them in respect of hotel accommodation, as required by the General Orders.

## **Unauthorized Expenditure**

- 3.9** The Financial Rules state that expenditure shall not be incurred unless appropriate provision is made in the Estimates or in Supplementary Estimates. There was no provision made for the payment of \$9,768.00 in respect of overseas training for Dental Health Officers. This payment was therefore unauthorized by Parliament.

## **Revenue - Charges for Vaccines**

- 3.10** There were a number of instances in which the Financial Rules were not complied with in respect of the collection of revenue for Charges for Vaccines at the Sir Winston Scott Polyclinic. There was no cash book maintained, monies received were not deposited on a timely basis and surprise inspections on persons collecting cash were not carried out as required. An amount of \$1,718.00 which was collected during the financial year was not deposited to the Treasury's bank account as required, nor could it be otherwise accounted for. In addition, this money was not reported as missing to the relevant authorities as required by the Financial Rules.

**3.11** The above-mentioned breaches of the Financial Rules have resulted from lax controls over the receipt, recording and depositing of funds. Efforts should be made to ensure that the relevant accounts personnel comply with the requirements of the Financial Rules, and safeguards should be put in place to ensure that all funds collected are adequately accounted for.

**3.12** ***Ministry's Response***

- (a) *The payment \$9,768.00 was made from this sub programme as a result of inadequate funds provided for under Dental Services 6EX26 – Professional Services.*
  
- (b) *Statements for accommodation made to officers traveling abroad on Government business were not available in Accounts before but currently are being utilized.*
  
- (c) *Procedures as to the collection, recording and depositing of Government revenue was communicated to this polyclinic as a result of the theft. The missing money was not reported to the relevant authorities as required by the Financial Rules. As at September 20, 2006 a balance of \$418.00 is outstanding and this is expected at month end.*
  
- (d) *Throughout the Ministry there is a lack of up-to-date recording and depositing of funds. The problem is unavailability of transportation.*

## **Solid Waste Project**

- 3.13** On 26<sup>th</sup> April, 2002 the Government of Barbados entered into a contract for \$2,613,429.63 to carry out certain road improvements and refurbishments on the existing highway between Highway 2A and Vauclose Road, St. Thomas. This contract stipulated that the work should be completed in forty-two (42) weeks.
- 3.14** The contract amount was revised to \$3,430,483.12 on 26<sup>th</sup> August, 2004. It should however be noted, that no amendment was made to the completion date of the contract. The magnitude of the changes indicates that a new contractual date should have been set for the project. This action would minimize the likelihood of disputes arising between Government and the contractor over this change to the contract. To date, this project remains uncompleted.
- 3.15** Expenditure totaling \$45,780.50 was paid to a company for a Solid Waste Characterization Study of Barbados; however the contract was not provided for audit examination and the authority for the transaction could not be verified.

## **European Development Fund (EDF) - Program**

- 3.16** The EDF program provides budget support for various programs under the Ministry of Health's "Strategic Plan for Health 2002 to 2012", with the assistance of grant funds from the European Development Fund. Some Bds \$6,250,000.00 were allocated under this subprogram, but no expenditure was incurred during the Financial Year. This situation is likely to impact on the timely completion of this program and could affect continued access to grant funding from the European Development Fund.

## **Inventory**

- 3.17** The F.A.A. Act, Cap. 5.requires each institution where Government Property is kept to maintain an inventory of such property. It was however observed that there was no inventory of Government property kept by the Ministry as required. The Ministry should take relevant steps to prepare this inventory since this forms part of the accountability process in protecting and accounting for Government assets.

**3.18** ***Ministry's Response***

*There is a fixed asset register however it is not up-to-date.*

## **Submission of Appropriation Accounts**

- 3.19** The F.A.A. Act, Cap. 5requires the Accounting Officer to submit Appropriation Accounts to be audited three months after the close of the Financial Year. These accounts were submitted for audit verification on 11<sup>th</sup> September, 2006 and this late submission impacted on the timely completion of the audit.

## **Psychiatric Hospital**

- 3.20** The activities of the Psychiatric Hospital include the treatment and care of patients admitted to the Hospital and the provision of specialist care to outpatients both at the Hospital and at clinics/centers throughout the country.

## **Contracts**

- 3.21** There were a number of contracts awarded to a contractor for refurbishment work which were not in conformity with the Financial Rules. The Financial Rules require a tendering process for expenditure in excess of \$100,000.00. They also require that work should not be subdivided in a manner so as to avoid the tender requirement. It was however observed that contracts were awarded for sums totaling in excess of \$645,000.00 to a firm to supply labour for construction work on Ward C of the Hospital. Two of these contracts, one for \$98,400.00 and the other for \$98,930.00, were made on 15<sup>th</sup> and 30<sup>th</sup> October, 2004, respectively. These contracts appear to have been awarded in such a manner as to avoid the tendering process.
- 3.22** The tendering process ensures that the Hospital has the benefit of competitive bids from various construction firms. As a result of not utilizing this process, the Hospital was not in a position to ensure that it had received the most competitive bid available, in terms of price and quality, for sums expended.
- 3.23** A further review of these contracts revealed that they were Value Added Tax inclusive, however there is no evidence that the firm was registered with the VAT Office and therefore qualified to collect this tax. This matter should be pursued by the Value Added Tax Division.
- 3.24** There were also payments made to a number of contractors for which no contracts were entered into. This action was not in compliance with the Financial Rules which require written agreements with adequate safeguards being in place for the supply of goods and services.



### 3.25

#### **Hospital's Response**

- (i) *The Management of the hospital would welcome the opportunity to be able to offer for tender major projects, but our constraint is the lack of funds and the inability to secure such funds to complete projects within a financial year. Therefore to conquer this obstacle and at the same time achieve our objectives we normally have to phase our projects over two or more financial years.*
  
- (ii) *The contracts were awarded over a three year period for work to be done on the renovation of C - Ward.*
  
- (iii) *No VAT claims were made on any of the invoices submitted for payment.*
  
- (iv) *Quotations are requested from various suppliers by the hospital Work Supervisor and the most reasonable quote is selected for purchase. The problem lies in not keeping the other quotations on file. This is now being done.*
  
- (v) *At the time of audit inspection the contracts were not completely formalised. They were at the agreement stage. Cheques were made payable to the vendors but they were not paid. To date efforts to have these contracts formalised by the Solicitor General's chambers have been futile. The checks which were made payable are still in the possession of the Psychiatric Hospital and are attached for noting.*

## **Misappropriation of Government Funds**

- 3.26** The audit revealed that unauthorized payments totaling \$785,000.00 were made to persons during the 2005/2006 financial year.
- 3.27** These payments were not substantiated by any physical documentation and there was no evidence that any goods or services were supplied in exchange for them. This matter was reported to the Audit Office by the Hospital as required by the Financial Rules and is currently under investigation by the Police Department.

## **Salaries Account**

- 3.28** The Salaries Account was not reconciled during the year, and the end of month balances for this account exceeded \$250,000.00 at times during this period. The failure to reconcile this account is a breach of Rule 69 of the Financial Rules, which require bank accounts to be reconciled on a monthly basis. The large balances on this account need to be further investigated and any amounts outstanding in excess of six months should be paid into the Treasury as required under the Unclaimed and Undistributed Moneys Act, Cap. 93.

## **Inventory**

- 3.29** The inventory presented for audit and verification was not up to date. In view of this deficiency there was no assurance that all the Hospital's assets were adequately accounted for. Efforts should be made to bring these records up to date as soon as possible.

## **Insurance**

- 3.30** Vehicles, furniture, and equipment at the Psychiatric Hospital were not covered by insurance during the Financial Year. This is a deficiency that exposes the assets of the Hospital and those persons traveling in its vehicles to unnecessary risk, and should be urgently addressed.

## **Overdrawn Salaries**

- 3.31** During the year under review, there were a number of persons who were overpaid. These overpayments related to officers who were paid salary while on no-pay leave. Action should be taken to eliminate such occurrences.

**3.32** ***Hospital's Response***

- (i) *We are behind in our reconciliation process. We are at December 2004 at present and will try to be on par sometime in the near future. The amount of \$250,000.00 appears to be excessive, but please bear in mind that we still prepare manual pay-sheets for salaries, wages, washing allowances, flexi allowances, travel allowances and overtime. In 2004-2005 large sums were paid to the Accountant General Department into the Unclaimed Monies and Sundry Accounts and on further investigation similar actions will be taken, if so desired.*
- (ii) *Recently three officers were selected to do an audit throughout the hospital. This exercise will begin 1st October 2006, and it is estimated to take three months to present a report that is readily suitable and accurate for the Audit Department, the insurance company and the Financial Statement as at 1st April 2007.*

(iii) *Vehicle, furniture and equipment were not covered during the financial year 2005-2006. Vehicles insurance coverage was not paid by us because provision was not made in the Estimate of Expenditure for that particular year. Furniture and equipment were not covered because inventory was not completed and the items were not valued. The Psychiatric Hospital was allocated monies and the responsibility for the insurance of its vehicles and equipment in the financial year 2006 - 2007, so far coverage for financial 2006- 2007 has been paid.*

(iv) *Overdrawn salaries plague most Government department because of a tendency to wait for the authority from Chief Personnel Officer indicating "No Pay Leave". This arrives months after the actual leave was taken. However, to remedy this situation the Psychiatric Hospital is pursuing a policy of deducting pay from Temporary Officers who exceed their fourteen days sick leave. The authority from Chief Personnel Officer will confirm this action or inform a refund.*

### **Conclusion**

**3.33** There is enough evidence to indicate that some funds of the Psychiatric Hospital were not utilized in its best interest. Amounts in excess of \$700,000.00 were paid out over a prolonged period without any goods or services being provided. It should be noted that senior accounts personnel have access to all transactions that have occurred, and the unauthorized use of such large amounts of funds would have impacted significantly on the delivery of goods and services at the Hospital. Proper vote control monitoring should have therefore discovered such activities and prompted an investigation.

**3.34** The Ministry should ensure that appropriate action is taken against those found responsible for allowing the above-mentioned situation to occur. There is a need for urgent action to be taken to ensure that the Hospital has the personnel with the requisite skills to properly manage and safeguard its funds.

## **Barbados Drug Service**

- 3.35** The activities of the Barbados Drug Service include the provision of drugs and related items to all Government Health Institutions, as well as the provision of medication free of cost or at reduced prices to all residents who qualify.
- 3.36** An audit of the accounts, and operating system of the Barbados Drug Service for the 2005/2006 Financial Year revealed the following:-

### **Prior Year Payments**

- 3.37** During the Financial Year ending 31<sup>st</sup> March, 2006 over \$4.5 million was required to pay for expenditures relating to the previous Financial Year. This money was paid to suppliers of drugs, and to private participating pharmacies, and represents overdue amounts for the six-month period September 2004 to March 2005. Funds that would have been budgeted for the Financial Year were therefore inadequate to meet expenditures, thus contributing to the high level of supplementary budget support which was requested. The Barbados Drug Service needs to take the necessary action to encourage suppliers and private participating pharmacies to submit their claims on a timely basis, so that expenses can be paid for in the year in which they were incurred. This action would also allow for better budgetary control.

**3.38** ***Drug Service's Response***

*It was true that about \$4.5 million was used to pay for expenditures of the previous financial year. It should be noted that payments to private pharmacies is made in arrears.*

## **Contracts**

**3.39** The existing contracts between the Drug Service and participating pharmacies had expired, but they were no renewals during the Financial Year under review. According to the Barbados Drug Service, contracts for these pharmacies are being reviewed by the Office of the Attorney General.

### **3.40 *Drug Service's Response***

*There were outstanding issues in the new contract that was to commence on 14th April, 2005, which needed the input of the Attorney General's Office. Letters were sent to the Private Participating Pharmacies (PPP's) informing them that the contract from 2004-2005 will continue until further notice.*

## **Prescription Pads**

**3.41** The Barbados Drug Service issues prescription pads free of cost to doctors in the public and private sectors. Numerous instances were observed where pads were issued without any written acknowledgment on the part of the persons issuing and receiving them. In addition, numerous instances occurred where entries were recorded in the registers using pencil, a practice which is forbidden by the Financial Rules. It should be noted that the Drug Service is currently unable to account for a number of these prescription pads.

**3.42** It is therefore recommended that the Drug Service make effective use of its registers, and ensure that there is acknowledgement from persons receiving and issuing the prescription pads, and that the information is recorded in permanent ink.

## **Inventory Management**

- 3.43** The Barbados Drug Service has established a facility which allows public pharmacies to exchange drugs which may be slow moving or close to expiry dates. Such actions should ensure that drugs can be used before they expire, thus minimizing wastage in the pharmacies. The audit however revealed that some pharmacies are not adequately utilizing this facility. Quantities of expired drugs were found at seven pharmacies visited by the Audit Office.
- 3.44** In addition, certain quantities of drugs were returned by Polyclinics, and the Geriatric and Psychiatric hospitals, after they had expired. This practice needs to be reviewed and measures implemented to ensure that the facility established by the Drug Service for the timely exchange of drugs between agencies is effective.

## **Computerization**

- 3.45** There is a need for a wide area network of computers between Public Pharmacies to ensure that patient profile information is shared, and thereby prevent persons from going from one pharmacy to another to stock up on a particular drug which is available through the Drug Service.
- 3.46** The absence of a wide area network prevents pharmacists from helping patients quickly identify another pharmacy when the pharmacy at which they are located is out of stock. The wide area network would also allow patients to fill repeat prescriptions at any pharmacy. This recommendation was made in one of my previous audit reports. It was also noted that about twenty pharmacies submit their reimbursement forms electronically. This has resulted in reduced time spent on processing of their claims. This method should be encouraged throughout all participating pharmacies.

## **Inventory**

**3.47** The inventory of furniture and equipment presented for audit and verification was last updated in May 2003, and is therefore not up-to date. This is a violation of Rule 122 (1) and (2) of the Financial Rules. In view of this deficiency there was no assurance that all of the Drug Service's assets were properly accounted for. Efforts should be made to bring these records up to date as soon as possible.

### **3.48** *Drug Service's Response*

- (i) The report was made over the period when the staff of the BDS was on industrial action and not performing their duties. The management team stepped in to keep the system moving. In spite of this, the BDS will put a proper system to ensure that the register is properly managed for the delivery of all prescription pads.*
  
- (ii) The issue of expired drugs has been a problem. Plans are in place to initiate proper ordering of the right drugs needed. The first meeting of the key stakeholders is to take place on 22<sup>nd</sup> September 2006. We will be examining the staffing of the Supply and Inventory Section and make the necessary changes if required. The amount indicated is questionable but investigations will be made.*



# Ministry of Agriculture and Rural Development

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**3.49** The objectives of this Ministry include the guiding and directing of agricultural and fisheries development in the country and improving the livelihood of residents in rural areas. The issues arising out of this audit were as follows:-

## **Arrears of Revenue**

**3.50** Arrears totaling \$391,103.54 for the testing of samples were owed to the Government Analytical Services at 31<sup>st</sup> March, 2006. The outstanding amount has continued to rise each year from \$595.00 in 1992.

**3.51** Arrears for the rental of stalls and other spaces at Markets totaled \$305,819.00 at 31<sup>st</sup> March, 2006. Some of the outstanding balances have accumulated over several years without any satisfactory measures being put in place to effect recovery.

**3.52** The Ministry needs to reassess its collection efforts and take firm action to reduce or eliminate the outstanding balances.

**3.53** At the time of writing, the Ministry had not submitted to this Office a complete list of its arrears of revenue at the close of the financial year as required by Rule 41 of the Financial Rules.

## **Bank Overdraft**

**3.54** Payments totaling \$5,024.27 in respect of bank overdraft interest were recorded on the bank accounts of the Ministry. These payments were in violation of Financial Rule No.70 which states that no Government bank accounts should be overdrawn unless specially authorized by a resolution of Parliament.

### **Variations to Contracts**

- 3.55** In a number of instances, contractors were paid for jobs that were carried out in addition to the work specified in their original contracts. No documented evidence was available to show if these variations had been agreed to by the two parties involved. The availability of such evidence would minimize the likelihood of disputes arising between Government and the contractor over such changes.

### **Refurbishment of the Administration Building**

- 3.56** During the year under review, a total of \$145,929.00 was paid to a company for work carried out on the administration building at the Soil Conservation Unit. The same company had been paid \$96,450.00 in March of the previous financial year for refurbishing work on the same building. No evidence has been provided to show that tenders were invited for the undertaking of the works and that a contract was entered into as required by the Financial Rules.

### **Unauthorized Payments**

- 3.57** Payments in excess of \$42,000.00 were made to a number of individuals in respect of wages for temporary appointments during the period August 2004 to March 2006. There is no evidence that these persons carried out any work for the Ministry. Information received from the Personnel Administration Division indicated that no letters authorizing these persons to work were issued by that Department. This matter is currently under investigation by the Police Department.

## **Revenue Withheld**

- 3.58** It was observed that revenue totaling \$2,940.00 from artificial insemination services carried out during the period 26<sup>th</sup> July, 2003 to 6<sup>th</sup> September, 2006 was paid in on the 16<sup>th</sup> November, 2006.
- 3.59** Persons who receive revenue or other public moneys are required by Rule 36 of the Financial Rules to pay daily or at the earliest possible opportunity into the Treasury, Treasury Account or other bank account the whole amount of moneys received. When delays occur they provide the opportunity for the misappropriation of public funds.
- 3.60** This inordinately long delay in paying over money collected also suggests that the supervision of the collection of monies at the Unit was deficient and should be strengthened.
- 3.61** There was no response from the Accounting Officer of the Ministry of Agriculture to the issues raised above at the time of the writing of this Report.

# Office of the Attorney General

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**3.62** The objectives of this Ministry include providing the administrative and legal framework for the efficient dispensation of justice in accordance with the Laws of Barbados as well as providing services to ensure the security of the community and its citizens, and the safeguards of their rights. The issues arising out of this audit were as follows:-

## **Inventory**

**3.63** An inspection of the available inventory record of this Ministry revealed that it was not updated during the six year period March 2000 to March 2006 as required by the Financial Rules. This deficiency should be addressed as soon as possible, so that accurate records can be compiled for control purposes.

## **Lapsed Authority for Payment**

**3.64** Five Payment Requests totaling \$188,076.53 were processed for payment during March 2006. However, at November 2006, the related cheques had not been paid to the companies involved.

**3.65** It was explained that the cheques were held because the companies had not completed the work for which they were contracted. The explanation notwithstanding, the authority for these payments lapsed at the end of the financial year.

**3.66** A cheque for \$27,000.00 dated 29<sup>th</sup> March, 2006 was processed for payment to a Consultant in respect of the Justice Improvement Project. However, at November, 2006, the related cheque had not been delivered to the payee. Rule 18 of the Financial Rules states: *“The authority for expenditure conveyed by an Appropriation Act or a resolution lapses at the end of the financial year to which it relates, and if further expenditure is necessary for the completion of any service it must be provided for in the Estimates or in Supplementary Estimates for the year in which the sum will actually be expended.”* The Financial Rules need to be complied with.

### **Hotel Accommodation**

- 3.67** On several occasions, officers attached to the Anti Money Laundering Programme did not submit bills in relation to their Hotel Accommodation in connection with overseas travel on Government business as required. The General Orders which govern conditions of service of Public Officers require that accommodation advances made to Officers travelling abroad on Government business be accounted for within three weeks after the Officers return from abroad.

### **Contracts**

- 3.68** Rule 126 of the Financial Rules requires written agreements for the supply of goods or the undertaking of works or services in excess of \$20,000 but less than \$100,000. In a number of instances where expenditure exceeded \$20,000.00 no written agreements or contracts were drawn up as required by the Financial Rules.

### **Audit Comments**

- 3.69** As can be seen from our audit there were a number instances in which the actions of the Ministry were at variance with the Financial Rules. The Ministry needs to examine the circumstances leading to these omissions and institute measures to prevent their recurrence.

## **Police Department**

- 3.70** The objective of this program is to provide the highest quality police service in partnership with the community to ensure a safe and stable environment. Audit concerns were as follows:-

### **Firearm Licences**

- 3.71** The record that was kept for firearm licences was deficient. The list included licences for persons who had died, and persons who had handed back in their firearms. A review of the record needs to be carried out so that it can be updated to accurately reflect the number of persons who currently hold firearm licences. The revenue collected from the renewal of firearm licences could then be cross referenced against this list allowing the Department to be in a better position to ensure that all revenue was collected.

### **Revenue Account**

- 3.72** A revenue account showing revenue collected for the year under review was not submitted for examination in accordance with Section 12 (3) of the Financial Administration and Audit Act, Cap. 5. The Department needs to submit these accounts in accordance with the Act.

### **Overdrawn Salaries**

- 3.73** During the period April 2005 to March 2006 payroll deductions totaling \$124,622.84 in respect of overdrawn salaries were made from the salaries of one hundred and forty-three policemen and civilian staff. The explanation given for the high incidence of overdrawn salaries was that authorizations for payroll changes are not presented to the Accounts Section in a timely manner by the Personnel Section.

**3.74** Measures should be put in place as soon as possible to correct this situation so that relevant payroll information can be processed by the accounts staff in a more timely manner.

### **Unauthorized Expenditure**

**3.75** Expenditure in excess of the amounts noted by Parliament was recorded in respect of General Police Service and the Traffic Warden Division as follows:-

- General Police Service - \$3,122.07
- Traffic Warden Division - \$48,125.04

There was no response from the Accounting Officer at Ministry of the Attorney General to the issues raised at the time of the writing of this Report.

# Ministry of Finance

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## Inland Revenue Department

- 3.76** The activities of this Department include the collection of revenue from taxes on income and profits, property and international trade. The issues arising out of this audit were as follows:-

### Documentation Not Received

- 3.77** The Audit Office requested financial information from the Inland Revenue Department in an electronic format and information was provided; however, there were no control totals provided with this data as requested. These totals were necessary as they provide assurance relating to the completeness of the information presented in the electronic format.

### Tax Refund Certificates

- 3.78** Tax Refund Certificates are issued to individuals who wish to invest their tax refunds with the Government rather than receive their refunds in cash. The stock records for Tax Refund Certificates were deficient as they did not capture the certificates issued or the balance of Certificates in stock; only information on certificates received was recorded. The Audit Office could not therefore verify that all the certificates were properly accounted for. The officer who prepares the Tax Refund Certificates also has access to the stock of unused certificates.



**3.79** The above constitutes an internal control weakness representing a failure to adequately control the recording, storage and issue of Refund Certificates, and increases the risk that they could be used in a fraudulent manner.

**3.80** It is recommended that:-

- A stock and issue register should be maintained to strengthen security in handling Tax Refund Certificates; the officer responsible for issuing the certificates should not have control of the stock of blank Certificates.

### **Bank Reconciliation**

**3.81** The bank account from which refund cheques are drawn has not been reconciled since 31<sup>st</sup> March, 2003. Reconciliation is an important control procedure that should not be overlooked as it would attest to the accuracy of the accounts and assist in the detection of errors.

**3.82** It is therefore recommended to the Department that this account be reconciled as a matter of urgency.

### **Arrears of Revenue**

**3.83** The Inland Revenue Department reported arrears of revenue totaling \$170.78 million at 31<sup>st</sup> March, 2006. This was \$9 million more than the

previous year. Tax arrears of \$135 million were in respect of individual taxpayers and \$35.1 million represented amounts due by corporations. A break down of the arrears and penalties is listed below:-

<b>Tax Type</b>	<b>Tax</b>	<b>Penalty</b>	<b>Interest</b>	<b>Balance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Income Tax	53,478,897.57	3,075,063.49	26,281,432.49	82,835,393.55
PAYE	40,221,674.99	2,004,161.73	10,529,355.00	52,755,191.72
Corporation Tax	28,798,962.28	1,066,966.93	5,324,354.25	35,190,283.46
<b>Total</b>	<b>122,499,534.84</b>	<b>6,146,192.15</b>	<b>42,135,141.74</b>	<b>170,780,868.73</b>

## **Land Tax Department**

**3.84** The Land Tax Department's functions include determining the valuation of land for taxation rating and other related purposes, and the collection of land tax.

### **3.85 Arrears of Revenue**

The Land Tax Department reported arrears of revenue of \$91.2 million at 31<sup>st</sup> March, 2006. This figure was \$14 million less than the \$105.8 million reported at 31<sup>st</sup> March, 2005. This represents an improvement in the revenue collecting efforts of the Department. The amount outstanding however remains very high and the Department needs to continue its efforts to have the amount reduced to more manageable levels.

## **Customs and Excise Department**

**3.86** The Barbados Customs and Excise Department is one of the agencies within the Ministry of Finance. It is responsible for assessing and collecting customs duties due to the Government of Barbados mainly under the authority of the Customs Act, Cap. 66, the Excise Tax Act 1996-29 and other subsidiary legislation governing the collection of revenue from the other activities administered by the Customs Department. One of its main roles is the assessing, collecting and protecting of Government revenue in the form of duties, taxes and fees on imported and specified locally manufactured goods and services.

**3.87** For the year ended 31<sup>st</sup> March, 2006, the Department collected \$1.060.8 billion, a 7 % increase when compared with collections of \$991,055,377.42 for the year 2004/2005.

### **ASYCUDA<sup>++</sup> Computer Systems**

**3.88** The Department has implemented an integrated computer system (ASYCUDA<sup>++</sup>) for the management of Customs procedures and operations. The primary aim of the ASYCUDA<sup>++</sup> project is to provide efficient services to the trading community by maximizing efficiency within the Customs clearance process while ensuring effective control and efficient revenue collection.

**3.89** The facility allows importers, clearance agents and couriers to reduce clearance times by lodging import declarations on-line. By using certain risk management criteria goods can be released by the Customs Department in a timely manner to the importer.

**3.90** The move to process entries using risk management criteria creates a need to exercise extra vigilance through vigorous follow-up investigations or some form of post-entry audit. A Post Clearance Audit Unit was to be established in the Department to carry out follow up investigations. To date the Post Clearance Unit has not been established. Post-entry checks would allow the Department to assess whether the system is working as intended and if there is a need to adjust the risk assessment criteria used in setting up the system.

### **Off-Site Storage of Information**

- 3.91** The Department does not have off-site storage arrangements to ensure the continuous operation of the ASYCUDA++ system in the event of a disaster or major systems failure.
- 3.92** Should this system fail it would result in some disruption of its service to importers and pose a risk to the Department's ability to collect revenue.
- 3.93** It is therefore important that the Department has contingency plans to cope with any potential failure.

### **Classification of Revenue Collected**

- 3.94** Between November 2005 and March 2006, the Department experienced some computer related problems which affected the balancing of revenue from deposit slips against the specific revenue items. During that time, all revenue was allocated to import duties. All revenue collected could therefore not be properly classified during the financial year. The Department needs to ensure that revenue can be verified and that its classification into sub-items is correct.

### **Private Warehouses**

- 3.95** Importers who wish to import and store goods in privately owned warehouses must meet a variety of conditions as required by law before they can be licensed.

- 3.96** The records of the warehouses are to be properly maintained and duties are to be collected from goods moved from the warehouses for sale. However, this information is not substantiated because the required physical stock checks are not always carried out by the Customs Department. This deficiency could have a negative impact on the collection of duties.

### **In-Bond Shops**

- 3.97** To obtain In-Bond status, importers must be trading under the duty free drawback shop system for a period of not less than one year, and must show proof of having paid duties to Customs in respect of sales of 60% or more to tourists. Another stipulation requires the operator to submit monthly reports to the Comptroller of Customs setting out the details of all goods sold to tourists and residents. This information should be examined and checked by Customs personnel to properly determine such duties and taxes applicable to goods sold to residents.

- 3.98** It has been noted that in some cases the information was either not submitted on a timely basis or not at all. As a result, the information relating to sales purportedly made by some In-Bond shops cannot always be checked and verified. This deficiency affects the ability of the Department to properly determine duties payable and, as a consequence, could result in loss of revenue.

### **Excise Tax**

- 3.99** The Department does not maintain a presence at the brewery or cigar factory. Checks undertaken on these entities are computed based on the unsubstantiated

production information submitted to the Excise Tax Section. The system for the collection of Excise Tax in these areas could therefore be open to abuse since duties receivable are entirely dependent on the reliability and integrity of the information forwarded to the Department by the manufacturer. The Department should have oversight checks at the Brewery and Tobacco manufacturers to ensure accurate information is submitted and that excise duties and levies are correctly assessed, collected and reported.

### **Field Audit Unit**

- 3.100** This duties of this Unit involve visiting private warehouses, In-Bond shops and business premises to examine the records and carry out physical counts. This is to ensure that all information necessary for monitoring and controlling the movement of goods from the premises on which duty is payable is available and verified.
- 3.101** It is noted that there are in excess of one thousand and sixty (1060) concessionaires, one hundred and twenty (120) operational warehouses and thirty-five (35) In-Bond shops and associate branches. With a staff complement of about ten (10) persons it is difficult to conduct an adequate number of audits annually. For the year 2006, only nine (9) investigations were completed.
- 3.102** Given the importance of the Unit in ensuring the accurate reporting of duties with respect to warehouses and In-Bond shops, it is evident that this Unit is not adequately staffed.

## **Recommendation**

- 3.103** The Field Audit Unit should be provided with the necessary staff to properly undertake the necessary functions of the Section.

### **Terminal 1 - Grantley Adams International Airport Inc.(GAIA)**

- 3.104** Revenue is generated from goods cleared by travelers on arrival and regarded as dutiable by Customs. Other sources of revenue include collections in respect of Fines, Seizures and Deposits. According to the cash records, revenue realized during the period under review was \$256,930.40. However, the Audit Office was unable to verify total collections deposited because all the banking documentation was not available for examination at the time of audit.

- 3.105** Other observations arising out of an assessment of the internal controls at the GAIA were as follows:-

- (i) The cash records were not properly maintained. They contained figures written in pencil and red ink.
- (ii) The accounts supervisor did not always verify cash received daily against corresponding receipts issued.
- (iii) The shift leader who is responsible for all monies collected during the period of the shift, also writes up the cash book, prepares deposits to the bank and banks the amount. There needs to be



segregation of these activities for proper internal control.

- (iv) Collected revenue was not banked in a timely manner.

**3.106** The following recommendations are made in respect of operations at the Terminal:-

- (i) The accounting records should be properly maintained and collections should not be held for long periods before being banked (ref: Rule 36 of the Financial Rules, 1971); and
- (ii) Efforts should be made to avoid having one officer performing so many related tasks; these duties should be segregated where possible.

#### **Arrears of Revenue**

**3.107** The arrears of revenue for the Customs and Excise Department at the 31<sup>st</sup> March, 2006 were reported as \$145 million. The Value Added Tax component increased from \$126 million to \$137 million and this Division must take relevant action to prevent further increases. A break down of the arrears and penalties is listed below:-

<b>Tax Type</b>	<b>Tax</b>	<b>Penalty</b>	<b>Interest</b>	<b>Pending</b>	<b>Balance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
Initial Assessment	55,447,809	7,843,132	23,203,555	4,012	86,498,508

Reassessment	14,880,705	1,314,800	16,097,181	2,217,576	34,510,262
Enforcement Returns	8,128,282	894,074	7,948,238	-	16,970,594
<b>Total for VAT</b>	<b>78,456,796</b>	<b>10,052,006</b>	<b>47,248,974</b>	<b>2,221,588</b>	<b>137,979,364</b>
Valuations					476,351
Dishonored cheques					6,881,778
<b>Grand Total</b>					<b>145,337,493</b>

### 3.108 Customs' Response

*Generally the report represents the situation within the Department, however there are specific situations in the report which need explanation and comment.*

#### *Post Clearance Audit*

*With respect to the establishing of a Post Clearance Audit, one of the reasons for non-implementation was the lack of adequate accommodation. Now with the additional space now provided at Warrens Office Complex, the Unit will be established by March 01, 2007.*

#### *Offsite Backup of Information*

*With respect to back up arrangements, tapes are delivered to the National Insurance Department three (3) times a week but these do not include ASYCUDA ++ database information. It is intended to improve this situation by acquiring the relevant software to have offsite back up arrangements. There is presently on line back up of the ASYCUDA ++*

*database life server but the information is not stored offsite. It is envisaged that by the end February 2007 these back up arrangements will be addressed.*

#### *Classification of Revenue Collected*

*With respect to the classification of revenue collected, it should be noted that although the situation existed at the time, during the months of April 2006 it was rectified.*

#### *Excise Tax Division*

*With respect to the recommendation for oversight checks at the brewery and tobacco manufacturers is supported. There is a Customs Modernisation Programme underway. One of the aims of the project is to automate the activities in the Excise Tax Division. A process of risk assessment and risk management would be better able to prioritise activities that should be focused on.*

#### *Field Audit Unit*

*The work in the Field Audit Unit is currently being reviewed with a view of incorporating the Unit with the Post Clearance Audit. In any case, with the establishment of the Post Clearance Audit it is doubtful if increase of staff in the Field Audit Unit could be justified.*

*Terminal I G.A.I.A*

*The department is currently reviewing the operations at Terminal I, GrantleyAdamsInternationalAirport, with respect to the procedures for collecting and securing revenue.*

# Ministry of Public Works and Transport

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- 3.109** The objectives of this Ministry include the planning, design, development and maintenance of a comprehensive road network system in the country.

## Highway Construction and Maintenance Services

- 3.110** According to correspondence received from the Ministry the following procedures are used in respect of payment to road contractors. *“On completion of works carried out by the contractor, an invoice is sent in for payment. The Deputy Chief Technical Officer (Operations) or his nominee visits the site to certify that the work has been done to the satisfaction of the Ministry. On certification, the invoice is sent on to the Quantity Surveying Section where a valuation is prepared. The valuation is subsequently returned to the Deputy Chief Technical Officer (Operations) for his signature as well as the signature of the Chief Technical Officer before being passed on to the Financial Controller for payment. Before payment is made the invoice and valuation certificate is sent to the Permanent Secretary (the Accounting Officer) requesting permission to make payment and when approval is given payment is made.”*
- 3.111** Our review revealed a number of cases in which substantial payments were made to contractors in March 2006 prior to work being started on a number of roads.

## Payments in Advance

**3.112** A construction firm was paid \$1,097,238.86 in March 2006 for repairs to a number of roads prior to work being started. At the time of writing this Report (December 2006) road works valued over \$867,928.00 had not been completed. This included the following road works:-

- (a) Oughterson, St. Philip to Sealy Hall, St. John  
(\$833,980.00)
- (b) Golf Club Road to Rendezvous and Dayrell's Road  
(\$55,820.75)
- (c) Gambol Hill to Waterhall (\$33,948.00)

**3.113** A visit to these sites and subsequent discussions held with Ministry officials confirmed that the companies had not carried out any work on these roads. It should be noted that funds would have been paid based on a valuation certificate by the Ministry's Quantity Surveyors. It is not clear to this Office why valuation certificates would be issued by Ministry personnel for uncompleted work. This is a very serious matter which compromises the integrity of the payment process and places Government funds at considerable risk.

### **Other Payments Made in Advance**

#### **3.114**

A number of other roads were paid for in March 2006, but construction work had not started at the time of payment. These include the following:-

- (a) Top Rock to Thornbury Hill - \$1,413,218.12
- (b) Welches to Emancipation Statue - \$251,938.41
- (c) Six Men's to Arawak Cement Plant - \$546,508.46
- (d) Hackleton's Cliff - \$152,839.51
- (e) Elsie Payne Roundabout - \$20,744.80
- (f) Chapman Street - \$148,861.45
- (g) Westbury Road to Eagle Hall - \$281,415.06

## **Internal Control Issues**

**3.115** A Payment of \$1.413 million for road works from Top Rock to Thornbury Hill, ChristChurch was made in March 2006. There were valuation certificates submitted by the construction company and also by the Ministry's Quantity Surveyor, indicating that the work had been completed at that time. This road was completed in October 2006. Again, it is unclear why valuation certificates would have been submitted and the full contractual price paid for a job that had not been completed at the time of payment.

**3.116** The Audit Office has observed that in the 2006/2007 financial year a total of \$2.6 million was paid to a contractor without valuation certificates from the Ministry's Quantity Surveyors. Proper internal control practice was not followed as the payments would have been based solely on invoices submitted by the contractor.

**3.117** The payment of contractors well in advance of work being carried out is contrary to Rule 19 (1) of the Financial Rules which stipulates that payment should not be made in advance to meet impending payments. Of particular concern with these transactions is that millions of dollars of Government funds can be paid without the work being certified by the Ministry's Quantity Surveyors. Such a situation places Government funds under unnecessary risk and requires strong action by the Ministry on those responsible in order to prevent a recurrence.

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

*In February 2006, a construction company was awarded contracts to carry out works on the under-mentioned projects:-*

*(a) Oughterson to Sealy Hall - Phase 2*



(b) *Golf Club Road to Rendezvous and Dayrells Road*

(c) *Gambol Hill to Waterhall.*

*This company was subsequently advised to delay the start-up of these repairs since the Ministry had been advised that one or more of the utility companies had expressed interest in laying their pipes along these roads. Both the Barbados Water Authority and National Petroleum Corporation have only recently completed works on Dayrells Road and on January 8, 2007, the company has moved into complete the road works as instructed by the Ministry since February 2006. In addition, it has been agreed that Rayside will commence work on Oughterson and Gambol Hill before March 31, 2007, notwithstanding any plans by the utility companies to carry out work on these roads at no additional cost to the Ministry.*

#### ***Other Payments made in Advance***

*In March 2006, the Ministry of Public Works received a Supplementary Vote to continue work on roads which were earmarked to be completed before the Cricket World Cup. All of the roads indicated in the supplementary were completed on or before July 2006 to the Ministry's satisfaction. These include:-*

(a) *Welches to Emancipation Statue (May 2006)*

(b) *Six Mens to Arawak Plant (May 2006)*

(c) *Elsie Payne Roundabout (April 2006)*

- (d) *Chapman Street (June 2006)*
  
- (e) *Westbury Road to Eagle Hall (May 2006)*
  
- (f) *Hackleton Cliff (July 2006)*
  
- (g) *Top Rock to Thombury Hill. This was substantially completed by December 2005.*

*It must be emphasized that, of the roads which the Auditor suggests that the contractors were prepaid, only two of these roads have not been started - Oughterson to Sealy Hall in St. John and Gambol Hill to Waterhall in St. James due to works which were proposed to be done by the utility companies. All the others have been completed since mid 2006 with the exception of Dayrells Road which is in progress and could not have been completed earlier due to the work being done by the various utility companies. These two outstanding projects will be started within the next four weeks.*

*In the instances where the Ministry was seen to be making payments in advance to Contractors this was to ensure that the Cricket World Cup Road Programme was executed as expeditiously as possible to meet the deadline. Every effort will be made by the Ministry to ensure that there is no reoccurrence of such action.*

*While it cannot be confirmed that valuations were issued for these jobs (\$2.6 million) what can be confirmed and certified is that these projects were completed by the contractor*

## **General Comments**

- 3.119** The advance payments made by the Ministry are contrary to the Financial Rules and it should be noted that some of the roads for which contractors have been paid have not been completed to date. Another area of concern relates to provision of valuation certificates by the Ministry's Quantity Surveyors for work that had not commenced. These matters should be of special concern to the Ministry since they resulted in the improper use of Government funds.
- 3.120** The internal controls in the Accounts and Quantity Surveying Sections need to be reviewed to ensure that valuation certificates are issued and payments made only if work has been carried out and verified. In addition all officers in these sections need to be aware of what the procedures are and appropriate disciplinary action should be initiated on those officers who seem to have little regard for Financial Rules and other prescribed procedures relevant to the proper spending of Government moneys.

## **Renovations of Government Buildings**

- 3.121** The Ministry of Public Works has responsibility for the maintenance of all Government buildings except for those falling under the Ministries of Home Affairs, Education and Health. During the course of the year \$8,730,038.00 was budgeted for building maintenance and work was conducted on a number of buildings.

**3.122** It has been generally acknowledged that there are a number of government buildings which are in need of proper maintenance. As part of the audit of the Ministry, the Audit Office examined the extent to which there were plans to rectify the situation over the financial year.

**3.123** Overall however there was no plan seen to indicate that measures were in place to ensure the proper maintenance of Government buildings. There are no records kept on the status of buildings, and the majority of work performed is in response to specific requests from Ministries and Departments.

**3.124** There has been a number of work stoppages by Government employees as a result of the poor conditions of some Government buildings. There needs to be a more concerted effort to address these issues before they manifest themselves in protest action. The closure of Government buildings such as the Public Library creates great inconvenience to the public and the officers who work in them, and impacts on productivity in the Public Service.

**3.125** ***Ministry's Response***

*The Ministry's ability to maintain government buildings during the Financial Year 2005-2006 was severely affected by the lack of funds. For the current Financial Year the Ministry was provided with a sum of one million two hundred thousand dollars (\$1,200,000.00) of which a sum of seven hundred and fifty thousand dollars (\$750,000.00) was approved for renovations to Government House alone. You will appreciate that these funds are totally inadequate to enable the Ministry of Public Works to meet the maintenance requirements of the entire Government.*

## **Major Works and Renovations**

- 3.126** During the financial year the Ministry started the construction of a building at the old Pine Livestock Station for the relocation of the Government Electrical Engineering Department. This capital works project started without approval from the Planning and Priorities Committee and the Town and Country Planning Department.
- 3.127** Application for permission to carry out the project was submitted to the Town and Country Planning Department on 13<sup>th</sup> October, 2005 and the project was approved in February 2006. However, before approval had been granted, the Ministry started the project and incurred \$423,275.00 in cost for materials and the rental of equipment. There was no provision for this expenditure in the Estimates. This expenditure was therefore unauthorized.
- 3.128** Work on the project was subsequently suspended and a paper submitted to the Planning and Priorities Committee. The Committee subsequently approved a building at an estimated cost of \$5.1 million.
- 3.129** It is surprising that a Ministry of the Government would start a project such as this without obtaining the necessary approval and funding. The Ministry has to establish guidelines for its staff to follow in order to avoid such mistakes in the future.

**3.130** ***Ministry's Response***

*The Barbados Tourism Investment Inc. sought the assistance of the Ministry of Public Works to refurbish a building at the Pine Livestock*

*station to accommodate the relocation of the Government Electrical Engineering Department from its BayStreet site. It was agreed that the Ministry of Public works would provide the labour for the refurbishment project with Barbados Tourism Investment Inc. providing financing.*

*Accordingly, during the financial year the refurbishment work on the said building was started by the Barbados Tourism Investment Inc. and a sum of four hundred and twenty three thousand two hundred .and seventy five dollars (\$423,275.00) was incurred in cost for materials and for the rental of equipment...Work on the refurbishment project at the Pine Livestock Station was halted. This matter was subsequently referred to the Planning and Priorities Committee for permission to complete the refurbishment of the building and for a decision relative to the settlement of outstanding invoices for materials and rental of equipment.*

*It should be noted that the necessary Town Planning permission was sought and obtained for the continuation of work on the refurbishment and funding approved. In its eagerness to assist another government agency with a project the Ministry of Public Works omitted to follow the correct procedure and has taken steps to ensure that there is no recurrence.*

### **Payment of Interest Re: Bridgetown Roads and Safety Improvement Project**

#### **3.131**

It was noted that \$388,744.00 in interest payments was made to a construction company in respect of the Bridgetown Roads and Safety Improvement Project. This payment resulted from the Ministry not paying the contractor on a timely basis.

**3.132** The payment of such large amounts as interest is a waste of Government funds, since there are no goods or services being obtained for this expenditure. The Ministry needs to monitor the terms of Contractors and ensure that they are paid on a timely basis to avoid such wastage in the future.

**3.133** ***Ministry's Response***

*Ministry of Public Works was unable to avoid the payment of interest to the construction company for this project due to the disbursement of funds from the Ministry of Finance during the Financial Years involved. The Ministry will try wherever possible to ensure that contractors are paid on a timely basis.*

**Inventory**

**3.134** Audit Officers visited eight (8) of the thirteen (13) depots operated by the Ministry to examine the systems pertaining to inventory control. There were several instances in which items were issued and no information recorded in the books. There were also significant differences in the some balances of items recorded in the stock book when compared with the physical counts carried out on site.

**3.135** At the time of writing no inventory record for the Ministry had been presented to the Audit Department for examination as required by the Financial Rules. Action should be taken to ensure that an up-to date inventory is in place and that all items have been properly accounted for.

**3.136** **Ministry's Response**

*Periodic inventory checks of the various depots have been made by the Ministry's Internal Audit Section and subsequently reports are written of their findings. When investigated, most of these discrepancies relate to:-*

*(i) Poor bookkeeping procedures, or*

*(ii) Instances where one depot borrows material from another depot for use on a job site without sending the appropriate memoranda.*

*The Internal Audit Section has carried out some training of the depot supervisors to improve their book keeping skills and all officers have been instructed that no material should be dispatched from the depot without the relevant paper work.*

**Vehicle and Equipment Workshop**

**3.137** The Vehicle and Equipment Workshop provides maintenance service for the Ministry's vehicles and equipment, in addition to maintaining generating plants at Ilaro Court, Government House, the Central Emergency Relief Organization and Police Stations. The audit included a review of the systems and procedures of the workshop and the findings are as follows:-

**3.138** Examination of files on several vehicles revealed that there was no maintenance history being kept on individual vehicles and equipment. Such information should



be provided in order to monitor the ongoing performance of vehicles and provide relevant information on the timing of their replacement.

**3.139** The Ministry spent \$4,500,000.00 in acquiring vehicles and various pieces of equipment. However some equipment and vehicles ordered and paid for had not been received at December 2006 and these include:-

One (1) PaintMarking Machine - \$256,579.19

Two (2) Back Hoes -\$455,314.00

**3.140** The Ministry needs to take the relevant action to ensure that it receives equipment ordered and paid for on a timelier basis.

### **Inventory**

**3.141** Some of the items listed in the inventory records of the storeroom did not correspond with the physical stock on location. This was partly as a result of records not being properly maintained for all items.

### **Insurance**

**3.142** There was no insurance on over \$1.2 million in equipment purchased for the Drainage Unit during the financial year. There was also equipment acquired in previous financial years which should have been insured. There were apparently no funds budgeted for this activity during the year. Such action exposes the assets of the Ministry to unnecessary risk and should be avoided.

**3.143** The Ministry should take appropriate action to insure this equipment as a matter of urgency.

**3.144** ***Ministry's Response***

*Management of the Vehicle and Equipment Workshop has assured the Ministry that proper documentation will be done, an adequate filing system will be put in place and the all work orders will be properly stored. Periodic stock checks will be made during the year.*

*The Ministry will try wherever possible to ensure that it receives equipment ordered on a timely basis and to have an up-to-date inventory listing.*

*The equipment valued at one million two hundred thousand dollars (\$1,200,000.00) was not insured because the equipment was not physically with the Drainage Unit at the time and no funds were budgeted for the activity during the year as it was an emergency which came about after the expenditure for the Financial Year was approved.*

**Other Matters**

**3.145** It was observed that there were numerous instances in which officers who approved payment on the Smartstream accounting system approved as the certifying officer as well as the accounting officer. This is a breach of Rules 47 and 48 of the Financial Rules, 1971 which require dual approvals as a control measure. Ministry personnel should adhere to these rules since the current situation presents opportunities for abuse of the system.

### **Barbados Licensing Authority**

**3.146** A review of the system of issuing Public Service Vehicle (PSV) Permits, as managed by the Barbados Licensing Authority, hereinafter referred to as "The Authority", was carried out in accordance with the provisions of the Financial Administration and Audit (Financial) Rules, 1971. The review focused on the financial years 2004/2005 and 2005/2006.

#### **Audit Objective**

**3.147** The objective of the audit was to examine and test adherence to legal and other requirements relating to the issuing of PSV permits and to ascertain that the relevant controls to protect the integrity of the system were in place and functioning efficiently.

#### **Public Service Permits - Increases**

**3.148** In 1994 the Cabinet of Barbados set a ceiling on permits in respect of Public Service Vehicles (PSV). Since then the Authority has requested that the Cabinet increase the number of permits, specifically in relation to tour coaches, limousines and maxi taxis. This request represents a net increase of one hundred and thirty four (134) vehicles, for which the Ministry has proposed a phasing in process of three (3) years.

**3.149** The audit revealed that the Authority has increased the number of public service vehicles over the limit set by the Cabinet and has even exhausted the amounts requested in its proposal.

### **Transfer of Permits - PSV and Hired Cars**

**3.150** The Cabinet of Barbados at its meeting of 3<sup>rd</sup> August, 2000 took the decision that PSV permits should not be transferable. Despite this, a number of PSV permits were transferred in the period under review.

**3.151** There were no records of a request for or approval of transfer of hired car permits. However, in a number of instances several permits were transferred for \$1.00 each.

**3.152** With regards to Hired Car Permits, the regulations allow for transfers, but appropriate approval must be sought and granted.

**3.153** Further investigations also revealed that there were numerous issued. These matters should be investigated by the Licensing Authority.

## **Cash Receipts**

- 3.154** A review of accounting information in relation to one officer shows that in excess of forty thousand dollars (\$40,000.00) was collected but not paid into the Treasury and was therefore unaccounted for. This situation was undetected for some time because adequate supervisory checks had not been conducted on this officer's work. This matter has been referred to the Police and is currently under investigation.

## **Inspections**

- 3.155** The Authority carries out hundreds of inspections of vehicles annually. The number of inspections recorded in the Register of Vehicles Inspected was significantly less than inspections for which payments were recorded. This would indicate that some inspections paid for were not properly accounted for in the Register. The Authority needs to be in a position to reconcile inspections performed with revenue collected as this is the only way in which it will know that all revenue has been accounted for.

## **Record Keeping**

- 3.156** The Register of Vehicles Inspected for the June 2004 to September 2004 period was not located for audit inspection. Several Certificate of Weight Unladen Vehicle Books were also unaccounted for.

**3.157** Several registers including the book for the collection of Pass Certificates Regarding Inspections, the register for issuing Weight Certificate Books and the register of Limited Trade Licenses were not properly maintained.

**3.158** The Authority needs to ensure that all accounting and operational records are adequately maintained and stored in a systematic and orderly fashion. A lack of adequate documentation can hinder not only management control over these books but also audit attempts at analysis and inspection of the appropriate registers.

### **Arrears of Revenue**

**3.159** According to Rule 41 of the Financial Rules *“All officers charged with the collection of revenue or other moneys due to Government shall furnish to the Director, the Accountant-General and the Auditor General returns showing the state of the arrears at the end of September and March in each year. All such returns shall be furnished within 2 months of the date to which they relate, and if there are no such arrears a nil return shall be furnished.”*

**3.160** No such statement of arrears was furnished to the Auditor General as is stipulated by the Financial Rules. The Authority needs to establish a system in which it accurately records outstanding arrears.

**3.161** Recommendations are as follows:-

- (i) The Authority needs to urgently regularize the status of PSV permits and should with immediate effect cease from issuing or transferring PSV permits in excess of the ceiling set by the Cabinet.

- (ii) In cases where individuals acquired permits without the relevant fees being paid, the Authority should take all relevant action to ensure that individuals are not allowed to benefit from such acts.
  
- (iii) The Accounts section should take the necessary action to ensure that revenue collected regarding inspections is reconciled with the service performed.

**3.162** The objectives of this Ministry include ensuring that the structure and functions of the Barbados Defence Force are in a state of readiness, promoting the use of information and communications technologies, and instituting a more effective response to the HIV/AIDS epidemic.

### **Absence of Support Documentation**

**3.163** There were several instances where there was no supporting documentation to substantiate expenditure on payment vouchers in respect of the Commission for Pan African Affairs. As a result the payments could not be verified as reasonable and proper charges:-

### **Contracts**

**3.164** Audit officers were not able to verify that payments of \$645,605.15 were in accordance with the terms and conditions of the agreement, since no formal contract was made available. These payments were in respect of the Portal Project. The Financial Rules require that a written agreement should be in place prior to the commencement of any work and should contain appropriate safeguards for the satisfactory completion of the work. This requirement was not adhered to in this instance. Copies of this contract should be made available to the Audit Office as soon as it becomes available.

### **National Library Service**



**3.165**

An inventory of Government property in respect of the National Library Service was not maintained as stipulated by Rule 122 of the Financial Rules. The Library has computer equipment insured at a value of \$469,395.00, and furniture and equipment costing \$142,717.17 were purchased during the financial year. These items should all be included in an inventory listing which should be compiled as a matter of urgency.

**Ministry of Home Affairs**

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**Post Office**

- 3.166** The functions of the Post Office include the collection and delivery of domestic and international mail and international parcels, the sale of stamps and domestic and international postal and money orders.

### **Accounting for Stamp Stock**

- 3.167** For the financial year under review stamp sales in the General Ledger of the Post Office totaled \$24,970,385.80. An analysis of the stock records however indicated an amount of \$24,845,799.53 resulting in a difference of \$124,586.27. Accounts personnel were not able to explain reasons for this difference.
- 3.168** It is necessary that an annual reconciliation should be performed between the stock records of stamps sold and the actual revenue realized from stamp sales, as this would allow for an identification of errors and ensure that all stamps are properly accounted for in the future.

### **Surprise Examinations**

- 3.169** There has been a general improvement in the frequency with which surprise checks have been carried out. However there were still instances where surprise examinations were not executed as directed by Financial Rule 71 (2), which states, *“Such inspections should be held at irregular intervals of time not longer than six (6) months.”*
- 3.170** The failure to execute control procedures such as surprise examinations and other checks on the cashiers can result in misstatements not being discovered in a timely manner, or fraudulent activity going undetected.
- 3.171** Cash shortages have been recurring from year to year. It is therefore recommended that procedures should be implemented to prevent these shortages from recurring. All shortages were not reported to the Auditor General as is required by Section 93 (1) of the Financial Rules.

**3.172** The magnitude of the shortages reported during the year necessitate strict adherence to Section 71 (1) and (2) of the Financial Rules, 1971. Compliance with this Rule should ensure that opportunities for the misappropriation of public funds are minimized. These shortages are listed at Appendix 3.

#### **Unpresented Records**

**3.173** Despite several requests some receipt books issued to cashiers were not presented for audit examination as is required by the Section 29 (1) of the F.A.A. Act, Cap. 5. The Post Office has a duty to ensure that all supporting records are available for inspection so that all entries in the accounts can be verified.

#### **Arrears of Revenue**

**3.174** A statement of arrears of revenue was not furnished for the information of the Auditor General in accordance with Section 41 of the Financial Rules.

#### **Insurance of Property**

**3.175** The furniture and equipment of the General Post Office and the district post offices were not covered by insurance during the financial year. Such actions expose the assets of the Post Office to unnecessary risk should these items be stolen or destroyed.

**3.176** Action should therefore be taken to have these items insured as a matter of urgency.

### **Ministry of Housing and Lands**

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**3.177** The objectives of this Ministry include improving the quality and standard of living in Barbados through providing improved housing, acquiring lands for public purposes and the provision and administration of surveying services in the island.

#### **Insurance of Government Buildings**

**3.178** The Audit Office has for a number of years been commenting on the inadequacy of the insurance coverage of Government buildings by the Ministry of Housing and Lands. In previous reports I have recommended that as a result of substantial expansion carried out on some Government properties they should be revalued. In addition there has been a number of properties which appear to be undervalued and the Office has recommended that valuations should be carried out on these buildings as a matter of urgency. These valuations could then be used by the Ministry as a basis for providing adequate insurance coverage for these properties.

**3.179** My concern relates to the fact that should these buildings be damaged or destroyed considerable amounts of resources will be required to rebuild or replace them. If the buildings are adequately insured then the risk to Government is minimized since claims can be made to the insurance company.

**3.180**

The following buildings appear to be significantly underinsured:-

- **Temporary Prison at Harrison's Point**

The Ministry of Home Affairs refurbished the facilities at Harrison point in St. Lucy to house the temporary prison facilities at a cost of Bds \$10.5 million. This additional expense has not been reflected in the insured value of the property to date. The only buildings insured on the compound are Harrison Quarters Storeroom and the Naval Facility for \$44,000.00 and \$2.5 million respectively.

- **Cheapside Market**

The Cheapide Market was demolished and a new market constructed at a cost of \$8 million. This building has been completed for a number of years however for the 2005-2006 financial year this Market was insured for only \$305,000.00.

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

There has been recent extensive refurbishment and rebuilding at the St. Leonard's Boys Secondary School. These expenditures have exceeded Bds \$17 million. However at December 2006 this property was insured for only \$5 million,

- **Other Properties**

In addition to the properties mentioned above, the insured values on the following properties need to be reassessed:-

<b>Property</b>	<b>Insured Value</b> <b>\$</b>
Government Headquarters	1,040,040.00
Ellerslie Secondary School	359,000.00
Erdiston Teachers' Training College	470,252.00
Parkinson Secondary School	3,240,415.00

**3.181** This Office is advising that these properties be re-valued and suitably insured as a matter of urgency.

#### **Arrears of Revenue - Housing**

**3.182** The arrears of revenue statement submitted by the Ministry of Housing and Lands showed the total outstanding revenue at 31<sup>st</sup> March, 2006 to be \$1.329 million. This was less than the previous year's arrears of \$1.7 million. In a number of instances, arrears from individuals and firms had been substantially reduced. There however remain instances in which firms owe the Government several years' rent.

**3.183** There was no response from the Accounting Officer at the Ministry of Housing and Lands to the issues raised at the time of the writing of this Report. Such action is contrary to Rule 7 (d) of the Financial Rules which require accounting officers to reply promptly to any queries addressed to him by the Auditor General.

**CHAPTER 4**  
**Special Funds and OtherAccounts**

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**I**n addition to the audit of revenues and expenditure of the Consolidated Fund, the Barbados Audit Office also has responsibilities for the audit of statutory boards, regional organizations and other accounts which are required to be audited in accordance with several different statutes and agreements. The audits conducted in this regard were as follows:-

### **BarbadosCommunity College**

- 4.2** The audit of the accounts of the BarbadosCommunity College is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. The College submitted accounts for audit for the financial years ended 31<sup>st</sup>March, 2004, and 31<sup>st</sup>March, 2005. The audit of these accounts is currently in arrears and the Office will seek to bring this process up to date in 2007.

### **Barbados Hospitality Institute**

- 4.3** The Barbados Hospitality Institute, which falls under the BarbadosCommunity College, conducts training for persons in the hospitality industry. This entity was previously behind in the submission of its accounts for audit. However, with the exception of the financial year ending 31<sup>st</sup>March, 2006, the relevant accounts were submitted and the audits were completed. No material errors were found during the course of the audits.



### **Barbados Defence Force**

- 4.4 The accounts of the Barbados Defence Force for the financial years 2003/ 2004 to 2005/2006 were submitted for audit. The audit of these accounts was completed during the course of the year, however there is an issue relating to the presentation of these statements which needs to be resolved with the Defence Force before the audit reports are issued.

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

- 4.5 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 ending 31<sup>st</sup>December, 1993.
- 4.6 This matter should be investigated by the relevant Ministry to ensure that the Boxing Board complies with the provisions of the Boxing Act.

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

- 4.7 The Barbados Liaison Service administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. No material errors in the financial statements were found during the course of the audits for the 2003/2004 and 2004/2005 financial years.

## **Barbados Liaison Service - Toronto**

- 4.8** In the 2005 Auditor General's Report it was reported that at 31<sup>st</sup> March, 2005, a significant balance of CDN \$48,724.63 remained on the workers savings account. The Report concluded that the matter needs to be addressed as a matter of urgency in order for workers to receive the correct amounts due to them.
- 4.9** This matter has been commented on extensively in the Press and needs to be clarified. The Workers Savings Account contains funds paid by farmers in respect of the earnings of farm workers. This fund is used to pay expenses incurred by the workers such as transportation and health insurance, and any remaining balance is sent to Barbados as workers savings. These savings are paid to the workers on their return to Barbados.
- 4.10** At the end of the 2004/2005 financial year there was a balance of CDN \$48,724.63 on this account and no explanation as to the allocation of this balance was provided by the Liaison Office staff.
- 4.11** The Audit Office had requested an explanation of this matter from the Liaison Office, but not having received a satisfactory response, carried out further research on the matter, and has determined that CDN\$45,585.00 of these funds related to insurance payments made on behalf of the workers from the Liaison Office Account. These payments which were made from the Office Account should be refunded.

**4.12** It should be noted that the Audit Office has requested the Liaison Office to account for funds remaining on the account at the end of each financial year. Any balance on this account should be properly explained by the Liaison Service in future.

**4.13** ***Ministry's Response***

*The transfer of CDN \$45,585.00 from the Workers' Fund to the Office Account was made on 17<sup>th</sup> January, 2007.*

**Caribbean Institute for Meteorology and**

**Hydrology**

**4.14** The Caribbean Institute for Meteorology and Hydrology is a training and research organization funded by Governments in the Caribbean region. Receipts and Payments accounts for the year ended 31<sup>st</sup>December, 2005 were audited. No material errors on the financial statements were discovered during the course of the audit.

**Caribbean Centre for Development Administration**

- 4.15** The Caribbean Centre for Development Administration (CARICAD) provides assistance to the countries of the Caribbean area for the purpose of improving their administrative capability. The accounts of CARICAD for the financial year ended 31<sup>st</sup> March, 2002 were audited during the year. Financial statements for the years ending 31<sup>st</sup> March, 2003 and 31<sup>st</sup> March, 2004 have now been submitted.

### **Central Emergency Relief Fund**

- 4.16** 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 31<sup>st</sup> December, 2005 were audited during the year. No material errors in the financial statements were discovered during the course of these audits.

### **Central Liaison Service**

- 4.17** The Central Liaison Service (Regional Security System) is an organization supported by certain Caribbean countries. Its purposes include assisting with the prevention of illegal narcotics, assisting with relevant emergencies and combating threats to national security in member states.
- 4.18** The accounts of the Central Liaison Service for the financial years ending 31<sup>st</sup> March, 2001, 2002, 2003 and 2004 were audited. No material errors in the financial statements were discovered during the course of these audits. The accounts for the 2004/2005 and 2005/2006 financial years will commence shortly.

### **Community Legal Services Commission**

**4.19** The Community Legal Services Commission provides legal aid to persons in the community who could not otherwise afford it.

**4.20** The accounts of the Commission for the financial year ended 31<sup>st</sup> March, 2006 were audited. No material errors in the financial statements were discovered during the course of this audit.

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

**4.21** The accounts of the Erdiston Teachers' Training College for the financial year ended 31<sup>st</sup> March, 2004 and 31<sup>st</sup> March, 2005 were audited during the course of the year. No material errors in the financial statements were discovered during the course of these audits. Financial statements for the financial year ended 31<sup>st</sup> March, 2006 were submitted. This audit will commence during 2007.

### **Land Reclaimers Limited**

**4.22** The Office is awaiting the final financial statements in respect of Land Reclaimers Limited so that they can be audited allowing this agency to officially wind up its operations. This Company ceased functioning since 2002 and this matter needs to be brought to a close.

### **National Assistance Board**

**4.23** 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.

**4.24** The accounts of the National Assistance Board for the two financial years ended 31<sup>st</sup> March, 2004 and 31<sup>st</sup> March 2005 have been audited. No material errors were discovered in the financial statements during the course of the audit. The statements for the financial year ended 31<sup>st</sup> March, 2006 have been submitted and are currently being audited.

#### **National Insurance Fund**

**4.25** The audit of the accounts of the National Insurance Fund has been a source of concern for some time. This audit is currently five years in arrears. The Office has stated that audits conducted several years after the period in which they were due do not assist the accountability process as they are of little help to decision makers. The accounts of the National Insurance Fund need to be brought up to date and I am willing to deploy appropriate resources to accomplish this goal. Clearly the National Insurance Board needs to deploy appropriate resources to assist in the preparation of any outstanding accounts

**4.26** **As stated in the last Report** the longer that audits remain outstanding the more difficult it will be to respond to issues that may be raised during the auditing process.

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

**4.27** The Public Enterprise Investment Fund provides funding for specific investment projects, the rehabilitation of enterprises in the public sector

and the repayment of public debt. The Fund receives revenue arising out of the disposal of shares or other interests in enterprises owned by the Barbados Government. The Accounts of the Fund for the financial year ended 31<sup>st</sup>March, 2006 were audited during the course of the year. An amount of \$5.1 million was due to this account from the Treasury. This amount was in respect of the sale of shares in the Insurance Corporation of Barbados Limited. No other material errors were discovered during the course of the audit.

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

- 4.28** 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.
- 4.29** The absence of relevant schedules in respect of payments from this Fund has held up this audit for a number of years. The inability of the National Insurance Department to provide this basic information is inexplicable and has been an area of concern for sometime.

### **Severance Payment Fund**

- 4.30** The accounts of the Severance Payment Fund for the financial year ended 31<sup>st</sup>December, 2005 were submitted for audit. This audit will commence during 2007.

### **Samuel Jackman Prescod Polytechnic**

**4.31** Section 6 (1) of the Samuel Jackman Prescod Polytechnic Board of Management Order, 1983 (S.I. 1983 No. 78) requires the Board to submit to the Minister on or before 1<sup>st</sup>October, in respect of the preceding financial year, Statements of Account, audited by the Auditor General.

**4.32** The Polytechnic had submitted financial statements for the six financial years to 31<sup>st</sup>March, 2003. These audits have commenced and it will take sometime before they are brought up to date.

### **Sanitation Service Authority**

**4.33** The accounts of the Sanitation Service Authority for the financial years ended 31<sup>st</sup> March, 2004, 2005 and 2006 were audited during the course of the year. The following audit issues were drawn to the attention of the Authority's management.

### **Insurance of Property**

**4.34** A concern regarding the operations of the Sanitation Service Authority relates to the inadequacy of the insurance coverage for buildings. An examination of the Schedule of Renewal Insurance Notices indicated that a number of buildings owned by the Authority have not had their sums insured values revised within the last three years. The Authority should ensure that the necessary revaluation of its property is carried out so that adequate insurance coverage can be provided.

**4.35** *Authority's Response*



*The Authority will take steps to have these buildings revalued to ensure proper insurance coverage. Correspondence was sent to the Ministry of Housing to ascertain if they were responsible for the Insurances but no reply has been received.*

#### **Arrears of Revenue**

- 4.36** According to the records of the Authority arrears due from customers were in excess of \$380,000.00 at 31<sup>st</sup> March, 2006, and this was an increase of \$75,000.00 over the previous year. It was observed that reminders are not sent to those persons who are in arrears. The Authority needs to take prompt action in respect of those persons who are in arrears in an effort to keep these arrears at manageable levels.

**4.37** ***Authority's Response***

*The SSA has been very pro-active in having the outstanding arrears reduced by way of correspondence; visits to those businesses by the supervisory team and telephones calls. The Authority has instituted recently a policy of prepayment for persons who require the service. Another option that is engaging the attention of the Authority is to have those accounts sent to an attorney at law or a bailiff services company for collections.*

#### **Amounts Due to Creditors**

**4.38** The Authority does not have a ledger showing outstanding amounts to creditors. As a result, amounts owed are determined by computing outstanding invoices and statements issued to the Authority. An examination of these invoices indicated that over \$650,000.00 was outstanding at 31<sup>st</sup>March, 2006. The Authority should introduce a system in which outstanding amounts can be readily identified, and appropriate follow up action should be taken to settle outstanding amounts in a timely manner.

**4.39** *Authority's Response*

*The Sanitation Service Authority has been unable to satisfy its creditors due to the cash flow situation as preference is given to payment of statutory personal emoluments. It is further compounded with untimely receipt of subventions and shortfalls in amounts requested which affect badly the planning process. It is also mindful that no overdraft on its current account will be tolerated.*

**Social Investment Fund**

**4.40** The accounts of the Social Investment Fund for the financial year ended 31<sup>st</sup>March, 2006 have been audited as required by Section 9 of the Social Investment Act. No material errors in the financial statements were discovered during the course of the audit.

**Sugar Factory Smoke Control Board**

- 4.41** The Revenue and Expenditure Account of the Sugar Factory Smoke Control Board for the years ended 31<sup>st</sup>December, 2001 to 2005 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**

- 4.42** The Receipts and Payments Account for the financial year ended 31<sup>st</sup>December, 2005 were submitted for audit as required by Section 15 (2) of the Sugar Industry Act, Cap. 270. No material errors in the accounts were discovered during the course of the audit.

### **Special Audit of the Training Funds**

- 4.43** 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.
- 4.44** 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.
- 4.45** An audit of the accounting records of the Training Fund and the Training Loan Fund for the period 1st April, 2000 to 31st March, 2003 was carried out in accordance with the provisions of Section 26 of the Financial Administration and Audit Act, Cap. 5.

## **Background Information**

**4.46** The Training Fund and Training Loan Fund are used for the provision of training awards and the granting of loans to public officers for training purposes. Expenditures for these funds are in excess of \$3 million annually. The Training Funds had not been audited for ten years because of the unavailability of financial statements and relevant accounting records. The Training Division had indicated that some records were now available and as a result the revenue and expenditure records of these funds were reviewed for the abovementioned period.

**4.47** The results of this examination can be summarized as follows:-

## **Audit Objectives**

**4.48** The objectives of the audit were as follows:-

- To conduct an assessment of the reasons why the Division has been unable to submit audited Financial Statements.
- To examine the award process to ensure that relevant approval was obtained with regard to Training and Study Leave awards.
- To ascertain whether expenditure was in compliance with the Financial Rules.
- To examine the extent to which expenditure was made with due regard to the avoidance of waste and extravagance.

- To ascertain whether officers granted Training or Study Leave completed the requirements of the bond agreement.
- To ascertain that in relevant cases where persons were contracted to provide training that the tendering process was adhered to and that relevant contracts were in place where applicable.

### **Audit Criteria**

**4.49** The criteria for assessment of the abovementioned objectives were as follows:-

- Training Act, Cap. 35
- General Orders Chapter VII - Training in the Public Service
- Financial Administration and Audit Act, Chapter 5
- Training Administration Division procedural guidelines for management of the Training Fund and the Training Loan Fund.

### **Audit Findings**

**4.50** The audit of the above Funds revealed the following matters:-

## **Non-Submission of Annual Reports to Parliament**

- 4.51** There was no submission of annual reports of the Training and Training Loan Fund to Parliament as required by Section 5 of the Training Act, Cap. 35. Audit investigations revealed that the last report, which was submitted to Parliament, was for the 1991/1992 financial year.

## **Non-Submission of Financial Statements for Audit**

- 4.52** An assessment was conducted to determine why the Training Administration Division has been unable to submit financial statements for audit for 10 years prior to the financial year 2003/2004.
- 4.53** The staff complement of the Accounts Division consisting of three persons: an Accountant, an Assistant Accountant and a Clerical Officer, appeared to be adequate for performing the accounting functions of the Division.
- 4.54** There was therefore no satisfactory explanation provided as to why signed financial statements were not submitted for audit for such a prolonged period.

## **Audit Comments**

- 4.55** It is important that the financial statements of the Division be made available for audit on a timely basis. Financial statements submitted long after the relevant accounting period are of little use for decision making or accountability. The Division should take the necessary steps to ensure that the statements are presented for audit on a timely basis along with the relevant supporting documentation.

## **Management of Inventory**

- 4.56** There seemed to be a general breakdown of the inventory management system for the periods under review. There was no evidence of planning in respect of reordering supplies since several large deliveries were made within days of each other thereby increasing stock levels. There was no evidence that an annual inventory count of stock was conducted. This would have allowed for a more systematic method of determining the amount of items required.
- 4.57** During the financial year 2003/2004 writing pads were purchased at \$4.00 each from a private supplier. The Government Central Purchasing Division was also supplying writing pads at \$1.57 each during this period.
- 4.58** An amount of \$12,000.00 was paid for the purchase of 1000 reams of A4 copy paper at a price of \$12.00 each. At the time of purchase, 8<sup>th</sup> January, 2001, the Central Purchasing Department was supplying A4 copy paper to Ministries and Departments at \$5.75 per ream.
- 4.59** Excessive amounts of stationery items were also purchased at regular intervals during the period. These included 22,090 writing pads, 16,380 pens and 17,787 document folders and wallets. It is not clear why such large amounts of stationery were purchased from a single supplier without any competitive bidding.
- 4.60** At the time of the audit the Division was attempting reconstruction of the records for the inventory system, and reported that it was “dispensing some of the excess stationery through supplying some of it to other Government Departments who were conducting in-house training programs.”

## **Absence of Competitive Bidding**

- 4.61** There were a number of purchases made by the Division in which, based on the quantum of goods supplied, it would have been prudent to obtain quotations from other suppliers to ensure that the price was competitive. A number of these purchases required contracts in compliance with Rule 126 of the Financial Administration and Audit Rules, 1971. There was no evidence that contracts were entered into or that quotations were obtained as is required by the abovementioned Rule.
- 4.62** Ring Binders were purchased, again in bulk, at a cost of \$22.00 each. There was no evidence that the Division requested quotations from different suppliers as prudent financial management would dictate. At the time of writing large numbers of these items were still in stock.
- 4.63** There were several occasions where items were purchased, yet no evidence was seen to corroborate delivery and subsequent receipt of the said items. No delivery notes were seen. The corresponding LPO's were not signed to indicate receipt and the inventory records did not contain relevant entries. There was therefore no way of ascertaining whether the items were ever received by the Division. The cost of these items exceeded \$100,000.00.

### **Issues Relating to Bonds**

- 4.64** There were a number of instances in which bonds were either not issued to or not signed by individuals granted training leave. In other cases the relevant stamp duty was not placed on the bond. The correct procedure is for bonds to be signed by the persons going on training leave. The bond requires inter alia that officers serve for a specified period of time, after their course of study, in accordance with the period of leave granted. Alternatively, officers repay the balance outstanding, which is the equivalent of salary received during the unfulfilled period of service if they resign from their posts before fulfilling the terms of the bond. The absence of the necessary signed bonds limits the



Division's options in recovering amounts outstanding. This requirement should therefore be adhered to.

### **Arrears of Revenue**

- 4.65** No receipts are issued for repayments by cheque and no returns of arrears of revenue were submitted to the Auditor General as is mandated by Section 41 of the Financial Administration and Audit (Financial) Rules, 1971.

### **Payment for Printing Services**

- 4.66** During the period under review payments in excess of \$215,000.00 were made mainly for the provision of various printing services. Rather than being outsourced to private printing firms, these services should have been obtained from the Government Printing Department thus reducing the printing costs.
- 4.67** However, there was no evidence of any attempt to utilize the Government Printing Department for the supply of these items.

### **NISE Programme**

- 4.68** Invitations to offer quotations to provide training services in relation to the NISE programme were extended to three organizations on 29<sup>th</sup> August, 2005. One agency declined to bid, while another bid was not accepted on the grounds that it was not fully responsive to the tender requirements, since it did not provide any methodology to assist in the transfer of training to the organizational setting. The bid for this firm was the lowest.

**4.69** The audit concern stems from the fact that the Company which was awarded the contract had submitted an initial proposal for the training program prior to the invitation to tender. This initial proposal was reviewed by the Division and a meeting was subsequently held with the Company to discuss the proposal and for amendments to be made. This facility was not offered to the other bidder.

**4.70** Such situations lend the appearance of a lack of transparency and fairness in the bidding and award processes. Care should be taken to avoid situations like this in the future.

#### **EDF Human Resources Development Project No. 8 ACP BAR 004**

**4.71** The European Commission and the Government of Barbados entered into a project entitled Human Resources Development Project No.8. Under the project the European Development Fund agreed to provide funding of EURO 270,000.00 or Bds \$628,789.00 for short term training programs.

**4.72** A financing agreement and an Imprest Account Contractual Document were signed and the two documents specified the conditions under which the program would be administered and funds disbursed and accounted for. Day to day management of the project was the responsibility of the Training Administration Division.

**4.73** A detailed work program listing the courses to be undertaken under the short term portion of the project as well as the EC contribution for each course was included in the agreement.

**4.74** An advance of \$314,395.00 was transferred to the EDF Project Imprest Account.

**4.75** The agreement stipulated that where items of expenditure are not accepted and imprest account holders are unable to provide the evidence required, the sums involved would have to be repaid as soon as possible. Project accounts were to be subjected to an independent Auditor.

**4.76** The Training Division submitted a proposal of 3 training programs costing \$620,754.00. It should be noted that none of these programs were consistent with those courses listed in the approved work program. The Permanent Secretary, Civil Service approved the use of the advanced funds for the courses listed in the proposal.

**4.77** On 15<sup>th</sup> November, 2004 the Head of Delegation of the European Commission in Barbados and the Eastern Caribbean requested the provision of either a justification for the use of the advance payment or an agreement that it be repaid. The Project funds were not used as intended and the funds were subsequently repaid.

**4.78** The following issues impacted on this program resulting in the advance having to be repaid:-

- The Division did not undertake programs consistent with those short term courses listed in the approved work program.
- There was no fulfillment of the requirements of the agreement with respect to an independent audit of the program.

- Progress reports and financial statements were not prepared by the Division and submitted to the National Authorizing Officer for EDF operations as was specified by the agreement.

**4.79** Requests from the Ministry of Economic Affairs to have the project extended were denied because they were not submitted within the time period specified by the EDF's Financial Regulations. This led to the advance of \$314,395.00 having to be repaid. It also led to the additional funding of \$314,394.00 not being provided to the Government.

#### **Review of Loans Made Under the Training Loan Fund**

**4.80** There were a number of deficiencies in the operations of the Training Loan Fund and these were as follows:-

- There were instances where loan disbursements were made contravening the aspect of the Training Loan Act which stipulates that amounts not exceeding \$5,000.00 could be loaned to applicants.
- There were no loan accounts seen in respect of a number of loans. The Audit Office was unable to access any further information on these transactions, and it is therefore unclear if the loans are being serviced.
- There were several instances of loan accounts on which no repayments were made.

- There were also several instances where loans were in arrears or default and no evidence was seen of action taken to recover the outstanding funds.
- Several loan accounts were not maintained and kept up to date by the Division.

### **Comment**

**4.81** There was inadequate recordkeeping by the Division, therefore, the Division could not provide information on the amount of arrears due to the Fund or the length of time these arrears were outstanding. A comprehensive general ledger should be maintained with a determination of amounts to be repaid and amounts overdue.

### **Overall Conclusion**

**4.82** The Financial Statements of the Training Division had not been prepared for several years and this should be of concern to the Management of the Division and to the Accounting Officer, who is personally responsible for the efficient and prudent conduct of the financial business of the Division. This information would have been required for management oversight as well as for auditing purposes. The usefulness of the financial statements are impaired if they are not made available to users within a reasonable period after their reporting date.

**4.83** There was some element of wastage and excess purchase of supplies. Items such as pens and stationery are short term supplies which should be purchased

for use within a particular year. However, the Division purchased thousands of items of stationery, some of which are in stock several years after they have been purchased. This suggests an absence of inventory management and planning. These excess purchases of supplies require an explanation by the Division.

**4.84** Prudent financial management would dictate that quotations be received when substantial outlays on goods and services are being undertaken, as this allows the Division to have the benefit of competitive bidding. There were numerous instances in which this did not occur, and on a number of occasions the prices of items purchased were way in excess of prices being offered by the Central Purchasing Department. This resulted in considerable wastage of Government funds. It should also be noted that these items were purchased mainly from one supplier.

**4.85** There were numerous issues relating to the issuance of bonds mentioned in this report. These included bonds not signed or agreements not being monitored. This would have occurred because the Division was not paying sufficient attention to this element of its operations. These omissions could result in the Public Service not being able to benefit from the expertise of persons trained at considerable expense to the State, if persons left the Service immediately after they returned from studies. It should however be noted that efforts are being made by the Division to address some of these issues.

**4.86** Adequate record keeping has not been maintained especially as it relates to loans. This has affected the Division's efforts to recover outstanding amounts. In some cases there were no records seen for persons who had received loans, while in many others the balance on the accounts could not be properly determined because the records were not updated. These omissions could result in some losses to the Division.

**4.87** It is unfortunate that the Government of Barbados was unable to utilize \$628,789.00 in Development Funding which was offered by the European Union,

given the need for training in the Public Service. The terms on which the grant was being given were clearly spelt out and a time frame was established for its execution. Both of these conditions were ignored by the Division, which then sought to utilize the funds for courses unrelated to what had been agreed to by the Government and the European Union. The actions of the Division resulted in the Government having to repay \$314,395.00 to the European Union, and the loss of a further \$314,394.00 in grant funding as a result of the cancellation of the agreement. It should be noted that some of the courses which had been in the agreement with the European Union were subsequently conducted by the Division at Government expense.

- 4.88** The above deficiencies indicate weaknesses in the internal control systems and, as a consequence, unsatisfactory financial management. I am disappointed to report that some of these deficiencies have been highlighted in previous audit memoranda and remain uncorrected despite assurances that corrective action would have been taken by the Division.

### **Recommendations**

- 4.89** Recommendations are as follows:-

- (i) The recovery of all outstanding debts should be vigorously pursued. Failure to repay loans timely or not at all could adversely affect the lending ability of the Division.
  
- (ii) Inactive accounts or those of deceased persons should be researched to determine the possibility of recovering some or all of the debt. No useful purpose is served by continuing to treat irrecoverable loans as assets in the accounts.

- (iii) The process of reconciling balances in the records of the Training Fund/Loan Fund with balances in the corresponding records of the Treasury should be urgently implemented and target dates set for completion.
- (iv) A cashbook should be maintained to record all receipts and payments to the Treasury. Such a record could facilitate the proper maintenance of the accounts and improve financial control.
- (v) Receipts in respect of the two Funds should be identified separately in the cash receipt books.
- (vi) Recipients of awards should sign Study Leave/Loan Bonds before they proceed on leave or receive Training Loans.
- (vii) A list of Public Officers in receipt of awards should be maintained. This could facilitate financial management by providing readily available statistical information on awards granted.
- (viii) The Division needs to pay careful attention to inventory management. Purchases should be made based on adequate knowledge of inventory, and reorder levels should be established to avoid excess purchases.
- (ix) Financial statements should be prepared on a timely basis.
- (x) The Training Administration Division should consider obtaining a management system to assist in the efficient record keeping and management of the Training Loan portfolio.
- (xi) The Division needs to follow the Financial Rules as they relate to the purchase of goods and services. Competitive bidding should be conducted, as this ensures that the Division has the relevant knowledge of market prices needed to make informed decisions.



## **Unemployment Fund**

- 4.90** The accounts of the Unemployment Fund for the financial year ended 31<sup>st</sup> December, 2005 were submitted for audit. This audit will commence during 2007.

## **General Observations**

- 4.91** A number of Government agencies have been experiencing difficulties in providing financial statements for audit. These entities need to review their operations and make a serious effort to resolve the issues affecting their abilities to produce timely financial statements. Accounts submitted long after the close of financial years often lead to problems in finalizing the audits. This is contrary to legislative requirements and can create an environment where fraud can thrive undetected.

**Leigh E. Trotman**

**Auditor General**

**Weymouth Corporate Centre**

**Roebuck Street**

**St. Michael BB11080**

**BARBADOS**

**2<sup>nd</sup> February, 2007**

# Appendices

## FINANCIAL ADMINISTRATION AND AUDIT ACT

### PART V – AUDIT

26. (1) The Auditor-General is the auditor of the financial statements of the Government of Barbados.
- (2) The Auditor-General shall also
- (a) be responsible for the audit and inspection of all public accounts whether such accounts are of general revenue paid into, and expenditure met from the Consolidated Fund, special funds or departmental accounts and statutory bodies which receive all or part of their funds from the Consolidated Fund;
  - (b) apply to the public accounts, such an examination as will enable him to ascertain that in his opinion the accounts are kept on a proper system, that they are punctually and properly posted and that checks against irregularity and fraud are adequate and effective;
  - (c) satisfy himself that all standing instructions, enactments and other laws of Barbados relating to finance and accounts are strictly observed; and
  - (d) examine and report in accordance with the outcome of his examination the several statements and accounts which are required to be submitted to him under this Act.
- (3) The Auditor General may carry out examinations into the economical, efficient and effective use of resources of any Ministry or Department or any other entity required to be audited by him.
- (4) Subsection 26(3) shall not be construed as entitling the Auditor-General to review the merits of the policy objectives of Government in respect of any Ministry, Department or Statutory Body.
27. It shall be the duty of the Auditor-General to examine the calculations and computations of all pensions and gratuities or similar awards before any award is made and to certify that they are arithmetically correct and are in accordance with all statutory provisions relating thereto.
28. (1) The Auditor-General shall report annually, as soon as possible and not later than the last day of December following the close of each financial year, the results of his examination of the accounts and any failure to observe the enactments or other laws of the island.

- (2) Notwithstanding subsection (1), the Auditor-General may at any time, if it appears to him to be desirable, transmit to the House of Assembly a special report on any matter incidental to his power and duties under this Act.
  - (3) Every report of the Auditor-General shall be addressed to the Speaker of the House of Assembly who shall lay such report before the House of Assembly as soon as possible after its receipt by him.
  - (4) A copy of every report of the Auditor-General shall also be transmitted to the Senate for information.
29. (1) For the purpose of his examination under section 26 the Auditor-General is at all times entitled-
- (a) to have access to all books, records, including data held or stored electronically, vouchers, payment requests, documents, returns, cash, stamps, securities, stores or other property in whatever form existing in the possession of the audited body, and every facility shall be given for carrying out the examination;
  - (b) to send for and have custody of any books, accounts, vouchers, payment requests, papers, data held or stored electronically or any other information in whatever form existing under the control of the audited body relating to the matter under examination, and to keep such books, accounts, vouchers, payment requests or papers for such time as he may require them;
  - (c) to call upon any officer for any explanation and information the Auditor-General may require in order to enable him to discharge his duties;
  - (d) to require any department concerned to furnish him from time to time or at regular periods with accounts of the transactions of such department up to such date as he may specify;
  - (e) without payment of any fee, to cause search to be made in, and extracts to be taken from, any book, document or record in any public office;
  - (f) to summon and examine upon oath, declaration or affirmation (which oath, declaration or affirmation the Auditor-General is hereby empowered to administer) all persons whom he thinks fit to examine respecting the receipt or expenditure of money or the receipt or issue of any stores affected by this Act and respecting all other matters and things whatever necessary for the due performance of his functions; and any person summoned as aforesaid is upon production of a certificate of the Auditor-General entitled to payment for his attendance in accordance with the provisions of the Witnesses and Interpreters (Payment) Act as if he were a

witness attending a legal proceeding in obedience to a summons issued at the instance of the Crown; but the Auditor-General may, if he thinks fit in any case, disallow the whole or any part of such payment;

(g) to require every person employed in his office who has to examine the accounts of a department to comply with any security requirements applicable thereto and to take any oath of secrecy required to be taken by persons employed in that department.

(2) Any person summoned under paragraph (f) of subsection (1) who without reasonable excuse fails to obey such summons shall be guilty of an offence and liable on summary conviction thereof to a fine of \$1,000, or, in default of payment, to imprisonment for a period of 3 months.

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

31. If at any time it appears to the Auditor-General that

(a) any irregularities have occurred in the collection, custody or expenditure of public moneys, or in the accounting for the same; or

(b) any irregularities have occurred in the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores, or other property of the Crown, or in the accounting for the same; or

(c) any loss of or damage to property of the Crown has not been duly reported to the Director,

he shall immediately bring the matter to the notice of the accounting officer and if the case is serious, report the circumstances to the Director.

32. (1) The Auditor-General shall, if required:

(a) by a resolution of the House of Assembly; or

(b) by the Minister, examine the accounts of any person or organization

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

(bb) in respect of whom financial aid from the Crown is sought,

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

- (2) Where the Minister fails within a reasonable time to present the report, referred to in subsection (1) to the House of Assembly, the Auditor-General shall transmit such report to the Speaker of the House of Assembly to be presented by him to the House of Assembly.
- 33.
  - (1) The Auditor-General may, subject to the approval by the Minister, charge a fee for auditing the accounts of a person or body whose expenditure is not met from the Consolidated Fund.
  - (2) Any fees received by the Auditor-General under subsection (1) shall be credited to the Consolidated Fund.
- 33A.
  - (1) The Auditor General may engage the services of professionally competent persons to assist in the conduct of audits, and payment for such services shall be charged on the Consolidated Fund.
  - (2) Where under subsection (1) the Auditor General engages a private auditor to conduct the audit of a government entity, the auditor of the entity shall make available all working papers and other documents to the Auditor-General.
- 33B. The Audit Office shall consist of the Auditor-General and such other officers and employees as are assigned to him.
- 34. The accounts of the Office of the Auditor General shall be audited and reported on by the Minister, and the provisions of sections 28 and 29 shall apply to the Minister in relation to the exercise of those functions in the same manner as they apply to the audit and reports made by the Auditor General.

Audit Survey of Statutory Bodies

Statutory Bodies	Last Financial Year Audited	Comments
<b>Ellerslie Secondary School</b>	<b>Financial Year ended 31<sup>st</sup> March, 2002</b>	<b>Kindly note that accounts for the period ending March 2003 to March 2005 have been audited and the draft accounts may be forwarded as soon as they are received if they are required.</b>
<b>Urban Development Commission</b>	<b>Financial Year ended 31<sup>st</sup> March, 2002</b>	
<b>Rural Development Commission</b>	<b>Financial Year ended 31<sup>st</sup> March, 2003</b>	
<b>National Conservation Commission</b>	<b>Financial Year ended 31<sup>st</sup> March, 2003</b>	<b>Please note that the statements for the financial year ended 31<sup>st</sup> March, 2004 are currently in draft and our auditors are working on the statements for the year ended 31<sup>st</sup> March, 2005. Both documents should be finalized by December 2006.</b>
<b>Parkinson Memorial School</b>	<b>Financial Year ended 31<sup>st</sup> March, 2003</b>	<b>We are awaiting a response from the auditors in relation to the audit 2003 – 2004 and 2004 – 2006.</b>
<b>Deighton Griffith Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March, 2004</b>	
<b>Barbados Tourism Authority</b>	<b>Financial Year ended 31<sup>st</sup> March, 2004</b>	<b>Our auditors, KPMG, are currently in the process of resolving some outstanding matters with the 2005 financial statements, and we are expecting to have draft financial statements by the end of the month.</b>
<b>St. Leonard's Boys Secondary School</b>	<b>Financial Year ended 31<sup>st</sup> March, 2004</b>	<b>The draft financial statements at 31<sup>st</sup> March, 2005 were returned by the Auditors for the Chairman's approval.</b>
<b>Barbados Vocational Training Board</b>	<b>Financial year ended 31<sup>st</sup> March, 2004</b>	<b>The audit for March 2005 year-end has been completed. However, to date we have only received draft financial statements from our auditors.</b>
<b>Grantley Adams Memorial Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	
<b>Alexandra Secondary School</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	
<b>Princess Margaret Secondary</b>	<b>Financial Year</b>	

Statutory Bodies	Last Financial Year Audited	Comments
	<b>ended 31<sup>st</sup> March, 2005</b>	
<b>Foundation Secondary School</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	<b>The audit for the financial year ended 31<sup>st</sup> March, 2006 has already been conducted and will be submitted to your department as soon as it becomes available.</b>
<b>Queens College</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	
<b>Springer Memorial School</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	
<b>Barbados Agricultural Credit Trust</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	
<b>Barbados Tourism Investment Inc.</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	
<b>Barbados Investment Development Corporation</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	<b>The report for the year ended 31<sup>st</sup> March, 2006 is in our possession but is not available for distribution since it has not yet been laid in Parliament.</b>
<b>Enterprise Growth Fund</b>	<b>Financial Year ended 31<sup>st</sup> March, 2005</b>	
<b>Harrison College</b>	<b>Financial Year ended 31<sup>st</sup> March, 2006</b>	
<b>St. Michael Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March, 2006</b>	
<b>Lodge School</b>	<b>Financial Year ended 31<sup>st</sup> March, 2006</b>	
<b>Garrison Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>St. Michael Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>St. James Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>Louis Lynch Secondary School</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>St. Lucy Secondary School</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>Princess Margaret Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>Lester Vaughn School</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>Combermere Secondary</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	



Statutory Bodies	Last Financial Year Audited	Comments
<b>National Assistance Board</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>Child Care Board</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>Transport Board</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>National Sports Council</b>	<b>Financial Year ended 31<sup>st</sup> March 2006</b>	
<b>National Housing Corporation</b>	<b>No financial statement was submitted.</b>	

## Theft and Losses Reported to the Auditor General

The following reports of missing funds were submitted to the Auditor General during 2006:-

<b>Ministry/Department</b>	<b>Amount Reported Missing/Stolen \$</b>
Post Office- St Andrew	1,306.92
Land Tax Department	2,445.03
Post Office- Britton's Hill	3,021.62
District 'A' Court	4,612.50
Licensing Authority	60,000.00
Post Office- St George	20,000.00
District 'C' Court	45,000.00
Psychiatric Hospital	1,000,000.00
Inland Revenue Department	1,054,000.00
<b>Total</b>	<b>2,136,386.07</b>



# AUDITOR GENERAL'S OFFICE

BARBADOS



## REPORT OF THE AUDIT OF THE ACCOUNTS OF THE ACCOUNTANT GENERAL FOR THE FINANCIAL YEAR ENDING 31<sup>ST</sup> MARCH, 2006

In accordance with Section 26 of the Financial Administration and Audit Act Cap. 5, I have audited the Public Accounts of Barbados for the year ended 31<sup>st</sup> March, 2006. These financial statements are the responsibility of the Accountant General. My responsibility is to express an opinion on these statements based on my audit.

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

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

In my opinion, except for the matters included in my Annual Report to Parliament the statement of accounts properly presents the receipts and payments of the Treasury for the year ended 31<sup>st</sup> March, 2006.

**Leigh E. Trotman**

**Auditor General**

**2007-02-02**

**STATEMENT OF ASSETS AND LIABILITIES**  
**FOR THE YEAR ENDED MARCH 31, 2006**

		<b>2006</b>	<b>2005</b>
		<b>\$</b>	<b>\$</b>
<b>ASSETS</b>			
Cash at Treasury		610,971	511,001
Cash with Crown Agents – General Account		105,844	279,327
Bank Accounts		81,974,164	23,600,408
Advances	Appendix I	7,076,630	5,812,962
Loans	Appendix II	306,880,163	187,026,011
Accounts Receivable	Appendix III	-	33,906
Trust Fund Investments	Appendix IV	2,137,767	22,775,938
Special Fund Investments	Appendix V	32,875,039	33,137,501
<b>Total Assets</b>		<b>431,660,578</b>	<b>273,177,054</b>
<b>LIABILITIES</b>			
Temporary Borrowings		-	-
Other Liabilities	Appendix III	275,424	-
Treasury Bills		543,928,454	640,566,472
Deposits (Net)	Appendix VI	68,049,779	22,622,861
Trust Funds	Appendix VII	5,501,048	25,505,499
Special Funds	Appendix VIII	64,443,166	20,368,524
<b>Total Liabilities</b>		<b>682,197,871</b>	<b>709,063,356</b>

<b>Net Assets (Liabilities)</b>	<b>(250,537,293)</b>	<b>(435,886,302)</b>
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**Represented by:**

**Consolidated Fund**

Opening Balance	(435,886,302)	(365,930,356)
-----------------	---------------	---------------

Surplus (Deficit) for 2005 - 2006	185,349,009	(69,955,946)
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<b>Cumulative Deficit</b>	<b>(250,537,293)</b>	<b>(435,886,302)</b>
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The Notes to the Financial statements form an integral part of these statements



**Accountant General**

**31st July 2006**

**STATEMENT OF CONSOLIDATED FUND  
FOR THE YEAR ENDED MARCH 31, 2006**

	<b>2006</b>	<b>2005</b>
	<b>\$</b>	<b>\$</b>
Current Revenue	2,142,753,048	1,897,406,244
Capital Revenue	571,625,685	415,899,585
<b>Total Consolidated Fund Revenue</b>	<b>2,714,378,733</b>	<b>2,313,305,829</b>
Less: Total Expenditure	2,525,471,157	2,380,912,943
<b>Surplus (/Deficit)</b>	<b>188,907,576</b>	<b>(67,607,114)</b>
Annexed Revenue – Post Office	22,184,056	20,848,856
Annexed Expenditure – Post Office	25,742,623	23,197,688
<b>Surplus/(Deficit) on Annexed Estimates</b>	<b>(3,558,567)</b>	<b>(2,348,832)</b>
<b>Surplus/(Deficit) for the Year</b>	<b>185,349,009</b>	<b>(69,955,946)</b>
<b>Accumulated Deficit Brought Forward</b>	<b>(435,886,302)</b>	<b>(365,930,356)</b>
<b>ACCUMULATED DEFICIT CARRIED FORWARD</b>	<b>(250,537,293)</b>	<b>(435,886,302)</b>

A handwritten signature in blue ink, consisting of a large, stylized initial 'A' followed by a series of loops and a long horizontal tail.

**Accountant  
General**

**31st July 2006**

## APPENDIX I

### SCHEDULE OF ADVANCES AND LOANS

As at March 31, 2006

\$

#### SCHEDULE OF ADVANCES

Other Govt's and Administrations Advances	2,084,439.51
Postmaster General Advances	1,763,558.75
Overseas Missions Advances	96,879.26
Cash Imprest Accounts	12,872.97
Pension Advances	31,584.38
Pension Advances	2,858,503.79
QueenElizabethHospital	94,228.05
National Housing Corporation	134,562.95
	<b>7,076,629.66</b>

## APPENDIX II

#### SCHEDULE OF LOANS

\$

B'dos Agriculture Management Go Ltd	6,618,840.71
Barbados Tourism Investment Inc.	85,000,000.00
Caribbean Broadcasting Corporation	20,609,446.00
Fund Access -Bed and Breakfast	5,000,000.00
Enterprise Growth Fund Ltd. -Small Business	30,000,000.00
Hotels and Resorts	145,328,264.23



Natural Gas Loan	250,000.00
P.O.L.T.A Insurance Loans	2,528.91
Public Officers Loans and Travelling Allowances	14,071,083.45
	<b>306,880,163.30</b>

**APPENDIX III**

**SCHEDULE OF ACCOUNTS RECEIVABLE**

**(Suspense Accounts)**

**FOR THE YEAR ENDED MARCH 31, 2006**

**SCHEDULE OF ACCOUNTS RECEIVABLE**

**(Suspense Accounts)**

	<b>\$</b>	<b>\$</b>
	<b>Debit</b>	<b>Credit</b>
Suspense Account General		275,432.70
Difference in Exchange Account		
Cash Shortage/Surplus	5.00	
Rounding Error	4.00	
	<b>9.00</b>	<b>275,432.70</b>
<b>Balance</b>	<b>(275,423.70)</b>	

**APPENDIX IV**

**SCHEDULE OF FUND INVESTMENTS**  
(STATEMENT OF ASSETS AND LIABILITIES)  
**FOR THE YEAR ENDED MARCH 31, 2006**

<b>SCHEDULE OF TRUST FUND INVESTMENTS</b>	<b>\$</b>
Barbados National Oil Company Investment	10,400.00
Trust Fund Investments – First Caribbean Int'l Bank	131,232.29
Trust Fund Investments – Barbados National Bank	835,202.07
Attorney General Trust	1,160,932.01
<b>TOTAL</b>	<b>2,137,766.37</b>

**APPENDIX V**

<b>SCHEDULE OF SPECIAL FUND INVESTMENTS</b>	<b>\$</b>
C'bean Court of Justice Investment	27,000,000.00
Public Employee Fund	1,865,249.43
Social Investment Fund Account	(20.10)

Sugar Industry Scholarship Invest.	307,606.75
Sugar Levy – Bds. Workers Union Loa	500,000.00
Sugar Industry Research & Dev. – BN	3,202,202.46
<b>TOTAL</b>	<b>32,875,038.54</b>

**ANNUAL ABSTRACT ACCOUNT OF RECIEPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECIEPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2006**

<b>CONSOLIDATED FUND</b>	<b>\$</b>
<b>Current Revenue</b>	
Taxes on Income and Profits	706,215,226
Taxes on Property	137,357,411
Taxes on Goods and Services	95,9914,244
Taxes on International Trade	180,462,141
Other Taxes	21,964,348
Non-Tax Revenue	65,255,822
Special receipts	68,922,970
Loans and Advances	2,660,886
<b>TOTAL CURRENT REVENUE</b>	<b><u>2,142,753,048</u></b>
 Post Office	 22,184,056
<b>TOTAL CURRENT AND ANNEXED REVENUE</b>	<b><u>2,164,937,104</u></b>

**ANNUAL ABSTRACT ACCOUNT OF RECIEPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECIEPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2006**

	<b>BDS\$</b>
<b>Capital Revenue</b>	
<b>LOCAL LOANS</b>	<b>268,491,989</b>
Debentures	244,560,000
Barbados Government Savings Bonds	20,076,989
Tax Refund Certificates	1,436,000
Tax Reserve Certificates	2,419,000
Barbados Treasury Notes	-
<b>FOREIGN LOANS</b>	
<b>INTER-AMERICAN DEVELOPMENT BANK</b>	<b>8,884,777</b>
Justice Improvement Project	48,706
Educational Sector Enhancement Programme 1154/OC-BA	3,693,409
Coastal Infrastructure Programme	1,701,066
Bridgetown Road and Safety Improvement	3,441,596
<b>CARIBBEAN DEVELOPMENT BANK</b>	<b>16,776,080</b>
Educational Sector Enhancement Programme	6,145,797
Secondary Education Project	10,187
Urban Rehabilitation Project 16OR/BAR	10,620,096

<b>WORLD BANK (IBRD)</b>	<b>4,633,956</b>
HIHV/Aids Prevention & Control Project	4,633,956
<b>Total Loans</b>	<b>298,786,802</b>
<b>OTHER LOANS</b>	<b>25,977,888</b>
BNS - Royal Barbados Police Force	15,990,310
FCIB - Sanitation Service Authority	9,987,578
<b>FOREIGN DEBENTURES</b>	<b>246,002,500</b>
Deutsche Bank 6.625% Notes 2035	246,002,500
<b>CAPITAL GRANTS</b>	<b>858,495</b>
Health Services Rationalization Programme	858,495
<b>Total Capital Revenue</b>	<b>571,625,685</b>
<b>TOTAL CONSOLIDATED FUND REVENUE</b>	<b>2,736,562,789</b>
<b>&amp; ANNEXED REVENUE</b>	

**ANNUAL ABSTRACT ACCOUNT OF RECEIPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECEIPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2006**

	\$	\$
<b>CONSOLIDATED FUND</b>		
<b>CURRENT EXPENDITURE</b>		
10: Governor General	1,378,816	
12: Parliament	7,553,528	
13: Prime Minister's Office	71,921,279	
15: Cabinet Office	13,906,634	
16: Ministry of the Civil Service	12,341,981	
17: Ombudsman	525,559	
18: Audit	2,560,123	
19: Ministry of Finance & Economic Affairs	803,261,504	
20: Ministry of Commerce, Consumer Affairs and Business Development	7,435,102	
21: Ministry of Industry and International Business	20,300,548	
23: Ministry of Health	294,792,920	
24: Ministry of Social Transformation	51,538,014	
25: Ministry of Agriculture & Rural Development	41,977,821	
27: Ministry of Tourism and International Transport	96,845,122	
28: Ministry of Home Affairs	51,928,671	
29: Office of the Director of Public Prosecutions	882,387	
30: Attorney General	107,939,982	



32:Ministry of Foreign Affairs and Foreign Trade	44,767,126	
43:Ministry of Education, Youth Affairs & Sports	419,036,409	
44:Ministry of Labour and Social Security	39,687,197	
45:Ministry of Public Works	64,516,154	
46:Ministry of Energy and Public Utilities	48,369,344	
48:Ministry of HousingLands and The Environment	68,856,820	
	<hr/>	
	<b>2,272,323,041</b>	
50:Post Office	24,427,845	
	Balance Carried Forward	<b>2,296,750,886</b>

**ANNUAL ABSTRACT ACCOUNT OF RECIEPTS AND PAYMENTS  
OF THE CONSOLIDATED FUND  
AND OTHER RECIEPTS AND PAYMENTS  
FOR THE YEAR ENDED MARCH 31, 2006**

	\$	\$
<b>Balance Brought Forward</b>		<b>2,296,750,886</b>

**CAPITAL EXPENDITURE**

10: Governor General	54,268	
12:Parliament	(12,044)	
13: Prime Minister's Office	5,374,051	
15:Cabinet Office	849,387	
16:Ministry of the Civil Service	109,966	
17:Ombudsman	5,599	
18:Audit	22,066	
19:Ministry of Finance & Economic Affairs	16,153,652	
20:Ministry of Commerce, Consumer Affairs and Business Development	4,095,353	
21:Ministry of Industry and International Business	5,511,471	
23:Ministry of Health	28,594,207	
24:Ministry of Social Transformation	21,877,496	
25:Ministry of Agriculture & Rural Development	14,496,630	
27:Ministry of Tourism and International Transport	17,419,342	
28: Ministry of Home Affairs	16,389,405	
29:Office of the Director of Public Prosecutions	-	
30:Attorney General	28,613,973	
32:Ministry of Foreign Affairs and Foreign Trade	586,112	
43:Ministry of Education, Youth Affairs & Sports	23,378,547	

44:Ministry of Labour and Social Security	2,448,268	
45:Ministry of Public Works	37,889,873	
46:Ministry of Energy and Public Utilities	2,709,419	
48:Ministry of HousingLands and The Environment	26,581,074	
	<hr/>	
	253,148,115	
50:Post Office	1,314,779	
	<hr/>	
<b>Total Capital Expenditure</b>		<b>254,462,894</b>
<b>TOTAL CONSOLIDATED FUND PAYMENTS</b>		<b>2,551,213,780</b>

## **Notes to the Financial Statements**

**March 31st 2006**

### **1. General**

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

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

### **2. Accounts**

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

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

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

### **3. Accounting Entity**

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

### **4. Financial Year**

The Financial year in respect of which the Financial Statements are prepared covers the period 1<sup>st</sup> April, 2005 to 31<sup>st</sup> March, 2006.

### **5. Contingent Liabilities**

The contingent liabilities in respect of loans guaranteed by the government of Barbados at 31<sup>st</sup> March, 2006 amounted to \$857,805,130.00.

### **6. Balance Sheet**

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

### **7. Advances**

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

## **8. Loans**

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

## **9. Trust Fund Investments**

The trust fund investments are funds held in trust by the Treasury for individuals and organizations. These investments totaled \$2,137,766.37 at 31<sup>st</sup> March 2006.

## **10. Schedule of Special Fund Investment**

These are a number of special funds administrated by the Treasury. These are generally established by various Acts. At 31<sup>st</sup> March 2006, the balance on these investments was \$32,675,038.00.

## **11. Deposits**

Deposits consist of funds paid into the Treasury by state agencies and associations in respect of activities not directly related to the Consolidated Fund. The balance on these deposits totaled \$64.4 million at 31<sup>st</sup> March, 2006.

## Statement of Revenue Remitted

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

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

- (a) in the case of sums not exceeding \$5,000 under the authority of the Minister; and*
- (b) in the case of sum exceeding \$5,000 under the authority of Cabinet, and a statement of all amounts so remitted shall be submitted by the Auditor General to the House of Assembly, in accordance with Section 28."*

A statement of sums waived during the financial year ended 31<sup>st</sup>March, 2006 comprises a waiver of levies, taxes, duties, and penalties as follows: -

<b>Department</b>	<b>Tax</b>	<b>Amount</b>
		\$
Land Tax	Tax	431,600.00
	Penalty	47,637.99
	Interest	571,009.14
	Relief Granted	218,738.78
Customs	Import Duty	259,465,951.91
	Environmental Levy	9,524,857.33
	Excise Tax	55,727,999.83
	VAT	73,415,109.40
	Taxes- Sugar Exports	6,548,091.23
	Other	43,694.42
Inland Revenue		233,923.54
<b>Total Tax Remitted</b>		<b>406,228,613.57</b>





