

**BARBADOS AUDIT OFFICE**



**REPORT**  
of the  
**AUDITOR GENERAL**  
for the year  
**2010**



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## **MISSION STATEMENT**

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

## **THE GOAL**

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





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18<sup>th</sup> March 2011

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

Sir,

In accordance with Section 113 (3) of the Constitution of Barbados and Section 38 (5) of the Financial Management and Audit Act, 2007 - 11, I forward for laying before the House of Assembly my Report of the examination of the accounts of the Ministries and Departments of Government, and of other financial statements and accounts required to be audited by me in respect of the financial year ended 31<sup>st</sup> March 2010.

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

Yours faithfully,

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





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## CHAPTER 1

### General Issues

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#### Introduction

**T**his Annual report of the Auditor General to the House of Assembly for the year 2010 is issued in accordance with Section 38(1) of the Financial Management and Audit Act, 2007-11 which states that:

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

- 1.2** I once again wish to apologize for the late submission of my report. This late submission was caused in part by inadequate levels of staffing, operational challenges, and slow responses to requests for information from Ministries and Departments.
- 1.3** The Office is making significant strides in training its staff and improving the quality of its audit procedures, and this should result in an improvement in the timeliness of this Annual Report in future years.

#### Government Financial Reporting

- 1.4** There has generally been some difficulty by many in understanding Government’s financial reporting. This has always been challenging, but the introduction of the accrual basis of accounting has increased the

complexity. The cash based system of accounting had its deficiencies, a major one of which related to the full disclosure of Government liabilities and assets.

- 1.5** Another issue relating to cash based Governmental accounts pertained to the practice labeled as “off-budget financing”, where the Government undertakes activities through state agencies. However this activity was not treated as expenditure, thus the deficit was recorded lower than it should be.
- 1.6** The introduction of the accrual based statements of accounts has now been in effect for three years and has improved Government reporting in some ways. For example, activities carried out under private-public partnerships would not have formed part of Government’s financial statements in spite of the fact that they represent \$340 million in liabilities. These outstanding liabilities are now recorded. In addition, liabilities such as outstanding VAT and Inland Revenue refunds would also have been excluded under the cash based system. Overall, in terms of liabilities the introduction of accrued accounting has resulted in a greater disclosure in this aspect of Government finances.
- 1.7** On the revenue side, the cash basis of accounting could have quickly pointed Government to any cash shortfall allowing Government to easily determine the amount required to make up the shortfall. However, revenue under the accrued basis requires some degree of estimation. For example, Government’s fiscal year runs from April to March, while its income tax year is from January to December. As a result revenue for the period January to March must be estimated. This situation has however been made difficult because of a lack of revenue information from

departments including the Inland Revenue Department, one of the larger revenue collecting agencies.

## **Staffing**

- 1.8** The Barbados Audit Office has a staff complement of 77 persons; however a total of 33 posts are not currently occupied. Part of the reason for this shortfall is the slow process of recruitment of personnel. In some cases it has taken over two years to fill some vacancies. The shortfall in staffing has affected the ability of the Office to properly carry out its mandate.
- 1.9** From a financial standpoint this process is not beneficial to the Government, since the Office will have to rely more and more on auditors from the private sector to assist with its audit work which is in arrears, and this assistance is more expensive than utilizing officers in the Audit Office.
- 1.10** Some efforts are currently under way to fill a number of senior posts but this is unlikely to resolve the staffing issue in the short-term. It is widely accepted that an audit office should not be overtly controlled by entities that it has to audit and should be given a measure of autonomy in this aspect of its operations. In recognition of this, numerous audit offices around the world are today able to recruit their own staff.
- 1.11** The delegation of the recruitment of staff to the Auditor General was one of the recommendations made by the 1998 Constitutional Review Commission that remains outstanding. If the Office is to function efficiently, then it is necessary that the responsibility for recruitment be delegated, with the Public Service Commission putting in place the checks

and balances it thinks necessary for the effective implementation of this measure.

**1.12** The staffing situation is also compounded by officers in the Office acting in higher positions in other departments. While this is beneficial to the officer, it has some disruptive impact on the Office, since there is no pool of replacements that the Office can draw on to replace that officer who is taken at short notice, and may have been in the middle of an assignment. In addition, it takes some time to replace auditors, since the replacement needs extensive training before he can function effectively. It is for this reason that the Office requires some flexibility in its recruitment process. The Office needs to be in a position to fill short-term vacancies in a timely manner.

**1.13** I would like to repeat a suggestion I made to the Public Service Commission in a previous report: “There is obviously a real need for some delegation of authority in the recruitment process. One way in which this can be done is for each ministry and department to have a panel of interviewers who would have responsibility for interviewing all prospective employees. The Personnel Administration Division would supervise the process to ensure compliance with prescribed guidelines.” The current process of recruitment is not in the best interest of the Government, as it is time-consuming and has resulted in my Office, and I am sure others as well, having to do without key personnel for extended periods.

## Attendance at Conferences and Workshops

**1.14** During the course of the year the Office participated in a number of local and regional workshops. The primary aim of these workshops is to provide training opportunities for audit staff in modern auditing techniques. The workshops attended were as follows:

- i. The Office hosted a regional workshop on Value-for-Money Auditing for junior staff. The workshop was sponsored by the Canadian Comprehensive Audit Foundation (CCAF) of Canada and included participants from St. Lucia, Guyana, Dominica and Peru.
- ii. The Office also hosted a workshop on Risk Assessment in Financial Audit. This workshop was sponsored by the INTOSAI Development Initiative (IDI) and included participants from St. Lucia, Guyana, Anguilla, and Trinidad and Tobago.
- iii. The Auditor General attended the VIII Congress of the Caribbean Association of Supreme Audit Institutions (CAROSAI). The theme for this congress was ***“The Role of SAI’s in Fiscal Management Strategies of Government in Time of Global Economic Crisis”***. The congress was held in Belize, February 14 – 19, 2010.
- iv. Two Senior Auditors have been accepted into CCAF’s Value for Money, ten month’s Fellowship Programme, and are currently attached to the Office of the Auditor General of British Columbia.

- v. The Audit Office was also represented at a regional workshop on Management for Results in audit offices in Santiago, Chile during October 2010.
- vi. The Auditor General attended an auditing symposium in Ottawa, Canada. He also visited the Office of the Auditor General of British Columbia to discuss areas in which that Office can provide training and other technical assistance to the Barbados Audit Office. These offices currently have an agreement where the Audit Office of British Columbia will assist the Audit Office in Barbados in its development.
- vii. The Canadian Comprehensive Foundation (CCAF), a Canadian based not-for-profit organization, hosted Workshops on Evidence Gathering and Report Writing in Barbados during the period December 1 – 7, 2010. This workshop involved participants from a number of countries which included St. Vincent, Dominica and Belize.

## **Audit Methods and Aims**

- 1.15** Included in this report are some matters arising from the audit inspections conducted in ministries, departments and statutory boards during 2010. The matters reported here are therefore selective.
- 1.16** The audits have been aimed at identifying breaches of the financial rules and other regulations. Once breaches are discovered, appropriate recommendations for remedial action are made with a view to bringing about improvements.



- 1.17** The audit findings are discussed with personnel from the ministries, boards or departments concerned, this allows for clarification of issues. It is important that reports to Parliament contain all of the relevant facts. It should be noted that all entities audited are requested to provide comments which, when provided, are included in the Report. In many instances audited agencies did not provide a response.

### **General Audit Issues**

- 1.18** The report also provides a broad update on audits of Government owned entities, most of which are audited by audit firms in the private sector. The majority of these entities are up to date with respect to their financial reporting. However, there are a few entities which over the years have been experiencing difficulties in getting their reports up to date. These include entities such as the Barbados Water Authority, the National Housing Corporation, the Queen Elizabeth Hospital, and the Urban and Rural Development Commissions. This is an area of concern since audit reports received long after the event are of little use to stakeholders. Audit reports provide stakeholders with independent, objective, and unbiased information, which is used for decision-making.
- 1.19** A major concern with the government's Financial Statements is the inability of the Audit Office to verify certain assets which are listed. The problem is rooted in the fact that there is inadequate financial information on assets in the ministries and departments. This matter needs to be resolved, since these assets are listed at \$1.3 billion. An auditor will not give a clear opinion on Financial Statements if he is unable to verify 1/5 of the assets on the balance sheet.

- 1.20** While it is laudable that the Treasury has taken the lead role in setting up systems to record financial and other assets of ministries and departments in its accounting records, this has resulted in ministries and departments not concerning themselves with setting up assets registers detailing assets purchased and disposed of, or their current valuations. The assets registers that are kept consist of a listing of some assets without any values attached.
- 1.21** I believe that this matter could have been resolved by the Ministries and Departments producing financial statements which should then have been amalgamated to form the consolidated Financial Statements of the Crown.

### **Compliance Matters**

- 1.22** A major part of the work of the Audit Office relates to the assessment of whether Ministries and Departments have conducted their affairs in accordance with the laws of Barbados. Section 36(1) of the Financial Management and Audit Act, 2007–11 requires the Auditor General to satisfy himself that all standing instructions, enactments and other laws of Barbados relating to finance and accounts are strictly observed.
- 1.23** Section 38(1) of this Act requires the Auditor General to report to Parliament any failure by state agencies in observing the enactments or other laws of Barbados. Generally ministries and departments have been compliant with the Financial Rules and other regulations.
- 1.24** The main areas of non compliance were related to the absence of contracts, fixed assets registers, inadequate supporting documentation and failure to respond to queries raised by the Audit Office.

## **Financial Reporting**

- 1.25** The Financial Statements of the Government detail the various categories of assets which are owned by the Crown, but these assets are not verifiable by the auditors when they visit ministries and departments – a situation related to inadequate record keeping by these entities. These issues can be traced back to the introduction of accrual accounting in Barbados. There was a lack of proper preparation for the change over, and ministries and departments did not have appropriate systems in place to capture information on assets. This will influence or result in reservations being made about the accuracy of figures presented in the Financial Statements. It should be noted that this reservation applies to Government property as well as plant and equipment, two items valued in excess of \$1 billion each.
- 1.26** There is further evidence that the concept of accrual accounting has only been partially adopted in ministries and departments. Under the accrual system of accounting revenue and expenses are reported in the period in which the activity giving rise to them occurs. It was however noted that on numerous occasions, expenditure on goods and services which should have been charged to a previous financial year was charged to 2009/2010. The effect of this action is that expenses are understated in the prior years and overstated in subsequent years.
- 1.27** Reporting for revenue also had its challenges. The concept of reporting revenue in the period in which the tax liability arises or in which the service was provided has not been fully adopted in the ministries and departments. Revenues have continued to be reported on a cash basis rather than on an accrual basis. The Treasury has been making an adjustment to these cash figures. However, it is not clear what is the basis for these adjustments.

**1.28** The transitional provisions of the accounting standards give the Government a certain period to change certain aspects of its accounts to full accrual accounting, but the Treasury is still required, within this period, to state the extent of the use of these provisions but this was not done. As a result the auditor was unable to determine the extent to which the transitional provisions were being applied.

**1.29** The above highlights some significant audit reservations in respect of the Financial Statements. These reservations should not be taken lightly, as there are some issues the Audit Office considers so significant that if not corrected would mislead users of the Financial Statements.

## CHAPTER 2

### **Analysis of the Financial Statements of the Government**

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**T**he financial statements prepared by the Accountant General were submitted to the Barbados Audit Office in accordance with Section 22 (2) of the Financial Management and Audit (FMA) Act, 2007-11. This Act requires the Accountant General to prepare, sign and submit financial statements to the Auditor General within four months after the close of the financial year. The financial statements for the year ended 31<sup>st</sup> March 2010 were received in July 2010, and this was within the stipulated period.

#### **Audit Mandate and Objective**

- 2.2** In accordance with the provisions of Part IV, Section 36, of the Financial Management and Audit Act (FMAA), 2007-11, an audit was conducted by the Barbados Audit Office on the accounts of the Government of Barbados for the financial year ended 31<sup>st</sup> March 2010.
- 2.3** The objective of the audit was to express an opinion as to whether the financial statements presented by the Accountant General gave a true and fair view, in all material aspects, of the financial position of the Government of Barbados, that appropriate internal control systems exist and were adhered to, and that the financial statements were in accordance with International Public Sector Accounting Standards (IPSAS) to which Government adheres.

## Methodology

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

## General

- 2.5** The FMAA, enacted in 2007, requires the Government to prepare its financial statements in accordance with the International Public Sector Accounting Standards (IPSAS) set out by the International Federation of Accountants (IFA). The objective is to enhance the quality and transparency of public sector financial reporting and strengthen confidence in public sector financial management.
- 2.6** As pointed out in my previous report there were a number of conceptual issues which needed to be resolved prior to the implementation of the accrual system, and these included the identification of the entities to be included in the financial statements. In addition, there is a need for clarity over the revenue recognition points for some taxes, and the inclusion of Government's pension liability. Some of these issues have not yet been properly addressed.
- 2.7** Issues arising from the audit of the accounts of the Government for the financial year ended 31<sup>st</sup> March 2010 are as follows:-

## Notes to Financial Statements

- 2.8** Note 1 to the Financial Statements indicates that the statements have been prepared in accordance with the accounting principles for Government set out by the International Public Sector Accounting Standards (IPSAS) Board. The note goes on to state that the reporting entity relates only to Government ministries and departments including the General Post Office.
- 2.9** Section (6) of IPSAS explains that users of the financial statements of a controlling entity are usually concerned with, and need to be informed about, the financial affairs of the economic entity as a whole. The Treasury has indicated that it hopes to achieve the consolidation of the financial statements of Government entities in five years. The Government must however provide specific information on which organizations will form a part of the consolidated financial statements.

## Transitional Provisions

- 2.10** The International Public Sector Accounting Standards which have been adopted by Governments offers those who are changing from the cash to the accrual basis certain transitional provisions. These provisions allow reporting entities additional time to meet the full requirements of certain standards.
- 2.11** My concern remains that the extent to which these provisions were taken has not been clearly stated. In the absence of this required information it is difficult to determine the criteria used in determining the basis for certain items listed in the financial statements.

- 2.12 Under IPSAS 1, Presentation of Financial Statements, paragraph 132, a reporting entity is required to indicate the extent to which it has applied any transitional provision in any of the Standards.

### **Presentation of Financial Statements**

- 2.13 Under the accounting framework of the Government the annual financial statements should comprise statements of financial performance, cash flow, financial position, and changes in Net Assets/Equity and notes, comprising a summary of significant accounting policies and other explanatory information. The presentation of the financial statements could be misleading to users, in that the figure shown for Net Assets/Equity reflects the position for total assets, which is incorrect.

- 2.14 A net debt figure of \$5,543,957,011 is carried on the statement of financial position. However, there are no notes indicating how this figure was arrived at. It is therefore suggested that the net debt position should be defined and disclosed in the notes to the financial statements for information purposes.

### **Cash Flow Statement**

- 2.15 The method of determining the Cash and Cash Equivalent figure was not in keeping with proper accounting practice as indicated below:-

#### **Notes to Cash Flow - Capital Asset Acquisition**

- (a) The Notes to the Cash Flow Statement reflected an amount of \$73,382,409, for 'Capital Asset Acquisition' as compared with the 'Cash Flow Statement' which carried an amount of \$105,198,564.



## Cash Flow from Financing Activities

- (b) An amount of \$869,540 representing 'change in receivables - 'Public Officers', and another amount of \$136,520, were included in the figure of \$204,164,230 for 'Increase (Decrease) in Other Liabilities'. However, these two line items are not "Cash flows from Financing Activities" but rather 'Operating Activities' and should be listed accordingly.

### Recommendation

- 2.16** The Consolidated Cash Flow Statement should reflect the cash changes from one financial year to another to show the actual cash position. Therefore efforts should be made to ensure that figures used are reflective of the actual financial transactions of the Government during the year.

### Accountant General's Response

*The amount of \$869,540.00 relating to public officers was included in 'Cash Flows from Financing Activities' as an oversight, and should be included in 'Cash Flows from Investing Activities' accordance with IPSAS 2 (25) (e) & (f).*

*The \$136,520.00 change in pension liability should be recorded as 'Cash Flows from Financing Activities' as per IPSAS 2 (26).*

### Contingent Liabilities

- 2.17** Contingent Liabilities consist of loans guarantees and/or letters of comfort signed by the Crown on the behalf of statutory entities and some private sector entities. These guarantees mean that the Government would undertake to repay the loans if the entities are unable to repay.
- 2.18** Contingent liabilities reported as at 31<sup>st</sup> March 2010 were \$1,179,706,001. However, the audit revealed a number of errors in the accounts and this figure should have been \$1,288,424,159 instead.

Overall Contingent Liabilities were therefore understated by \$108,718,158. Errors or omissions discovered were as follows:-

Understated Contingent Liabilities

- (a) A letter of comfort dated 20<sup>th</sup> November 2009 in the amount of Bds \$35 million was signed by the Ministry of Finance (MOF) on behalf of the Transport Board for a loan from a local bank. These funds were received by the Transport Board during the financial year; however this \$35 million was not included in the Contingent Liabilities.
- (b) There were a number of Contingent Liabilities which were understated in respect of the Barbados Agricultural Management Company (BAMC). The value of these Contingent Liabilities was \$135,906,000.00.
- (c) A letter of comfort was signed for \$10,000,000 by the Ministry of Finance on behalf of National Housing Corporation for an overdraft facility at a local bank. This transaction was not recorded as a Contingent Liability. At the 31<sup>st</sup> March 2010 the outstanding balance on this loan was \$9,752,114.48.
- (d) There were also omissions of \$2,945,947 in respect of Caribbean Aircraft Handling Company and \$142,711 in respect of Caribbean Airways.

Overstated Contingent Liabilities

- (a) An amount of Bds \$25,696,000 was included as a Contingent Liability in respect of Caves of Barbados for a loan from a development bank. As at 31<sup>st</sup> March 2010 there was neither a

signed guarantee nor a letter of comfort from the Ministry of Finance in support of this amount. Ministry officials have indicated that no funds relating to this loan were received. Therefore Contingent Liabilities were overstated by \$25.6 million in this regard.

- (b) There were a number of Contingent Liabilities which were overstated in respect of the Barbados Agricultural Management Company (BAMC). The value of these Contingent Liabilities was \$41,583,356.00.
- (c) A loan of \$7,749,258 to the Barbados Agricultural Development & Marketing Corporation (BADMC) was recorded as a Contingent Liability. However, information from the BADMC indicated that this loan was fully repaid. Hence Contingent Liabilities were overstated by this amount.

### **Conclusion**

- 2.19** Contingent Liabilities were reported as \$1,179,706,001. However, the audit revealed a number of incorrect inclusions, omissions, and over and under statements to this schedule, which indicates that Contingent Liabilities were \$1,288,424,159. Hence overall Contingent Liabilities were understated by \$108,718,158. It should be noted that some of these Contingent Liabilities will be taken over by Government when the state agencies are unable to repay the loans which have been guaranteed.

### **Recommendation**

- 2.20** The Treasury needs to correct the numerous errors in its records. Information from entities should be thoroughly checked to ensure that records are kept up to date. There is also a need for the Ministry of

Finance to inform the Treasury of all loans which the Government has guaranteed.

- 2.21** In addition, Government should recognize as debt those amounts shown as Contingent Liabilities where the state agency does not have the capacity to service these loans, especially when the entity is reliant on Government for all, or the majority of its funding.

## REVENUE

- 2.22** Revenue for the Government is determined using the accrual basis of accounting. This means that revenue is recorded in the period in which it is due whether cash was received or not. Cash received in respect of prior periods is not recorded as revenue as this should have been recorded in the year it was due. This contrasts with the previous system where revenue was only recorded when cash was received. Essentially what the current system is seeking to achieve is the accounting for all amounts that should have been paid to Government within the appropriate financial year.

### Tax Revenue

- 2.23** Treasury records indicated that taxation revenue declined by \$223 million from the previous year, with revenue for 2009 having been reported as \$2.368 billion and revenue for 2010 as \$2.145 billion. The main contributing factor was a decline in revenue received from Goods & Services - \$82 million and International Trade - \$42 million. Taxes from Income and Profits declined by \$77 million.

## **Non Tax Revenue**

- 2.24** Non Tax Revenue was reported to have grown by \$131 million over the previous year. However, this change resulted from the reclassification of an accounting estimate and not from any additional revenue being earned, as outlined in the subsequent paragraphs.

## **Other Revenue**

### Provision for Bad Debts

- 2.25** The provision for bad debts was changed from 2% of the estimated revenue to 2% of outstanding receivables by the Director of Finance and Economic Affairs through Memorandum Ref. 5043/51 Vol. V dated 30<sup>th</sup> March 2010. This policy was to be applied retroactively.
- 2.26** The decrease in the provision for bad debt accounts resulted in this item being overestimated by \$139,899,015.00. This amount was brought to account as Other Revenue.
- 2.27** IPSAS 42 requires that a change in an accounting estimate that gives rise to change in assets/liabilities or relates to an item or net assets/equity be recognized by adjusting the carrying amount of the related assets/liabilities or net assets/equity item in the period of change.
- 2.28** The Treasury sought to adjust the overstatement in the allowance for bad debt accounts by increasing Other Revenue. The over estimation of the provision is not a revenue item and should not be recorded as such. The correct action should have been to reduce the Accumulated Deficit since it is being stated that expenses were overstated in previous years. This action resulted in Other Revenue being overstated by \$139 million in 2010.

### ***Accountant General's Response***

*The change in provision for bad debt resulted from a change in accounting estimate and was recorded in accordance with IPSAS 3 (34). This states that a change in estimate of the amount of bad debts affects only the current period and is therefore recognized immediately as revenue or expense in the current period.*

#### Omission of Revenue

- 2.29** There are a number of ministries and departments which did not report revenue received on an accrual basis, and this would have impacted on the accuracy of the figures reported. These included the Ministry of Housing, Telecommunication Unit and the Printing Department. The revenue earned during the year which was not received in cash would have been omitted.

#### Interest Revenue

- 2.30** The Government has made a number of loans to agencies such as Hotels & Resorts Ltd, and the interest revenue accrued on these loans was reported as part of Government's overall revenue. However, it is known that interest on loans to entities such as Hotels & Resorts Ltd is unlikely to be realized. Therefore, in order to accurately account for this eventuality, a corresponding bad debt expense for the aspect of this revenue which is deemed uncollectable should be recorded. In this regard interest revenue is being overstated since no provision is being made for bad debts.

## **Current Assets**

### Bank Accounts

- 2.31** The Treasury's main current account is located at the Central Bank of Barbados. There are also accounts where revenue is collected and held at two local banks. A significant amount of transactions are processed via these banks on a daily basis. For a number of years the reconciliation statements contained large unresolved differences. For the financial year under review no reconciliation statements were presented for audit examination.
- 2.32** Reconciliation of ledger bank accounts to the bank statements ensures that the process of cash management is effective and efficient. The matter of the unresolved differences needs to be adequately investigated. It is recommended that reconciliation of bank accounts should occur on a monthly basis. These should be reviewed by a supervisor and any errors corrected in a timely manner. It should be emphasized that reconciliations are important control activities that should not be overlooked. The absence of bank reconciliations could lead to errors or fraud going undetected.

### **Accounts Receivable**

- 2.33** Accounts Receivable was reported as \$697,430,284. This figure was net of Provision for Bad Debts. This figure should correspond to the total receivables reported by the revenue departments. However, for the financial year 2009-2010 it was noted that a number of ministries and department did not submit their receivables for inclusion in the financial statements. As a result the receivables reported in the financial statements were short-stated.

- 2.34** The Receivables reported by the main Revenue Departments differed to that reported in the financial statements. The **Table 2-1** below shows information as per the main revenue entities.

**Table 2-1: Accounts Receivable**

<b>Departments</b>	<b>Treasury Records \$</b>	<b>Amounts reported by Revenue Departments \$</b>	<b>Difference \$</b>
Customs	3,088,577.28	3,005,716.00	82,861.28
VAT	255,499,621.76	255,381,297.00	118,324.76
IRD - Corp.	66,204,784.76	-	66,204,784.76
IRD - Individual	181,679,733.74	-	181,679,733.74
Land Tax	144,602,148.92	144,152,518.88	449,630.04
International Transport	19,944,652.67	2,790,345.35	17,154,307.32

*Created by: Barbados Audit Office*

- 2.35** It should also be noted that a figure of \$247.8 million was included for the Inland Revenue Department. However, this figure could not be verified. The Department indicated that it was experiencing some difficulties with the transfer of information from its old computerized system to the new one. The Treasury stated that it used figures from 2009, since no balance could be ascertained for 2010; but this practice is unacceptable. There needs to be an adequate basis for receivables reported, and the figure should be verifiable by auditors.

### **Assets Under Construction**

- 2.36** The item identified as Assets under Construction is a balance sheet item consisting of mainly buildings which are under construction. These assets were listed as \$111 million in the financial statements. This figure could not be verified by the auditors since no subsidiary records were provided.



There needs to be adequate record keeping for assets, which would result in the amounts stated in the financial statements being verifiable.

### Loans to Individuals and Agencies

- 2.37** The amounts listed as Loans to Individuals and Agencies on the Balance Sheet were stated at \$416 million. These loans are in respect to advances made to various state enterprises. Audit queries in respect of these loans were as follows:-

#### Barbados Tourism Investment Inc. (BTII)

- 2.38** Accounts Receivable in respect of the BTII were reported by the Treasury as \$235,300,000 and Accrued Interest as \$23,437,155 as detailed below:-

<b>Receivables – BTII</b>	<b>\$</b>
Principal Kensington Redevelopment	141,500,000.00
Principal Urban Development Project	<u>93,800,000.00</u>
	<u>235,300,000.00</u>
<b>Accrued Interest BTII</b>	
Interest Kensington Redevelopment	15,968,536.00
Interest Development Project	<u>7,468,619.00</u>
	<u>23,437,155.00</u>

*Created by: Barbados Audit Office*

- 2.39** An unsigned agreement indicated that repayment of these loans should have commenced in the financial year 2009-2010. It was observed that no payments were made.

- 2.40** The issue of these loans and advances to the BTII needs to be resolved. In addition it is unclear whether some of the work conducted, such as the

Kensington Development Project, was on behalf of central Government and therefore does not comprise a loan.

**2.41** No response was received from the management of the BTII to an audit request for confirmation on the outstanding loan balances.

**2.42** The Financial Management and Audit Act, 2007-11, Section D (31) sets out the rules applicable to advances to Government agencies. It states:

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

**2.43** The absence of a loan agreement meant that these advances were in violation of the Financial Management and Audit Act.

### **Recommendation**

**2.44** It is recommended that this matter be discussed by the relevant parties and corrective action taken to bring closure to this situation which has been outstanding for some time.

### Caribbean Broadcasting Corporation (CBC)

**2.45** The Caribbean Broadcasting Corporation (CBC) was reported to be indebted to the Government of Barbados as at 31<sup>st</sup> March 2010 in the amount of \$1,651,616.64. Confirmation responses from CBC indicated indebtedness to the Government was \$3,163,571.11 for that period. Hence it appears that Loans to Individuals and Agencies were understated by \$1,508,954.47.

Hotels & Resorts Ltd

- 2.46** The Government of Barbados by way of an agreement dated 22<sup>nd</sup> July 2002 loaned Hotels & Resorts Limited \$145,328,264. Under the terms of the loan the Company was to make semi-annual repayments at 30<sup>th</sup> June and 31<sup>st</sup> December, over twenty (20) years, at a rate of 7.25% per annum on the reducing balance. Repayment was originally scheduled to commence at 30<sup>th</sup> June 2005, but this was revised to 30<sup>th</sup> June 2006. Interest was due with effect from 30<sup>th</sup> June 2004, to be accrued until the first payment.
- 2.47** This loan was not being serviced and the Cabinet agreed to debt relief for Hotels & Resorts Ltd. This relief was by way of a write off of \$116,181,730 (\$48 million in Interest and \$67 million in Principal), leaving a balance of \$85,392,579 in principal and \$20,372,655 in interest outstanding.
- 2.48** The notes to the financial statements however reflect an outstanding principal of \$105,765,450 instead of \$85,392,794. The interest of \$20,372,655 was incorrectly included in the principal, and this error should be corrected.

POLTA Accounts

- 2.49** The Public Officers Loan & Travel Allowance (POLTA) account, which comprises mainly vehicle and insurance loans to public officers, carried a balance in excess of \$21 million in the general ledger. The subsidiary records presented for audit were not reconciled with the general ledger; hence the accuracy of this amount in the general ledger could not be verified.
- 2.50** Some accounts with outstanding balances had no activity (repayments) in recent months, while others had no activity from the inception of the loans.

These accounts totalled \$248,131.71. If these loans cannot be recovered appropriate action needs to be taken to have the uncollectible amounts written off.

#### Overdrawn Salaries

- 2.51** Overdrawn salaries/wages occur when officers are paid for periods for which they were not entitled. In these instances agreements are made with the officers to have the funds repaid as monthly deductions from their salaries. The Accountant General's report includes a balance of \$1,084,949.21 representing receivables for overdrawn salaries and wages.
- 2.52** A sub ledger for overdrawn salaries is not in place. Such a ledger would allow for proper monitoring of these accounts, and verification of the summary amount. In the absence of such documentation it was not possible to verify the amount for Overdrawn Salaries in the Financial Statements.

#### ***Accountant General's Response***

*It should be noted that there have been constant requests for Ministries/Departments to provide the Treasury with overdrawn salaries information in order to develop a sub ledger for overdrawn salaries. The response has not been sufficient to establish a reasonable sub ledger.*

#### Inventories

- 2.53** At the end of the 2009-2010 financial year a stock count was conducted at the Central Purchasing Department by internal auditors of the Treasury, and the resulting report valued inventories at \$948,509.10.

- 2.54** However, the inventories reported on the financial statements at 31<sup>st</sup> March 2010, was recorded as \$1,087,711.92. Therefore inventories were overstated by \$139,202.82.
- 2.55** The value of inventories held at other departments was expensed in the years to which they pertained. However, these inventories are in some cases of high value and held in stock. Examples of entities which carry significant inventory include Drug Service, Ministry of Agriculture, and Ministry of Public Works and Transport.
- 2.56** It is therefore recommended that the necessary adjustments be made to include all relevant amounts in the total inventory shown in the financial statements.

#### Sinking Funds

- 2.57** The financial statements reported Sinking Funds Investments as \$656,937,360. However, the Central Bank confirmed a figure of \$649,690,530.49 resulting in a difference of \$1,996,829.51. A reconciliation of Sinking Fund Investments with the Central Bank was not presented. This reconciliation statement would have assisted the auditors in verifying the amounts outstanding.

#### **Property and Plant**

- 2.58** Property and Plant shown on the financial statements had a net carrying value of \$1.146 billion in the financial statements. This value erroneously included a number of buildings which were identified as dilapidated or demolished.

2.59 These buildings, valuing \$1,130,000, are shown at **Table 2-2** below:

**Table 2-2: Derelict/Dilapidated Properties**

<b>Name of Property</b>	<b>District</b>	<b>Parish</b>	<b>Property Value \$</b>	<b>Remarks</b>
Christ Church District Hospital	Oistins	Christ Church	800,000.00	Demolished
Matrons' Quarters	Oistins	Christ Church	50,000.00	Demolished
Nurses Association Building		St. Michael	50,000.00	Demolished
Oistins Post Office	Oistins	Christ Church	220,000.00	Demolished
Public Bath	Watkins Alley, Suttle Street	St. Michael	10,000.00	Demolished
<b>Total</b>			<b>1,130,000.00</b>	

*Created by: Barbados Audit Office*

2.60 It should also be noted that some concerns exists with the valuation of Government buildings. According to the notes to the financial statements, buildings are valued at cost less accumulated depreciation. However, the notes also state that buildings are valued using the Depreciation Replacement Cost Method. These statements are conflicting, especially since available information indicates that the values used were those provided for insurance purposes by the Ministry of Housing. It is unclear what valuation basis was used in this regard.

2.61 These buildings would have been built or purchased under the cash basis of accounting and their cost would already have been expensed and would have been included in the accumulated deficit. Any increase in value beyond their historical cost should be placed in a revaluation surplus in accordance with IPSAS and depreciated over the remaining useful life of the building. This would mean that the expense would not pass through the Statement of Financial Performance and be reported twice.

### **Recommendation**

- 2.62** It is recommended that the Treasury removes the value of the obsolete items from the accounts and provides adequate information on how the buildings were valued. These buildings have a total value in excess of \$1 billion, but unless adequate information is provided it will not be possible to arrive at an exact figure.

#### 'Fixed Asset Management Module'

- 2.63** The 'Fixed Asset Management Module', which contains a list of all Government assets, is maintained in the Treasury. However, no evidence was provided that physical checks were undertaken to ensure items classified in the system existed. This situation is due in part to the absence, in the various ministries and departments, of assets registers with appropriate values and descriptions, against which the requisite checks can be carried out at these locations. This situation makes it difficult for the auditors to verify fixed assets listed in the financial statements.

#### Crown Lands

- 2.64** At the close of the 2008-2009 financial year Crown lands were reported as \$1,314,815,285 in the financial statements. This was less than the Land Tax valuation of \$1,346,525,125. Based on this information land was short stated as at 31<sup>st</sup> March 2009 by \$44,733,800.
- 2.65** It is recommended that a register of lands, detailing map reference, location, purchase and sale of lands, be maintained and kept up to date for audit verification, since there is none currently in place.
- 2.66** It should also be noted that any land improvement values as a result of revaluations should be listed as a valuation surplus in the financial

statements. This is necessary because the improved position in Government's assets would not be the result of any improved operational performance.

#### Other Capital Assets

- 2.67** Other Capital Assets consisted of equipment, vehicles, furniture and fittings, computer equipment, air-conditioning units and other assets with values over \$3,000.
- 2.68** These assets are included in the Assets Management Module of the Treasury. As transactions for capital assets occur they should be captured in this module as well as the General Ledger. Therefore, the information in the Assets Management Module should agree with that carried in the financial statements. However, as at 31<sup>st</sup> March 2010 these records differed by \$192,127,815.35.
- 2.69** It is recommended that the differences that exist in these records should be fully investigated and corrected. Every effort should be made to ensure that these records are reconciled on a regular basis.

#### **Assets excluding Land as at 31<sup>st</sup> March 2010**

	<b>BDS \$</b>
Net carrying value for assets as per Accountant General's Report 2010	1,440,127,000.00
Less net carrying value for assets as per Asset Management Module 2010	<u>(1,247,999,184.65)</u>
<b>Difference</b>	<b><u>192,127,815.35</u></b>

- 2.70** The difference between the module and the ledger is quite significant, and was one of the factors influencing the audit opinion given.



## Liabilities

### Accounts Payable

- 2.71** Accounts Payable was reported as \$56,548,078. This amount represented outstanding invoices for which no cheques have been printed as at 31<sup>st</sup> March 2010. A listing of all unprinted transactions as at 31<sup>st</sup> March should be available to allow audit confirmation of the dollar values. However, requests for such listings were not met. As such these transactions could not be verified.

### Inter American Development Bank (IADB) Loans

- 2.72** The Multi-Sector Pre-Investment Programme Loan is an IADB loan which was originally a multicurrency loan in Swiss Francs (CHF), Euros, Japanese Yens (JPY) and United States Dollars (USD). This loan was eventually converted to United States currency only, as per the IADB conversion option. However, the conversion was not reflected in the general ledger which reported the outstanding balance as \$3,614,014.55 as compared to \$4,660,281.08 as per the IADB statement. Hence this loan was short stated by \$1,046,266.53.
- 2.73** The statement of account received from the IADB carried an overall outstanding balance of \$304,323,739.15, while the General Ledger and Schedule (9) of the Accountant General's Report carried a balance of \$283,961,665 resulting in a difference of \$20,362,074.15. No reconciliations were presented to explain this difference.

### ***Accountant General's Response***

*An effort is being made to bring the reconciliations up-to-date to make sure all adjustments are done by the end of this financial year (2010 – 2011).*

Financing Lease Facility - Tamarind Hall Lease Facility (Eric Holder Municipal Complex)

- 2.74** The Eric Holder Municipal Complex was built by way of a finance lease. Under this arrangement a private company built the complex, and after a number of lease payments the facility is to be transferred to Government. The finance lease of \$17,643,482 was brought to account as a liability through an adjustment voucher in March 2010. This adjustment resulted in a credit to the liability account under 'Other Debt Services'. However, this was a finance lease, which should have also resulted in an asset being brought to account. Instead there was an adjustment to the Consolidated Fund balance. This omission resulted in assets being understated by \$17,643,482 at 31<sup>st</sup> March 2010 and the Consolidated Fund being overstated by \$17,643,482 in this instance.

***Accountant General's Response***

*The Tamarind Lease Hold Facility was added to the Asset Account in this Financial Year (2010 – 2011).*

**Chinese Loans**

Gymnasium Project

- 2.75** As reported in the last audit report the balance brought forward from the previous year was understated by US \$241,548.80. This matter has not been rectified as at the end of the 2009-2010 financial year. Hence the amount reported of Bds \$3,275,704.60 continues to be understated by US \$241,548.80.

Contingent Liabilities Taken Over by Government

- 2.76** There are loans which Government had guarantee (Contingent Liabilities) and the entity was unable to repay. In such circumstances these loans are taken over by central Government and the outstanding balances reported in the 'Statement of Public Debt and Sinking Fund'. Loans totaling \$60,868,295 were taken over in 2009-2010. However, some of these liabilities were not included in the statement of public debt as noted below.
- 2.77** CRL Limited, the entity that took over the assets and liabilities of the Barbados Development Bank on its closure, had liabilities to the Central Bank of Barbados of \$14,562,903 (\$9,000,000 principal and \$5,562,903 accumulated interest as at 31<sup>st</sup> Dec 2009). This debt was taken over by the Government. However, this was not included in the financials as at 31<sup>st</sup> March 2010.
- 2.78** CRL also has a liability with the Industrial Credit Loan Fund to the sum of \$482,786.76 (\$432,159 principal and \$50,627.76 interest) as at 31<sup>st</sup> December 2009. This debt was also taken over by the Government on the closure of CRL. The Government of Barbados was the sole shareholder of CRL. This debt was also excluded from the financial statements.
- 2.79** As a result of the above, the public debt was understated by \$15,045,689.76 (\$14,562,903 + \$482,786.76) as at 31<sup>st</sup> March 2010 in this instance.
- 2.80** It is recommended that all known liabilities should be brought to account in a timely manner to ensure that a true reflection of the Government's financial position is presented to users of the financials.

## Suspense Account

**2.81** It was observed that several transactions are posted to the Suspense Account and then written off to the Consolidated Fund. In these instances adequate disclosure in the notes to the financial statements are not made.

**2.82** Many transactions are posted to this account. However in the absence of details there were inadequate audit trails to track these transactions. Many of these transactions could therefore not be verified.

### Recommendations

**2.83**

- Every transaction entered in the Suspense Account should be adequately described and the relevant documentation provided in support of the transactions.
- There is a need for transparency as it relates to the use of the Suspense Account.

## Pensions

### Unpresented Cheques

**2.84** Instances were observed where cheques not cashed were returned to the Treasury. However, these were not removed from the unpresented cheques listing. This situation may have arisen because the account has not been reconciled. As at 31<sup>st</sup> March 2010 cheques written in excess of six (6) months and unpresented totalled \$232,200.45. Some of these cheques were issued in 2007.

**2.85** It is recommended that cheques that remain uncashed in excess of six months should be written back to the account.

### **Late Pension Payments**

- 2.86** Pension payments totalling \$1,041,871.94 in relation to the financial year 2008-2009 were expensed in the financial year 2009-2010. This action is contrary to accrual accounting principles which require that expenses be recorded when the liability arises.
- 2.87** There is also a need to ensure that control accounts are in agreement with the subsidiary ledgers. This should ensure that all amounts are accounted for.
- 2.88** Reconciliation of the totals in the pension subsidiary ledger with those in the general ledger should occur on a monthly basis and this would avoid these discrepancies.

### Return of Pension Cheques

- 2.89** It was noted that a number of pension cheques were returned in respect of persons recently deceased. To minimise these occurrences, the information on deaths should be obtained from the Registration Department in a timely manner.

### **Other Funds Managed by the Treasury**

- 2.90** In addition to the Consolidated Fund Account the Treasury also has responsibility for presenting the accounts of the Sugar Industry Research and Development Fund. The accounts of this fund were not presented for audit.
- 2.91** In accordance with a recommendation from the Solicitor General, the assets and liabilities of the Public Enterprise Investment Fund (PEIF) should be held by the Consolidated Fund. At 31<sup>st</sup> March 2009 these

assets were \$339,095,206.14. After provision for doubtful accounts these assets should have been included in the accounts of the Government.

### **Subsequent Events**

- 2.92** Subsequent to the close of the financial year and the publishing of the accounts, the Government repealed the PEIF Act and its assets were transferred to the Consolidated Fund.

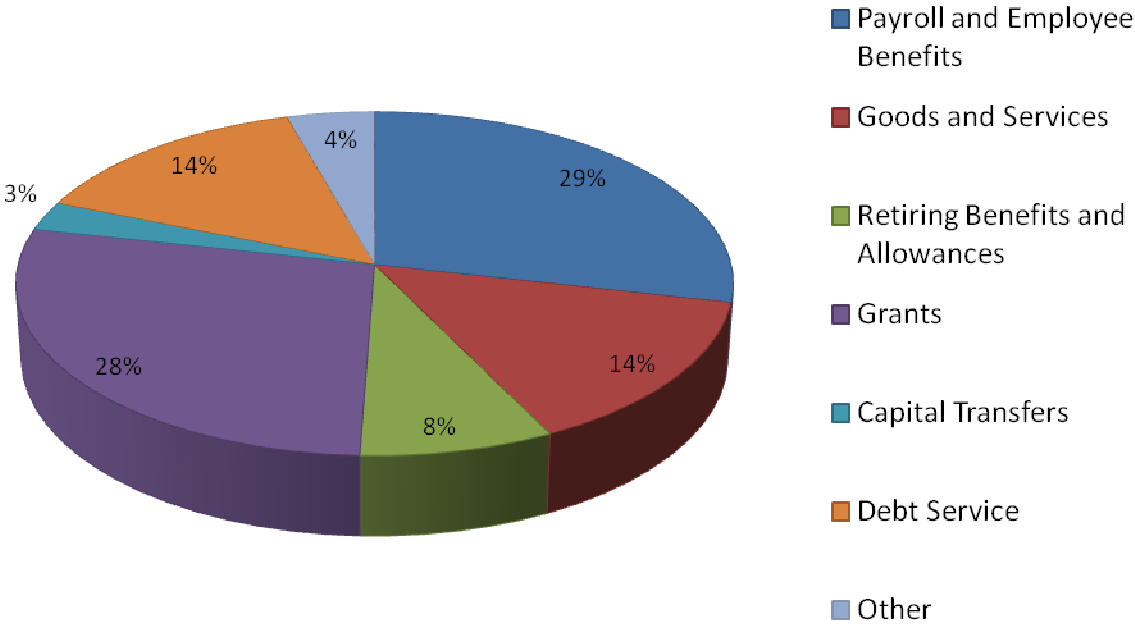
### **Pension Liability General**

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

## **Graphical Presentation of Government Expenditure and Revenue**

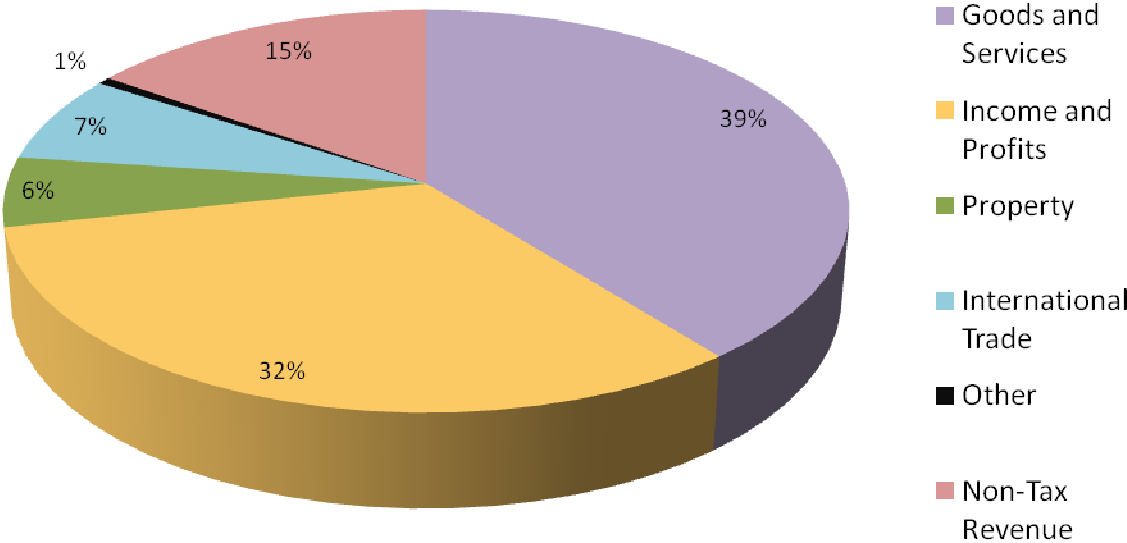
- 2.97** The following graphs represent the distribution of Government expenditure and revenue during the financial year.

### Total Expenditure 2009 - 2010

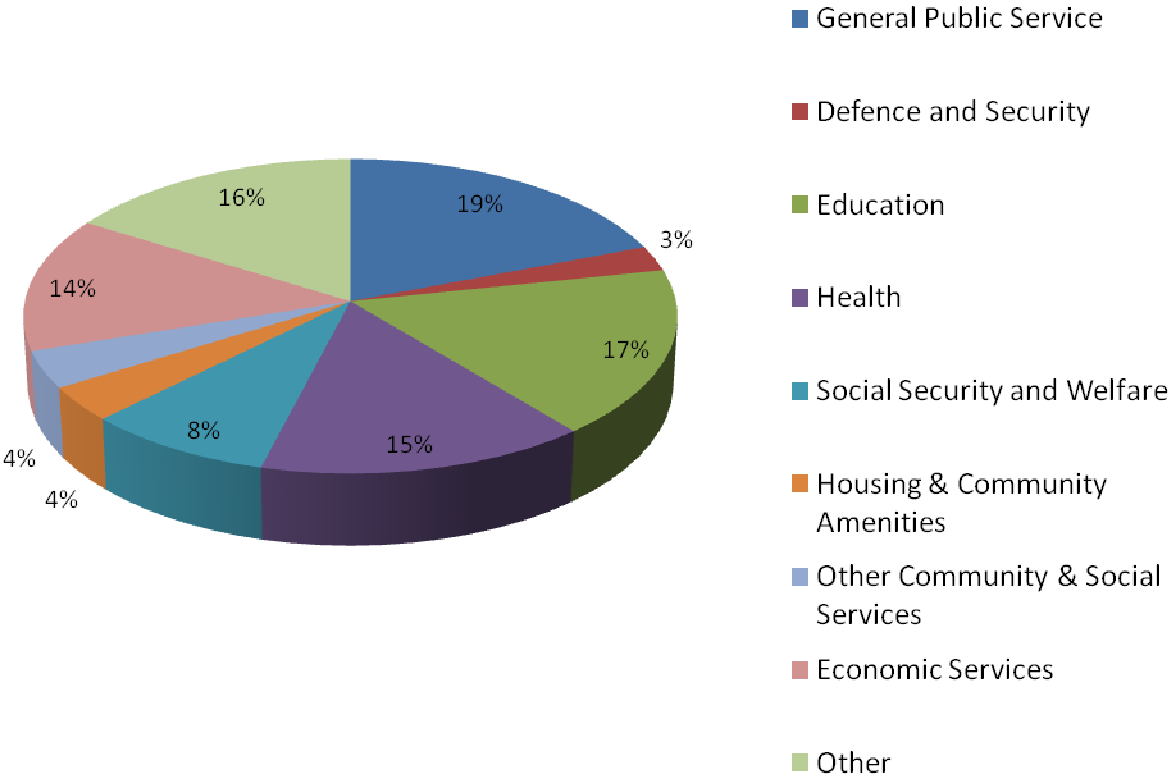




Total Revenue 2009 - 2010



### Expenditure by Functional Classification 2009 - 2010



## CHAPTER 3

### General Audit Concerns and Observations

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**T**his chapter highlights general concerns in respect of some ministries and departments not complying with statutes or administrative directives. It also includes responses when provided, by ministries/departments to the concerns raised. It should be noted that audits were not completed for all ministries.

#### **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 2010 was conducted by the Barbados Audit Office as required by Section 26 of the Financial Management and Audit Act, 2007 - 11.
- 3.3** As determined by this Act, the onus for the proper discharge of financial administration and the preparation of financial statements rests on the Accounting Officers. It is the Auditor General's responsibility to form an independent assessment of compliance with the FMA Act and other administrative directives on the accounts, based on the audits carried out by this Office.

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

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

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

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

### **General**

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

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

regardless to whether payment is made at the time. There were numerous instances in which this principle has not been applied, resulting in expenses not being recorded in the correct periods.

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

#### **Fixed Asset Register**

- 3.9** As reported in my 2009 Report ministries and departments do not have up-to-date fixed assets registers containing the various assets and their values. This makes it difficult for auditors to verify the figure of \$1.3 billion for assets reported in the financial statements.

#### **Absence of Supporting Documentation**

- 3.10** There was also the absence of supporting documentation for a number of payments, and this included reimbursable expenses for overseas travel for some officers in Government.

#### **Response to Audit Queries**

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

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## Inland Revenue Department

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**3.13** The Inland Revenue Department is responsible for the collection of revenue from taxes on income and profit. The following issues were discovered during the course of the audit:-

### Cancelled Cheques

**3.14** Documentation presented showed that two hundred and one (201) cheques totaling \$6.16 million were produced and cancelled by the Department during the financial year ended 31<sup>st</sup> March 2010 for the following reasons.

- Duplication of cheques;
- Taxpayers not entitled to refunds;
- Problems with uploading third party information such as TD5 slips;
- Payments made by taxpayers being refunded automatically by the system although the tax returns were not processed;
- Information on returns being keyed incorrectly;
- Objections filed by tax registrants due to their returns being processed incorrectly.

**3.15** The above stated errors occurred due to difficulties encountered with the new electronic filing system. The nature of these errors gives rise to the risk of significant refunds being made to tax payers who are not entitled.

There is no assurance that all resulting discrepancies were identified and corrected.

### **Recommendation**

- 3.16** *The Department needs to urgently review, adequately test and strengthen the control mechanisms within the new electronic system, ensuring that they are adequate and sufficient to maintain its integrity. This will minimize the above stated occurrences. Further tests should be conducted to see if there were additional deficiencies, and any amounts overpaid should be recovered. The direct deposits made to taxpayers' accounts should also be investigated to ensure there were no further duplications.*

### **Internal Control over Refunds**

- 3.17** A sample of sixty-five (65) tax registrants who received two refunds each was reviewed. Fourteen (14) of these accounts revealed errors. The following errors were identified:

(i) Variations from TD5 Slips

Tax deductions were allowed for allowances, although the employers' submissions did not indicate that these allowances were paid to the employees.

(ii) Trading Losses

In accordance with the Income Tax Act, Cap. 73 Section 23 (1), a self-employed tax registrant who has incurred trading losses can net off these losses to any income earned as an employed person. Some tax registrants' tax losses were netted off against their income for the Income Year 2008, but these amounts were also carried forward and netted off against the Income earned during

2009. Consequently, the tax registrants were granted the tax benefit twice.

### **Bank Reconciliation**

- 3.18** Financial Rule 69 requires that bank accounts be reconciled on a monthly basis. However, the Department confirmed that the bank accounts are not being reconciled. The balance on the account as reported by the bank stood at \$40,543,062.38 at 31<sup>st</sup> March 2010. The absence of a reconciliation of this account could result in errors or omissions going undetected.

### **Recommendation**

- 3.19** *This issue has been noted in previous Auditor General's Reports without any resolution. Immediate action needs to be taken to rectify this problem since there is risk of misappropriation or loss involving an account with such a large balance. The Department should consider using an electronic bank reconciliation facility to assist with the bank reconciliation.*

### **Accounts Receivable**

- 3.20** The balance of the accounts receivable account could not be verified. It was indicated that due to technical difficulties with the implementation of the new computerized system, the balance of the accounts receivable as at 31<sup>st</sup> March 2010, could not be extracted from the system. As a result no reliance can be placed on the accounts receivable figure of over \$245 million reported in the Government's financial statements as receivables for this Department.



### **Revenue Account**

- 3.21** Revenue collectors are required to submit a statement showing the total revenue collected for the financial year. Revenue Statements for this Department were not submitted to the Audit Office for the financial year as required by the Financial Management and Audit Act, Section 22. This is an ongoing problem which needs to be rectified, since no account was provided in the previous financial year.
- 3.22** The Inland Revenue Department is a large revenue earner and the income collected needs to be properly verified. It should be noted that information on revenue and receivables is an integral part of Government's financial statements, and that the revenue attributable to this Department is in excess of \$800 million. The absence of this information makes it difficult to verify Governments overall financial performance.

### **Recommendation**

- 3.23** *The revenue account and receivables statements need to be submitted in accordance with the legislative deadlines to allow for verification.*

### **Processing of Income Tax Returns**

- 3.24** A report on the number of income tax returns processed after September 2010 was requested. However, the Department indicated that it was difficult to provide this information. It is important to know what returns are processed after September each year, since interest is due to taxpayers whose refunds are processed after this period.

### **Recommendation**

- 3.25** *The Department needs to institute procedures that allow it to determine the appropriate interest due to taxpayers as a result of the late processing of returns.*

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## **Customs and Excise Department**

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

### **Receivables**

- 3.27** Receivables totalling \$3,005,716 at 31<sup>st</sup> March 2010 included a figure of \$2,761,728 representing dishonoured cheques. A significant portion of the dishonoured cheques total amounting to \$2,574,263.29 related to the period 1999 to 2007.

### **Recommendation**

- 3.28** *This matter should be thoroughly investigated and appropriate action taken in accordance with Rule 46 of the Financial Rules.*

### **Comptroller of Customs Response**

*The matter is being investigated with a view to determining what is recoverable and what can be written off.*

### **Field Audit**

- 3.29** The Field Audit Unit is an integral part of the warehousing process acting as a deterrent to any activities that could lead to a loss of revenue. Audit requests for reports from the Field Audit Unit revealed that the Unit had not produced any reports for the year under review. As a result, there was no available evidence to show if the warehousing process was being effectively monitored.

### **Recommendation**

- 3.30** *Steps should be taken to ensure this Unit functions as intended to minimize the risk of the loss of Government revenue.*

### ***Comptroller of Customs Response***

*The Field Audit Unit has not performed as expected. It is being revamped and will be reengineered. The report from the Consultant on Modernisation of Customs also recommends the reshaping of the Unit.*

### **Bank Account – Refunds**

- 3.31** A bank balance of \$3,030,314.95 was shown on the Refund Bank Account at 31<sup>st</sup> March 2010. Audit inspection of the bank reconciliation statement as at 31<sup>st</sup> March 2010 revealed that cheques for amounts of \$844,803.24 and \$6,505.20 were debited twice on the bank account. No satisfactory explanation was given for these discrepancies.

### ***Recommendation***

- 3.32** *This matter needs to be urgently investigated and appropriate action taken to have it resolved.*

### **Revenue Refund**

- 3.33** An amount of \$1,215,278.48 approved for refunds in March 2009 was paid in April 2009. Under Government's accrual system of accounting, this amount should have been adjusted to the revenue for the financial year 2008-2009, the year to which it related, and not revenue for the financial year 2009-2010.

### **Customs Tariff**

- 3.34** The rates in the printed Customs Tariff differed from the corresponding rates in the computerised system (ASYCUDA++) in several instances. This situation has the potential to affect revenue intake and could also result in payment of refunds. The reason for these differences should therefore be investigated and corrective action taken.

#### ***Comptroller of Customs Response***

*There are some errors in the new tariff and we are seeking to identify all of them and have them corrected. The rate found in the tariff on the items is that of the CET but the Barbados rate differs. These anomalies will be corrected.*

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## Value Added Tax Division

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

### Accounts Receivable

**3.36** A total of \$255,381,297.48 was reflected in the Division's records at 31<sup>st</sup> March 2010 for Receivables. The amount outstanding for the respective years was as follows:-

Financial Year Tax Period	Amount \$
1997-98	14,329,700.15
1998-99	16,788,749.68
1999-00	16,466,002.76
2000-01	13,940,681.55
2001-02	16,720,010.55
2002-03	16,790,364.46
2003-04	18,333,736.80
2004-05	21,602,522.01
2005-06	22,664,933.04
2006-07	23,653,729.12
2007-08	25,615,955.72
2008-09	22,704,109.28
2009-10	25,770,802.36
<b>Total</b>	<b>255,381,297.48</b>

**3.37** The balance of Receivables includes balances for companies that are no longer trading or have gone out of business. As a result, these amounts are unlikely to be collected. The list also includes balances for Government Departments such as Commissioner of Police \$1,410,305.99, Ministry of Housing and Lands \$109,382.17, and Printing Department \$307,724.91. However, it is not clear whether all balances shown as owing by Government Ministries and Departments are outstanding, since some Ministries and Departments that are registered for VAT, remit tax directly to the Treasury.

***Recommendations***

**3.38** *The collection process should be reviewed in light of increasing receivables, in order to increase its effectiveness.*

**3.39** *Companies that are no longer trading or have gone out of business need to be investigated to ascertain whether the amounts outstanding are collectible and the appropriate action taken.*

**Bank Account – Refunds**

**3.40** Refunds totalling \$14,099,528.04 and approved for payment during 2009-2010 remained unpaid at the end of the financial year. This figure should therefore have been recognized as accounts payable at 31<sup>st</sup> March, 2010, and reported in the financial statements. As a result accounts payable would have been short-stated by this amount.

**3.41** The bank reconciliation statements show amounts of \$2,039,007.39 and \$2,994,047.21 in the VAT Office's records as deposits to the Refund Bank Account; however it has not been reflected on the relevant bank statements. This matter has been outstanding since 2005, but to date no

satisfactory explanation has been given. A detailed review of this matter should be undertaken in an effort to have it resolved.

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## **Ministry of Social Care, Constituency Empowerment, Urban and Rural Development**

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- 3.42** The Ministry of Social Care, Constituency Empowerment, Urban and Rural Development has as its primary focus the provision of assistance to the vulnerable groups in society and the empowerment of individuals and groups in society.

### **Constituency Empowerment**

- 3.43** During the year, fixed assets valued at \$83,126.65 were purchased and incorrectly charged to the subprogram for Constituency Empowerment. These purchases should have been capitalized and the relevant depreciation charges expensed over the useful life of the assets. This action resulted in expenses being overstated and assets being understated for the 2009-2010 financial year.

### **Donated Assets**

- 3.44** The Instructions to Ministries and Departments by the Director of Finance require that where assets are wholly or partly funded by an external donor with no loan attached then there must be a corresponding credit to the Donated Assets Reserve. These instructions were not followed by the Ministry when accounting for a gift of computers and other equipment from the Chinese Government valued at \$244,863.59, and received in February

2010. These items were not included in the assets of the financial statement of the Crown.

### **Recommendation**

- 3.45** The Ministry needs to adhere to approved guidelines in the process of accounting for donated assets.

### **Accounts of Constituency Councils**

- 3.46** Section 9 (1) of the Constituency Councils Act, 2009-9 requires each Council to keep proper accounts and adequate financial and other records in relation thereto. The provisions of the Act were not adhered to as follows:

- (i) There was no evidence to show that monthly bank reconciliation statements had been prepared. The absence of bank reconciliation statements could expose the Councils to the risk of unauthorised transactions going undetected.
- (ii) Financial statements were not prepared and presented for audit for each Council as required by Section 9 (3) of the Constituency Councils Act, 2009-9.

### **Recommendation**

- 3.47** *The Ministry needs to ensure that adequate accounting records are maintained by the Councils and that annual financial statements are prepared and presented for audit in accordance with Section 9 of the Constituency Councils Act, 2009-9.*



## **Welfare Department**

### **Reconciliation of Bank Accounts**

- 3.48** An un-reconciled bank statement balance of \$2,238,798 was reflected on the Welfare Grants Assistance account at 31<sup>st</sup> March, 2010, and inquiries revealed that this account had not been reconciled for the year. The retention of a substantial un-reconciled balance on a bank account for long periods constitutes a major risk to the organization since it increases the risk that fraud can occur and remain undetected. This matter should be addressed urgently, so that any discrepancies can be detected and investigated, thereby reducing the risk of fraud or misappropriation.
- 3.49** Monthly bank reconciliation statements should also be prepared for this account in keeping with good accounting practice.

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## **Ministry of Housing and Lands**

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- 3.50** The main objectives of this Ministry include the provision of housing and land for members of the public and suitable accommodation for Government and stated international agencies

### **Accounts Receivable**

- 3.51** As at 31<sup>st</sup> March 2010, the Crown was owed \$5,088,048.42 in unpaid rental fees for various properties. It was observed that some individuals and companies owed the Crown a considerable amount of money. One state agency owed in excess of \$3 million, while one company which had gone out of business owed in excess of \$1 million.

**Recommendation**

- 3.52** *Every effort should be made to collect these outstanding amounts, as the longer these receivables remain outstanding, the greater the risk of non-collection.*

**Property Management Unit**

Rent Paid For Unoccupied Properties

- 3.53** A substantial amount was paid to landlords for rented properties before they were occupied. The failure of the Ministry to effectively minimise the time taken to occupy buildings after entering into lease agreements, results in substantial wastage of Government's resources, as shown in the following examples.
- 3.54** Rent totalling \$605,381.53 was paid to a landlord for the financial year 2009-2010 on behalf of the Division of Energy and Telecommunications. However, the Division did not occupy the leased property during this period.
- 3.55** Another company was paid \$137,396.25 in respect of rent for the period October 2008 to May 2009 on behalf of the Barbados Drug Service. However, the Drug Service occupied the property from June 2009.

**Recommendation**

- 3.56** *The Ministry of Housing needs to make adequate arrangements to facilitate a more timely occupancy of rented buildings once leases have been approved. Where preparatory work has to be undertaken, it should be properly scheduled so as to minimise the time the building remains unoccupied.*

### **Absence of Lease Agreements**

- 3.57** The audit revealed that in some instances there were no appropriate leases in place, either for private properties occupied by Government entities, or for Government properties leased to private entities.
- 3.58** The absence of lease agreements exposes Government to the risk of not being successful in litigation relating to disputed cases.

### **Recommendation**

- 3.59** *The Ministry of Housing and Lands should ensure that all agreements for properties leased are prepared and signed in a timely manner. A greater effort should also be made to ensure that Government's funds are utilized efficiently, and this includes occupying premises within the shortest possible time after they have been leased.*

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## CHAPTER 4

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

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

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

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

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

- 4.4 I have reported in the past that this matter should be investigated by the relevant Ministry to ensure that the Boxing Board complies with the provisions of the Boxing Act.

***Barbados Community College***

- 4.5 The audit of the accounts of the Barbados Community College is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. The audit of the accounts of the College is currently three years in arrears. The accounts for the financial year ended 31<sup>st</sup> March 2007 were audited during 2010. Accounts for the financial years ended 31<sup>st</sup> March 2008 and 2009 were submitted in 2010 and these audits are currently being conducted.

***Barbados Defence Force***

- 4.6 The audit of the accounts for the Barbados Defence Force for the financial year ended 31<sup>st</sup> March 2010 has been completed. No material errors were found during the course of the audit.

***Barbados Hospitality Institute***

- 4.7 The Barbados Hospitality Institute, which falls under the Barbados Community College, conducts training for persons in the hospitality industry. The audit of the accounts of the Institute is currently two years in arrears. The accounts for the financial years ended 31<sup>st</sup> March 2008 and 2009 have been submitted and an audit has commenced.

***Barbados Liaison Service - Miami***

- 4.8 The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. The

on-the-spot audits for the financial years 2005-2006 to 2008-2009 are outstanding.

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

- 4.9 The Barbados Liaison Service in Toronto administers a program relating to farm workers attached to farms in Canada. The audits for the financial years 2005-2006 to 2008-2009 are outstanding. An on-the-spot audit of these accounts will occur in 2011.

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

- 4.10 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 2010 have been audited.

### ***Catastrophe Fund***

- 4.11 The Catastrophe Fund, which was established in April 2006, provides financial aid to any low income earner who owns and occupies a chattel house valued at not more than \$125,000, and where that house is damaged or destroyed by a catastrophe. The accounts of the Catastrophe Fund for the financial years ended 31<sup>st</sup> December 2008 and 2009 have been submitted and an audit is being conducted.

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

- 4.12 The Auditor General is required under Section 14 of the Central Emergency Relief Scheme to audit the statements of income and expenditure of the Central Emergency Relief Fund. The accounts for the

financial years ended 31<sup>st</sup> December 2006 to 2010 were not submitted for audit, and these audits therefore remain outstanding.

### ***Central Liaison Service***

- 4.13** The Central Liaison Service (Regional Security System) is an organization supported by certain Caribbean countries. Its purposes include assisting with the fight against illegal narcotics, assisting with relevant emergencies and combating threats to national security in member states. The accounts of the Central Liaison Service for the financial year ended 31<sup>st</sup> March 2010 have been audited and a report will be issued shortly.

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

- 4.14** The Community Legal Services Commission provides legal aid to persons in the community who meet certain criteria. The accounts of the Commission for the financial year ended 31<sup>st</sup> March 2009 have been audited. Expenses for the year in respect of Attorneys' Fees were significantly overstated, resulting in a qualification of these accounts. The accounts for 2010 have not been submitted and the audit of these accounts is therefore outstanding.

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

- 4.15** The Erdiston Teachers' Training College is an educational institution established for the training of teachers. The audit of accounts for the financial years ended 31<sup>st</sup> March 2008 and 2009 has been completed. No material errors in the financial statements were discovered during the course of the audits. The accounts for 2010 have not been submitted and are currently outstanding.

### ***National Assistance Board***

- 4.16** 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.
- 4.17** The audits of the accounts of the National Assistance Board for the financial years ended 31<sup>st</sup> March 2009 and 2010 were completed. No material errors in the financial statements were discovered during the course of the audit.

### ***National Insurance Fund***

- 4.18** The accounts of the National Insurance Fund for the financial years 2003 to 2009 are in arrears. As I indicated in my previous report the Department is making an effort to bring the accounts up-to-date. Financial statements for the financial years 2003 to 2005 have been submitted. The Audit Office is seeking assistance from the private sector to assist in bringing these audits up to date.

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

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



**4.20** It was the opinion of the Solicitor General that the fund cannot hold securities and other financial assets in its own right. This would indicate that the assets and liabilities of the fund should be included in Government accounts. There were no financial statements submitted for audit for the financial year ended 31<sup>st</sup> March 2010 as required.

**4.21** During 2010 the Act governing the PEIF was repealed, hence the assets and liabilities of this fund will be transferred to the Consolidated Fund.

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

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

**4.23** The audit of the Polytechnic is several years in arrears and I have stated on more than one occasion that the absence of audited financial statements for such a lengthy period should be of great concern to the Polytechnic's Board. A review of the financial records of the Polytechnic is currently underway.

**4.24** In the absence of the financial statements I will be unable to express an opinion on the fairness of these accounts.

### ***Sanitation Service Authority***

**4.25** The accounts of the Sanitation Service Authority for the financial year ended 31<sup>st</sup> March 2008 were audited during the course of the year. The accounts for the financial years ended 31<sup>st</sup> March 2009 and 2010 have not been submitted and therefore these audits are outstanding.

### ***Severance Payment Fund***

- 4.26 The accounts of the Severance Payment Fund for the financial years ended 31st December 2007, 2008 and 2009 have been submitted for audit. These accounts will be audited in 2011.

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

- 4.27 The Revenue and Expenditure Accounts of the Sugar Factory Smoke Control Board for the years ended 31<sup>st</sup> December 2001 to 2010 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***

- 4.28 The Receipts and Payments Accounts for the financial year ended 31<sup>st</sup> December 2009 were submitted and audited as required by Section 15 (2) of the Sugar Industry Act, Cap. 270. No material errors in the financial statements were discovered during the course of the audit.

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

- 4.29 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.
- 4.30 This audit has been impeded for a number of years because of the absence of relevant supporting schedules. I have informed the Department that I will be issuing a qualified report for the year in question so that the audits of subsequent years can be conducted. Accounts for the 2005 to 2009 financial years will be audited shortly.

### ***Training Fund***

- 4.31** The Training Fund was established under Section 3 (1) of the Training Act, Cap. 35 for the purpose of financing training courses for officers in the Public Service. This Section of the Act was subsequently repealed and the legal authority for this Fund is the Public Service Act. The accounts for the Training Fund were reviewed for the 2009 financial year; however no financial statements were submitted. Accounts for the financial year ended 31<sup>st</sup> March 2010 are also outstanding.

### ***Training Loan Fund***

- 4.32** The Training Loan Fund was established under Section 4 (1) of the abovementioned Act for the purpose of providing loans to assist persons in pursuing courses of study or for training courses as approved by the Minister responsible for training. This Act was subsequently repealed and the legal authority for this Fund is the Public Service Act. The accounts for the Training Fund were reviewed for the 2009 financial year; however no financial statements were submitted. Accounts for the financial year ended 31<sup>st</sup> March 2010 are also outstanding.

### ***Unemployment Fund***

- 4.33** The audit of the accounts of the Unemployment Fund for the financial years ended 31<sup>st</sup> December 2007 and 2008 are currently being audited. The accounts for the financial year ended 31<sup>st</sup> December 2009 have not been submitted for audit.

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## Audits Conducted by Private Sector Auditors

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

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

- 4.35** The principal activity of the Barbados Agricultural Credit Trust Ltd (BACTL) is the management of the debt of the Barbados Sugar Industry Ltd (BSIL) and the Heavily Indebted Plantations (HIPs), which was assumed from the Barbados National Bank in the form of a portfolio transfer. Audit of the accounts for the financial year ended 30<sup>th</sup> June 2010 has been completed.

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

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

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

- 4.37 The BADMC has reported that the audit of the accounts for the year 2004 has been completed. The audits for 2005 and 2006 are awaiting Board approval, and the audit for 2007 is in progress.

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

- 4.38 The Barbados Conference Services Ltd (BCSL) is responsible for the operations of Sherbourne Conference Centre and provides destination management and transport services under the brand names, Horizon Events Planners and Horizon Coaches and Tours respectively. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2010 has been completed.

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

- 4.39 The Barbados Investment and Development Corporation (BIDC) was established under the Barbados Investment and Development Corporation Act, 1992 – 30 for the purpose of developing Barbados' industrial, off-shore financial, export and other related activities. The Corporation has indicated that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2010 was completed.

### ***Barbados National Oil Company Limited***

- 4.40 The Barbados National Oil Company Ltd (BNOC), through its wholly owned subsidiary is involved in the exploration and production of crude oil, natural gas and liquefied petroleum gas (LPG). The BNOC is also engaged in the processing of crude oil and the sale of petroleum products

to the Barbados market. The BNOG has not indicated whether the financial statements for the period ended 31<sup>st</sup> March 2010 have been completed.

### ***Barbados National Productivity Council***

- 4.41 The principal activity of the Barbados National Productivity Council (BNPC) is to create and develop methodologies for measurement, management and improvement in the public service and private sector, and to provide technical advice and assistance for devising productivity related payment schedules. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2009 has been completed.

### ***Barbados Port Inc.***

- 4.42 The principal activity of the Barbados Port Incorporated is to manage the Port of Bridgetown, for the main purpose of enabling the Port to operate as a commercial activity. The financial statements of the Barbados Port Inc. for the year ended 31<sup>st</sup> December 2009 have been audited.

### ***Barbados Tourism Authority***

- 4.43 The principal activities of the Barbados Tourism Authority (BTA) are to promote, assist and facilitate the efficient development of tourism and to design and implement suitable marketing strategies for the effective promotion of the tourism industry.
- 4.44 The Authority has indicated that it is in the process of having the accounts for the financial years ended 31<sup>st</sup> March 2008, 2009 and 2010 audited, and this process is expected to be completed by March 2011.

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

- 4.45** The principal activities of the Barbados Tourism Investment Corporation are the facilitation of tourism investment in Barbados and the development of its vested properties in private and public partnership. Audit of the financial statements for the year ended 31<sup>st</sup> March 2007 has been completed. The Corporation had indicated in 2009 that the audit of the financial statements for the year ended 31<sup>st</sup> March 2008 was in progress. However, there has been no additional information supplied as to the status of this audit or the audits for the financial years ended March 2009 and 2010.

### ***Barbados Vocational Training Board***

- 4.46** The National Training Board was set up under the Occupational Training Act, 1979, Cap. 42 to ensure an adequate supply of trained manpower through occupational training for apprentices and trainees. The name of the Board was subsequently changed to the Barbados Vocational Training Board (The Board) under Section (2) of the Technical and Vocational Educational Training Act, 1994 - 11. The Mission of the Board, however, has remained unchanged.
- 4.47** The Board has reported that the audit of accounts is in arrears due to lost data and data entry errors. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2006 is in progress. This Board has indicated that audits of the financial years 2007-2009 will commence during 2011.

### ***Barbados Water Authority***

**4.48** The Barbados Water Authority (BWA) was established by the Barbados Water Authority Act 1980 - 42 to take over the functions, rights and liabilities of the Waterworks Department on the “appointed day”, which is regarded as 1<sup>st</sup> April 1981.

**4.49** The Authority has provided no information with respect to outstanding audits for the financial years ended 31<sup>st</sup> March 2007 to 2010 as requested by the Audit Office.

### ***Caribbean Broadcasting Corporation***

**4.50** The principal activity of the Caribbean Broadcasting Corporation (CBC) is the provision of broadcasting services through radio and television. The audit of the accounts of the Corporation for the financial year ended 2009 has been completed.

### ***Caves of Barbados Limited***

**4.51** Caves of Barbados Ltd is mandated under the Caves Act 2000 - 12 to manage and develop Harrison’s Cave and any other caves in Barbados. The entity has indicated that the audit of the accounts for the financial years ended 31<sup>st</sup> December 2007 and 2008 has been completed. The audit of the financial statements for 2009 is currently being worked on.

### ***Child Care Board***

**4.52** The principal activities of the Child Care Board are to provide and maintain child care institutions for the safe keeping of children in need of care and protection; and to make grants to voluntary organizations or bodies



operating child care institutions. No information was provided in relation to the audit for the financial year ended 31<sup>st</sup> March 2010.

### ***CRL Limited***

- 4.53** This company's principle activities include the management and sale of assets acquired from the Barbados Development Bank until sale or other disposition. The financial statements of CRL for the year ended December 2009 have been audited.

### ***Enterprise Growth Fund Limited***

- 4.54** The principal activity of the Enterprise Growth Fund Limited (EGFL) is the provision of loan financing and venture capital to dynamic, small and medium sized Barbadian companies in the productive sectors. EGFL also provides business advisory services and technical assistance to its client companies. Audit of the accounts for the financial year ended 31<sup>st</sup> December 2008 has been completed.

### ***Fair Trading Commission***

- 4.55** The principal activities of the Fair Trading Commission (FTC) are to enforce the Utilities Regulation Act, Cap. 282, the Telecommunications Act, Cap. 282B, the Fair Trading Competition Act 326C and the Consumer Protections Act, Cap. 326D. The Commission should promote efficiency and competitiveness, and improve standards of service and quality of goods and services supplied by service providers and business enterprises over which it has jurisdiction. Audit of the accounts for the financial year ended 31<sup>st</sup> March 2009 has been completed.

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

- 4.56 The Grantley Adams International Airport Inc. (GAIA) is responsible for the commercial operations and management of the airport in accordance with the Grantley Adams International Airport (Transfer of Management and Vesting of Assets) Act (Act 2003 - 3). The audit for the financial year ended 31<sup>st</sup> June 2010 has not been completed.

***Hotels and Resorts Limited***

- 4.57 Hotels and Resorts Ltd. was incorporated under the Laws of Barbados on 27<sup>th</sup> December 1995. The principal activity of Hotels and Resorts Ltd. is the investment in and development of hotel premises. The audit of the accounts for the financial years ended 31<sup>st</sup> December 2008 and 2009 has been completed.

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

- 4.58 The principal activity of Islandcrafts (Barbados) inc. is the sale and marketing of indigenous handicraft items. The audit of the accounts was completed up to the financial year 2005. The entity has indicated that the audit of the accounts for the financial years 2007 to 2009 has commenced but has not been completed due to the absence of a signed engagement letter from its directors.

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

- 4.59 The principal activity of the National Conservation Commission (NCC) is the management, maintenance and development of the public parks, beaches and open areas of Barbados. Audits of the accounts of the Commission have been completed up to the financial year ended

31<sup>st</sup> March 2007. The audit of the accounts for the financial years ended 31<sup>st</sup> March 2008, 2009 and 2010 are outstanding.

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

- 4.60** The principal activity of the National Council on Substance Abuse (NCSA) is to advise the Ministry of Home Affairs on measures for the eradication or control of substance abuse. The NCSA has submitted completed financial statements for the years ending 31<sup>st</sup> March 2006 and 2007. Audits for the financial years ended 31<sup>st</sup> March 2008, 2009 and 2010 are therefore outstanding.

### ***National Cultural Foundation***

- 4.61** The principal activities of the National Cultural Foundation (NCF) are to stimulate and facilitate the development of culture, organize and assist in cultural activities and develop, maintain and manage theatres and other cultural facilities and equipment provided by the Government of Barbados.
- 4.62** The Foundation has indicated that the audit of the accounts for the financial years ended 31<sup>st</sup> December 2008 and 2009 has been completed, but that these statements are to be approved by the Board.

### ***National Housing Corporation***

- 4.63** The National Housing Corporation is a state agency which has responsibility for the development of land and the construction of housing units for sale or rent to low and middle-income persons. The audits of the accounts of the Corporation for the financial years ended March 2006 to 2010 are outstanding.

### ***National Petroleum Corporation***

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

### ***National Productivity Council***

- 4.65** The National Productivity Council has indicated that the most recent audit of its financial statements was for the financial year ended 31<sup>st</sup> March 2009. The audit for the financial year ended 31<sup>st</sup> March 2010 is in progress.

### ***National Sports Council***

- 4.66** The principal activities of the National Sports Council (NSC) are to maintain and develop sporting facilities provided for public use, and to stimulate the development of sport in Barbados. Audit of the financial statements for the year ended 31<sup>st</sup> March 2010 has been completed.

### ***Queen Elizabeth Hospital***

- 4.67** The Queen Elizabeth Hospital (QEH) has as its principal activities the provision of medical care for patients, facilitating the provision of medical education and research, and providing facilities and technical support for education and training in nursing and other health related professions. No information was provided in respect of the audit of the accounts for the financial years ended 31<sup>st</sup> March 2005 to 2010, as requested by the Audit Office.

### ***Rural Development Commission***

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

**4.69** The Commission had reported that financial statements for the years ended 31<sup>st</sup> March 2005 and 2006 were in draft form and work was ongoing on the statements for 2007. However, no additional information has been provided on the status on these and subsequent audits, as requested by the Audit Office.

### ***The Securities Commission***

**4.70** The Securities Commission's principal activities are to maintain surveillance over the securities market in order to ensure that fair, equitable and proper practices are maintained, and to act as a regulatory body over all organizations involved in the business of securities, so as to protect the rights of the investing public. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2009 has been submitted to the Audit Office.

### ***Student Revolving Loan Fund***

**4.71** The principal activity of the Student Revolving Loan Fund (SRLF) is to assist in the educational process through the provision of loans. SRLF has reported that the audits of the financial statements for the years 2007 to 2009 are being reviewed by their management committee and will be submitted afterwards.

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

- 4.72 The principal activities of the Technical and Vocational Education and Training (TVET) Council are to provide advice on policy, prepare plans and establish standards for technical and vocational education at the tertiary level, in accordance with national policies and economic needs. The Council has indicated that an audit of its accounts for the financial year ended 31 March 2010 is currently in progress.

### ***Transport Board***

- 4.73 The Transport Board's principal activity is the provision of transportation to the general public. Audit of the accounts of the Board for the financial year ended 31<sup>st</sup> March 2008 has been completed. Audit of the accounts for the financial years 2008/2009 and 2009/2010 are outstanding.

### ***Urban Development Commission***

- 4.74 The principal activities of the Urban Development Commission (UDC) are to undertake slum clearance and improve social amenities in urban areas. The UDC also provides loans to individuals with small enterprises, and for assistance in house acquisition, repairs and improvements.
- 4.75 The Commission was reported in the 2009 Auditor General's Report as indicating the audits for the financial years ended 31<sup>st</sup> March 2006 and 2007 were about to commence. However, no additional information on the status of these and subsequent audits has been provided as requested by the Audit Office.

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## Audit of Secondary Schools

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**4.76** Section 20 (1) (b) of the Education Act requires that the audited accounts of secondary schools be submitted to the Minister not later than six months after the close of the financial year which ends on the 31<sup>st</sup> March. The status of the accounts of these schools at 31<sup>st</sup> December 2010 was as follows:

### ***Alexandra School***

**4.77** The audit of the accounts of the Alexandra School has been completed for the financial years ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Alleyne School***

**4.78** The audit of the accounts of the Alleyne School has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Alma Parris Memorial Secondary School***

**4.79** The audit of the accounts of the Alma Parris Memorial Secondary School for the financial year ended 31<sup>st</sup> March 2009 has been completed. The school has indicated that the audited financial statements for the financial year ended 31<sup>st</sup> March 2010 is to be approved by the Board.

### ***Christ Church Foundation School***

**4.80** The audit of the accounts of the Christ Church Foundation School has been completed for the financial year ended 31<sup>st</sup> March 2009. The school

has reported that the audit for the financial year ended 31<sup>st</sup> March 2010 is currently in progress.

### ***Coleridge and Parry School***

- 4.81 The audit of the accounts of the Coleridge and Parry Secondary School for the financial year ended 31<sup>st</sup> March 2005 has been completed. The audits of accounts for the years 2006 to 2010 are outstanding. The accounts of this school are therefore not up-to-date as required by the Education Act.

### ***Combermere School***

- 4.82 The audit of the accounts of the Combermere School has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Deighton Griffith Secondary School***

- 4.83 The audit of the accounts of the Deighton Griffith Secondary School has been completed for the year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Ellerslie Secondary School***

- 4.84 The Ellerslie Secondary School has indicated that the accounts for the financial years ended 31<sup>st</sup> March 2006, 2007 and 2008 have been completed. Audits for the financial years ended 31<sup>st</sup> March 2009 and 2010 are currently outstanding. The accounts of this school are therefore not up-to-date as required by the Education Act.



### ***Garrison Secondary School***

- 4.85 The audit of the accounts of the Garrison Secondary School has been completed for the financial year ended 31<sup>st</sup> March 2009. The school has indicated the audit for the financial year ended 31<sup>st</sup> March 2010 is in progress. The accounts of this school are therefore not up-to-date as required by the Education Act.

### ***Grantley Adams Memorial School***

- 4.86 The audit of the accounts of the Grantley Adams Memorial School has been completed for the year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Harrison College***

- 4.87 The audit of the accounts of Harrison College has been completed for the year ended 31<sup>st</sup> March 2009. The school has indicated that the audit for the financial year ended 31<sup>st</sup> March 2010 is in progress.

### ***Lester Vaughan School***

- 4.88 The audit of the accounts of the Lester Vaughan School for the financial year ended 31<sup>st</sup> March 2009 has been completed. Audit for the financial year ended 31<sup>st</sup> March 2010 is currently outstanding. The accounts of this school are therefore not up-to-date as required by the Education Act.

### ***The Lodge School***

- 4.89 The audit of the accounts of the Lodge School has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Parkinson Memorial School***

- 4.90 The audit of the accounts of the Parkinson Memorial School has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Princess Margaret Secondary School***

- 4.91 The audit of the accounts of the Princess Margaret Secondary School has been completed for the financial year ended 31<sup>st</sup> March 2009. Audit for the financial year ended 31<sup>st</sup> March 2010 is currently outstanding. The accounts of this school are therefore not up-to-date as required by the Education Act.

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

- 4.92 The audit of the accounts of Queen's College has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

### ***Springer Memorial Secondary School***

- 4.93 The audits of the accounts of the Springer Memorial Secondary School for the financial years ended 31<sup>st</sup> March 2009 and 2010 are currently outstanding. The accounts of this school are therefore not up-to-date as required by the Education Act.

### ***St. George Secondary School***

- 4.94 The audits of the accounts of the St. George Secondary School for the financial years ended 31<sup>st</sup> March 2009 and 2010 are currently outstanding. The accounts of this school are therefore not up-to-date as required by the Education Act.

***St. James Secondary School***

- 4.95 The audit of the accounts of the St. James Secondary School has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

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

- 4.96 The audit of the accounts of the St. Leonard's Boys' Secondary School for the financial year ended 31<sup>st</sup> March 2009 has been completed. Audit for the financial years ended 2010 are currently outstanding. The accounts of this school are therefore not up-to-date as required by the Education Act.

***St. Lucy Secondary School***

- 4.97 The audit of the accounts of the St. Lucy Secondary School has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

***St. Michael School***

- 4.98 The audit of the accounts of the St. Michael School has been completed for the financial year ended 31<sup>st</sup> March 2010. The accounts of this school are therefore up-to-date as required by the Education Act.

## CHAPTER 5

### SPECIAL AUDITS

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This chapter consists of a number of special audits conducted by the Audit Office. These include audits of Embassy of Barbados in Venezuela, Barbados Coalition of Services Industries Inc, Estate Management at the Barbados Investment and Development Corporation and the Supervisor of Insurance and Pensions.

#### **Audit of Embassy of Barbados in Venezuela**

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##### **Introduction**

- 5.1 In response to the request for a special audit of the accounts of the Barbados Embassy in Venezuela by the Permanent Secretary, an onsite review of the accounting system at the abovementioned Embassy was carried out during the period 10<sup>th</sup> to 14<sup>th</sup> May 2010.

##### **Background**

- 5.2 Prior to the on the spot review in Venezuela, preliminary discussions were held with the Permanent Secretary and other senior personnel from the Ministry of Foreign Affairs. The discussions revealed that the Permanent Secretary was concerned over the financial management practices at the Embassy involving the use of the Mission's bank account. There was concern that the Mission's funds were used to purchase foreign currency reportedly for overseas travel on official duties even though no travel was undertaken. Concern was also expressed over reports of verbal

instructions to a member of the Accounts staff to alter the accounting records in a manner that would conceal the foreign currency transactions.

### **Audit Objectives**

**5.3** The audit was conducted to:

- (i) Analyze the accounting system and records of the Embassy to ensure its operations complied with the Financial Administration and Audit Act, Cap. 5 Financial Instructions (Overseas Missions).
- (ii) Review the accounting operations of the Embassy to determine whether proper financial management practices had been followed and whether the Mission's funds had been appropriately used.
- (iii) Assess the internal controls to identify if they were effective and functioning as intended.

### **Methodology and Scope**

**5.4** Interviews and discussions were held locally with Ministry officials and in Venezuela with Embassy staff. Documentary evidence was obtained from accounting records and related files from the Ministry and the Embassy.

**5.5** The audit took into consideration the Embassy's operations during the period 1<sup>st</sup> April 2008 to 31<sup>st</sup> March 2010.

### **Rate of Exchange**

**5.6** The rate of exchange from a Bolivar (BFS) to a Barbados dollar was 1.0723 at 31<sup>st</sup> March 2009 and 1.30 at 31<sup>st</sup> March 2010.

## **Findings**

### **Misuse of Government Funds**

- 5.7** The Venezuelan Government recently instituted new exchange control rules and created a State Agency through which all access for foreign currency must be approved. Diplomats must also now apply through the Government agency for any foreign exchange required for official business. Between June and November 2009, an embassy official requested and received approval from the State Agency for the purchase of five sums totaling US \$52,433 for overseas travel on official business.
- 5.8** This officer used the Mission's funds to purchase the foreign currency and then transferred four of the five amounts into a personal bank account in Miami. The other amount was paid in cash. It should be noted that with regard to these transactions no overseas travel was scheduled or sanctioned by the Ministry as required, and none was undertaken.
- 5.9** Another request for the purchase of US \$16,780 was made in December 2009 to facilitate a seventeen day official trip outside of Venezuela by another officer. Approval for this sum was also granted by the Venezuelan State Agency, but enquiries revealed that the officer was not required to perform any official duties overseas during that period and that the application for foreign currency was done without the officer's knowledge. This sum was also transferred into a personal bank account in Miami.
- 5.10** These transactions did not relate to any official Government business and represent a misuse of an official position to further private interests. The deception used in applying for funds when not scheduled to travel could have brought the good image of Barbados into disrepute and should be treated in a serious manner.

**5.11** These funds were subsequently refunded in Venezuelan currency (BsF). However, the fact that these funds were repaid does not negate the serious nature of this offence.

**5.12** The transactions above represent misappropriation of Government funds which, under the Public Service Act 2007-41, could result in the dismissal of the offending person.

### **Recommendations**

**5.13** *In order to prevent a recurrence of this situation, it is recommended that:*

- (i) Written instructions should be issued to the Barbados Embassy in Venezuela specifying the circumstances in which applications for foreign currency would be allowed.*
- (ii) Appropriate disciplinary proceedings should be instituted in accordance with the Public Service Act, 2007- 41.*

### **Refunds for Personal Expenses**

**5.14** On 12<sup>th</sup> March 2009, the officer purchased personal computer software costing US \$660.98 from a company based in the United States. The billing information indicated that the software was downloaded on line, but audit checks revealed no evidence of the software on the Embassy's computers. Furthermore, no authority was issued by the Ministry as required to order or install any computer software at the Embassy in Venezuela. The officer was refunded for the software. No refund should have been granted, since this was a personal purchase.

- 5.15** During the period January to March 2009, sums totaling BsF3006.11 were paid from the Embassy's funds for cartridges and printing supplies for printers. The Embassy's funds should not have been used to pay for these items as enquiries revealed that the printers were personal property.

**Recommendation**

- 5.16** *The amounts paid should be recovered from the officer.*

**Inappropriate Use of Courier Services**

- 5.17** Courier Expenses of BsF 5,311.84 charged to the Embassy during the period 22<sup>nd</sup> August 2008 to 22<sup>nd</sup> October 2008 related to personal items for an officer and included computers and printers purchased in the United States and shipped to Caracas through the Miami Consulate. The items were transported via the courier service employed by Embassy to deliver its official mail and all costs incurred were paid by the Embassy. The amount involved was subsequently recovered by withholding refunds for a similar amount due to the individual for medical expenses.

- 5.18** The use of the Embassy's funds to pay for personal courier services in this instance was a breach of Section 4.1 of the Financial Administration and Audit Act, Cap. 5 Financial Instructions (Overseas Missions).

**Refund of Medical and Hospitalization Expenses**

- 5.19** In accordance with Section 8.24 (4) of the Barbados External Service Orders, at Missions or Consular posts in countries where there is no public hospital and medical services insurance scheme, or similar government-operated insurance scheme, the cost of drugs or dental care will be paid by the employer within limits approved by the Minister. When such



expenses are likely to exceed the approved limits, there should be prior consultation with the Ministry for authorization of the excess expenditure.

**5.20** In December 2008, an officer was refunded for hospitalization charges, including a major bill for BsF 20,500 without any consultation with the Ministry prior to the expense being incurred as should normally be done for a bill of this magnitude. In addition, the method used for settling this bill was not in keeping with the Ministry's policy, which allows for ninety percent of the cost of hospitalization to be paid directly to the hospital by the Mission and the remaining ten percent to be paid by the patient. There was also inadequate supporting documentation for this refund as there was no breakdown or description of the hospital services provided or the related costs of the services. The Ministry should investigate the circumstances relating to the payment of this refund to determine if there is a case for government's funds to be recovered.

**5.21** A number of other claims for medical fees and medications were refunded to this officer during the period December 2008 to December 2009 without adequate supporting documentation. In some cases, the supporting bills did not reflect medical expenses and in one instance there was no supporting bill for a refund of BsF 5,940.34.

**5.22** The Ministry should ensure that prior to the payment of hospitalization costs, its directives have been followed and the requirements of the External Orders have been adhered to. It should also ensure that before paying claims for reimbursement of medical fees and medications, all supporting bills and documents are presented.

### **Accommodation for the Ambassador**

**5.23** A lease was signed on 27<sup>th</sup> May 2009 to secure a house as an official residence for the Ambassador from 1<sup>st</sup> June 2009 to 30<sup>th</sup> November 2010. Enquiries revealed that:

- The lease was not sent to the Ministry for vetting before the accommodation was taken up as is the normal practice.
- The lease was signed without the inclusion of a clause enabling the tenancy to be terminated before its expiry, if the lessee is transferred, as required by Section 8.8(1) of the Barbados External Service Orders.
- No prior permission was sought from or was given by the Permanent Secretary to negotiate the lease of that property as is required.

### **Contracts**

**5.24** There is no formal contract between the Embassy and the landlord for the rental of the Embassy's Office. The only contractual evidence seen was a rental agreement signed on the 7<sup>th</sup> November 1993 between the Barbados Embassy in Caracas and another company.

### **Recommendations**

**5.25** *The Embassy should maintain a contract register showing all contracts entered into, including the name of the contractor, the terms and conditions of the contract and any special conditions if applicable.*

**5.26** *The Ministry should ascertain whether contracts for the rental of accommodation for the Embassy are in place and if so these contracts should be made available for inspection.*

- 5.27 *Appropriate sanctions should be imposed on officers in breach of the policies of the Ministry.*

### **Recruitment of Local Staff**

- 5.28 Prior to recruiting local support staff in a country where a mission is located, the posts must first be advertised in accordance with Section 2.9 of the Orders for the Barbados External Service 1972, and a Selection Committee shall interview the applicants that satisfy the prescribed requirements. During the period under review, three members of staff were recruited without adherence to these procedures.
- 5.29 Some members of staff were also recruited locally during this period without first obtaining the necessary security clearance from the “Director de Policía Internacional” in Venezuela.
- 5.30 Action should therefore be taken as soon as possible to have the status of current staff members without security clearance regularized.

### **Conclusions**

- 5.31 The Mission’s finances were not properly managed during the two year period reviewed. Furthermore, a senior official committed serious breaches of Financial Instructions (Overseas Missions). These breaches resulted in misappropriation of Government funds.
- 5.32 In keeping with the code of discipline outlined in the Public Service Act 2007-41 appropriate disciplinary proceedings should be instituted.

## **Special Audit of Barbados Coalition of Service Industries Inc.**

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### **Introduction**

**5.33** A Value-for-Money Audit of the Barbados Coalition of Service Industries Inc. (BCSI) was conducted by the Audit Office in 2010. The BCSI is a non-profit company, which was officially launched in November 2002. The aim of BCSI is to develop and diversify the services sector, and to prepare service providers to manage the challenges and opportunities which will be presented in an era of expanding global markets.

### **Organization's Objectives**

- 5.34** The objectives of the organization include:
- promoting the further development and competitiveness of Barbados' service sector;
  - ensuring that the highest industry standards are met by all Barbadian service providers;
  - educating Barbados service providers on relevant aspects of the Caribbean Single Market and Economy, World Trade Organisation, Economic Partnership Agreement and other trade agreements and on any government policies or issues which can affect trade in services;
  - representing the interests of Barbadian service providers by lobbying Government for legislative and policy changes which will promote fair multinational rules for trade in services;

- providing Barbadian service providers with knowledge of export opportunities and promoting export activities.

**5.35** The primary objective of BCSI is to assist service providers to develop their businesses and provide opportunities for them to export their services.

### Funding

**5.36** The BCSI was supported primarily by the Government of Barbados by way of grants during the period under review. The monies disbursed were for the payment of salaries, rental charges and project costs. Two hundred and fifty thousand dollars (\$250,000) were disbursed in the financial year 2003-2004, and this amount has increased in the intervening years. The table (1) below shows the subsidies received and expenditures incurred by BCSI for the financial years 2005-2009.

**Table 1: Subsidies and Expenditure of BCSI**

Financial Year	Subsidy Paid \$	Expenditure \$
2005-2006	575,000	584,451
2006-2007	1,000,000	597,717
2007-2008	1,200,000	855,266
2008-2009	600,000	945,583
2009-2010	750,000	—

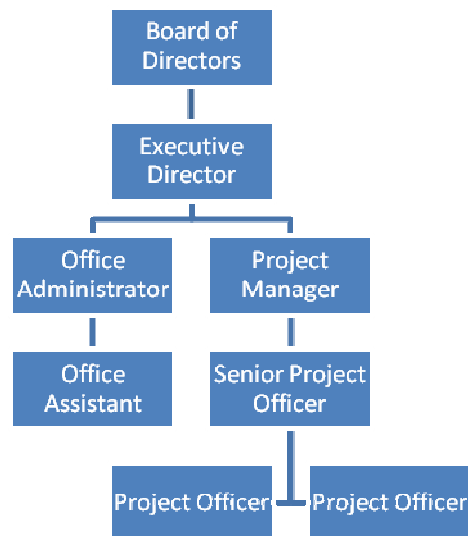
*Created by: Barbados Audit Office*

### Legislation

**5.37** The BCSI is governed by the Companies Act, Cap. 308 and its By-Laws. The By-Laws provide guidance on matters such as the number of directors, when the annual general meeting should be held, election of directors and the authority of the Board and membership.

## STRUCTURE OF ORGANISATION

The organizational structure is shown below:



### The Board of Directors and Secretariat

**5.38** The Board of Directors has been charged with the responsibility of ensuring that the BCSI achieves its mandate. To this end, the Board has set a number of objectives and strategies, and established a secretariat to which it has appointed officers and allocated resources, for the accomplishment of its purposes.

**5.39** Operationally, BCSI has developed four lines of activity, which are: Education, Development, Export Promotion and Lobbying/Advocacy. Each activity has its own project manager or project officer and its own objectives and strategies.

### **Reasons for the Audit**

- 5.40** This audit was conducted as a result of a request by the Minister of Finance for a Value-for-Money Audit of this organization. Such audits look at the efficiency and effectiveness of an entity's operations.

### **Audit Objective**

- 5.41** The objective of the audit was to assess the efficiency and effectiveness of the BCSI's programs.

### **Scope**

- 5.42** This includes an examination of the entity's financial and governance processes over the period January 2005 to March 2010. It excludes any attempt to issue an audit opinion on the financial statements.

### **Methodology**

- 5.43** The Audit methodology consisted of interviews with Board members and staff of the BCSI, and examination of reports and other documentation provided. Interviews were also conducted with officials from the Ministry of Economic Affairs and Investment, and the Ministry of Economic Development and International Business. These ministries would have been responsible for BCSI at different periods.

## **Summary of Findings**

- 5.44** The Barbados Coalition of Service Industries (BCSI) is a not-for-profit service company which is funded by grants provided by the Government of Barbados. Its primary aim is to assist in the development and diversification of the services sector in Barbados.

- 5.45** Through its various activities the Organization exposed a number of local service industries to export possibilities. Additionally it has sought to improve the capacities and competitiveness of its members through various workshops.
- 5.46** A large portion of the organization's expenditure was utilized in pursuit of additional business opportunities from export activities. Information available from the reports would, however, indicate that this activity was not as successful as had been anticipated. Indeed there is no evidence of any significant or long lasting business opportunities as a result of these missions.
- 5.47** From the inception, the Government of Barbados has been the BCSI's main source of funding; yet the Government has had no representative on the Board of Directors to look out for its interest. In addition, the reports generated by the BCSI are not comprehensive enough for Government to better understand its operations and to make timely interventions where warranted.
- 5.48** There were a number of governance and funding issues highlighted, and these related to the absence of direct involvement of the Board in key decision-making activities, such as the approving of the budget, trade shows and the recruitment of board members to perform paid services in the organization.
- 5.49** There were also a number of issues relating to the incorrect payment of board fees and the need to set policies in place in respect of the use of credit cards and cellular phones to staff and directors. The current practice facilitates the payment of all cellular phone charges both local and overseas calls without any limits. This practice should be reviewed to prevent possible abuse of the system.



- 5.50** Overall the BCSI received grants in excess of \$4.1 million over the past five years. However, there are no measures in place to adequately assess the performance of the company. Such measures should be in place, and relevant reports submitted to Government, its main sponsor, to help in determining how much additional funding it would be willing to supply to help the organization meet its mandate.

### **Detailed Findings**

- 5.51** The BCSI was allocated over BDS \$4.1 million to carry out its programs during the five-year period under review. These programs included attending trade missions, trade shows, establishing a newspaper, hosting a website and conducting educational seminars. Our audit examined the extent to which the BCSI achieved its objectives from the strategies employed.

#### **Export Promotion**

- 5.52** Export promotion was one of the major strategies pursued by the BCSI to achieve its objective. Part of the strategy used to achieve this objective was the use of trade missions to various countries. A project manager was responsible for this activity.
- 5.53** These trade missions are used to provide Barbadian service providers with knowledge of export opportunities, and for delegations to visit countries and interact with potential clients to procure business.
- 5.54** The BCSI established performance indicators and set targets to measure its progress and the success of its strategies. The performance indicators for the export promotion strategies were as follows:

- Amount of foreign currency generated;
- Number of new service exporters as a result of the trade mission;
- Number of trade mission applicants per trade mission;
- Number of trade mission successes (contracts secured, joint ventures established, franchises established);
- Number of sectors represented at Barbados Manufacturer's Exposition.

### **Selection of Trade Missions**

**5.55** The criteria used by BCSI to select mission destinations are that the countries have existing trade agreements with Barbados or are members of CARICOM. No evidence was seen that market research was conducted within the membership of BCSI to determine which countries members were interested in exporting to.

**5.56** Up to end of January 2010, the BCSI had organized ten trade missions to various countries: St. Lucia and St. Vincent, Guyana and Suriname, Martinique, Curacao, United Kingdom, Belize, Bahamas, and the Dominican Republic.

### **Cost of Trade Missions**

**5.57** Trade missions (which include trade shows) constitute major expenditure for the BCSI, ranging from \$37,000 to \$136,000 per mission. To date, the total direct cost of hosting missions and shows stands at \$614,685.

### **Trade Mission Reports**

**5.58** On completion of trade missions, participants were required to prepare a mission report outlining among other matters the:

- Projected earnings in the next twelve and twenty four months and after three years;
- Strategic alliances formed.

### **Minimal Returns from Missions**

**5.59** Based on documentary evidence provided by the BCSI, the actual income generated from trade missions over the last five years has been minimal. The income generated from these missions according to a follow-up report was \$54,000. An example of missions yielding minimal benefits was the visit to the Bahamas which is highlighted below:-

#### Bahamas Mission

**5.60** A trade mission to the Bahamas was held in November 2008. Eleven companies were originally listed as participants. Two days before the departure date for the mission, BCSI was informed that there was a lack of interest in the Bahamian business community. As a result, participation in the mission was reduced to only two companies.

**5.61** This trade mission was carried out prior to any proper market survey to determine the feasibility of the mission. The cost of the mission was \$60,101.29, which included \$29,531.48 for airline tickets. It is not clear if the BCSI was able to obtain a refund from the airline in relation to those persons who had withdrawn from the mission.

### **Follow-up Reports**

- 5.62** The preparation of the required mission reports is commendable, as they provide performance information based on activity, but in order to accurately determine the success of a trade mission, follow-up reports should be carried out at intervals. This would allow the Company to measure the outcomes of activities resulting from trade missions, using the objectives and performance indicators established for the purpose.
- 5.63** The absence of comprehensive performance information has hindered a thorough analysis of the impact of the trade missions relative to business generated or alliances formed. The failure to prepare follow-up reports has contributed to this situation.

### **Conclusion**

- 5.64** The selection of mission destinations by BCSI using existing trade agreements with Barbados and membership in CARICOM is adequate. However, there is a need for more market research to be carried out so as to obtain information on the business potential in the market of the targeted country.
- 5.65** Missions are costly, therefore maximum participation and exposure for members of the BCSI should be the goal in this regard.

### **Recommendation**

- 5.66** *The BCSI should conduct market research on prospective destinations in order to ascertain whether the market would be amenable to the influx of services from Barbados. Conducting market research would reveal the areas of service required in the prospective country where the Barbados businesses could be more competitive. This would allow for missions to be*

*better targeted, and therefore increase the possibilities for successful business ventures.*

- 5.67** *The preparation of follow up reports should be mandatory for the BCSI, and the mission participants should be mandated to provide the information when due.*

### **Lobby/Advocacy**

- 5.68** The Lobbying/Advocacy Program has been one of the major strategies pursued by the BCSI during the period under review. The main purpose of this strategy is to represent the interests of Barbadian service providers by lobbying Government for legislative and policy changes. It is hoped that these changes will promote fair rules for trade in services, both in the local and international arenas, in addition to ensuring that the highest industry standards are met by all Barbadian service providers.

- 5.69** The BCSI has set indicators of success for these activities, and these include:

- Number of member requests for support from Government;
- Number of requests from Government for feedback from the services sector;
- Number of pro-active lobbying initiatives undertaken by the BCSI;
- Ongoing contact with Cabinet, personnel and staff.

- 5.70** During the last five years financial and human resources were allocated to carry out this program which has been assigned to a project officer.

## Findings

**5.71** A number of activities were identified for participation at the local, regional and international level. In addition, the BCSI lobbied for changes from Government, as well as regional and international agencies, on behalf of its members. According to the 2005-6, 2006-7 and 2007-8 annual reports the BCSI has:

1. Submitted proposals regarding the Certification of service Providers within the Single Market context;
2. Participated in meetings of the Technical Working Group on Services and Investment;
3. Made submissions for development cooperation;
4. Participated in the Global Services Coalition Mission in Geneva;
5. Built a database listing barriers confronting services providers within CSME and possible solutions to these problems.

## Conclusion

**5.72** While providing activity-based information in its annual reports, the BCSI has not provided any performance information on the outcomes of its efforts to lobby Government and various international agencies. In addition the BCSI did not indicate what has been the actual cost of these activities. It was therefore not possible to measure the effectiveness of this program.

## Recommendation

**5.73** *The BCSI needs to state in its reports the progress it has made over the years in lobbying Government for legislative and policy changes, as well*

*as in other areas. In this regard the BCSI needs to have a system where this performance information can be collected and assessed.*

### **Development Program**

- 5.74** One of the BCSI's major programs has been the provision of development activities to members. This activity includes seminars or workshops to enhance the international competitiveness of Barbadian service providers.
- 5.75** To measure the success of this initiative, the BCSI established the following performance indicators:
- Number of participants at workshops;
  - Quantitative feedback on workshop by participants;
  - Qualitative feedback on results of workshop.

### **Findings**

- 5.76** Over five year period of review the BCSI would have been allocated resources each year to carry out its program, for example \$160,000 in 2008-09 and \$137,500 in 2009-10. According to annual reports the BCSI hosted over twenty development workshops over the past five years. These reports did not provide any detailed information on the activities of these workshops.
- 5.77** The reports did not outline the cost of hosting each workshop against the amount budgeted, or the number of participants taking part in the workshops.
- 5.78** Even though the BCSI identified performance indicators to measure the impact of its workshops, no performance information was provided to do the assessment against the objectives.

## Education of Members

- 5.79** One of the major strategies pursued by the BCSI was the education of its members. The responsibility for pursuing various strategies in pursuit of this objective has been allocated to a project officer. In this regard the main thrust of the BCSI has been to educate Barbadian service providers on trade in service issues and to inform members on BCSI activities.
- 5.80** The BCSI pursued various activities to achieve its objective of informing and educating Barbadian service providers. These activities included website maintenance and upgrades, a bi-weekly newspaper column, and quarterly electronic and print newsletters.
- 5.81** The following performance indicators were established to measure the success of these strategies:
- Number of web hits;
  - Number of persons on the distribution list;
  - Facebook updates;
  - Press releases.
- 5.82** According to annual reports produced by the BCSI, some successes were achieved in educating its members. These included the launching of a website to facilitate the establishment of regional coalitions; the introduction of a Facebook group; launching of the (printed) Flying Fish newsletter, and continued distribution of electronic newsletters.
- 5.83** The reports however did not state the number of service providers on the distribution list, the number of requests received, or the number of website hits recorded. This information would be useful for assessing the effectiveness of this activity.



## The Administrative Unit

- 5.84** This Unit accounted generally for the funds expended for salaries, rented accommodation, utilities and the general day-to-day management of the BCSI. Based on the minutes seen, the Board was regularly provided with reports by this Unit.
- 5.85** There were however some concerns over the basis on which some payments were made, and the absence of controls in respect of credit card and cell phone usage.

### Directors' Stipends

- 5.86** The By-Laws enacted in 2003 did not provide for the payment of remuneration to directors. By-Law 9.10 provided for directors to serve without remuneration, and that a director could be paid or reimbursed for reasonable expenses incurred by him in the performance of his duties.
- 5.87** These By-Laws were amended in August 2009 at a members' meeting, which ratified the payment of a stipend to Directors, based on attendance at meetings and other criteria to be determined by the Board. There was however no indication in the minutes that the payments were to be retroactive.
- 5.88** It should be noted however, that, the directors have been receiving the stipend retroactively from April 2008, sixteen months before the amendment was made.
- 5.89** This action was contrary to the By-Laws. There was no authority for payments prior to August 2009.

Use of Credit Cards

- 5.90** The BCSI made a number of credit cards available to staff, as well as Board members. However, no clear guidelines for the use of these cards have been provided by the BCSI.

Cell Phones

- 5.91** The BCSI has a Secretariat of four persons. However, there are currently eight (8) cell phones assigned to the Organization. These phones have been allocated to some members of the board and staff in the secretariat, and are used for both local and overseas calls.
- 5.92** There are no restrictions on the use of these phones for local or overseas calls. The current practice is that the BCSI pays all the charges incurred on each phone.
- 5.93** The Organization should review the current practice, and set reasonable limits on the amount paid for each phone. There also needs to be a sound rationale for providing phones to members of the Board.

Trade Mission Incentives

- 5.94** The BCSI instituted an incentive to encourage participants to prepare mission reports, by refunding them a portion of their deposit on the submission of their reports, provided they had contributed to the mission expenses. There were however, instances in which refunds were paid to company representatives who had not produced the required reports. In addition, there were two companies that did not make contributions, but were granted refunds.

### **Conclusion**

- 5.95** There is a general lack of proper controls at the BCSI relating to the use of cell phones and credit cards. There is a need for the Organization to establish proper controls with appropriate limits in these areas. In addition before refunds are made, the entities being refunded should meet the agreed criteria.

## **Governance**

- 5.96** The BCSI governance structure is made up of three main players, the Ministry of Economic Affairs, the Board of Directors and the Secretariat.
- 5.97** The Ministry sets the general policy and provides funding for the organization. The Board of Directors ensures that the Policy direction of the organization reflects the general policy set by its parent ministry. The Secretariat implements the management decisions set by the Board.

### **Staffing**

- 5.98** The organization's structure indicates that the Secretariat is headed by an Executive Director. However, based on the information received, this position has only been filled for six months during the entire existence of the BCSI. There is therefore some uncertainty about how this vacancy would have impacted on the performance of the organization.

### **Board Oversight**

- 5.99** The audit sought clarity on the Board's role in approving trade missions, and was informed that trade missions were discussed at Board meetings, and were approved at the stage when the budget was approved.

**5.100** However, whereas a number of trade missions had been undertaken, no evidence was seen that annual budgets were approved by the Board.

**5.101** A number of Directors were employed by the company but there was no evidence that their employment was approved by the Board.

### **Recommendation**

**5.102** *There should be specific Board approval for large expenditures such as trade missions and financial transactions involving Board members.*

### **Management Reports**

**5.103** The Board depends on information in order to make decisions and to perform its supervisory role effectively. This information is usually provided in the form of reports prepared by personnel in the organization. BCSI indicated that the Board required reports from both the Treasurer and the Secretariat.

**5.104** Minutes of the Board were received for eighteen (18) meetings during the period 2007 to 2009. Of the 18 meetings, there were twelve (12) meetings where no evidence was seen of the Treasurer's report being presented or discussed. This tends to indicate that the Board was not actively involved in the financial affairs of the company.

### **Conflict of interest**

**5.105** Board service in a non-profit organization carries with it important ethical obligations. In these entities Board members need to avoid even the appearance of a conflict of interest. While the BCSI addresses the issue of conflict of interest as it relates to employees, it does not properly address this issue as it relates to Board members.

- 5.106** By-law 12.4 allows for directors or officers to be employed by, or perform services for, the Company otherwise than as a director or officer. It states that the fact of someone being a director or officer should not prevent such a person from receiving proper remuneration for such services.

**Audit Comment**

- 5.107** It would have been expected that approval of the Board for major activities undertaken would have been obtained prior to them being undertaken. There was no evidence that this approval was sought or granted. It is however necessary that the approval of the Board be given for such activities, such as approving of the annual budget and trade shows. This matter needs to be rectified.

- 5.108** This By-Law should be reviewed since it creates the potential for conflict of interest. A number of persons have been performing dual roles as board members and as employees.

**Board Minutes**

- 5.109** By-Law 19.1 states inter alia that any document or instrument in writing, on which the signature of either the President or Secretary is reproduced, is valid, for all intents and purposes, from the date on which such document or instrument in writing is delivered or issued.

- 5.110** Minutes of meetings of the Board should be signed off by the President and the Secretary of the Board following a motion being seconded. However, during the period under review the majority of minutes of the Board were not signed by the Secretary or the President.

- 5.111** In addition, the amended By-laws have not been signed off by the Board.

- 5.112 This matter raises the question of the validity of the minutes and the By-Laws without the appropriate signatures.

### **Government Representation**

- 5.113 Over the years Government has given considerable finances to the BCSI. There has however been no Government representative sitting on the Board to represent the Government's interest. This matter should be reviewed.

### **Overall Conclusion**

- 5.114 The BCSI has introduced a number of strategies to develop the service industries. However, in most instances it did not have the systems or information available to assess the effectiveness of these measures. Failure to measure the success or failure of its strategies, meant that BCSI has not been able to state whether these strategies represented an effective and efficient use of its resources.
- 5.115 Even though the BCSI has established performance indicators, it does not supply the relevant information in order for an assessment to be made as to whether the objective has been achieved.

**Re: Response to Audit of the  
Barbados Coalition of Service Industries Inc.**

*We acknowledge receipt of your report on the operations of the Barbados Coalition of Service Industries (BCSI) and have noted its contents. The BCSI has also commissioned an independent Organisational Review of its operations which identified issues which are not entirely dissimilar to what your office has made.*

*The current Board of Directors is in agreement with a number of your findings, and has begun the process of taking corrective measures to address these matters.*

*We thank you for the opportunity to comment on the findings and conclusions from your audit process. We wish to state however, that we find it interesting that no attempt was made to interview any Board member, past or present, with regard to any findings before any opinion was reached. We believe that personal interviews could serve to explain the rationalization for certain apparent decisions, though perhaps not the justification and such may have impacted on any opinion being derived.*

*Ordinarily, we believe an audit process should examine all possible sources of information in order to arrive at a satisfactory conclusion. The fact that neither the Board of Director nor any independent members of the organization were a part of this process may be reason for concern.*

*We take this opportunity to make the following comments with regards to some of the findings as noted:*

#### **Selection of Trade Missions**

*While the evidence stated that there were no clear selection criteria for destinations of trade missions during the period of review, we wish to state that in all cases Trade missions were conducted to territories that had existing trade agreements with the Government of Barbados. Further, in the determination process for any destination, a pre-visit assessment is always conducted in which an attempt is made to determine the potential interest and market opportunities, and the Board discussed the plans before final commitments were made. This was certainly the case with regard to a Martinique Trade Mission which was undertaken during November 2010. We wish to state that improvements have been made with regard to documentation of selection criteria.*

#### **Development Program**

*The findings enunciated are similar to the results of our own internal assessment by our membership committee. The committee is continually reviewing the program with a goal of obtaining maximum participation from members as well as ensures greater cost effectiveness in terms of potential increased revenue generation.*

### Director Stipends

*We wish to state quite clearly that in 2009, the membership voted that directors should be paid. However, the quantum of payment was to be a decision of the Board. This matter is reflected in the minutes.*

*Subsequently, the Board of directors reviewed the matter at a meeting in September 2010 and a decision was taken to reduce the Stipends to \$200.00 per board member and \$400.00 for the president. Simultaneously, the Board further resolved that all Board Stipends be suspended indefinitely. Therefore, no stipends are currently being paid to any Board members.*

### Credit Cards

*We wish to state that the use of credit card is just another form of payment, just a bank draft is. However, it is acknowledged that this form of payment is more susceptible to manipulation and malfeasance.*

*While we acknowledge that there is no written policy on the use of credit cards, we wish to state that the purpose of the credit cards is to facilitate payment of company expenses. We would also like to point out that the report did not point to any instances in which the credit cards were used for personal expenses. Further please note that during the year 2010, the Treasurer has reviewed all credit card charges before making any payments for settlement. It is anticipated that a new policy will be put in place which will address any potential malfeasance.*

### Cell Phones

*The report states that 10 cell phones were assigned to the BCSI. Please note that the active phones were 8.*

*The BCSI accepts the point that there needs to be stricter controls on the use of Cell Phones. The matter was raised at a Board meeting in May 2010, especially as it relates to the high cost of maintenance.*

*At a subsequent meeting in September 2010, the Board made a decision to close the Cell phone account with the provider and establish a monthly stipend of \$100 to be paid to 2 senior employees. The effect was to reduce the monthly Cell cost from approximately \$1,500 to \$200.*



### Trade Mission Incentives

*The BCSI accepts the point that there need to be stricter controls with regard to incentives on trade missions as this was identified by our own internal review. We are also concerned about the accounting process with this regard. The Treasurer is in the process of reviewing the billings and collection process to ensure stricter controls are maintained.*

### Staffing

*The Board of Directors has visited the matter of the Executive Director periodically over the years and during the internal review process in 2010 a firm decision was made that as a matter of priority, the BCSI should seek to fill that post.*

*The Board opined that the absence of the Executive Director created management and policy implementation issues which negatively impacted on the effectiveness of operations of the BCSI over the years. A major consequence from the absence of the executive director was that members of the Board often were involved in the execution of programs which itself can lead to conflict.*

*Interviews were conducted for the post of Executive Director and a shortlist of candidates identified. The final determination will be made after further consultation with the Government which is our main source of funding.*

### Conflict of Interest

*We wish to state quite clearly that while we are in agreement that potential conflict of interest situations exist, on some occasions the services rendered was absolutely necessary for the functioning of the organization.*

*We think the real issue as with any other Board, is a matter of Transparency and as such there must be clear guidelines for the procurement of services from Board members, For example, there should be a bidding process where there is an evaluation and a decision independent of any Board member relative to any bids. Such matters are being addressed and while we do not believe in "outlawing" the practice, stricter controls will be enforced in the future. Please note that since January 2010, there have been no instances where Board, members or their relatives have performed any services to the BCSI.*

### **Treasurer being paid**

*While we accept the point that there was no clear approval of any remuneration for the treasurer, we must state that the function of preparation of the financial statements is necessary and there was no other person being employed by the BM with sufficient skills to carry out this function, Therefore, costs would have had to be incurred for this service, whether from within or outside the organization. The justification of the quantum would be an issue in the absence of a tendering process; however the job had to be performed.*

### **Secretary being paid**

*We stated quite clearly that the secretary was paid to perform the duties of administrator and secretary. This occurred at a time when the BCSI did not have an administrator. The point was made to the auditors and the records reflect it, that the payments ceased as soon as the BCSI was able to employ a full time administrator. The fact that the monthly payments to the current administrator is similar to what was paid to the secretary demonstrates that the operation was moved "in house" as the then Board was apparently addressing an issue of governance.*

### **Amendment to By-Laws**

*These matters are being addressed by the present Board of directors. We have sought professional advice on the specific wording of the amendments. Since January 2011, other matters which we believe to be fundamental to the governance structure and processes of the BCSI were brought to our attention. The BCSI has therefore decided that a significant upgrade to the by-laws is urgently needed and will be a matter of priority as soon as a new Board is in place after the next annual General Meeting scheduled for February 19, 2011.*

### **Government Representation**

*This matter was first raised during a members meeting in 2008. The Government did not request representation on the Board, nor was the invitation extended. The present Board has reviewed this matter and going forward an invitation will be sent to the Permanent Secretary in the Ministry of Economic Affairs or her representative to sit on the Board. We will begin the process of more Government involvement by inviting the Permanent Secretary to attend our next Annual General Meeting scheduled for February 19, 2011.*

### **Overall Conclusion**

*The BCSI accepts the general conclusions of this report as it mirrors the opinions of the present Board as well as an independent review which was commissioned by the Board in April 2010.*

*The Board has begun the process of addressing a number of shortcomings being identified as it seeks to improve its governance structure and reporting requirements. Where specific measures could be taken with regard to the board function, that has been done. However, it is still critical that the organization move forward with the appointment of the Executive Director as this action is key towards the future implementation strategies of Board policies as well as to serve the need for improved measurement criteria and benchmarks, in order to determine the success strategies of programs.*

*A major goal of the Government is to improve the lives of the citizenry. An important ingredient in the Barbados context, is the goal of increasing business opportunities and export potential of the services sector, which includes many small businesses and professionals through the implementation of specific strategies and programs. The BCSI aims to assist in this process of achieving these goals in a manner consistent with efficiency and good governance.*

## Special Audit of Estate Management at the Barbados Investment and Development Corporation

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### Introduction

- 5.116** The Barbados Investment and Development Corporation (BIDC) was established in 1992 under the Barbados Investment and Development Corporation Act, Cap. 340. The BIDC is governed by a Board of Directors consisting of nine persons appointed by the Minister of Economic Affairs, Empowerment, Trade Industry and Commerce. The Chief Executive Officer (CEO) executes the policy of the Board and manages the day-to-day operations of the Corporation.
- 5.117** The Corporation functions to promote and facilitate the development of export trade in Barbados, and provide financial, technical or other assistance to enterprises engaged in investment, production and export of goods and services and other activities. These activities include the leasing of factory space in twelve estates situated in various locations across the Island.
- 5.118** The industrial estates comprise of seventy (70) industrial buildings. In addition, there are eight (8) other buildings which house twenty-seven (27) craft shops and a restaurant. The estates are developed on lands totaling 159.6 acres or 6,952,032.47 square feet, and serve as a base of operations for many locally and foreign owned manufacturing companies and service providers.
- 5.119** The maintenance of properties is important to the success of the manufacturing and service sectors. These properties help the manufacturer by providing building space at a reasonable price. It is

doubtful whether all of these entities would have commenced business, given the high start-up cost, and the limited factory space available on the Island.

### **Audit Objectives**

**5.120** Our audit objective was to assess the effectiveness of BIDC's management of the industrial estates. Our audit examined whether:

- BIDC maintains its property on a day-to-day basis;
- There is adequate insurance coverage of buildings on the Industrial Estates; and
- BIDC has policies to manage its receivables and ensure rents are collected when due.

### **Audit Scope and Methodology**

**5.121** Our audit was conducted as a result of concerns regarding high arrears of rental income, and generally poor maintenance and insurance of government owned properties.

#### Scope

**5.122** Our audit examined the management of the estates owned by the BIDC during the period 2005 to 2010 in respect of the audit objectives.

#### Methodology

**5.123** Evidence was obtained through the following:

- (a) Interviews with officers of the Corporation;

- (b) The review of documentation including legislation, rules and regulations, files maintained by BIDC on tenants, annual reports and budget documents;
- (c) Site visits to eleven (11) estates.

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## Summary of Findings

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- 5.124** The audit was undertaken against the back-drop of Government agencies' failure to maintain and insure their properties. In addition, state agencies have struggled to manage their accounts receivables, resulting in large amounts being outstanding for considerable periods. The activities of the Corporation were assessed in these three areas.
- 5.125** In respect of the management of receivables, the rent of 51% of the Corporation's tenant accounts was in arrears. Attempts have been made by the Corporation to address this matter by setting up policies, and taking action once a tenant becomes delinquent in rental payments. This included entering arrangements to pay outstanding amounts with tenants, and taking legal action. These activities had some impact on the arrears; however they stood at \$7,451,268.33 at 31<sup>st</sup> March 2010. It should be noted that while the amount outstanding has increased, the number of tenant accounts in arrears has declined over the past year.
- 5.126** Eighty two per cent (82%) of the Corporation's seventy-eight (78) buildings were insured for 50%, or less, of their replacement cost. The impact of this is seen when insurance settlements are made for buildings damaged by fire. The information presented for audit indicated that after claims are settled, additional financial resources are still required to restore buildings to a functional state.

- 5.127** Although the Corporation does not have a documented preventative maintenance programme, its buildings are kept in good condition, except for five of which a number were damaged by fire. The Corporation however needs to improve on its database of complaints received as this can aid in monitoring the timeliness of its response, and in preparing maintenance programmes.
- 5.128** The demand for factory space exceeds the supply. The Corporation supplies less than 50% of the space required annually. However, it has indicated that there is a plan for the expansion of the estates, and this plan should be revealed at a future date.
- 5.129** The audit examined whether the Corporation complied with its procurement policies. The Corporation indicated that it adheres to defined procurement guidelines; however the relevant supporting documentation was not provided for audit verification.

### **Management of Accounts Receivable**

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- 5.130** BIDC currently leases its factory space to two hundred and thirty-one (231) tenants, mainly manufacturers and information service providers. The rent provides funding for the Corporation to aid in the rehabilitation and maintenance of the industrial estates, and is the second major source of income for the Corporation.
- 5.131** The Corporation has adopted procedures to ensure rents are collected when due. These procedures were audited for compliance and effectiveness as the Corporation has been experiencing difficulties in the collection of rents.

### **Collection of Rent/Arrears**

**5.132** The Corporation requires tenants to pay their rent by or before the first working day of each month. Invoices and statements are the medium used to notify tenants of their account status. Our audit revealed tenants were not meeting this requirement. In 2009, 179 of 275 tenant accounts were in arrears and 148 of 293 in 2010. This meant that for 2009 and 2010, 65% and 51% of the accounts were in arrears in these respective years.

**5.133** Given this challenge faced by the Corporation in getting its tenants to pay their monthly rents by the due date, measures for the collection of arrears were instituted. These include:

1. Issuing Reminder Letters if rent remains unpaid thirty (30) days after the due date;
2. Issuing a Notice to Quit (NTQ) if rent remains unpaid forty-five (45) days after the due date;
3. Entering a Payment Plan if rent remains unpaid over ninety (90) days past the due date in which the tenant is classified as a Chronic Defaulter;
4. Meeting with tenants to determine the reasons for non-payment, and negotiate payment terms after which a formal agreement is formulated to reduce arrears.
5. Recovery of space including, where necessary, the use of court action brought by the Corporation's external counsel.

**5.134** In the financial year 2010, total arrears increased from \$6,623,533.12 in 2009 to \$7,451,268.33, with 148 accounts in arrears. Eighteen (18) of



these accounts for the period 2008 to 2010 were selected for audit, as they contributed to 54% of the total arrears.

### **Audit Findings**

- 5.135** Of the sample selected, two (2) accounts recorded a decline in arrears. Payment Plans were agreed upon with the Corporation for ten (10) accounts but were not honoured. These tenants continue to accumulate arrears on their accounts.
- 5.136** Five (5) tenants were issued with a Notice to Quit. Four (4) of these tenants were placed with the external attorney for legal action. Only one tenant account recorded a decline in arrears. There were no payments recorded for the other three accounts.

### *Audit Comment*

- 5.137** The Corporation has been successful in reducing the number of tenants falling in arrears from 65% to 51% over the review period. However, there is still a challenge in getting tenants with large outstanding balances to bring their accounts up-to-date.
- 5.138** It should be noted that failure of the Corporation to collect its rents will hinder its ability to finance the maintenance and rehabilitation of its estates.

### **Recommendation**

- 5.139** *BIDC should act more firmly to prevent its tenants from accumulating such large rental balances by enforcing the measures it has established.*

### **BIDC's Response**

- (i) It is important to note that during the financial year 2010, a ministerial directive, approved by the Board, imposed a stay on NTQs. This was influenced by the harsh economic climate with which most tenants were faced.*
- (ii) Overall, within the period April 2009 to March 2010, it should be highlighted that 92% of the cash was collected in relation to the amount billed and \$4.7M in arrears was collected. Thirty-two (32) payment plans were negotiated and six (6) NTQs were recommended. Four (4) judgements from the Court were issued for chronic defaulters.*
- (iii) The BIDC has acted firmly in enforcing its policies in an effort to collect its rental arrears and increase revenue for the Corporation. Historically, the BIDC has, however, been faced with the following constraints:*
  - a) Political interventions when BIDC seeks to enforce action to either lock down or evict a tenant; the Corporation is therefore unable to recover unproductive space.*
  - b) Difficulty in performing dual roles of landlord and a developmental agency.*

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## **Insurance of Buildings**

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**5.140** Insurance is a promise of compensation for losses in exchange for payment. It is designed to protect the financial interest of an entity in the event of an unexpected loss. It is therefore imperative that buildings are adequately insured so that resources would be available to repair or replace buildings damaged or destroyed.

### **Method of Valuation**

**5.141** Our audit of the insurance portfolios for 2008-2010 revealed that buildings were insured at a percentage of the replacement cost. The percentages were as low as 40%, as seen in Table 1 below:

**Table 1:**  
**Sample of Insurance Values/Replacement Cost by Building**

Location	Floor Area (sq. ft )	Replacement Cost/Sq. Ft \$	Value By Replacement Cost \$	Actual Insured Value 2010 \$	% Of Replacement Cost
14	17,674.00	350.00	6,185,900.00	6,185,900.00	100%
<b><u>Pelican</u></b> 1	8,271.00	250.00	2,067,750.00	1,033,875.00	50%
<b><u>Pine</u></b> 4A	8,000.00	250.00	2,000,000.00	800,000.00	40%
4B	8,000.00	250.00	2,000,000.00	800,000.00	40%
<b><u>Grazettes</u></b>					
10	16,000.00	250.00	4,000,000.00	2,375,000.00	59%

*Created by: Barbados Audit Office*

- 5.142** BIDC indicated it is unable to insure its buildings at the full replacement cost because of financial constraints, including those brought on by its inability to collect some of the rents from tenants.

*Audit Comment*

- 5.143** Under-insuring buildings has placed the assets of the Corporation at risk of incurring significant losses due to disasters such as fires. This could affect the Corporation's efforts to repair or replace damaged buildings.

### **Insurance Settlements**

- 5.144** According to the Corporation, four buildings were damaged by fire for the period 2005 to 2010. The insurance settlements for these buildings were reviewed to determine whether the compensation received covered the damages incurred. The compensation for damages for three of these buildings is summarised in Table 2 below.

**Table 2:**  
**Cost of Damages Recovered from Insurance**

<b>Building #</b>	<b>Cost of Damages \$</b>	<b>Amount Received \$</b>	<b>% of Damages Recovered</b>
9 Grazettes	256,282.56	76,632.66	30%
7B Spring Garden	178,295.39	66,602.08	37%
10 Grazettes	5,997,645.00	3,602,910.50	60%

*Created by: Barbados Audit Office*

*Audit Comment*

- 5.145** BIDC needs to provide all the relevant information required so that the Audit Office can conduct a complete assessment. Based on the limited information provided, the buildings were significantly under-insured and the Corporation was only able to recover between 30 to 60 percent of their replacement cost. Repairing such buildings out of its resources will place additional strain on the Corporation's finances.

***BIDC's Response***

- (i)** *The Insurance of the Corporation's buildings is determined by their current condition, design, importance, the method of construction, current market replacement costs, rental income etc. The budget for the insurance of BIDC's buildings is guided and approved by BIDC's Board of Management. Given the large building portfolio owned by the Corporation, some judgment must be used when consideration is given to the amount of coverage applied to each building. Buildings which have been constructed as factory shells which carry less risk of fire are insured at a lower percentage of the replacement cost.*
- (ii)** *BIDC recognizes that the buildings are under insured. BIDC's management therefore made an attempt to change the type of insurance coverage and pursued the option of a first loss limit of 50% of total declared values of the property portfolio. The BIDC's Board, however, expressed great concern at the high premium quoted given the state of the economy and Government's cash flow position.*

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## Maintenance of Buildings

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**5.146** Good estate management includes a strategic planning process, monitoring the condition of properties, and undertaking repairs and preventative maintenance. In addition, there is a need to review property compliance with building standards and health and safety requirements, and to set a range of performance indicators to monitor the maintenance program.

### Planning for Annual Maintenance of Buildings

**5.147** In planning for the annual maintenance of property, an entity should evaluate the conditions of its buildings, and use the results of these evaluations to develop a maintenance plan. This plan directs the entity on the funding needed and the areas or properties requiring attention.

**5.148** A Preventative Maintenance Programme was not presented for audit. The Corporation indicated that annual maintenance programmes have been affected and limited by budgetary constraints. This has resulted in the annual maintenance budget being prepared using historical data, and annual maintenance being carried out mostly on a corrective basis.

### *Audit Comment*

**5.149** Such an approach means that not enough planning is given to the maintenance programme, and problematic areas could be overlooked. This also points to the need for the Corporation to collect its rent arrears so that the resulting income can make some contribution to building maintenance.

## Monitoring the Condition of Buildings

**5.150** BIDC indicated there are no building standards established to assess the condition of its buildings. The Corporation indicated that it has however adopted practices over the years to ensure the buildings are safe for its occupants. These include:

- (i) Inspecting and evaluating the conditions of its buildings once a tenant vacates. This ensures that the unit or building has been returned in the manner in which it was given, with allowances for reasonable wear and tear;
- (ii) Requesting electrical and fire evaluations on an annual basis, or as determined by Management;
- (iii) Conducting ad-hoc inspections of buildings.

**5.151** BIDC listed five buildings that were not in good condition. These are:

- (i) Building No. 13 Harbour – damaged by fire;
- (ii) Units No. 6A & 7A – Building No. 10 Grazettes - damaged by fire;
- (iii) Ex Tropical Battery building (Pelican Estate) - No refurbishment carried out since purchase;
- (iv) Building No. 3 Newton - Required major renovation - recently leased as is to NUPW.
- (v) Building No. 6 Six Roads - Refurbishment required.

- 5.152** During the audit, buildings on ten of the estates were visited, and they appeared to be in good physical condition, except for those listed in the previous schedule.

**Timeliness in Addressing Complaints from Tenants**

- 5.153** The audit sought to determine whether the BIDC has a system in place which monitors and ensures tenant complaints or requests for repairs are addressed in a timely manner.

- 5.154** The Corporation has a system which it uses to record the complaints of tenants. However, conflicting information was received from officers within the Property and Estate Management Division (PEMD), on whether the information contained in the database is entered upon receipt of the complaint, or when the complaint has been addressed.

*Audit Comment*

- 5.155** The information in the database does not provide such detail. It also does not capture the response time of the Corporation in addressing complaints received. This is useful information and its absence limits the Corporation in determining how responsive it is in addressing the complaints of tenants.

**Recommendation**

- 5.156** *The complaints system should be reviewed to ensure that the data captured allows the entity to measure how responsive it is at addressing complaints. This information could aid the Corporation in establishing performance measures as it relates to its responsiveness to maintenance complaints.*

### Expansion of Estates

- 5.157** The audit sought information on whether there is excess demand for factory space and whether the Corporation has a strategic plan to address the demand.
- 5.158** The audit of the records for the application for factory space, found that in the year 2007, the Corporation allocated 41% of the factory space requested, and 45% for 2008 and 2009, respectively. See Table 3 below:

**Table 3:**

#### Space Allocated to Applicants

Year	No. of Applications	Space Required	Space allocated	Percentage of Space Allocated
2007	50	304,678	124,577	41%
2008	40	37,800	17,000	45%
2009	48	86,030	38,498	45%

*Created by: Barbados Audit Office*

- 5.159** The Corporation indicated that it is unable to meet the demand for factory space and has cited financial resources as a constraining factor.

#### *Audit Comment*

- 5.160** BIDC keeps records of the demand for its rental space. However, it could not be confirmed whether this information was used in the development of a strategic plan for the expansion of its estates.



## Selection of Contractors

### Award of Contracts for Projects over \$100,000

- 5.161** According to the policies of the Corporation, once a contract for works or services exceeds \$20,000, tenders are invited via advertisement in the media or letters sent to a selected group of companies, and a contract is drawn up.
- 5.162** Eight (8) projects costing over \$100,000 were contracted for the financial period 2005-2009. These projects were reviewed for compliance with the Corporation's policies, as they carried high financial risk and required professional management.
- 5.163** The audit found that the Corporation uses professional surveyors/architects to manage its projects. The Corporation indicated that it adheres to defined procurement guidelines however the relevant supporting documentation was not provided for audit verification.

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

- (i)** *The Preventive Maintenance Program has subsequently been documented and it is carried out monthly through contract arrangements with the specialist contractors.*
- (ii)** *Annual maintenance plans and budgets are affected and limited by financial constraints and priorities.*
- (iii)** *Although the Corporation has taken steps to meet the demand for factory space throughout its estates and has presented Capital Works Programmes, the ability to source funding and service its repayments have been prohibitive.*

## Overall Conclusion

- 5.164** The management of the industrial estates is a challenging task, involving 78 properties in 12 locations. Some of the buildings are old requiring a high level of maintenance which can be difficult and expensive. The buildings were however found to be in a reasonable condition.
- 5.165** The systems for monitoring the Corporation's buildings are not sufficiently developed to support the effective management of a property portfolio of the scale and complexity of the estate. There were challenges such as: lack of finances, and the collection of rents, which have affected repairs to buildings in a timely manner, as well as the provision of adequate insurance for buildings.
- 5.166** There were also indications of non-compliance with the process of awarding contracts for work on the Corporation's buildings. This area requires strengthening and close management to ensure the process is followed at all times.
- 5.167** There has been a build-up of arrears, which the Corporation is seeking to reduce, but has indicated that it has been constrained in its attempt to take further robust action, because of factors such as the current economic situation.

## **Special Audit of the Supervisor of Insurance and Pensions**

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### **Introduction**

- 5.168** The Supervisor of Insurance and Pensions Department (SOIP) was established in 1970 in order to regulate and supervise the insurance industry in Barbados in the interest of policy holders. All insurance companies and their intermediaries must be registered with the SOIP, which falls under the control of the Ministry of Finance.
- 5.169** This Department plays an important role in maintaining public confidence in the industry, since the absence of close monitoring and regulatory intervention could result in considerable financial loss to the general public, if insurance companies cannot meet their commitments.
- 5.170** The Supervisor of Insurance, as the regulator of the insurance industry in Barbados, is governed by a number of legislations which include the Insurance Act, Cap. 310 and the Exempt Insurance Act.

### **Responsibilities**

- 5.171** The Supervisor of Insurance is responsible for the regulation of the domestic as well as exempt insurance industries.

### **Reasons for Audit**

- 5.172** This Department was selected for audit because of concerns that regulatory failure may have contributed to problems impacting on the insurance industry.

### **Audit Objective**

- 5.173** The objective of this audit was to assess the effectiveness of the SOIP in dealing with non compliance of insurance companies to their governing legislation.

### **Scope**

- 5.174** The audit focused on how the SOIP monitored and insured Insurance Companies with the relevant insurance legislation over the period 1<sup>st</sup> January 2005 to 31<sup>st</sup> December 2009.

### **Methodology**

- 5.175** Evidence was obtained through interviews with officers of the Department, reviewing documentation, including the Insurance Act, the Exempt Insurance Act, and registers and files maintained by the SOIP on companies.

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## **Summary of Findings**

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- 5.176** The audit revealed that there are many aspects of the Insurance Act and the Exempt Insurance Act which are being managed effectively, and there is general compliance with the provisions of these Acts.
- 5.177** However, there are some issues that need to be addressed by the SOIP, including the collection of outstanding receivables. There is also a need to ensure that all documents required by law are filed in a timely manner.
- 5.178** Insurance companies are required to deposit certain securities with the SOIP. These deposits act as security for the company, to help meet

liabilities in case of financial difficulty. However, a number of companies did not have the necessary deposits in place. In some cases the investment held by the SOIP had matured and a replacement deposit was required.

**5.179** Insurance companies are required to submit audited and certified financial statements to the Supervisor of Insurance annually. These statements are then reviewed for compliance with the financial requirement of the Insurance Act.

**5.180** To further protect investors, insurance companies are required to hold a percentage of their assets in a statutory fund. These funds are to be under the control of a trustee approved by the SOIP, and cannot be used without the approval of the trustee or Supervisor of Insurance. However, it was observed that a number of companies did not have a trustee.

**5.181** There were also at least three companies which did not have the requisite assets in a Statutory Fund, which is set up to ensure that the companies have assets to meet future pensions and insurance liabilities. Action should have been taken by the SOIP to arrest this situation in a more timely manner.

## Regulation of the Domestic Insurance Industry

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- 5.182** The Supervisor of the Insurance and Pensions regulates the insurance industry under various types of legislation which are used to seek compliance by the domestic insurance industry.
- 5.183** The SOIP seeks compliance by requiring companies to submit among other documents, annually audited financial statements, and maintain secure deposits to cover liabilities. Annual registration, along with the payment of a prescribed fee, are required for all insurance companies.

### Registers

- 5.184** Section 6 of the Insurance Act, Cap. 310, requires that separate registers be maintained for, (a) the companies registered to carry on the various classes of insurance business specified in Subsection (1) of Section 3 and (b) Associations of Underwriters.
- 5.185** The maintenance of registers is important because the supervisor should have a written record of all entities allowed to carry on business in Barbados.

### Findings

- 5.186** Registers were maintained for the following: Application & Registration Fees; Holding, Management, Qualifying, Exempt & Domestic Companies; Salesmen, Brokers, Agents & Sub-agents; Fees of Salesmen; Exempt, Holding & Management Companies; Domestic, Qualifying, Sub-Agent, Agent, Brokers, Adjustors, Surveyors, Loss Assessors and Underwriters.

### **Application and Registration Fees**

**5.187** Section 11(1) of the Act requires that companies be registered annually. An application for registration should be accompanied by evidence of the payment of the prescribed fee. The number of companies registered for the years 2005, 2006, 2007, 2008 and 2009 were 29, 31, 30, 30 and 28 respectively.

### **Findings**

**5.188** Over the period 2005 - 2009 there were four (4) new registrants, and all fees were paid by all the registered companies for the years 2005 - 2008.

**5.189** However, in 2009 the required registration fee increased from \$5,000 to \$20,000. Companies had paid the old fee, and were given until December 12<sup>th</sup> 2009 to pay the outstanding amount of \$15,000. At the end of 2009 eight companies owed fees totaling \$120,000.

### **Annual Accounts and Statutory Returns**

**5.190** Under the Insurance Act companies are required to prepare and submit audited financial statements as well as other statutory returns within four months of the financial year.

**5.191** Section 180 of the Act makes provision for the Supervisor to grant extensions of the time to companies for the required submissions of documents, provided the request is submitted before the due date.

**5.192** In addition, companies carrying on long term business are required to have a review of their operation by an actuary, including a valuation of their liabilities.

**5.193** The Law also gives the SOIP powers to take action against insurance companies which fail to comply. Companies may be summarily convicted and fined for continuous violation under Section 185 of the Act.

**5.194** A review of the work of the SOIP was carried out for the four calendar years 2005 to 2009, and a sample of companies chosen, to determine the extent of compliance by insurance companies with these regulations, and the actions of the SOIP to ensure compliance.

### **Findings**

**5.195** The majority of the companies sampled during the period submitted their accounts late, with missing documents, and less than half asked for extensions to submit their accounts.

**5.196** The Supervisor sent reminders to some companies who were in breach of the law, and worked with them in an effort to bring them into compliance.

### **Certificates**

**5.197** Each company is required to submit a certificate verifying that the total assets of its insurance business is at least equal to the value shown in its balance sheet. (Refer to Section 39 (1) (f) of Cap. 310, Insurance Act).

### **Findings**

**5.198** A review of information on all companies for a three year period revealed that some companies did not submit the certificates as required by the law.

**5.199** If no certificates are submitted the Supervisor would not be in a position to verify the market values of the assets listed in the statements.



## Deposits

**5.200** Under Section 23 of the Act the Supervisor requires that:

- (a) *if a company proposes to carry on long-term insurance business, the deposit shall be \$1,000,000;*
- (b) *If a company proposes to carry on any class of general insurance business, the deposit shall be an amount equal to 40 per cent of its premium income from general insurance business in Barbados during the financial year last preceding the date of deposit, but not less than \$250,000 and not more than \$1,000,000.*
- (c) *If a company does not intend to write any new business, the deposit shall be \$200,000.*

**5.201** The deposits act as additional security for the company to help pay liabilities in case of financial difficulty. The deposits are included as part of the company's assets.

**5.202** The Supervisor records in a spreadsheet the deposits held. These deposits mature at varying times, and it is the responsibility of the Supervisor to ensure that mature deposits are replaced, and adequate deposits are provided by the companies.

## Findings

**5.203** All twenty eight (28) domestic companies were reviewed for 2009 and five companies did not meet the requirement. Some deposits had matured and the companies had not been notified that a replacement was received, while others paid less than the required deposit.

### **Recommendation**

- 5.204** *Considering the importance of these deposits, the Supervisor should monitor them more carefully to ensure that there are replacements for the mature bonds.*

### **Solvency**

- 5.205** Insurance companies are required to submit their financial statements to the Supervisor of Insurance on annual basis. These should be certified by an auditor or actuary. These statements are then reviewed for compliance with the financial requirement of the Insurance Act.
- 5.206** Section 58(b) specifies that “a general insurance company is not solvent where the value of its assets does not exceed the amount of its liabilities by (i) \$500,000 or an equivalent sum; or (ii) 25 per cent of its premium income in respect of its general business in its last preceding financial year, whichever is the greater amount.”

### **Findings**

- 5.207** Of the companies reviewed for the years 2007 to 2009 the majority met the solvency requirement, but at least one company did not meet the requirement for the review period. Another company did not meet the requirement in 2007.

### **Conclusion**

- 5.208** The consequence of failure to meet the solvency test is that a company may not be in a position to meet its insurance and pension commitments when due.

### **Statutory Fund**

**5.209** The Insurance Act calls for the establishment of a statutory fund by insurance companies. This is achieved by the insurance company pledging a certain amount of its assets to cover its liabilities. These assets are held in trust by a company approved by the Supervisor of Insurance and Pensions.

**5.210** Section 25 (4 and 6) of the Act stipulates that every company carrying on long-term insurance business in Barbados shall place in trust in Barbados assets equal to its liability and contingency reserves, with respect to its Barbadian policy-holders, as established by the balance sheet of the company as at the end of its last financial year. The placement must occur not more than 4 months after the end of the financial year to which the balance sheet of the company relates.

### **Findings**

**5.211** A number of companies had difficulty in meeting the statutory requirement as follows:

- (a)** One Company, registered in December 2007, had no documentation to show that a trust had been created although a written request to establish such a fund was sent to the company by the SOIP since December 2007.
- (b)** The assets held in trust for another Company fell short of the statutory requirement in 2007 and 2008. The Supervisor drew the breaches to the Company's attention by letter and required them to bring their statutory fund into compliance with the law. This was done by December 2009.

- (c) A third Company, registered in January 1994, did not meet the statutory fund requirement during the review period. Since 2004, there were numerous correspondences between the SOIP and the Company about establishing the fund and putting in place a trustee. At the conclusion of the audit the statutory fund was still not established.
- (d) The statutory fund requirement was not met for a fourth Company. There were numerous correspondences from 2002 between the SOIP and the Company in respect of the statutory fund. It should however be noted that at the end of the review period no fund was in place.

### **Comments**

- 5.212** Insurance companies are required to establish a statutory fund. Its purpose is to ensure that there are enough assets available to meet future pensions and other insurance liabilities due to Barbadian Policyholders.
- 5.213** It should be noted that three of the companies did not have the statutory funds established as required by the Insurance Act. The absence of these statutory funds meant that the relevant restrictions on the use of the assets of these funds were not in place. In addition, if the company faces financial difficulties there is not the safeguard of sufficient funds being available to meet commitments.
- 5.214** Under the Insurance Act, the Supervisor can take various actions against insurance companies in breach of the Act, and these include cancelling of their registration to conduct new business, petitioning the court to place

the company under judicial management, or requesting that the company be wound up.

- 5.215** It is important that the regulatory agency take the necessary timely action to mitigate loss to policy holders. It should be noted that the extent and timing of such intervention is a matter of judgement. Correspondence between the SOIP and a few insurance companies would indicate that issues related to the setting up of the statutory fund, and its composition, was ongoing for years, and should have been resolved earlier.

### **Trustees**

- 5.216** The assets in a statutory fund are to be placed under the control of a trustee. Section 27 (1) of the Act stipulates that the trust referred to in subsections (4) and (5) of Section 25 shall be created by a trust deed. The contents and the trustees shall be approved by the Supervisor before the trust is created.
- 5.217** It should be noted that the three companies which did not have statutory funds also did not have Trustees in place.

### **Conclusion**

- 5.218** Companies that do not have the required assets held in trust will find it difficult to meet their liabilities when these become due.

### **Actuarial Review**

- 5.219** Long-term insurance companies are required to, not less than once annually or for such other period as the Supervisor may allow, but not exceeding 3 years, cause a review of the company's operations to be

carried out by an actuary. This review includes a valuation of liabilities. The companies are required to furnish to the SOIP a copy of the report of the actuary by whom the review was made, and a statement of its long-term business within 4 months of the end of the financial year.

### **Findings**

- 5.220** Four company files were checked and all of them had the necessary reviews by actuaries.

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## **Exempt Insurance**

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### **Licensing of Exempt Insurance Companies**

- 5.221** The Insurance Act requires that Exempt Insurance Companies have a minimum paid-up capital of \$250,000 in order for them to be licensed. In the case of an approved mutual insurance company, the minimum contributed reserves are set at \$250,000.

### **Findings**

- 5.222** Files for ten companies were reviewed for the years 2007 to 2009 and all had the minimum paid-up capital requirements.

### **Annual Financial Statements**

- 5.223** Exempt insurance companies are required to submit annual financial statements, accompanied by an auditor's report and certificate, within six months of the end of their financial year, in accordance with Cap. 308, Section 18 (1 and 4).

### **Findings**

- 5.224** A review of companies' files for 2007 to 2009 revealed that the majority of these companies submitted their financial statements in 2007 and 2008, but this was not the case in 2009, when a number of companies did not submit their financial statements.
- 5.225** The Supervisor of Insurance has not been enforcing the regulations on those companies that are guilty of late or non submission of accounts.

### **Actuary's Certificate**

- 5.226** Exempt long-term insurance companies are required to submit a certificate of an actuary within six months of the end of their financial year stating that the reserves are adequate to meet their liabilities.
- 5.227** Section 18 (3) stipulates that a licensee engaged in long-term insurance business shall submit to the Supervisor a certificate of an actuary approved by the Supervisor, stating that the licensee's reserves are adequate to meet its liabilities, within six months of the end of the period to which the document relates.
- 5.228** A review of companies' files for the years 2007 to 2009 revealed that the majority of the companies did not submit the required certificates.

### **Tax on Profits and Gains**

- 5.229** Prior to 2009 Section 29, Sub-Section 2 paragraphs (b) of Cap. 308A required exempt Insurance companies which have been licensed for more than 15 years to pay a tax of 2% on the first \$250,000 of profits and gains. This tax was changed to 8% from 2009 and is payable to the

Commissioner of Inland Revenue Department. Companies licensed for less than 15 years pay registration fees to the SOIP.

### **Findings**

- 5.230** It was however noted that companies which were registered for over 15 years were still paying registration fees to the SOIP rather than taxes to the Commissioner of Inland Revenue. Of the forty-nine companies selected for inspection, forty paid the registration fee as opposed to the tax. This could have resulted in a considerable loss of revenue to Government.
- 5.231** No monitoring was done to ensure that companies licensed for more than 15 years pay the required tax to Inland Revenue Department.

### **Recommendation**

- 5.232** The SOIP should review its records to ensure it collects registration fees for those companies which have been registered for less than fifteen years.
- 5.233** The Inland Revenue should be informed of those companies which should be paying taxes.

### **Application and Registration Fees**

- 5.234** Applications are accompanied by a certified copy of the Articles of Incorporation and the prescribed application and registration fee. A number of companies were reviewed for the years 2007 to 2009. All companies paid the required application and registration fees for 2007 and



2008. However twenty of these companies had outstanding registration fees for 2009.

**Conclusion**

**5.235** The SOIP has no documented system in place to monitor companies with outstanding fees.

**Recommendation**

**5.236** The SOIP needs to improve the monitoring of companies by putting in place clearly documented guidelines.