



# Barbados Audit Office

Report  
of the  
Auditor General  
for the year

2018



*Strengthening public accountability by providing fair and independent reports*

# **Barbados Audit Office**



**Report**  
**of the**  
**Auditor General**  
**for the year**  
**2018**

## **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, achieve a high standard of auditing and contribute to the general efficiency and effectiveness of the Public Service.





Barbados

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May 28, 2019

His Honour The Speaker  
The House of Assembly  
Parliament Building  
BRIDGETOWN

Sir,

In accordance with Section 113 (3) of the Constitution of Barbados and Section 38 (5) of the Financial Management and Audit Act, 2007 - 11, I forward for laying before the House of Assembly my Report of the examination of the accounts of the Ministries and Departments of Government, and of other financial statements and accounts required to be audited by me in respect of the financial year ended March 31, 2018.

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 Trotman, CPA

Auditor General



# Report of the Auditor General 2018

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## Introductory Comments

The year 2018 was a very challenging year for the Audit Office. It saw the roll out of a new audit management software package. This software allows for a more effective management of audit work. However, staff needed to become familiar with its operations and this would have had an impact on the timely completion of audits.

2. For years I have been complaining of a shortage of staff and there is little evidence that this matter is being addressed. This shortage will continue to impact both the timely output and, ultimately, the quality of work since even if new officers are provided, they will have to be trained before they can make a meaningful contribution to the Office. The Office is quite willing to examine alternative ways of conducting its work and this could include the hiring of individuals on contract to assist with any auditing backlogs. In this regard, greater autonomy in the use of resources would assist with this process.

3. Earlier in the year (2019) Parliament approved the Public Finance Management Act, 2019-1. This Act contains several features which if implemented could improve Public Financial Management in Government. This includes the preparation of annual plans with expected performance targets and the submission of mid-year and annual reports. There is however a history of non-conformity to deadlines by the State-owned Enterprises. Real and meaningful change will only be achieved when adequate accounting systems are in place along with suitably qualified and trained staff. Those who fail to deliver under such circumstances should be held accountable for their non-performance.

4. The area of procurement should be given greater attention. In this regard, there should be greater transparency in the award of contracts. The Office conducted a number of special audits during 2018 and these showed that procurement activities

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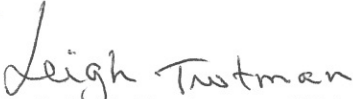
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were a major source of concern. Special Audits on the procurement activities of a number of State-owned Enterprises will be issued during the course of this year.

5. Another area that requires urgent attention is the lack of responsiveness by Government officials to audit issues. On the completion of an audit, a draft report indicating the findings of the audit is forwarded to management for comments. This is an important exercise, since it gives the agency the opportunity to clarify any issues prior to the report being finalized. Management's responses should form part of any final report.

### **Acknowledgements**

6. I would like to thank the members of my staff for their support, as well as the relevant officers from the audited bodies for their cooperation, as I look forward to a productive 2019.

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

27<sup>th</sup> May, 2019



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## Introductory Comments

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## Report of the Auditor General 2018

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

**27<sup>th</sup> May, 2019**



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## CHAPTER 1 GENERAL ISSUES

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### Introduction

**T**his Annual Report of the Auditor General to the Parliament of Barbados is being presented in accordance with Section 38 (1) of the Financial Management and Audit Act (FMAA or the 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** The Auditor General is also required to prepare and deliver an audit opinion on the Financial Statements of the Government, which are prepared by the Accountant General in accordance with Section 36 (1) C of the Act. These statements produced by the Accountant General represent the activities of Ministries and Departments. The financial activities of other State Agencies such as Statutory Boards are not included, these are reported on separately.
- 1.3** The Audit Office has a broad mandate for conducting audits on any Government agency. This mandate is derived from the Constitution of Barbados, and the Financial Management and Audit Act. Section 113 (2) of the Constitution requires the Audit Office to audit the accounts of the



Supreme Court, the Senate, the House of Assembly and all Departments and offices of the Government annually.

- 1.4** In accordance with Section 113 (2A) the Auditor General can also, on his own initiative, carry out examinations into the financial management of any State Agency, including the efficiency and effectiveness of the use of their resources in discharging their functions.
- 1.5** The Audit Office is therefore involved in three types of audits. One type (Compliance Audit) involves verifying whether the Financial Rules and other laws and procedures are adhered to, in respect to financial transactions. Another type (Financial Audit) involves verifying the accuracy of the information reported in the Financial Statements. The third type (Performance or Value-for-Money Audit) focuses on whether there was efficiency and effectiveness in the use of resources. This latter type of audit assesses the management and performance issues facing an organization or any part of its operations.

### **Structure of Report**

- 1.6** This report is divided into five chapters. Chapter One gives an overview of the major challenges facing the Government in having its accounts prepared and audited in a timely manner. These activities will become more important as Government seeks to comply with the provisions of the Public Finance Management Act, 2019-1, which requires shorter timeframes for reporting by Departments and Auditors. It will be challenging for Government agencies, (including the Audit Office) to comply with this Act without significant reforms to their systems and processes.



- 1.7** Chapter Two consists of an analysis & review of the financial performance and position of Government. The report on the financial performance and position of Government, which was prepared by the Treasury, was delivered to my Office for auditing in February 2019, seven months later than it was due. This is further confirmation of the challenges that will be faced in preparing accounts to meet the deadlines required by the Public Finance Management Act, 2019-1. When one considers that the Accounting Standards requires reporting on the entire Government, then the extent of the challenges faced becomes clearer. In my view, the major challenges with the accounts of the Government need to be addressed before any consolidation is attempted; that is, the timely preparation of accurate accounts in accordance with International Public Sector Accounting Standards (IPSAS).
- 1.8** Chapter Three consists of reports on a number of Government Ministries and Departments, as well as the Barbados Revenue Authority (Authority). Internal control issues are still being observed, mainly in terms of the classification of expenditures, and the recording of expenditures in the correct financial years. Government has hundreds of millions of dollars in receivables which could not be verified by the Audit Office, because the relevant information was not provided. The Authority indicated that outstanding receivables in respect of income tax prior to 2013 were not included in the accounts because of issues related to the integrity of the information. This factor was however not taken into account by the Treasury when it reported these tax receivables.
- 1.9** Chapter Four reports on the status of financial audits of Statutory Boards and other agencies of Government. Some of these agencies are audited by my Office and others are audited by private sector auditors. The main issue pertaining to these audits has been the large number of agencies





with audits that are many years in arrears. Some effort has started to reduce this backlog, and I am hoping that progress can be reported in subsequent reports.

- 1.10** Chapter Five consists of a number of special reports on certain projects executed by Ministries and Statutory Boards. These include a review of the construction of the School Meals Centre at Six Roads, St. Philip, and follow-up audits on Squatting on Government Properties and the High Rise Apartment Units at the 'Woods at Dalkeith' (better known as the Grotto).

### **Staffing**

- 1.11** I have previously documented the challenges my Office has with respect to staffing over the years. The Office needs greater autonomy in the recruitment of its staff and other audit resources. This would assist the Office in obtaining the level of autonomy recommended by for audit offices by international institutions such as the International Organization of Supreme Audit Institutions (INTOSAI), the umbrella body for public sector audit offices. The number of requests to the Office to carry out special reviews and financial audits is further testimony that the Office needs to be properly staffed and be able to deploy its resources in the most effective manner.
- 1.12** Notwithstanding a shortage of staff, the Office has to improve its efficiency in carrying out its audits. There is a lot of room for improvement in this area, and I continue to emphasize to staff that audits need to be conducted more efficiently. I am aware of the challenging economic times the country faces, and, in this regard, I am not seeking to fill all of the vacancies in the Office. However, there is a need to fill critical positions



since the Office, as currently staffed, is not able to effectively carry out its mandate.

## **Pensions**

- 1.13** The area of pensions in the public service is very complex. There are numerous pension laws for various categories of workers and for workers who entered the service at particular periods. Particularly challenging is when officers' move from one agency to another and each agency is operating under different pensions legislation. Also, when officers are seconded to another agency outside the Public Service, but they were previously acting in higher posts, the pension computation can be extremely complicated as the pension is based on the post and salary earned in the last three years of an officer's employment in the Public Service.
- 1.14** A number of officers were transferred from agencies such as the Income Tax Department, Land Tax Department and the Value Added Tax Department. Some of these officers have retired and have been receiving pensions which are substantially less than they would have expected. These officers were informed that they would not have been any worse off as a result of being transferred. However, while the authorities would have outlined policy, specific guidelines are required to ensure the accurate computation of retiring awards under the new arrangement. In this regard, the Barbados Revenue Authority needs to establish the long delayed pension plan including the relevant provisions to ensure that officers are not disadvantaged. The Audit Office cannot be held responsible for any delays in the implementation of this plan or any omissions that would negatively impact these officers as has been suggested in some quarters.



## Office Activities

- 1.15** The Office is seeking to establish a number of training courses for staff, and in this regard the Training Administration Division has been providing assistance. At the end of the current exercise, a curriculum and training materials would be developed for all auditors.
- 1.16** The Auditor General, Mr. Leigh Trotman, participated in a High-level Strategic Review and Planning Seminar hosted by the Training and Administration Division.
- 1.17** A number of officers attended Local In-service Training courses held by the Training and Administration Division, and these included courses in Secretarial Development, Time Management, and Communication and Interpersonal Skills.
- 1.18** The Auditor General attended the Caribbean Organization of Supreme Audit Institutions (CAROSAI) 30<sup>th</sup> Anniversary Conference in Kingston, Jamaica during the period 15<sup>th</sup> to 17<sup>th</sup> August, 2018. The conference covered such areas as Auditor Independence, Innovation and Data Analytics, Audit Standards and Fighting Corruption. Presentations were made by a number of subject matter experts from the region and the international community.



## CHAPTER 2

### ANALYSIS OF GOVERNMENT FINANCIAL STATEMENTS

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**T**he Financial Statements of Government are prepared by the Office of the Accountant General (the Treasury Department) in accordance with Section 22 (2) of the Financial Management and Audit Act (FMAA), 2007-11. This Act requires the Accountant General to submit Financial Statements to the Auditor General by the end of July of each financial year. The Financial Statements for the financial year ended 31<sup>st</sup> March, 2018 were submitted on 28<sup>th</sup> February, 2019.

#### **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, 2018.
- 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; the appropriate internal control systems exist and were adhered to; and the Financial Statements were in accordance with International Public Sector Accounting Standards (IPSAS).



## Methodology

- 2.4 The audit was conducted using 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 as to whether the Financial Statements are free of material misstatement.

## Auditor Responsibility

- 2.5 The responsibility of the Audit Office is to audit the Government's Financial Statements and form an opinion based on the audit work conducted. The auditor also examines the extent to which the Financial Rules and other regulations and directives are adhered to.
- 2.6 Audit procedures are performed to detect material misstatements in the Financial Statements. Materiality means how significant a financial statement omission or misstatement would need to be in order for such omission or misstatement to be expected to influence or change the decisions of reasonably knowledgeable users relying on the financial statements.
- 2.7 An audit is not designed to ensure that the Financial Statements are 100% accurate, since it is not possible to verify all transactions. The audit is designed to gain reasonable, but not absolute assurance that the Financial Statements are free from material misstatements. Audit procedures include examining, on a test basis, evidence supporting the amounts and other disclosures in the Financial Statements, and evaluating the accounting policies used, as well as the overall Financial Statement presentation. The auditor accumulates errors discovered and



makes an assessment of whether they would, in aggregate, cause the financial balances to be materially misstated.

### **Responsibilities of the Accountant General**

- 2.8** The Accountant General is responsible for providing to Parliament Financial Statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS). These include related notes and schedules. To prepare Financial Statements in accordance with IPSAS, the Accountant General is required to make judgments, estimates and assumptions in the application of accounting policies governing the reporting of assets, liabilities, revenue and expenses. The reasonableness of policies and assumptions are also reviewed by the auditor.

### **Responsibilities of Accounting Officers**

- 2.9** The Accounting Officers of Ministries and Departments are responsible for maintaining a system of internal controls in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained. This should allow for the preparation of Financial Statements by the Accountant General that are free from material misstatements, whether due to fraud or error.

### **Scope of Government's Financial Statements**

- 2.10** The Government of Barbados has adopted the International Public Sector Accounting Standards (IPSAS) which require the presentation of the Financial Statements on an accrual basis. Under these standards, the



accounts of the Government should include reports on the financial activities of Ministries, Departments and Government owned and controlled entities.

**2.11** However, Government's Financial Statements, compiled by the Accountant General's Department (the Treasury), did not represent all the entities owned and controlled by Government. They encompass all Ministries and Departments and exclude Statutory Boards and Government owned companies. The financial reports of these agencies are therefore prepared separately. It should however be noted that, in order to be compliant with the accounting standards, there should be a consolidation of the accounts of Ministries, Departments and all entities which are controlled by Government and receive budget support. This needs to be done to ensure that the financial Statements are in compliance with the accounting standards.

**2.12** The Financial Statements presented by the Treasury and examined by my Office were as follows:

- Income and Expenditure Statement
- Statement of Financial Performance
- Statement of Financial Position
- Cash Flow Statement
- Statement of Changes in Net Assets/Equity



### Key Finding

- 2.13** The statements of accounts of the Government of Barbados as presented by the Office of the Accountant General for 2018 did not fully comply with the International Public Sector Accounting Standards (IPSAS).





## Presentation of Financial Statements

- 2.14** The Financial Management and Audit Act, 2007-11 requires the Accountant General to prepare, sign and submit to the Auditor General, within four months after the close of each financial year, a set of Financial Statements of the Crown, to be audited. Therefore, the statements should be submitted by the 31<sup>st</sup> July of each year. It should however be noted that the statements for the financial year ended 31<sup>st</sup> March 2018 were only submitted on the 28<sup>th</sup> February 2019, some seven months after the due date. This is regrettable, since for information to be relevant to decision makers and other stakeholders, it has to be timely. The Treasury has to make a greater effort to ensure that its submission of accounts to be audited is done in a timely manner.
- 2.15** It should be noted that the Public Finance Management Act, 2019 requires the Report of the Auditor General to be reviewed by the Public Accounts Committee and debated by Parliament by the end of the tenth month after the close of the Financial Year. Unless there is substantial improvement by the Treasury in the submission of its accounts, the review would not be possible in the time frame required by the legislation.

### **Absence of Consolidated Accounts**

- 2.16** The Financial Statements provided by the Treasury to the Auditor General for audit, did not comprise of information on all entities owned and controlled by Government. They only encompassed the financial activities of all Ministries and Departments, and excluded Statutory Boards and Government owned companies which report the results of their operations separately. It should however be noted that under International Public Sector Accounting (IPSAS) standards under which Government's financial



statements are prepared, there should be a consolidation of the accounts of Ministries and Departments and all entities controlled by Government.

- 2.17** As a result, the total aggregate financial position of Government, including outstanding liabilities and assets would not have been presented in the Financial Statements. For a number of years the Treasury has indicated that it is working on the consolidation process. However, since the 2012/2013 year when twenty-two (22) secondary schools were included in the Financial Statements, I am not aware of any progress being made with the consolidation efforts.

#### **Errors in Financial Statements Re: Restating of Comparative Figures**

- 2.18** There were several errors in the comparative figures which were restated for comparative purposes for the financial year ended March 2017. The figures listed under assets and liabilities were really reflective of amounts for the financial year ending 31<sup>st</sup> March 2016 and not 31<sup>st</sup> March 2017, the year that was being compared. This error would mislead readers who are comparing performance for the financial year ended 31<sup>st</sup> March 2018 with the previous year.

#### **Short Statement of Revenue**

- 2.19** Revenue for items such as Value Added Tax is collected by the Barbados Revenue Authority and the relevant information is posted into the accounts of the Treasury. It was however noted that there was a difference in the records of these agencies in respect of the Value Added Tax. This difference of \$78.8 million was as a result of the Treasury recording mainly cash amounts as revenue. Amounts which were assessed as revenue but for which no funds were received were omitted from the Treasury records. Government accounts are prepared on the



accrual basis, that is, in the case of revenue, it should be recorded in the period due irrespective of whether the cash was received. Revenues were therefore understated in this instance.



## *Analysis of Financial Statements*

**2.20** This section of the Report provides an analysis of the major components of the Government's Financial Statements. This includes Revenue, Expenditure, Assets and Liabilities. The audit revealed a number of omissions and inaccuracies in the Statements. It is therefore important for readers to be cautioned that the numbers being analysed in some cases may require some adjustments.

### **Revenue**

**2.21** The Treasury recorded total revenue of \$2.988 billion for the year, which was \$73.46 million more than the \$2.915 billion recorded in the previous financial year.

**2.22** Special Receipts (mainly the National Social Responsibility Levy) were the primary cause of this increase. These receipts moved from \$3.1 million to \$169.2 million, an increase of \$166.1 million. This increase was partly offset by a decrease in Other Income, which fell from \$153.1 million to \$86.6 million.

**2.23** Taxation Revenue, which comprises Goods and Services, Income and Profits, Property and International Trade, all virtually mirrored the collections of the previous year. Overall, Taxation Revenue fell by approximately \$2 million from \$2.606 billion to \$2.604 billion. Non-tax Revenue increased by \$76.2 million.

**2.24** An amount of \$3.153 billion was budgeted to be collected in total for revenue, but this figure did not materialize. The actual collections were \$164.5 million less than had been budgeted for.

**Comparative Revenue for 2017 and 2018**

	<b>Revised Estimates \$</b>	<b>Actual Revenue 2017 \$ (a)</b>	<b>Actual Revenue 2018 \$ (b)</b>	<b>Change Increase/ (Decrease) \$ (b-a)</b>
Taxation	2,722,183,547	2,606,034,369	2,604,511,450	(1,522,919)
Non Tax Revenue	412,652,087	286,799,538	362,987,001	76,187,463
Annexed Revenue	18,545,970	22,500,190	21,295,747	(1,204,443)
<b>Total Revenue</b>	<b>3,153,381,604</b>	<b>2,915,334,096</b>	<b>2,988,794,198</b>	<b>73,460,102</b>

**Expenditure**

- 2.25** Total expenditure of \$3.426 billion was \$158 million more than the amount for the 2016/2017 financial year which was \$3.268 billion. In terms of forecast, the total expenditure was \$139 million less than the revised estimate of \$3.565 billion.

**Deficit**

- 2.26** A deficit of \$437 million was reported for the financial year as compared with \$352.4 million reported for the previous year. A summary of Government's Financial Performance is provided in the table below.



## Summary of Government's Financial Performance Over the Past Five Years

Year	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$
Revenue	2,339,512,136	2,446,375,408	2,582,256,597	2,892,833,906	2,988,794,198
Expenditures	3,322,374,971	3,144,046,963	3,344,852,702	3,267,760,959	3,554,581,837
Deficit	(982,862,835)	(697,671,555)	(762,596,105)	(352,426,862)	(437,219,229)

### Interest Expenses as a Percentage of Revenue

#### 2.27

The interest payment as a percentage of revenue has remained steady over the years. I had indicated in previous reports that extensive short term borrowing would have exposed the Government to significant interest cost risk, since any increase in the interest rates would further increase Government's expenses and limit its ability to deliver on its programmes. At the end of the fiscal year ending 31<sup>st</sup> March 2018, annual interest expense stood at \$760 million or 25% of Government's revenue. The statistics pertaining to interest as a percentage of revenue are represented in the table below for the last five years:-

### Interest Cost as a Percentage of Revenue

Year	2014 \$	2015 \$	2016 \$	2017 \$	2018 \$
Revenue	2,339,512,136.00	2,583,263,186.00	2,582,256,597.00	2,915,334,096.00	2,988,794,198.00
Interest Expense	597,934,271.00	644,966,516.00	663,885,280.00	736,152,386.00	760,355,361.00
Interest as % of Revenue	26%	25%	26%	25%	25%



## Notes to the Financial Statements

**2.28** The notes to the financial statements assist readers with an understanding of the complexities of the information being provided by the Treasury, and should therefore be more comprehensive. The following matters should be expressed in the notes to the Financial Statements:

- **Assessment of Risk**

I had previously indicated that the statements were deficient in terms of risk and this continues to be so. The levels of debt were very high, and as noted in my previous report, there was an increased risk from the high levels of short term borrowing undertaken by the Government. How this risk was being managed should have been stated in the notes.

- **Explanation of Term ‘Paymaster Account’**

The term ‘Paymaster Account’ is unique to the Government and should be explained in the notes to the Financial Statements. An amount of \$587 million was recorded against this item in the liability section of the balance sheet. This amount is quite material and as such should be properly explained in the notes to the accounts to allow users to have a better understanding of the financial position of the Government.

### **Pension Liability**

**2.29** The Government pays its pensions from current receipts. The actual value of the pension liability due to former workers is quite large, but it does not appear on the Statement of Financial Position. The current figure in the



Financial Statements only represents the value of un-cashed pension cheques that have been returned to the Treasury.

### **Revaluation Reserve**

- 2.30** This is the amount attributable to increases in the value of properties. The current figure of \$378.8 million is quite substantial and should therefore be explained in the notes.

### **Contractual Obligations and Contractual Rights**

- 2.31** The nature of Government activities results in large multi-year contracts and agreements that will materially affect the level of future expenditures. These contractual obligations include transfer payment agreements, agreements for the acquisition of goods and services, operating leases and subscriptions to international organizations. Presently, the information for these transactions is not reflected in the notes to the Financial Statements, as should be the case.

### **Subsequent Event**

- 2.32** The Government of Barbados commenced a debt restructuring exercise after the close of the financial year and prior to the issuance of the Financial Statements. This restructuring process has substantially reduced Government's loan portfolio. This information was available before the completion of the accounts for the financial year and should have been recorded in the notes.





## Report on Government's Assets

### Absence of Bank Reconciliations for Treasury Accounts

- 2.33** Bank reconciliations were not prepared for the Treasury Accounts held at commercial banks, and the Central Bank, for the financial year ended 31<sup>st</sup> March 2018. This is a serious omission and negatively reflects on the assurance that can be given on the accounts by my Office.

### Errors on Certain Accounts

- 2.34** The bank account of a department or agency should be represented by a positive (debit) balance in the accounting records. A number of bank accounts were however represented by credit balances in the ledger, which would suggest the accounts were in overdraft positions. This suggests that there are errors in the accounts that need to be addressed. Credit balances were recorded for the following bank accounts:

Sub-Item	Details of Account	Amount \$
BOE001	Consulate Gen New York	(256,546.82)
BOE008	Consulate General Toronto	(186,512.02)
BOE011	Barbados Liaison Service Miami	(106,415.60)
BOE016	Embassy of Brazil - BRL	(31,304.67)
BSS641	Alleyne Secondary School	(97,638.73)
BSS642	Alma Parris Memorial Sec. School	(42,032.85)
BSS645	The Combermere School	(204,520.42)
BSS652	The Lodge School	(6,137.20)
BSS656	St. George Secondary School	(6,632.64)
	<b>Total Credit/Overdraft Balances</b>	<b>(937,740.95)</b>

**Accountant General's Response:**

*The Treasury is in agreement and is working on getting the reconciliation statements up to date.*

**Cash on Hand**

- 2.35** The amount recorded as cash on hand for the Licensing Authority was reported as \$474,550.47 as at 31<sup>st</sup> March 2018. This figure has remained unchanged since the 31<sup>st</sup> March 2014. This figure should have been cleared from this temporary account once the relevant deposit slips were submitted to the Treasury. This seems not have been the case and as a result, the funds were still classified as pending. Action needs to be taken to bring closure to this matter.

**Advances to State Enterprises**

- 2.36** The Treasury has recorded \$535 million in short term advances to State Enterprises as assets. There are however several areas of concern related to these advances, which are outlined below:-
- a) The majority of these advances were made to State Enterprises which are not in a position to repay. These State Enterprises include the National Housing Corporation (\$114 million), Barbados Agricultural Management Co. Ltd. (\$75.1 million), Barbados Water Authority (\$54.9 million) and the Barbados Transport Board (\$76.6 million).



- b) In accordance with the Financial Management and Audit Act, Loans made to Government Enterprises are to be made from a capital contribution approved by Parliament. These loans should be secured by a debenture mortgage or loan agreement approved by the Cabinet. However, it should be noted that Parliament did not approve these advances from any capital contribution, and they were therefore not in compliance with the law. In addition, there were no loan agreements in place.
- c) An amount of \$49.5 Million was advanced to the Barbados Port Inc. The Ministry of Tourism had indicated that this amount was a capital injection and that the necessary steps would have been taken to have the necessary Parliamentary approval to facilitate the injection. This however was not done resulting in the amounts being recorded as a loan in the accounts of the Government, while at the same time being recorded as an equity contribution by the Barbados Port Inc. This matter needs to be regularized by obtaining the Parliamentary approval that is required for such capital injections.
- d) Advances totaling \$36 million were made to the University of the West Indies to assist that institution with its financial challenges during the year. The Ministry of Finance had indicated that the necessary supplementary provisions would have been sought to facilitate this advance. However, the relevant action was not taken resulting in an unauthorized advance.
- e) An amount of \$124 million was advanced to a Government owned company, Clearwater Bay, to settle a loan guarantee made in respect of the Four Seasons project a number of years ago. This advance was not from an appropriation as required by law. It should



however be noted that there is uncertainty as to what securities are owned by the Government to cover this loan. In addition, due to the deterioration of the premises it would be quite doubtful whether the full value of this loan could be realized and the carrying value of this 'asset' may need to be adjusted in the books of the Treasury.

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

*The advances referred to were based on instructions sent from the Ministry of Finance to the Treasury.*

#### **Long Term Advances**

- 2.37** The Treasury has also recorded \$621.7 million in long term advances. These include amounts advanced to the Barbados Tourism Investment Inc. (BTII) for the acquisition of properties around Kensington Oval, and the refurbishment of this facility. The BTII has indicated that it facilitated the construction of Kensington Oval for the Government, and that it was not in receipt of any loan in respect of the said construction. These amounts were however not properly brought to account at the time and this situation needs to be regularized. This expenditure should not be recorded as an advance as currently is the case.

#### **Tax Receivables**

- 2.38** The tax receivable figures in Government's Financial Statements for taxes administered by the Barbados Revenue Authority differed substantially from the figures obtained from the Authority. The receivable for Value Added Tax was shown as \$606.5 million, while the Authority reported \$862 million, a difference of \$255.5 million. The figure for Income Tax due was



reported as \$195 million while the Authority reported \$19.8 million, a difference of \$175.2 million. The figures reported in the Financial Statements should match the corresponding records of the Barbados Revenue Authority. Action needs to be taken to reconcile the balances between the Barbados Revenue Authority and the Treasury Department.

- 2.39** There was also a large difference between what the Treasury reported as receivables for Corporation Tax and what was reported by the Barbados Revenue Authority, the entity from which the figures should have been obtained. The Treasury reported Corporation Tax receivables as \$85.3 million while the Revenue Authority recorded \$53.6 million, a difference of \$31.7 million.

#### **General Comment**

- 2.40** The figures reported as Tax Receivables by the Treasury are very material in nature, and it is essential that these figures be accurately recorded. The large difference in total receivables reported by the Treasury and the Revenue Authority needs to be investigated. In future there needs to be improved communication and information sharing between these agencies to ensure that there is greater accuracy in the figures presented.

**Accountant General's Response:**

*There is a difference between the figures reported by the Treasury and the Barbados Revenue Authority since the financial statements for the Barbados Revenue Authority do not reflect tax receivables prior to tax year 2013. On the other hand the Treasury's figures reflect receivables prior to 2013. A decision will have to be made as to how these receivables should be treated in the Treasury's books.*

**Other Capital Assets**

- 2.41** Other Capital Assets were recorded as \$1.71 billion in the Financial Statements. This item includes property and plant, assets under construction and furniture and fittings. The largest sub-item under this item is property and plant, \$983 million. The basis for determining this figure was not presented to the auditors and, as a result, this very large total could not be verified. Assets under construction, which represents amounts accumulated for building and plants under construction, totaled \$466 million. This amount includes plant that has already been completed, and therefore should have been transferred to the correct accounting class where it can be depreciated. As this account becomes larger because of the lack of transfers, it will function more like a suspense account and become difficult to manage. This should be avoided.

**Accountant General's Response:**

*Ministries and Departments have been advised to send to the Treasury a list of all assets that have been completed and are still recorded as assets under construction so that they can be accounted for in the asset module.*

*Property, plant and equipment figures are an accumulation of items bought by the various Ministries and Departments. The Audit Department has access to Smart Stream and therefore can audit any of the items recorded in this asset module and request the relevant information from the various departments. The Treasury Department would not have the physical items or documents related to the purchase of these items.*

**Training Levy Receivables****2.42**

The National Insurance Board collects a training levy on behalf of the Government. These funds have not been paid over to the Government as required, and as at 31 March, 2018 the outstanding receivable for this levy was \$66.9 million. The necessary action must be taken to have these amounts paid into the Consolidated Fund at the earliest opportunity. The Government owes the National Insurance Fund a considerable amount of money and this may have triggered the Board's refusal to pay over the revenue. Notwithstanding this issue, all revenue collected should be deposited into the Consolidated Fund intact.



## Land

- 2.43** The Treasury recorded a value for Crown lands at \$1.495 billion; this information was obtained from the records of the Barbados Revenue Authority. This figure however differed from that provided by the Ministry of Housing which indicated a figure of \$1.383 billion, a difference of \$112 million. Audit examination however revealed that there were a number of properties which were recorded by one entity and not by the other. For example, the figures from the Barbados Revenue Authority consist of \$70 million in respect of the Bridgetown Harbour but this figure is not recorded by the Ministry of Housing. On the other hand the Ministry of Housing's figures included \$30 million and \$10 million for estates at Coverley and Spring Hall respectively, figures not included in the information obtained from the Revenue Authority.
- 2.44** There needs to be a reconciliation of the figures so that more accurate information could be made available to the Treasury by these agencies.





## Report on Government's Liabilities

### Bonds Payable

- 2.45** During the financial year Government issued \$93 million in bonds to facilitate the transfer of the life and annuity insurance business of British American Insurance Company to another insurance company. It should however be noted that the value of this bond was not entered into the accounts. The liabilities of the Government were therefore understated in this regard.
- 2.46** Bonds totaling \$220 million were issued by the Government of Barbados to Resolution Life Assurance Company Limited to be paid into its statutory fund to facilitate the preservation of investments made by policy holders of CLICO International Life Insurance Limited. This amount was omitted from liabilities in the Statement of Financial Position. The Audit Office has not been presented with all the necessary information with respect to the issuing of these bonds; hence the total amounts presented could not be verified.

**Accountant General's Response:**

*The Treasury Department was awaiting relevant information which resulted in a delay in the financial statements being submitted to the Auditor General for auditing. For example, the Treasury Department was awaiting information in order to facilitate the recording of the transaction relating to the issuance of \$220 million in bonds issued to Resolution Life Company Ltd. This information has not yet been submitted to the Treasury Department. Starting from financial year 2018-2019, every effort would be made to make sure that the financial statements submitted to the Auditor General within four months after the close of each financial year.*

**Accounts Payable**

- 2.47** Accounts Payable was recorded as \$245 million. However, this was not the total amount for this item, as amounts owing to the University of the West Indies have not been brought to account. The amounts shown as Accounts Payable were therefore substantially understated.

**Omission of Pension & Other Employee Benefits**

- 2.48** International Public Sector Accounting Standards (IPSAS) 25, Employee Benefit, stipulates that unclaimed employee benefits should be accounted for (accrued). This includes both short term benefits and long term benefits, such as pension obligations. These liabilities were however not brought to account in the Accountant General's Report as at March 31, 2018.



## Subsequent Events – Government Debt Restructuring Program

- 2.49** The Government of Barbados is in the process of carrying out a debt restructuring programme, which commenced after the end of the financial year ending 31<sup>st</sup> March 2018. However, because of its material nature, the details of this programme should have been reported by the Treasury in the notes to its Financial Statements. The items affected so far, include Treasury Bills, Treasury Notes and other debt instruments. The details of the action taken so far have not been made available to the Office of the Auditor General.



## PRIOR YEAR ISSUES

**2.50** The following issues were reported in the previous financial period but have remained unchanged or unresolved:-

### **Bad Debt Expense**

**2.51** The criteria for arriving at the Bad Debt expenses were not indicated. This disclosure of information would provide users of the financial statements with pertinent information on how the bad debt expense was derived.

### **Provision for Bad Debt**

**2.52** Receivables of \$725 million relate to advances to state enterprises that rely on Government for virtually all of their funding needs. It is therefore unlikely that all of these receivables are collectible; in this regard an appropriate provision needs to be made.

### **Investments - Equity**

**2.53** The Financial Statements recognize equity investments. However, further disclosures as to the method of recognition for these investments should have been included in the accompanying notes. A schedule should also have been provided that compares the cost and fair value of these assets. Without this information, it could not be determined whether these assets were recorded at lower of cost or fair value as indicated within the Statement of Accounting Policies or whether there were unrealized gains or losses. Given the large values of these investments, there is a high risk these figures could be misstated.



## Revenue Receivables

**2.54** There are some accounts where the accounts receivable figures have remained the same over a period of time. These accounts should have been investigated to determine whether adjustments were required for the amounts reported. Examples were as follows:-

Account Name	SAC & Sub-Item	General Ledger Receivable Balance \$	Number of years the balance has remain the same
Arrears of Broadcasting License	620 ABT501	632,043	2
Barbados Turf Club	620 GBG202	201,927	8
Motor Vehicle Registration	620 GMV100	155,386	4
Analytical Services Lab.	621 RFA101	921,344	6

## Submission of Receivable Statements

**2.55** Ministries and Departments are required to submit statements of receivables to the Treasury Department for inclusion in the Financial Statements. No schedules were received by the Accountant General's Office regarding the balances outstanding for several accounts. The basis for the amounts presented in the Financial Statements for these accounts therefore could not be determined. A sample of these accounts is as follows:-



Sub-Item	Account Balance as at 31st March 2017 \$	Ministry/Department
SRS300	66,915,160.44	Training Levy
ATL 500	5,406,358.68	Telecommunications Licenses
RFA 101	921,344.55	Analytical Services

### Receivables - Accommodation Advances

**2.56** Public Officers are granted advances to pay for accommodation when travelling on overseas business. These advances are recorded in an accommodation advance account, and are expensed when the statements detailing the actual accommodation expenses are provided by officers on their return. There were some accounts for which no recorded activity occurred during the financial year. A number of transactions in these accounts need to be investigated and relevant corrective action taken to bring them to account correctly.

### Unpresented Documentation

**2.57** The Financial Management and Audit Act, Section 39 provides that the Auditor General should have access to the property of the audited body and every facility given for carrying out examination. In a number of instances information pertinent to the audit was not submitted for audit inspection and verification. This information included the following:



- i. Reconciliation statements for all major bank accounts.
- ii. Unclaimed and Undistributed Monies sub-ledger.
- iii. Listing of un-presented payable orders
- iv. Overdrawn Salaries Subsidiary Ledger.
- v. A listing of assets under construction transferred to the Asset Management Module for the period 1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018.
- vi. The amount owed to the National Insurance Department at the close of the Financial Year.

#### **Audit Comment**

- 2.58** The requested information was critical to the auditors' efforts to verify the amounts shown on the Financial Statements. It is important that the information requested is made available so the auditors can complete their work.

#### **Audit Opinion**

- 2.59** The information provided in this chapter was instrumental in the forming of the adverse opinion given on the accounts for the Financial Year ended 31<sup>st</sup> March 2018.



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## CHAPTER 3

### GENERAL AUDIT CONCERNS AND OBSERVATIONS

One of the main functions of the Barbados Audit Office as outlined in Section 36 (2) (d) of the Financial Management and Audit Act, is to ensure that all standing instructions, enactments and other laws of Barbados relating to finance and accounts are strictly observed. In this regard, this chapter contains comments on the various breaches of rules and regulations observed by my officers over the course of the financial year ending 31<sup>st</sup> March 2018.

#### *General Audit Issues*

##### **Revenue Related Matters**

- 3.2** The Government of Barbados has adopted the accrual basis of accounting, and this entails the recognition and recording of revenue when it is due regardless of whether the cash was received. It was however observed that this method of accounting was not always followed by Ministries and Departments. The most significant omission related to the accounting for revenue from the Barbados Revenue Authority by the Treasury. In one specific instance, \$98 million in respect of the collection of Value Added Tax was omitted. This related to amounts which were reported by registrants but for which no cash was received. This figure should have been reported as revenue in accordance with the accrual



accounting principles. As a result of this action, revenue for the financial year was short stated by \$98 million.

- 3.3** There were also instances in which license fees were not recorded as revenue in the year they were due. This was evident in the Division of International Business under the Ministry of Industry, International Business, Commerce and Small Business Development, where fees were reported in many instances on a cash basis. The Ministry needs to establish relevant ledgers to record when licenses are due, in order that revenue can be recognized as required. The relevant receivable accounts should also be established and the balances at the end of each financial year should be forwarded to the Treasury, so that all amounts due to the Crown can be properly reported.

### **Accommodation Expenses**

- 3.4** There is an issue pertaining to the accurate reporting of overseas travel expense by officers. When officers travel overseas they are given an advance, in respect of their hotel bill. The actual expense for the trip is only recorded when the officers submit the bills on their return. It is only at this point that the actual accommodation cost would be determined. It was however observed that many officers were not submitting the relevant bills and as a result the expenses for the respective Ministries and Departments were not being reported.

- 3.5** Another issue related to the accommodation expense is that of accountability. Officers are required to submit these bills in accordance with Government's administrative directives. In some cases the bills could be less than the estimated hotel cost and in such circumstances the officer



would be required to reimburse any unused amount. These bills provide evidence of the actual cost of the accommodation and should be handed in by the officers.

- 3.6** Accommodation Advances outstanding at the 31<sup>st</sup> March 2018 was \$1.96 million. The Ministries/Departments with the largest amounts outstanding were as follows:-

Ministries/Departments	Amount \$
Ministry of Health and Wellness	489,683.90
Ministry of the Environment and National Beautification	265,806.60
Prime Minister's Office	88,907.63
Attorney General	79,740.58
<b>TOTAL</b>	<b>924,138.71</b>

### Expenses Recorded in Incorrect Periods

- 3.7** Under the accrual system of accounting currently used by the Government, expenses should be recorded in the year the good or service was received. This allows for the matching of expenses to the revenue recorded for that particular year. There are a number of issues associated with the recording of expenses that need to be rectified so as to allow for proper matching and classification within the relevant periods.
- 3.8** At the close of the financial year there are usually some invoices that are not paid, for a variety of reasons. These invoices should be recorded as expenses once the good or service has been delivered. Any monies not paid in the relevant financial year would be recorded in accounts payable



and settled within the following financial year. The main point here is that the value of the good or service would be expensed in the year it was delivered or performed.

- 3.9** A number of Ministries and Departments were however not following the accrual concept and were reporting expenses in the incorrect periods. This has implications for budgetary control as some items are brought to account in years for which they were not budgeted for and for which no provisions were made.

### **Fixed Asset Registers**

- 3.10** In order for the fixed assets of Government to be adequately accounted for, it is necessary that Ministries and Departments keep proper records of these assets. This includes information on the cost of assets and depreciation expenses. These records are vital for confirming the relevant balances in the Financial Statements of the Government, and also for the physical checking of the assets. It was however observed that the records kept by the Treasury Department as well as the Ministries and Departments did not contain the relevant information that would allow the auditor to verify the amounts in the Financial Statements. In some instances the information from the two sources lacked sufficient details to allow cross referencing with each other.



### **Outstanding Contract Costs**

- 3.11** Ministries and Departments were not reporting on the outstanding costs of contracts as required by Financial Rule 229 (3). Failure to report on these amounts prevents the Accountant General from reporting the outstanding costs of contracts as a contingent liability in the notes to the Financial Statements of the Crown.

### **Surprise Inspection of Cash and Other Valuables**

- 3.12** It was observed that no surprise inspections were conducted on cash and other valuables held by officers at Ministries and Departments. These inspections are mandated by the Financial Rules and allow for the early detection of any discrepancies with respect to cash collected and valuables held. Previously, a number of shortages have been discovered as a result of these inspections, resulting in officers being placed on suspension, and charged by the police.

### **Unpresented Information**

- 3.13** Audit officers request information from Ministries and Departments in order to carry out their duties. However, in some instances, the information requested was not provided. This included contracts, inventories, utility records and annual financial statements. The absence of such information prevented the auditors from completing their tasks of ensuring whether relevant entities were operating in accordance with Government rules and regulations.



## Issues Specific to Ministries and Departments

### Customs Department

#### Private Warehouses

- 3.14** There are a number of warehouses kept by members of the private sector. These warehouses store goods on which the relevant duties and taxes have not yet been paid. The duties and taxes are due forthwith on any goods removed from these warehouses. However, in one instance, a Firm removed goods with duties payable of \$9,741,044 without informing the Customs Department. This matter was subsequently observed by the Financial Controller. It is therefore important to monitor these warehouses to ensure that the relevant payments for goods removed have been made to the Customs Department. This monitoring activity is usually done through field audits. No evidence was however provided to indicate that field audits were carried out on these warehouses during the year.

#### **Customs' Response:**

*The Customs & Excise Department is severely short-staffed and therefore does not have sufficient officers assigned to the Field Audit Unit to conduct audits. It is however erroneous to state that the warehouses were not being monitored for non-payment of duties. The office of the Financial Controller run reports via the ASYCUDA++ System and takes necessary action to recover the outstanding duties and taxes if goods are removed from said warehouses without payment.*



### Warehouse Bonds

- 3.15** Section 143 of the Customs Act CAP 66 states that “**no building or place may be used as a private warehouse ... until a bond in such sum as may be required is provided to the Comptroller**”. No bonds were presented for audit inspection for twenty-six (26) private warehouses and twenty-six (26) in-bond warehouses. Therefore, the Audit Office was unable to verify whether the operation of these warehouses was in conformity with the Act.

### Recovery of Duties

- 3.16** Certain individuals are granted permission to import vehicles free of duties. They must retain ownership of these vehicles for a period of five (5) years, otherwise the duties pertaining to the unexpired portion of years become payable. During the year under review, the Ministry of Finance reported duties totaling \$476,651.44 which became payable due to breaches of agreements. Audit efforts to verify whether these unexpired duties were collected were unsuccessful due to a lack of cooperation from the Refunds Manifest and Control Board Unit. It should also be noted that outstanding amounts for the above duties and taxes payable were not reported in the Statement of Arrears of the Department.

#### **Customs Response:**

*A search of the ASYCUDA++ records reveal that the sum of \$174,810.98 has been collected so far leaving an outstanding balance of \$301,840.46.*



### Cash in Hand Account

- 3.17** The balance in the Cash In Hand account represents amounts collected by Customs, and for which the bank deposit slips have not been presented to the Treasury. This account generally carries a debit balance and is cleared once the bank deposit slips are presented to the Treasury. It was however noted that this account carried a credit balance of \$2,101,697.99 at the close of business for the past two financial years.
- 3.18** This unusual balance is substantial and should be investigated by both the Customs and Treasury Departments with a view to rectifying all errors in the account.

## **Ministry of Culture, Sports and Youth**

### No Contracts Presented to Support Payments In Excess of \$50,000

- 3.19** Financial Rule 222 requires that items or services exceeding the cost of \$50,000 must be supported by a contract. The auditors requested contracts for a sample of fifteen (15) suppliers who were paid a total of \$2.9 million, either for services rendered or for providing items that cost in excess of \$50,000. No contracts were presented for three (3) of these suppliers.

### No Evidence of Selection Process for Contracts

- 3.20** With respect to a number of suppliers, no documentation was presented to indicate that a selection process was used or that quotations were





received and evaluated for services rendered. In this regard, there was no evidence that a fair and transparent process was in place when the selection was made with respect to the suppliers.

- 3.21** According to Financial Rules 222 (1), (2) and (4), before authorized officers accept contracts for services or supplies exceeding \$50,000, they are required to either, obtain at least three (3) written quotations for services or supplies between \$50,000 and \$200,000; or invite tenders for services or supplies exceeding \$200,000. In the absence of such, there is the increased risk of biased selection, and uncertainty as to whether the fees charged were the most reasonable.

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

- 3.22** The Barbados Light & Power Company confirmed that at the 31<sup>st</sup> March 2018, the Ministry of Transport and Works owed \$7.238 million for the supply of electricity. There was no evidence of this amount being expensed as required. As a result, expenses for utilities by the Government were understated by this amount. There was also no evidence that a liability for this amount was recorded in the Financial Statements.



## Police Department

### Un-authorized Assets Purchased

- 3.23** Goods totaling \$754,838.65 including computers and pick-up trucks were not approved in the Estimates of expenditure by Parliament. Funds approved by Parliament should be used only for the purpose intended.

#### **Police's Response:**

*This matter will be rectified.*

## Ministry of Agriculture, Food, Fisheries and Water Resources

### **Incentives & Other Subsidies**

#### Refunds not accrued

- 3.24** The Ministry of Agriculture provides assistance to farmers by reimbursing them for the purchase of agricultural items. An amount of \$790,396.55 authorized for disbursement by the Ministry in financial year 2016/2017 was not paid due to insufficient funds being in the approved Estimates of Expenditure. In essence, the Ministry of Agriculture decided to honour these requests for reimbursements even though they did not have the required amount of funds. As a result, the Ministry would have incurred



expenses greater than that approved by Parliament. The Ministry should have sought a supplementary provision to cover the excess amounts required, or alternatively restrict the amounts to be reimbursed to the amounts approved by Parliament in the Estimates.



## Audit of Barbados Revenue Authority

- 3.25** The Barbados Revenue Authority (the Authority) produced two sets of financial statements. One set of statements was in respect of the grant/subvention received from Government to fund its operations. This fund is established in the Barbados Revenue Authority (Amendment) Act, 2018-17. The other was in respect of revenue collected for the Consolidated Fund. The comments below are in respect of this latter fund.
- 3.26** The Authority reported on the total collections of a number of taxes inclusive of the Value Added Tax, even though a large portion of this tax is collected by the Customs & Excise Department. This presented some challenges, since the Authority was reporting totals for which it could not provide any supporting documentation to the auditors.
- 3.27** The Authority is a collector of revenue, and should account for its collection as required by Section 22 (3) (c) of the Financial Management and Audit Act, 2011. This Act requires all collectors of revenue to report to the Accountant General approved statements of receipts, revenue, receivables, refunds, waivers and remittances. The Treasury would then include the relevant totals from these submissions in the financial statements.
- 3.28** The financial statements produced for the Administered Activities (Revenue Collection) are not in respect of any fund, and readers of these statements would find them somewhat confusing. For example, there is no statement of Financial Performance. There are no expenses or operating surplus or deficit. There is an amount of \$458 million recorded



as other receivables, which is essentially a balancing figure. The Authority should revisit the format of these statements.

### Deposit Account

- 3.29** Revenue collected on behalf of the Crown is deposited to a commercial bank. The Authority reported a balance of \$17,187,000 on this account at March 31, 2018. While a reconciliation was presented, the related bank statements were not presented to allow for an audit verification of the bank related figures on the reconciliation.

#### Authority's Response:

*The Authority apologises for the non-submission of the bank statements and will ensure that such crucial information is available in future.*

### Refunds Account

- 3.30** The Authority has a bank account dedicated to the payment of refunds. Funds are deposited to this account by the Treasury Department to honour refunds to taxpayers. The Authority reported a balance of \$3,068,000 on this account at the 31<sup>st</sup> March, 2018. It was however noted that the reconciliation presented carried an unexplained difference of \$894,681.81 between the bank statement and the records of the Authority. No satisfactory explanation was given for this figure.



## Tax Receivables

- 3.31** Tax Receivables were reported as \$1.337 billion net of provision for bad debts. It should be noted that this figure does not include amounts prior to tax year 2013 for individual Income tax and Corporation tax. As a result, the total receivables figure was not reported. In addition, there were differences totaling \$2,712,000 between the \$1.337 billion reported and the schedules provided.

### Authority's Response:

*The Authority will investigate the difference mentioned with the tax receivables schedule.*

## Other Receivables

- 3.32** The Statement of Financial Position (Balance Sheet) included Other Receivables of \$458,338,000. However, no schedule was presented to substantiate this amount. Without such documentation, it was difficult for the auditor to verify the accuracy of this receivable. Therefore, the Other Receivables balance could not be verified.



### Lack of Access to the Income Tax System by Auditors

- 3.33** Numerous requests were made to the Authority for read-only access to the Income Tax system. An approach utilizing the assistance of management personnel was attempted but proved to be restrictive and inefficient. Therefore the audit was unable to verify Income Tax balances.

#### Authority's Response:

*As previously outlined, supervised access was available to the Auditors because the E-Tax system is only available in production.*

### Lack of Access to Information on Valued Added Tax System

- 3.34** The Barbados Audit Office did not have access to the Valued Added Tax (VAT) electronic system in order to verify the reported revenue of \$970 million.

#### Authority's Response:

*The Authority apologises for this unfortunate outage. This matter will be raised with our IT personnel.*



## Liabilities

**3.35** The figures listed as liabilities could not be verified due to the following:

- (i) A figure of \$1.364 billion was reported as “Due to Treasury” in the Statement of Financial Position. The schedule submitted included figures which were not supported by details.
- (ii) Tax Refunds Payable was reported as \$425 million. No documentation was provided to substantiate the refund payable figure.

### Authority’s Response:

*Details to support the schedules will be submitted in future.*

## General Fund

**3.36** An amount of \$26,183,000 was reported as General Fund. It was not clear what this amount represented and how it was derived. A similar figure was also reported for the previous financial year. It should be noted that the revenue information being recorded is not in respect of any fund held by the Authority and this item is a source of some confusion.





## National Assistance Board

### Retirement Benefits

- 3.37** In accordance with the Statutory Board Pensions Act Cap 384, 32A, the pension received by an officer who was employed by the National Assistance Board (the Board) on or after 1<sup>st</sup> November 1975 should be abated (reduced) on receipt of a National Insurance pension. However, the Board has not been abating the pensions of officers as required.
- 3.38** The unauthorised pensions resulted in overpayments of \$681,358.94 for financial year 2015/2016. This matter was previously drawn to the attention of the Board but no corrective action has been taken to date.



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## CHAPTER 4

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

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**T**he Office of the Auditor General is responsible for reporting to Parliament on the audit of the accounts of all Government Agencies, including Statutory Bodies, Funds and other controlled entities. It should however be noted that while the accounts of some of these entities are audited by my Office, the majority are audited by private sector auditors.

- 4.2** This chapter outlines the status of the audits of Boards, other State Agencies and Funds as at 31<sup>st</sup> December 2018. It is divided into two sections. The first contains reports on those entities audited by the Barbados Audit Office, and the second reports on the entities that are audited by private sector auditors.

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

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##### **Arts and Sports Promotion Fund**

- 4.3** The Arts and Sports Promotion Fund was established under the Arts and Sports Promotion Fund Act, 2003. The purpose of the Fund is to provide financial assistance to activities and programmes conducted by arts and sporting organizations for the development and practice of arts and sports.



- 4.4 The Financial Statements for the years ended 31<sup>st</sup> March 2014 to 2017 have been submitted to the Audit Office and will be audited during the year 2019.

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

- 4.5 The Barbados Boxing Board of Control oversees the promotion and regulation of boxing in Barbados. The Board receives an annual grant from the Barbados Government, and is required to have its accounts audited by the Barbados Audit Office. The Financial Statements for the 2016 to 2018 years are outstanding.

#### **Barbados Community College**

- 4.6 The audit of the accounts of the Barbados Community College (BCC) is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. The Financial Statements for the years ended 31<sup>st</sup> March 2011 to 2013 were subcontracted to private sector auditors. However, the audited Financial Statements have not been submitted to my Office for sign off at the time of writing. This has been caused by delays in the submission of information by the College, and the slow rate of completion by the auditors.
- 4.7 The audits of the Financial Statements of the College for the financial years ended 31<sup>st</sup> March 2014 to 2018 are currently being conducted by members of staff of my Office.



### **Barbados Defence Force**

- 4.8** The Financial Statements of the Barbados Defence Force for the financial years ended 31<sup>st</sup> March 2015 to 2018 have been submitted and are currently being audited by members of staff of my Office.

### **Barbados Community College Hospitality Institute**

- 4.9** The Barbados Hospitality Institute falls under the aegis of the Barbados Community College. This Institute conducts training for persons pursuing careers in the Hospitality Industry. The audit of the accounts for the financial years ended 31<sup>st</sup> March 2011 and 2012 was contracted out to private sector auditors. However, the relevant audits were not conducted hence the audit work was taken over by my Office.

- 4.10** The Financial Statements for the financial years ended 31<sup>st</sup> March 2011 to 2018 are currently being audited by staff of the Barbados Audit Office.

### **Barbados Liaison Service – Miami**

- 4.11** The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. An audit of the accounts of the service will be conducted during the next on-the-spot visit to the Consulate in Miami.



#### **4.12 Barbados Liaison Service – Toronto**

The Barbados Liaison Service in Toronto administers a program relating to farm and hotel workers recruited from Barbados. The audit of the accounts of the Liaison Service in Toronto will be conducted when Audit Officers next visit the Missions in Canada.

#### **Caribbean Centre for Development Administration (CARICAD)**

**4.13** The Caribbean Centre for Development Administration (CARICAD) provides assistance to the countries of the Caribbean region for the purpose of improving their administrative capability. The Financial Statements for the Financial Years ended 31<sup>st</sup> March 2015 to 2018 are currently being audited by staff of the Barbados Audit Office.

#### **Catastrophe Fund**

**4.14** The Catastrophe Fund was established in 2006 and is administered by the National Insurance Department. This Fund provides financial aid to persons with homes valued at no more than \$150,000 which are damaged by a catastrophe.

**4.15** The audit of the accounts of the Catastrophe Fund for the year ended 31<sup>st</sup> December 2009 has been completed. The audits of accounts for the years 2010 to 2017 remain outstanding.



### **Central Liaison Service**

- 4.16** The Central Liaison Service (Regional Security System) is a regional security organization headquartered in Barbados and supported by a number of Caribbean countries. Its functions include assisting with the fight against illegal narcotics, and combating threats to national security in member states. The Financial Statements for the year ended 31<sup>st</sup> March 2016 were audited during the year. The statements for the financial years ended March 2017 and 2018 have not been submitted for audit.

### **Community Legal Services Commission**

- 4.17** The Community Legal Services Commission provides legal aid to persons who need assistance, and meet the established criteria. The accounts of the Commission for the financial years ended 31<sup>st</sup> March 2012 to 2018 have not yet been submitted to the Office to allow audits to commence.

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

- 4.18** The Erdiston Teachers' Training College is an educational institution established for the training of teachers. The accounts of the College for the financial years ended 31<sup>st</sup> March 2013 to 2018 have not been submitted for audit. The audits of the Financial Statements for this period are therefore outstanding.



### **National Assistance Board**

- 4.19** The National Assistance Board provides assistance to poor and needy persons in a variety of ways, and this includes providing a Home Help Service. 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 months of the end of each financial year, to the Auditor General for audit.
- 4.20** The financial statements for the financial years ended 31<sup>st</sup> March 2014 to 2016 were audited during 2018. The audit for the years ended March 2017 and 2018 is currently ongoing.

### **National Insurance Fund**

- 4.21** The audit of the accounts of the National Insurance Department continues to be a challenging exercise. However, some progress was made during 2018 with the completion by the private sector auditors of the audits for 2007 to 2009. The audit for the financial year 2010 was also audited by the Barbados Audit Office during 2018, and a report will be issued shortly. Audits for the financial years 2011 to 2017 are currently outstanding.
- 4.22** There are challenges in bringing the audit of the accounts of the National Insurance Department up to date. The first relates to the preparation and presentation of the Financial Statements and schedules in order for the auditors to perform their tasks. In this regard, the Office is awaiting information for the 2011 financial year in order to commence the audit. The Department needs to submit Financial Statements for a number of years in order for real progress to be made in addressing the backlog. The other challenge relates to the availability of audit resources. Currently, the



Office would be hard pressed to complete the audit of more than two or three years of the eight (8) years outstanding during 2019.

### **Retraining Fund**

**4.23** The Retraining Fund was established in 2010 by the National Insurance and Social Security (Amendment) (No. 2) Act, 2010-9, and is operated under the management and control of the National Insurance Board. The Fund provides funding for the retraining of persons who have become unemployed. The training is administered by the National Employment Bureau.

**4.24** The audits of the accounts for the financial years ended 31<sup>st</sup> December 2010 to 2017 are outstanding.

### **Samuel Jackman Prescod Institute of Technology**

**4.25** The Samuel Jackman Prescod Institute of Technology is an educational institution which offers technical and vocational training in a number of disciplines. 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 Accounts audited by the Auditor General.

**4.26** The Financial Statements of the Institute have not been audited for over ten years. The Institute has submitted statements to be audited for the 2014 to 2016 financial years and these accounts are currently being audited by my Office.





### **Sanitation Service Authority**

- 4.27** The Financial Statements of the Sanitation Service Authority for the financial years ended 31<sup>st</sup> March 2014 to 2018 were submitted to the Audit Office in 2018 and these accounts are currently being audited.

### **Severance Payment Fund**

- 4.28** The accounts of the Severance Fund for the financial years ended 31<sup>st</sup> December 2010 to 2017 have not been made available to the Audit Office for audit, hence the audits for this period are currently in arrears.

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

- 4.29** The Revenue and Expenditure Accounts of the Sugar Factory Smoke Control Board for the years ended 31<sup>st</sup> December 2001 to 2017 have not been submitted for audit in accordance with Section 3 (11) of the Registered Sugar Factories Smoke Control Act, Cap. 355. The audit of the accounts of the Board for these years is therefore outstanding.

### **Sugar Industry Research and Development Fund**

- 4.30** The audit of the Receipts and Payments Accounts of the Fund for the financial years ended 31<sup>st</sup> December 2012 has been completed. The audit of the Accounts for the financial years ended December 2013 to 2017 is outstanding.



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

- 4.31** 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 pension under the National Insurance and Social Security Act. The audits of the accounts for the financial years ended 31<sup>st</sup> December 2010 to 2017 are outstanding.

### **Transport Authority**

- 4.32** The Transport Authority was set up on 1<sup>st</sup> August 2008 to regulate, monitor and plan for public transportation in Barbados. The audit of the accounts for the financial years ended 31<sup>st</sup> March 2010 to 2018 is outstanding. The Authority has indicated that it is in the process of identifying an auditor for its accounts. The Barbados Audit Office has been mandated to audit the accounts of the Authority and is willing to conduct the audit as soon as the relevant statements and schedules are made available.

### **Unemployment Fund**

- 4.33** The Unemployment Fund, which is administered by the National Insurance Department, pays benefits to those qualifying persons who were laid off from work. The audit of the accounts for the financial years ended 31<sup>st</sup> December 2010 to 2017 remains outstanding.



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## Audits of State Agencies 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. However, Private Sector Auditors conduct a number of these audits. A report on the status of these audits is as follows:

### 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), a responsibility which was assumed from the Barbados National Bank in the form of a portfolio transfer. The audit of the accounts for the financial years ended 31<sup>st</sup> March 2014 to 2018 is outstanding. The Trust has indicated that it continues to experience financial challenges which impact its ability to have the accounts audited in a timely manner.

#### **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 and Management Corporation (BADMC). The principal activity of the BADMC under Section 10 of the BADMC Act, 1965 - 21 is the management of the production, marketing and processing of produce in Barbados. The



BADMC was established by the BADMC 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 Corporation reported that the audit of the Financial Statements for the year ended 31<sup>st</sup> December 2014 is currently in progress. At the time of writing, the audits for the financial periods ended 31<sup>st</sup> December 2015 to 2017 were also outstanding.

#### **Barbados Agricultural Management Co. Ltd**

- 4.38** The Barbados Agricultural Management Co. Ltd is a subsidiary of the Barbados Agricultural Trust Ltd, whose sole shareholder is the Government of Barbados. The Company is involved in the cultivation of sugarcane and non-sugar crops, and it manages and operates the sole sugar factory on the island. The Company reported that the audit of the accounts for the financial year ended 31<sup>st</sup> June 2018 was outstanding.

#### **Barbados Cane Industry Corporation**

- 4.39** The Barbados Cane Industry Corporation was established under the Companies Act of Barbados to restructure the sugar cane industry. The Corporation indicated that the audit of the Financial Statements for the financial year ended 31<sup>st</sup> March 2014 was completed. The Corporation indicated that scheduling problems with the auditors were delaying the audits for subsequent years. The audit of the accounts for the years ended March 2015 to 2017 is outstanding.



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

- 4.40** The Barbados Conference Services Ltd. (BCSL) is responsible for the operations of the Lloyd Erskine Sandiford Centre, and provides destination management and transport services under the brand names, “Horizon Events’ Planners” and “Horizon Coaches and Tours” respectively. The BSCL reported that the audit of the Financial Statements for the financial year ended 31<sup>st</sup> March 2018 was completed.

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

- 4.41** 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, offshore financial, export and other related activities. The Corporation indicated that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 was in progress and has been delayed due to a number of matters. These include impairment considerations under IFRS for state enterprises as a result of Government’s Debt restructuring exercise, and outstanding legal confirmation from its external lawyers.

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

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



- 4.43** The audits of the accounts of the BNOCL for the financial years ended 31<sup>st</sup> March 2017 and 2018 are in progress, and have stalled primarily because of concerns by the auditors on the value of reserves.

#### **Barbados National Terminal Company Limited**

- 4.44** The Barbados National Terminal Company Limited is a Limited Liability Company, and a wholly owned subsidiary of the Barbados National Oil Company Limited. Its principal activity is the storage and distribution of petroleum products on behalf of its parent company. The audits of the accounts for the financial years ended 31<sup>st</sup> March 2017 to 2018 are outstanding.

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

- 4.45** The principal activity of the Barbados Port Incorporated is to manage the Port of Bridgetown, for the main purpose of enabling the Port to operate as a commercial entity. The Authority has indicated that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 is in progress and should be completed once matters pertaining to Government Paper and the debt restructuring program have been resolved.

#### **Barbados Tourism Authority**

- 4.46** The principal activities of the Barbados Tourism Authority (BTA) were 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. This entity has been replaced by the Barbados Tourism Marketing Inc. and the Barbados Tourism Product Authority, which are reported on in succeeding paragraphs.



**4.47** Audited Financial Statements for the financial year ended 31<sup>st</sup> March 2012 were submitted to the Audit office. The audit of Financial Statements for the period 1<sup>st</sup> April 2013 to 30<sup>th</sup> September 2014, the point of cessation of operations, was said to be ongoing.

**Barbados Tourism Marketing Inc.**

**4.48** The Barbados Tourism Marketing Inc. (BTMI) has reported that the audits of the accounts for the financial years ended 31<sup>st</sup> March 2014 & 2015 are in progress. The BTMI has indicated that it was seeking to conclude the audit of accounts for 2016 to 2018 by the 28<sup>th</sup> June 2019.

**Barbados Tourism Product Authority**

**4.49** The Barbados Tourism Product Authority has merged with the Barbados Tourism Marketing Inc., which has indicated that it was seeking to have the outstanding audits for the 2015 to 2018 financial years completed by 19<sup>th</sup> June 2019.

**Barbados Tourism Investment Inc.**

**4.50** The principal activities of the Barbados Tourism Investment Inc. (BTII) are the facilitation of tourism investment in Barbados, and the development of its vested properties in private and public partnerships.

**4.51** The BTII has reported that the audits of the accounts for the financial years ended 31<sup>st</sup> March 2014 to 2018 are currently being conducted.



### **Barbados Vocational Training Board**

**4.52** The Barbados Vocational Training Board, previously called the National Training Board, was established under the Occupational Training Act, 1979, Cap. 42. Its purpose was to ensure an adequate supply of trained manpower through occupational training for apprentices and trainees in the country.

**4.53** The Board has indicated that the audit of the accounts for the years ended March 2010 and 2011 is in progress. The audit of accounts for the periods ended March 2012 to 2018 has not commenced.

### **Barbados Water Authority**

**4.54** 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.

**4.55** The BWA reported that the audits of the accounts for the financial years ended March 2015 to 2018 were outstanding.

### **Caribbean Broadcasting Corporation**

**4.56** The principal activity of the Caribbean Broadcasting Corporation (CBC) is the provision of broadcasting services through radio and television. The Corporation reported that the audits of the accounts for the financial years ended 31<sup>st</sup> March 2016 and 2017 have been completed. The audit of the accounts for 2018 remains outstanding.





### **Caves of Barbados Ltd**

- 4.57** Caves of Barbados Ltd (CBL) is mandated under the Caves Act 2000-12 to manage and develop Harrison's Cave and any other caves in Barbados. The CBL indicated that the audit of the Financial Statements for the year ended 31<sup>st</sup> March 2016 was submitted to Parliament. The audits of the accounts for the period 31<sup>st</sup> March 2017 to 2018 were outstanding.

### **Central Bank of Barbados**

- 4.58** The Central Bank of Barbados is incorporated under the Central Bank of Barbados Act CAP 323C and is responsible for the administration of the Financial Institutions Act, CAP 324A, and the International Financial Services Act, CAP 325. Its main responsibility is to formulate, in association with Government, monetary and fiscal policies to assist with the country's economic development programme. The Bank has indicated that "the 2017 Financial Statements have not been presented to Parliament, and are therefore not available for release".

### **Child Care Board**

- 4.59** The principal activities of the Child Care Board are to provide and maintain child care institutions for the safe keeping of children in need of care and protection; and to make grants to voluntary organizations or bodies operating child care institutions. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2017 has been completed and the audit for 2018 was reported to be in progress.



### **Enterprise Growth Fund Limited**

- 4.60** 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. The EGFL also provides business advisory services and technical assistance to its client companies. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 has been completed.

### **Fair Trading Commission**

- 4.61** The principal activity of the Fair Trading Commission (FTC) is to enforce the Utilities Regulation Act, Cap. 282, the Telecommunications Act, Cap. 282B, the Fair Trading Competition Act, Cap. 326C and the Consumer Protections Act, Cap. 326D.

- 4.62** The Commission is required to promote efficiency and competitiveness, and improve standards of service and quality of goods and services supplied by service providers and business enterprises over which it has jurisdiction. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 has been completed.

### **Financial Services Commission**

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



**4.64** The functions of the Financial Services Commission (FSC) include the supervision and regulation of the operations of financial institutions; the establishment of standards for institutional strengthening; the control and management of risk in the financial services sector; and the protection of customers of financial institutions, as well as creditors and the public. They also include the promotion of stability, public awareness and public confidence in the operations of financial institutions. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 has been completed.

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

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

**4.66** The GAIA has reported that the audit of the Financial Statements for the financial year ended 31<sup>st</sup> March 2018 has been completed.

#### **Hotels and Resorts Ltd.**

**4.67** 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 Company reports that the audit of the Financial Statements for the period ended 31<sup>st</sup> March 2018 is in progress. However, matters pertaining to the valuation of the Hotel's properties and amounts due to Government need to be clarified.



### **Island Crafts (Barbados) Inc.**

- 4.68** The principal activity of Island Crafts Inc. is the sale and marketing of indigenous handcraft items. It was reported that Island Crafts Inc. ceased operations during 2015. The audit of the Financial Statements for 2014 has been completed and presented to the Office. The audit for 2015 remains outstanding.

### **National Conservation Commission**

- 4.69** The principal activity of the National Conservation Commission (the Commission) is the management, maintenance and development of the public parks, beaches and open areas of Barbados.

- 4.70** The audit of the accounts of the Commission has been completed up to the financial year ended 31<sup>st</sup> March 2013. The Commission has for the second year reported that the audits of the accounts for the financial years ended 31<sup>st</sup> March 2014, 2015 and 2016 were in progress. The Commission reported that the audit of the accounts for the years ended March 2017 to 2018 had not commenced.

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

- 4.71** The principal activity of the National Council on Substance Abuse (NCSA) is to advise the Ministry of Home Affairs on measures for the eradication or control of substance abuse.

- 4.72** The accounts of the Council are audited by auditors from the private sector; however, due to budgetary constraints the Barbados Audit Office was requested to conduct the audit of the accounts for the financial year



ended 31<sup>st</sup> March 2011, and this audit has been completed. The accounts for the financial years ended 31<sup>st</sup> March 2012 to 2018 are currently being audited by staff of the Barbados Audit Office.

### **National Cultural Foundation**

**4.73** The principal activities of the National Cultural Foundation (the Foundation) 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.

**4.74** The Foundation has reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 has been completed.

### **National Housing Corporation**

**4.75** The National Housing Corporation is a state agency which has responsibility for the development of land and the construction of housing units for sale or rent to low and middle-income persons. The Corporation has once again reported that the audit of the accounts for the financial years ended 31<sup>st</sup> March 2012 to 2014 is in progress. The audits for the financial years ended 31<sup>st</sup> March 2015 to 2018 are also outstanding.

### **National Productivity Council**

**4.76** The principal activities of the Barbados National Productivity Council (BNPC) are to create and develop methodologies for measurement, management and improvement in the public service and private sector, and to provide technical advice and assistance for devising productivity-



related payment schedules. The Council indicated that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 has been completed.

### **National Petroleum Corporation**

- 4.77** The National Petroleum Corporation (the Corporation) has as its principal activity the supply of natural gas to industrial, commercial and domestic customers. The Corporation has indicated that the audit of the accounts for the financial years ended 31<sup>st</sup> March 2016 to 2017 is in progress. The audit of the accounts for the financial years ended 31<sup>st</sup> March 2018 is also outstanding.

### **National Sports Council**

- 4.78** The principal activities of the National Sports Council (NSC) are to maintain and develop sporting facilities for public use, and to stimulate the development of sports in Barbados. The Council reported that the audits of the accounts for the financial years ended 31<sup>st</sup> March 2013 to 2018 have been substantially completed; however, the auditors are awaiting confirmation from the Treasury on the quantum of grants released, before the audits can be finalized.

### **Needham's Point Development Inc.**

- 4.79** Needham's Point Development Inc. was incorporated under the Companies Act of Barbados on 22<sup>nd</sup> August 1996, its sole shareholder being the Government of Barbados. The principal activity of the company is to oversee the development of the lands at Needham's Point, St. Michael.



- 4.80** The Company has reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 is ongoing and should shortly be completed.

#### **Queen Elizabeth Hospital**

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

- 4.82** The Hospital has reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2011 has been completed. The audits of the accounts for the financial years ended 31<sup>st</sup> March 2012 to 2018 are outstanding.

#### **Rural Development Commission**

- 4.83** The Rural Development Commission (the Commission) 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.

- 4.84** The Commission has reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2009 is in progress. In addition the audits of accounts for the financial years ended 31<sup>st</sup> March 2010 to 2018 are outstanding.



### **Student Revolving Loan Fund**

- 4.85** The Student Revolving Loan Fund (the “SRLF”) was established under the Student Revolving Loan Fund Act, 1976-20. The principal activity of the Fund is the provision of loans to eligible Barbadians pursuing full-time studies in post-secondary, technical, vocational, undergraduate and graduate programmes. The Fund has indicated that the audit of its accounts for the financial year ended 31<sup>st</sup> March 2018 is currently in progress.

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

- 4.86** The principal activities of the Technical and Vocational Education and Training (TVET) Council are to provide advice on policy, and to prepare plans and establish standards for technical and vocational education at the tertiary level, in accordance with national policies and economic needs. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 has been completed.

### **Transport Board**

- 4.87** The Transport Board’s principal activity is the provision of transportation to the general public. The Board’s last audited Financial Statements were for the financial year ended 31<sup>st</sup> March 2011. The audit of the accounts for the financial years ended 31<sup>st</sup> March 2012 to 2018 remains outstanding.





#### 4.88 Urban Development Commission

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 for assistance in house acquisition, repairs and improvements. The Commission reported that the audit of the accounts for the financial years ended 31<sup>st</sup> March 2008 to 2018 had not been conducted.



## **Audits of Secondary Schools**

**4.89** 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> March 2018 was as follows:

### **Up-to-Date Audits**

**4.90** The audits of the accounts of the schools listed below have been completed for the financial year ended 31<sup>st</sup> March 2018. The accounts of these schools are therefore up-to-date as required by the Education Act.

- (a) Deighton Griffith Secondary School**
- (b) Daryll Jordan Secondary School**

### **Audits not Up-to-Date**

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

- **Alexandra School**

**4.92** The School has reported that the audits of its accounts for the financial years ended 31<sup>st</sup> March 2013 to 2015 are currently in progress. The School reported that the audits for the period ending 31<sup>st</sup> March 2016 to 2018 had not yet commenced.



- **Alleyne School**

**4.93** The School reported that the audits of its accounts for the financial years ended 31<sup>st</sup> March 2016 to 2018 had not commenced and were therefore outstanding.

- **Alma Parris Secondary School**

**4.94** The audits of the accounts of the Alma Parris Secondary School for the financial years ended 31<sup>st</sup> March 2017 to 2018 were outstanding.

- **Christ Church Foundation School**

**4.95** The Christ Church Foundation School reported that the audits of the accounts for the financial years ended 31<sup>st</sup> March 2013 to 2018 were outstanding.

- **Coleridge and Parry School**

**4.96** The School has reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2012 was completed. The audit of the accounts for the financial year ended 31<sup>st</sup> March 2013 was said to be in progress. The audits of the accounts for the financial years ended March 2014 to 2018 are outstanding.

- **Combermere School**

**4.97** The audits of the accounts of the Combermere School for the financial years ended 31<sup>st</sup> March 2011 to 2018 are outstanding.



- **Daryll Jordan Secondary School**

**4.98** The school has reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2018 has been completed.

- **Ellerslie Secondary School**

**4.99** The school has reported that the audit of its accounts for the financial years ended 31<sup>st</sup> March 2017 to 2018 was outstanding.

- **Frederick Smith Secondary School**

**4.100** The audits of the accounts of the Frederick Smith Secondary School for the financial years ended 31<sup>st</sup> March 2013 to 2018 are outstanding.

- **Grantley Adams Memorial School**

**4.101** The audits of the accounts of the Grantley Adams Memorial Secondary School for the financial years ended 31<sup>st</sup> March 2013 to 2018 are outstanding.

- **Graydon Sealy Secondary School**

**4.102** The Graydon Sealy Secondary School reported that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2016 was in progress, and that the auditor has experienced some challenges that have retarded the progress. The audits for the financial years ending 31<sup>st</sup> March 2017 and 2018 are also outstanding.



- **Harrison College**

**4.103** Harrison College indicated that the audit of the accounts for the financial year ended 31<sup>st</sup> March 2016 was in progress. The audits of the accounts for financial years ended March 2017 to 2018 are outstanding.

- **Lester Vaughan School**

**4.104** The Lester Vaughan School reported that the audit of the accounts for the financial years ended 31<sup>st</sup> March 2013 to 2018 was outstanding.

- **The Lodge School**

**4.105** The Lodge School has reported that the accounts for the financial years ended 31<sup>st</sup> March 2017 to 2018 were being prepared for the auditors. The audit of the accounts for these years therefore remains outstanding.

- **Parkinson Memorial School**

**4.106** The audit of the accounts of the Parkinson Memorial School for the financial years ended 31<sup>st</sup> March 2013 to 2018 is outstanding. The School indicated that the private auditor was experiencing problems with the audit, and that the Ministry of Education had been informed on the matter.

- **Princess Margaret Secondary School**

**4.107** The audit of the accounts of the Princess Margaret Secondary School for the years ended 31<sup>st</sup> March 2015 to 2018 remains outstanding.



- **Queen's College**

**4.108** The audits of the accounts of Queen's College School for the financial years ended 31<sup>st</sup> March 2013 to 2018 are outstanding.

- **Springer Memorial Secondary School**

**4.109** The audit of the accounts of the Springer Memorial Secondary School for the financial year ended 31<sup>st</sup> March 2013 is in progress. The audits of accounts for the years ended 31<sup>st</sup> March 2014 to 2018 are outstanding.

- **St. George Secondary School**

**4.110** The audits of the accounts of the St. George Secondary School for the financial years ended 31<sup>st</sup> March 2013 to 2018 are outstanding.

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

**4.111** The audits of the accounts of the St. Leonard's Boys' Secondary School for the financial years ended 31<sup>st</sup> March 2013 to 2018 are outstanding.

- **St. Michael School**

**4.112** The St. Michael School reported that the audits of its accounts for the financial years ended 31<sup>st</sup> March 2013 to 2018 were outstanding.



## General Observations

- 4.113** The level of arrears in the audits of state entities continues to be a cause of concern. The Ministry of Finance has indicated that it would like the accounts of statutory entities brought up to date by mid-2019, and this is a tall order.
- 4.114** The amended Financial Management & Audit Act calls for improvement in the financial and operational reporting of state enterprises. This will be a great challenge for these agencies. Success in these areas is predicated on a full assessment of the underlying issues that are creating the problem, and taking the necessary action to rectify the identified deficiencies. The recruitment and training of staff, and the improvement in the accounting and information systems of these enterprises are critical.
- 4.115** The agencies reported on in this chapter have responsibilities for providing services to the public and are responsible for the spending of hundreds of millions of public funds annually. The auditing of their accounts on an annual basis is an important aspect of good governance and accountability, and is required by law. Action therefore needs to be taken against those charged with the management of Government funds to ensure that the audit of accounts is completed as required by law.



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## CHAPTER 5

### SPECIAL AUDITS

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**T**his chapter reports on a number of special audits conducted by the Audit Office. These include a review of the construction of the School Meals Centre at Six Roads, St. Philip, and follow-up audits on squatting on Government properties and the high rise apartment at the Grotto, St. Michael.

#### School Meals Centre at Six Roads, St. Philip

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##### Introduction

- 5.2** In June 2008, approval was granted for a new School Meals Centre (the Centre) to be built at Six Roads, St. Philip for the purpose of providing meals for students at schools in St. Philip, Christ Church, St. John and parts of St. George, as well as catering to emergency situations in the event of a national disaster. The Centre was to replace the one at Summervale, St. Philip, which was closed to facilitate the construction of the new Prison Facility, and the other at St. Christopher, Christ Church which was operating in extremely cramped conditions while providing meals to twenty (20) schools instead of the two (2) for which it was originally constructed. This Project involves the construction of a two (2) storey building; the procurement, installation and commissioning of kitchen and related equipment; and the training of personnel to use the said equipment.



**5.3** Construction was due to commence on 31<sup>st</sup> August 2012 and finish on 31<sup>st</sup> January 2014, at a cost of \$19.90 million inclusive of \$6.66 million for the procurement and installation of the kitchen equipment. However, as at the 31<sup>st</sup> December 2018, \$23.12 million (inclusive of \$7.38 million for the kitchen equipment) had been spent and the project had not been completed. This review examined the factors contributing to the delay in the completion of the Centre and those leading to increased costs, with a view to avoiding such errors in future projects.

#### **Reason for the Audit**

**5.4** The audit was requested by the Permanent Secretary, Ministry of Education, Technological and Vocational Training (the Ministry of Education or the Ministry), based on concerns over the management of the new School Meals Centre Project.

#### **Audit Objective and Scope**

**5.5** The objective was to analyze the circumstances surrounding the cost increases, and the management of the project.

**5.6** The audit examined the following activities pertaining to the Construction of the School Meals Centre at Six Roads, St. Philip for the period February 2011 to December 2018:

- The execution of the contract;
- Payments to the contractor, and
- Management of the contract.



## Methodology

- 5.7 Meetings were held with the Permanent Secretary (the PS), Ministry of Education, personnel from the Education Technical Management Unit (ETMU), the Contractor's representatives and the Consultants. A site visit was conducted which was attended by the Education Technical Management Unit's personnel, a representative from the Architect's Office, representatives from the Kitchen Consultant's Office, and representatives from the Contractor.

## Mandate

- 5.8 The audit was conducted in accordance with Section 36 (3) of the Financial Management and Audit Act, 2007 -11 which states that the Auditor General may carry out examinations into the economical, efficient and effective use of resources of any Ministry or Department or any other entity required to be audited by him.



## Summary of Audit Findings

### Introduction

- 5.9** The construction of the new School Meals Centre project involved the construction of the Centre and the procurement, installation and commissioning of kitchen and related equipment, as well as the training of personnel to use the said equipment. The Contractor was responsible for procuring the kitchen equipment, the cost of which was to be included in the Certificates of Interim/ Progress Payment (Certificate/s).

### Award of Contract

- 5.10** Approval was granted in June 2008 for the construction of a new School Meals Centre to be built at Six Roads, St. Philip, which would replace the one at Summervale which was displaced by the construction of the new Prison Facility, and the other at St. Christopher, which was operating in extremely cramped conditions. The project was publicly tendered during the months of January and February 2011, and the Tenders Committee made a recommendation to award the contract to Firm 1 in the amount of \$17.68 million. However, on recommendation of the Minister of Education, Cabinet agreed to vary the recommendation of the Tenders Committee in accordance with Financial Rules 237 (2) and (3), and the contract was awarded to Firm 2 in the amount of \$19.90 million. The rationale for varying the recommendation was based on the view that the award of the contract to Firm 1 would not lend to the most effective utilization of domestic labour, and maximum circulation of the financial resources to be invested in the project.



**5.11** Construction was to begin on 31<sup>st</sup> August 2012 and completed on 31<sup>st</sup> January 2014. The completion date was extended to the 17<sup>th</sup> November 2014. However, at January 2019, the Contract Administrator estimated that the building was approximately ninety percent (90%) completed. The kitchen equipment, which is a key component of the project, was not installed. A key issue here was the dispute between the Contractor and Contract Administrator about the correct drain pipes to be installed in a section of the kitchen. A more detailed look at the audit findings is as follows:



## Period of Contract – 31<sup>st</sup> August 2012 to 31<sup>st</sup> January 2014

### Factors resulting in Increased Costs

**5.12** There were several factors responsible for the increase in cost to the project which was due for completion by 31<sup>st</sup> January 2014. These were as follows:-

#### *Penalties for Late Payment*

**5.13** Due to Government's cash flow problems, some payments to the Contractor were delayed. This resulted in approximately \$55,460.55 in interest for late payments (Certificates # 2 to 14) as per Clause 4.2 (a)<sup>1</sup> of the contract for Certificates which would have increased the contract price during this period. The Contractor threatened on one (1) occasion during this period to "suspend the performance of their obligations under Clause 4.4A<sup>2</sup> of the contract due to these late payments". It should be noted that the Contractor complained that late payments were hindering the progress on the project.

**5.14** During excavation, it was discovered that there were two (2) sizeable surface pockets which were not foreseen. The Architect agreed to relocate the water tanks to this area which was deeper. Further exploration of the site unveiled a smaller cavity. In an email dated 13<sup>th</sup> November 2012, the Contract Administrator indicated to the Project Educator, ETMU, that an unexpected cavity was discovered (in the area

<sup>1</sup> According to Clause 4.2(a) of the contract, payments should be made to the contractor within fourteen (14) days from the date of the Architect's Certificate. Where this stipulation is not followed, the contractor is entitled to charge interest at the discount rate of the Central Bank of Barbados plus five percent (5%).

<sup>2</sup> **Clause 4.4A** – Without prejudice to any rights and remedies which the Contractor may possess, if the Employer shall, ..., fail to pay the Contractor in full by the final day of payment as required by the Conditions and such failure shall continue for 7 days after the Contractor has given to the Employer, ..., written notice of his intention to suspend the performance of his obligations under this Contract to the Employer and the ground or grounds on which it is intended to suspend performance, then the Contractor may suspend such performance of his obligations ... until payment in full occurs.



where the water tank was being relocated) which would likely result in an increase in the cost of the project. The cost of the additional work for excavation, filling and the repositioning of the water tank came to approximately \$0.72 million but no evidence was seen to indicate that this increase in cost was approved by the Permanent Secretary or Cabinet.

#### **Status of the Project as at January 2014**

- 5.15** The project was originally due for completion in January 2014; however, the Contract Administrator indicated that the percentage of completion at January 2014 was approximately forty-five percent (45%). The value of the works completed and the materials on site was \$9.01 million. No kitchen equipment was procured at this time.



## Extension of Contract

### 31<sup>st</sup> January 2014 to 17<sup>th</sup> November 2014

- 5.16** The Contract Administrator approved three (3) Extensions of Time to the Contractor at a cost of \$1.00 million due to various factors including the discovery of the cavity in the foundation, revised drawings for the water tank, the foundation, plumbing and electrical items as well the procurement and installation of certain finishes and items. Extension of Time refers to the extension of the completion date as a result of any undue delay caused in the completion of construction due to events which are not attributable to the Contractor. For example, inclement weather, unavailability of materials and labour, late payments, etc.
- 5.17** The extension of the completion date was revised several times as follows:-
- 31<sup>st</sup> January 2014 to 30<sup>th</sup> April 2014,
  - 30<sup>th</sup> April 2014 to 25<sup>th</sup> June 2014, and
  - 25<sup>th</sup> June 2014 to 17<sup>th</sup> November 2014.
- 5.18** Another request for extension of time was not granted by the Contract Administrator as the Contractor “failed to justify their claim” for the extension.

#### ***Interest on Late Payments***

- 5.19** During this period, interest of approximately \$56,957.30 was charged for late payment of Certificates #15 to 21. The total amount of monies paid to the Contractor during this period was approximately \$4.07 million.





### ***Advances for Kitchen Equipment***

**5.20** During this period, the Contractor requested advances from the Ministry of Education to make deposits for the kitchen equipment. This was due to the Firm's lack of funds to purchase the kitchen equipment although it was part of the Firm's responsibility under the contract. On 31<sup>st</sup> October 2014, Cabinet agreed to "provide additional advances of \$6.59 million to the Contractor to facilitate the procurement and installation of the kitchen equipment required to proceed with the Six Roads School Meals Centre Project. At the 30<sup>th</sup> November 2014, the contract with the new supplier was still not signed and the procurement of the kitchen equipment had not begun.

### **Status of the Project as at November 2014**

**5.21** The percentage of completion as at November 2014 was approximately sixty-eight percent (68%). Without the kitchen equipment included, the value of works completed and materials on site was \$13.62 million.

### **Audit Comment**

**5.22** A period of seventeen (17) months was given for the completion of the contract. This was extended by ten (10) months and at the end of this period, the project was only sixty-eight percent (68%) completed. The delays resulted from the lack of timely payments to the Contractor who indicated that this hindered the progress of the project; the Contractor's lack of funds to purchase the kitchen equipment as required by the contract; and slow decision making by the Ministry's personnel in dealing with issues as they arose.



## Post Contract – 1<sup>st</sup> December 2014 to 31<sup>st</sup> December 2018

- 5.23** It should be noted that no extension of time was approved by the Contract Administrator during this period, neither was any written documentation provided to indicate that the Ministry of Education approved the extension of the contract for the Centre. The following issues were observed during the past four (4) years.

### **Cost Related Issues**

- 5.24** As at 31<sup>st</sup> December 2018, \$23.12 million had been paid to the Contractor, but the School Meals Centre had not been completed. The Quantity Surveyor indicated in Financial Review #7 dated 31<sup>st</sup> August 2018, that the anticipated final project cost would be \$25.36 million. The issues impacting this increase are discussed below.

### ***Kitchen Equipment***

- 5.25** An agreement with the Kitchen Equipment Supplier was signed on the 16<sup>th</sup> October 2015 at a contract price of \$7.02 million, \$0.43 million more than the \$6.59 million approved by Cabinet for the purchase of the kitchen equipment. No time-period for completion of this work was provided.

**Cost of Kitchen Equipment as per Certificates as at 31<sup>st</sup> March 2018**

Certificate #	Date of Certificate	Amount Paid (\$)	Date Paid
24	16 <sup>th</sup> February 2015	1,700,324.33	18 <sup>th</sup> March 2015
33	16 <sup>th</sup> November 2015	1,700,324.33	7 <sup>th</sup> December 2015
34	4 <sup>th</sup> December 2015	116,640.55	28 <sup>th</sup> January 2016
36	4 <sup>th</sup> February 2016	1,745,425.85	26 <sup>th</sup> February 2016
37	21 <sup>st</sup> March 2016	157,881.45	23 <sup>rd</sup> May 2017
41	26 <sup>th</sup> February 2018	1,955,832.60 <sup>3</sup>	9 <sup>th</sup> March 2018
<b>TOTAL</b>		<b>7,376,429.11</b>	

**5.26** The table above indicates that the full cost (\$6.59 million) of the kitchen equipment approved by Cabinet was paid to the Contractor before all the equipment had arrived in Barbados, which is in breach of the payment terms. Furthermore, an additional \$0.79 million was paid. No evidence of the approval for the increased cost was presented for audit verification.

***Absence of Provision in Estimates of Expenditure***

**5.27** No monies were included in the Estimates for the Project in Financial Year 2016/2017 due to the oversight of the Ministry's personnel. Subsequently, a request for a supplementary to pay the Contractor was denied, and Certificates # 37 to 40 were paid in financial year 2017/2018.

**Audit Comment**

**5.28** It is difficult to comprehend how monies for this project were not included in the Estimates for 2016/2017. The over \$200,000 in interest for late payments could have been greatly reduced if monies were included in the

<sup>3</sup> Payment for final major portion of kitchen equipment as the Supplier refused to order any more equipment without payment being received



Estimates for that period. The Project Manager should be asked to give an account of this matter.

### ***Extension to the Car Park***

**5.29** A preliminary design for the additional parking facility was received by ETMU on the 28<sup>th</sup> October 2014. The revised drawing to include the additional parking area was reported as “reviewed and approved” in a letter dated 5<sup>th</sup> December 2014 from the ETMU to the Architect. The preliminary budget estimate of \$1.36 million, prepared by the Quantity Surveyor, was received on 11<sup>th</sup> December 2014. The additional parking area was approved by the Permanent Secretary, Ministry of Education, on 18<sup>th</sup> January 2016 at a cost of \$1.20 million, \$0.16 million less than the preliminary budget estimate.

**5.30** Approximately \$274,912.93 was paid to the Contractor to start the additional car park but nothing could be done as a boat (with an occupant) was on the property. Efforts to remove the boat and its occupant have been futile. No evidence was provided to indicate that this matter was referred to the Permanent Secretary for resolution. At the 31<sup>st</sup> December 2018, the boat has not been removed from the property.

### **Audit Comment**

**5.31** Before deciding to utilise land for any project, the Ministry of Education should have ensured that there were no encumbrances on the land. Furthermore, funds should not have been disbursed for the car park when the boat was still on the property. This has resulted in monies being disbursed unnecessarily which could have been utilised in another area.



## Issues Impacting the Timely Completion of the Centre

5.32 The following issues impacted the timely completion of the Centre:-

### *Drain Pipes for Hot Water from Kitchen*

5.33 A major aspect of the works to be completed relates to the kitchen floor (see **Appendix 1**). The issue relates to the installation of the PVC pipes through which the hot water from the various utensils will be carried out of the kitchen. This issue was first raised at the site meeting held on the 25<sup>th</sup> May 2016, when it was reported that there was concern expressed by the Contractor about the white PVC waste pipes being able to sustain liquids at very hot temperatures, and it was proposed that grey heat resistant waste pipes should be used instead.

5.34 In response to an email dated 8<sup>th</sup> August 2016 to the Contractor, the Architect indicated that “the temperature of any water or liquid going into the PVC pipes from the kettles **will be less than 100°C** and that as such the pipes may remain unless the supplier of the kitchen equipment specifies otherwise.” In an email dated 15<sup>th</sup> August 2016, sent to the Contractor from a representative of the Kitchen Equipment Supplier, it was indicated that the Field Advisor from the Supplier of the Cook Chill system<sup>4</sup> stated that “the water exiting the cook tank **can be as hot as 212°F (100°C)** depending on what temperature is programmed into the system”.

5.35 The Contractor stated that an Architect’s Instruction was not issued indicating that the work should continue with the current pipes, and to

<sup>4</sup> Main Piece of Equipment for the Kitchen valued at approximately \$2 million



absolve the Firm from any penalties in the future, he had opted not to continue the work on the kitchen floor. This issue has not been settled, and no work has been done on that section of the kitchen floor during the past year.

### ***Delivery of Kitchen Equipment***

- 5.36** At the 31<sup>st</sup> October 2018, the \$6.59 million approved by Cabinet had been paid in full to the Contractor. However, only \$4.37 million worth of kitchen equipment had been received, and was stored in various areas at the Centre (**see Appendix 2**). The Contractor, in a letter dated 10<sup>th</sup> November 2018, indicated that a shipment of kitchen equipment was delivered to the Centre on the 8<sup>th</sup> November 2018, and another one was in the Bridgetown Port awaiting clearance. However, the issue of storage is of major concern, as all the available space on site for safe storage has been utilised. Since the issues relating to the kitchen floor drainage pipes have not been resolved, the larger pieces of equipment cannot be installed.

### **Audit Comment**

- 5.37** A critical component of the new School Meals Centre is the kitchen, and the effective integration of the designated equipment to ensure that the Centre is fully operable. In this regard, it is unacceptable that millions of dollars' worth of equipment is sitting idle in the School Meals Centre, waiting to be installed. There is a risk that some of this equipment will become obsolete while waiting to be installed, which will result in additional monies being spent to replace it. In addition, the warranty for some of the equipment might have expired, which would result in any issues occurring after operation has started incurring a cost.



## OTHER MATTERS AFFECTING THE CONTRACT

5.38 A number of other matters affected the contract as follows:-

### ***Recommendation to Terminate the Contract***

5.39 Due to the refusal of the Contractor to make a deposit as required by the contract to commence procurement of the kitchen equipment, and the termination of all negotiations to supply and install kitchen equipment by the Initial Supplier, the Contract Administrator recommended two (2) options in a letter dated 7<sup>th</sup> August 2013 to the ETMU. The options were that:

- The Employer (Ministry of Education) approach the Initial Supplier to negotiate direct payment for the supply, installation and commissioning of the kitchen equipment; and
- If the Contractor was not in agreement with the above, then due to the Firm's failure to execute its obligations in a diligent manner, the services should be terminated under Clause 7.2.1 (a) and (b) of the contract.

5.40 The recommendation from the Contract Administrator to terminate the Contractor's contract for failing to execute his obligation was a serious one, and should have been forwarded to the Permanent Secretary for further action. Failure to take the recommended action would ultimately lead to the increase in cost of the project.



### ***Acquisition of Land for Extension of Car Park***

**5.41** In a memorandum dated 5<sup>th</sup> March 2015 from ETMU to the Permanent Secretary, Ministry of Housing, Lands and Rural Development, a request was made for the acquisition of land identified as Lot 8, BIDC Industrial Estate, Six Roads, St. Philip to facilitate the additional parking for the NSMC<sup>5</sup> and the nearby Olga Miller Nursery School. However, it was discovered that a boat (with occupant) was located on the land (see **Appendix 3**) which was to be removed before work could begin on the additional car park. This matter was referred to the Ministry of Housing, Lands and Rural Development but the boat is still on the property. No evidence was provided to indicate that the acquisition of the land was completed.

**5.42** The Ministry should have carried out the necessary studies to determine ownership of the lot earmarked for the car park. In addition, consideration should have been given to have this project separate from the construction of the Centre given its costs and the issues being encountered by the Contractor.

### ***Breach of Financial Rules***

**5.43** Under the accrual system of accounting, expenses should be recorded in the period in which the related transactions occurred. If the amounts remain unpaid at the end of the financial year, the funds are accrued and expenses paid in the next financial period. Any additional funds voted however lapses. However, it was observed that funds for which no related transactions had occurred were accrued, and used to make

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<sup>5</sup> New School Meals Centre





payment for transactions occurring in the new financial year (see **Appendix 4**). This was in direct contravention of International Public Sector Accounting Standards No. 1 and Financial Rule 177.

- 5.44** Accruing monies for transactions not done would have caused an overstatement of the expenses for the financial year in which the funds were accrued, while causing a corresponding understatement of expenditure in the ensuing year. This action is incorrect and was used to avoid re-budgeting for the expenditures in the new financial year without the approval of Parliament.

***Internet Protocol (IP) Address not provided***

- 5.45** One area of concern with the kitchen equipment was the request for a static Internet Protocol (IP) address for the kettle control panel which needed to be installed in the panel of the Cook Chill System (valued at approximately \$2.00 million) before it was shipped. The IP address is to allow the manufacturer to diagnose problems with the Cook Chill System from overseas. The lack of an appropriate response to the request resulted in the equipment being shipped without the IP address being installed. To date, the IP addresses have not been received and no action has been taken to address this issue. There was no evidence provided to indicate that this issue was forwarded to the Permanent Secretary for assistance in reaching an appropriate solution.

- 5.46** The ability to diagnose problems for such an expensive piece of equipment as the Cook Chill System should have been seen as important and dealt with in a timely manner. Failure to deal with the IP addresses could result in additional costs to Government if the suppliers have to be paid to come and install the addresses.



### ***Decision Making re Issues in the Project***

**5.47** The decision making in this Project was not expeditiously carried out by the ETMU. This was evidenced by the following:-

- a) The lack of communication with the Permanent Secretary, the Chief Accounting Officer to assist in resolving problems is a cause of concern. With a project of this magnitude, the Project Unit should have ensured that the Permanent Secretary was kept abreast of all challenges encountered in order for them to be solved in a timely manner.
- b) Failure to deal with the issue of the pipes in the kitchen floor which resulted in further delays in the completion of the project. Equipment that should have been installed in this area is stored in various areas in the building which has hindered the installation process. This situation should be dealt with as a matter of urgency.
- c) Since the issue with the kitchen floor has not been resolved, it is affecting the ability to install the larger pieces of equipment. Therefore, a swift resolution is required to ensure that the equipment is not damaged or deemed obsolete before it is installed.
- d) The oversight of funding for the Project not included in the Estimates during financial year 2016/2017 resulted in the incurring of substantial penalties. Lack of monitoring and reporting would have contributed to this occurring.



- e) Not dealing in a timely manner with the issues pertaining to the building of the car park on the required land prior to it being transferred to the Crown, and the failed attempt to remove the boat from the designated area.

### **Consultants' Contract**

**5.48** The contract presented for the Architect expired in March 2012 and no documentation was provided to indicate that the contract was extended to cover the period between April 2012 and January 2019. However, in a letter dated 3<sup>rd</sup> April 2014 to EPIU, the Architect indicated that “the fee provided for the project is 10% of the total construction costs plus reimbursable expenses and VAT. The current cost of construction as of March 2014 is \$19.25 million, and consequently we propose that the consultants be paid \$22,643.38 monthly.” The Proposed fees (exclusive of VAT) per consultant was as follows: -

- Architect inclusive of the Kitchen Equipment Consultant - \$11,321.94
- Mechanical Engineers - \$4,528.78.
- Civil & Structural Engineers - \$3,396.58
- Quantity Surveyor - \$3,396.58

**5.49** In an email from the ETMU to the Architect dated 13<sup>th</sup> June 2014, the proposed adjustment in fees was accepted in principle and the Architect was instructed to proceed to bill accordingly. No further documentation was presented indicating that a new contract was signed with the Architect and the other consultants.



### **Audit Comment**

- 5.50** When a contract expires and works are still in progress, it is crucial that it is extended and any adjustments in the terms and conditions be recorded. Failure to regularize the contracts for these consultants is in breach of Financial Rule 222 (5).

### ***Overpayment to Contractor***

- 5.51** The Contract Administrator has reissued Certificate #42 with a credit balance of \$1.13 million which indicates that the Contractor has been overpaid by that amount for the work done so far. This amount relates primarily to the value of the kitchen equipment. This certificate is being disputed by the Contractor who indicated in a letter dated 10<sup>th</sup> September 2018 that the Contractor Administrator has “failed to consider and resolve amicably our claim for the recovery of additional cost, in the sum of \$8.41 million, which is a condition for the full re-mobilisation of the project”. This issue has not been resolved as at 31<sup>st</sup> January 2019.

### ***Contract Challenges***

- 5.52** The Contractor indicated in a letter dated 17<sup>th</sup> December 2018 to the ETMU that “we give notice that the project is now in dispute and invite you to state your position on the project for its future completion. If you are in total agreement with the Architect in his position on the project, please let us know so we can exercise our rights and discharge our responsibilities by determining the contract and commence arbitration proceedings to resolve this matter.” Evidence of the Ministry’s response to this letter was not provided for audit inspection.



### ***Consequences of an Incomplete Centre***

**5.53** If the Centre is not completed, the School Meals Department will have to continue using the cramped conditions at St. Christopher along with the other Centres to supply meals to the schools throughout the country. It was also indicated that in case of a natural disaster, the Centre would be used to provide meals to displaced persons. Since the Centre is not completed, the Government would have to find another source to provide meals for those displaced if a natural disaster should occur. Furthermore, millions of dollars would be sitting idle in a partially completed building which could have been used in a different manner to provide a greater benefit to the Country.

### **Current Status of Project**

**5.54** The Contract Administrator indicated that “at January 2019, the values of work completed and material on site inclusive of kitchen equipment, 25% of kitchen installation costs and profit on kitchen equipment is \$22.99 million. The percentage completion based on an anticipated cost of completion of \$25.36 million is 90.64%”. However, the building is incomplete, some of the kitchen equipment has not been received and most of the equipment has not been installed.

**5.55** The project is currently at a standstill as the Contractor has not been carrying out any major works. There are certain cosmetic finishes that can be done which do not require any major input of finance. This would allow the Contractor to install equipment in those areas which would assist in getting the larger pieces of equipment installed.



## **Conclusion**

**5.56** The construction of the School Meals Centre has suffered from a number of issues that have prevented its timely completion and resulted in additional costs to Government. These were primarily a lack of timely financing and decision making by the Ministry, lack of funds to provide for the contractual obligations, and delays in the purchase and installation of kitchen equipment by the Contractor. These have resulted in project costs increasing by approximately \$5.46 million or twenty-seven percent (27%) of the original cost.

**5.57** Currently, the Contractor has asked the Ministry of Education to clarify its position on the project and let them know if they can exercise their rights, under the contract, and discharge their responsibilities by determining the contract and starting arbitration proceedings. There is an urgent need to resolve these issues in order for the project to be completed. The final decisions are made by the Ministry of Education and these issues should not be allowed to continue unabated.

## **Recommendations**

**5.58** **It is recommended that :**

- i. *The request from the Contractor to determine the way forward for the project should be dealt with post haste. If negotiations prove unsuccessful then the Ministry should seek legal advice on the matter.*



- ii. *All relevant changes to projects and all critical issues should be discussed with the Permanent Secretary and presented for approval before further work is carried out. The procurement rules should be adhered to at all times.*
- iii. *The Ministry reviews the process of extending contracts. Where contracts are in dispute, it is not wise to expand them especially when the addition can be handled separately.*
- iv. *The Ministry ensures that, where possible, payments are made within the time stipulated in the contract to avoid the increased cost of late payments. Such action requires adequate budgeting for projects.*
- v. *Increased costs for the Consultants are approved by the Permanent Secretary or Cabinet.*
- vi. *Issues pertaining to the drainage pipe, the IP address for the Cook Chill system and the installation of the kitchen equipment need to be resolved as soon as possible.*
- vii. *The Ministry needs to put steps in place to ensure that relevant decisions made by the Architect as Contract Administrator are approved by the relevant authority before being executed.*
- viii. *A review of the procurement and installation of the Kitchen Equipment needs to be done with a view to completing the project as soon as possible. Any additional costs should be approved by Cabinet as any more delays will result in an*



*increase in cost and run the risk that equipment in storage for such a long period may not function.*

- ix. *The boat on the property recommended for the additional car park needs to be removed as soon as possible so that the extension to the car park can commence.*
- x. *The Project Manager should be required to give an account as to why this project has escalated to its current position.*

**Response to the Report**

*No response to the report was received from the Ministry of Education, Technological and Vocational Training up to the time of writing.*





## APPENDICES

### Appendix 1

#### Pictures of drainage pipes in the kitchen floor





## Appendix 2

### Equipment stored at the School Meals Centre at Six Roads, St. Philip







### Appendix 3

#### Boat on Lot where the Car Park is to be Located





## Appendix 4

## Payments incorrectly made from funds accrued

Certificate Number	Date Funds Accrued	Issue Date of Certificate	Amount Paid from Accrued Funds (\$)
15	03/31/2014	04/07/2014	329,189.87
16	03/31/2014	04/24/2014	581,843.53
17	03/31/2014	05/28/2014	495,164.61
18	03/31/2014	06/26/2014	440,012.87
19	03/31/2014	08/21/2014	739,708.76
20	03/31/2014	10/02/2014	370,738.16
21	03/31/2014	11/07/2014	708,839.61
22	03/31/2014	12/16/2014	301,587.30
23	03/31/2014	01/30/2015	501,895.83
24	03/31/2014	02/18/2015	1,700,324.33
25	03/30/2014	04/01/2015	103,487.76
26	03/31/2015	04/27/2015	112,691.71
27	03/31/2015	06/04/2015	151,435.61
28	03/31/2015	06/22/2015	204,387.96
29	03/31/2015	07/30/2015	332,950.08
30	03/31/2015	09/01/2015	378,277.63
31	03/31/2015	10/05/2015	174,939.40
32	03/31/2015	10/08/2015	200,210.88
34	03/31/2015	12/04/2015	151,126.80
35	03/31/2015	12/29/2015	199,235.09
36	03/31/2015	02/04/2016	258,844.50
<b>Total</b>			<b>\$8,436,892.29</b>



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## Follow-Up Audit of the Illegal Occupation of Crown Lands (Squatting)

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### *Introduction*

#### **Background Information**

**5.59** This report contains the results of a follow-up audit on the Illegal Occupation of Crown Lands (hereinafter referred to as Squatting). The previous Special Audit Report on the Illegal Occupation of Crown Lands (Squatting) was included in the 2013 Auditor General's Report. The Report highlighted that:

- Squatting was extensive and expanding but the amount of land occupied had not been surveyed, so there was no clear indication of the acreage occupied;
- Squatting was not limited to housing but also included areas adjacent to the highways being used illegally for vending of bread, eggs, coconuts, etc. and was impeding pedestrian passage along footpaths and highways;
- Squatting is a costly exercise to Government through the provision of basic amenities, roads, etc., and, in some instances, threatens the quality of the underground water supply especially in the Zone 1 area where there was the infusion of nitrates and bacteria in the water supply; and



- Measures utilised by the Ministry of Housing were not successful in reducing squatting.

**5.60** Individuals have been using Crown lands illegally for housing purposes and business activities such as vending and advertising. Squatting in the context of this report relates to the unauthorised occupation of Crown lands, that is, without the legal authority of the Ministry of Housing, Lands and Rural Development or any of the other Government agencies with responsibility for Crown properties.

**5.61** Under the Land Acquisition Act Cap 228, the Ministry of Housing, Lands and Rural Development (hereinafter referred to as the Ministry of Housing/the Ministry) has the responsibility to protect Crown lands with the assistance of other Government agencies. For example, the Chief Technical Officer (CTO) of the Ministry of Transport, Works and Maintenance, under the Highways Act Cap 289, has the responsibility to ensure that the highways in Barbados are used in the correct way and are free of encroachments. The Ministry is also aided in its efforts as a direct result of the responsibility entrusted to the Town and Country Planning Department (TCPD) through the Town and Country Planning Act CAP 240, which allows TCPD to remove any structures illegally erected. It should also be noted that under Section 25 (2) of the Limitations of Actions Act, 1997-11, provision is made for the Crown to take action to recover any of its land illegally occupied for a period of less than thirty (30) years.



### **Audit Objective**

**5.62** The objective of the audit was to assess whether the illegal occupation of Crown Lands had increased and the effectiveness of the measures put in place to reduce it. The impact of squatting on the social and economic landscapes of Barbados was also reviewed.

### **Our Expectations**

**5.63** It was expected that the Ministry of Housing would have:

- Enforcement strategies in place to ensure that there is a reduction in the level of squatting on Crown Lands;
- A record of squatting prevention initiatives; and
- A liaison established with the Town and Country Planning Department and other relevant agencies to coordinate activities pertaining to the prevention and amelioration of squatting.

### **Audit Scope**

**5.64** The audit covered the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2018, and examined the current state of the illegal use of Crown lands. Special focus was placed on the affected areas of Belmont, Licorish Village, the Belle, Howell's and Ivy, and My Lord's Hill, in St. Michael; Six Men's Tenantry, St. Peter; Emmerton Lane, the City and Bath Tenantry, St. John, which were identified in the previous audit. The illegal use of Crown lands for vending and advertising was also examined.





## Methodology

5.65 During the audit, information was collected through:-

- i. Interviews with personnel from the Ministry of Housing, including the Permanent Secretary and the Chief Property Manager;
- ii. Site visits to various areas to determine whether squatting had increased;
- iii. Reviews of the relevant files, documents and papers; and Analysis of the data gathered.

## Audit Mandate

5.66 The audit was conducted in accordance with Section 113 (2A) of the Barbados Constitution. Under this Section, the Auditor General may, on his own initiative, carry out examinations into the financial management of Ministries, Departments, Statutory Authorities and Government controlled entities, including the manner in which entities use their resources in discharging their functions as regards the efficiency and effectiveness of these resources.



## Detailed Audit Findings

### Status of Squatting

- 5.67** The illegal use of Crown lands has been an issue for a number of years. Individuals have illegally built structures, including houses, on Crown lands. Newspaper articles have reported that some Barbadians and non-nationals alike have remedied their lack of access to affordable housing with the illegal erection of structures on state property. In addition, vendors have set up stalls along the highways and various other areas to ply their trade. As a result, areas set aside for pedestrians to walk and carriageways for vehicles to pull off the road have been impeded.
- 5.68** This audit sought to determine the current state of the squatting and the effectiveness of the measures implemented to resolve it. Below are the findings of the audit:-
- ***Increase in Squatting***
- 5.69** In response to audit queries, personnel from the Ministry of Housing indicated that there was an increase in squatting, but they could not provide any documentation or statistics to substantiate the claim. Hence, visits to the known sites were conducted by the Audit Office in conjunction with personnel from the Ministry. The results of the site visits in February 2018 are recorded in Table 1 below, which indicates that there has been an increase of seventy-nine percent (79%) in the areas known for squatting.



Table 1: Increase in Squatting

Location	Acreage (acres)	2013 <sup>6</sup>	2018	Difference	% Increase
Licorish Village/Belle, Belmont, Blenheim Howell's & Ivy St. Michael		77	130	53	69
Bath Tenantry, Welch Town, St. John	443.46	25	65	40	160
Six Men's, St. Peter	29.46	170	197	27	16
Murphy's Pasture, Emmerton, Bridgetown	2.10	0	71	71	71
<b>TOTAL</b>		<b>271</b>	<b>463</b>	<b>191</b>	<b>79<sup>7</sup></b>

(a) Licorish Village/Belle, Belmont, Blenheim & Howells + Ivy, St. Michael

These sites are located within a Zone 1 ground water protection area. There has been a sixty-nine percent (69%) increase in the number of illegal structures in the area. Included in these structures were a restaurant/caterer and two (2) shops. Fifty-three (53) additional houses were also found in this area.

(b) Bath, St. John

There has been a one hundred and sixty percent (160%) increase in squatting in the Bath Tenantry, Welch Town area. Not included in this percentage, were foundations and walls for new structures that

<sup>6</sup> These numbers represents the number of houses and other structures in the area.

<sup>7</sup> Average percentage increase



were being erected. There was no evidence presented to indicate that Ministry personnel were aware of this activity since no site visits took place at this location during the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2018.

(c) Six Men's, St. Peter

An increase of sixteen percent (16%) has occurred in this location. Approximately ten (10) of the structures seen were at various stages of construction; two (2) were retail shops and one (1) was a barbershop.

(d) Emmerton, Bridgetown

The situation at Emmerton, Bridgetown has been addressed with the squatters having been relocated to Barbarees Hill, St. Michael.

(e) Murphy's Pasture, Emmerton, St. Michael

This land was acquired by Government to create a playing field for the adjacent Primary School. Personnel from the Ministry of Housing indicated that there was increased squatting on the land acquired. On inspection of the area, seventy-one (71) houses were seen, some of which were erected on the space allocated for the playing field.



- ***Increase in Vending and Advertising***

**5.70** During the site visits, it was observed that there has also been an increase in the number of areas where vendors and advertisers are illegally operating. Personnel from the Ministry of Housing indicated that it is difficult to contain these operations as there is a level of sympathy and empathy from the public and politicians for persons operating these businesses.

- ***Causes of Increase in Squatting***

**5.71** Personnel from the Ministry of Housing indicated that the following factors have contributed to the increase in squatting:

- i. A need for affordable housing for individuals who are destitute or homeless;
- ii. Non-enforcement of eviction action initiated by the Ministry of Housing and the Town and Country Planning Department;
- iii. Low priority placed on land-control matters as most resources of the Ministry are deployed to other activities;
- iv. An absence of regular inspections that specifically target areas where there is illegal use of Crown Lands; and
- v. The lack of personnel to conduct inspections in a timely manner.



- **General Observations**

**5.72** In addition to the increase in squatting that was determined during the site visits, it was also observed that the traditional chattel house structures were being replaced with more permanent concrete structures. Most of the houses showed evidence of being outfitted with electricity, telephone, water, and in the Belle Gully area, natural gas. No water meters were seen on some of these properties.

**5.73** Personnel from the Ministry of Housing indicated that the Ministry of Transport and Works constructed asphalt roads within the Licorish Village/Belle area which provided easy access to the land for the squatters. At Six Men's, there is a main marl road which branches off into five (5) other gaps/roads. Personnel from the Ministry indicated that this type of activity has encouraged and facilitated further squatting. This indicates that the squatters see their condition as permanent.

- **Lack of Adequate Information**

**5.74** To assist the Ministry in its monitoring efforts, adequate information would have to be maintained on the status of Crown lands. Currently the Ministry lacks a database that can clearly identify the following:-

- (a) the location of all Crown Lands,
- (b) the areas where there is squatting,
- (c) the number of persons squatting in each area,



- (d) the number of site visits conducted and the findings,
- (e) the areas susceptible to squatting, and
- (f) other relevant information which will assist the Ministry in monitoring the situation.

**5.75** Personnel from the Ministry indicated that they were in the process of compiling a list of all Crown lands. This list would assist in determining which lands were susceptible to squatting and could be disposed of by way of sale to members of the public.

### ***Measures to Combat Squatting and their Effectiveness***

**5.76** The measures available to the Ministry of Housing to monitor and combat squatting include site visits and issuing Encroachment<sup>8</sup>, Enforcement<sup>9</sup> and Government Notices<sup>10</sup>. The following were observed for these measures:-

- ***Site Visits***

**5.77** The auditors could not determine if site visits were conducted at the following Crown lands during the period under review, namely, Six Men's

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<sup>8</sup> Encroachment notices are issued by the Property Management Unit of the Ministry of Housing, Lands and Rural Development to known entities/individuals encroaching on Crown Lands. An encroachment is the intrusion on a person's property or rights. In this case, it will be Crown lands which are encroached on. If the encroachment is not removed, the Property Management Unit can remove it..

<sup>9</sup> Enforcement notices are issued by the Town and Country Planning Department (TCPD) to persons who have carried out development or illegally erected buildings without the requisite approval from them. The notices are issued to the owners of the land (in this case, Government) and the occupier of the land (if known) indicating that an illegal structure is on the land and should be removed within a specific time frame. The TCPD can remove these illegal structures if the notice is not adhered to.

<sup>10</sup> Government notices are issued by the Property Management Unit on structures where entities/individuals illegally vending or encroaching on Crown lands are unknown. If these Notices are not adhered to, the Property Management Unit reserves the right to enter and take possession of all improvements, goods, chattels and other materials placed on Crown Lands.



St. Peter; Licorish Village, the Belle, Belmont, Blenheim (Opposite Storey Gap), Emmerton Lane, and Murphy's Pasture, St. Michael. This was because the files containing evidence of site visits to these locations were not presented for audit examination. Evidence of site visits being conducted related only to locations where encroachments were brought to the Ministry's attention.

**5.78** Whereas some site visits were conducted in relation to encroachments, these were mainly due to the Ministry being reactive, instead of being proactive. It is unfortunate that the files for a number of locations prone to squatting were not provided to the Audit Officers to allow for a thorough determination of the Ministry's use of site visits to monitor squatting activity. However, with respect to the increase in squatting of more than one hundred percent (100%) at the Bath location, there was no evidence seen of site visits having been conducted in this area during the period 1<sup>st</sup> April 2015 to 31<sup>st</sup> March 2018. This is not a good reflection on the operations of the Property Management Unit with respect to this matter.

- ***Encroachment, Enforcement and Government Notices***

**5.79** The Property Management Unit of the Ministry of Housing issues Encroachment notices to entities/individuals that are encroaching on Crown Lands, while Government notices are issued in cases where the offending parties are unknown. The Chief Town Planner has authority under the Town and Country Planning Act, CAP 240 to serve Enforcement Notices on landowners and occupiers over the erection of structures without planning permission.





- 5.80** During the period 1<sup>st</sup> April 2013 to 31<sup>st</sup> March 2018, thirty-two (32) Encroachment Notices and sixteen (16) Government Notices were issued by the Ministry of Housing, while seven (7) Enforcement Notices were issued by the Town and Country Planning Department. The Ministry's records indicated that two (2) encroachments were partially removed by their owners, while three (3) persons responded to the Government Notices, with one removing the relevant encroachment. Between the 1<sup>st</sup> April 2015 and the 31<sup>st</sup> March 2018, one (1) structure was removed by the TCPD due to non-compliance with an Enforcement Notice (this Enforcement Notice was issued prior to 1<sup>st</sup> April 2013). In some cases, the Ministry of Housing was faced with the challenge of finding the areas outlined in the Enforcement Notices as the information contained therein was not enough to allow Ministry personnel to locate the structures.
- 5.81** The issuance of Encroachment and Government Notices by the Ministry of Housing to entities/individuals has been ineffective in resolving issues of encroaching on Crown lands. This was evidenced by the minimal actions taken by persons to comply with the requirements of the notices and other correspondence issued by the Ministry. Furthermore, the ineffectiveness was exacerbated by the limited follow-up action taken by the Ministry.
- 5.82** The failure by the Ministry of Housing to keep abreast of the happenings in these areas has allowed persons to construct houses without fear of any consequences.



## Impact of Squatting on the Social and Economic Landscape of Barbados

**5.83** The illegal long-term occupation of Crown lands continues to grow annually. This impacts on the social and economic landscape of Barbados as outlined below:-

- (a) Squatting results in economic costs as ultimately the burden will rest on Government to find the financial resources to adequately resolve the issue.
- (b) Squatting in areas which have been designated Zone 1 ground water protection areas can put the Country's ground water at risk. The necessary planning permission for building in such areas would not have been granted by the relevant Government agencies. The required infrastructure would not have been put in place; hence, the squatters would not be following the guidelines for settling there. This can increase the risk of contamination of the water supply through human sewage, fertilizers, and other chemicals which would be detrimental to the health of the citizens. For example, pit toilets cost little to build but carry high environmental and health costs, especially in Zone 1 areas.
- (c) Crown lands have been illegally utilised by citizens and non-nationals to satisfy their housing needs. This has resulted in unplanned development across the country, thus placing added pressure on the Government to provide essential services. The provision of utilities, roads, sanitation and other services would require funding from Government, hence, the increase in costs to



Government for the collection of garbage, the provision of roads and other amenities and services to ensure that there is no outbreak of diseases in these areas.

Furthermore, the relevant Ministries and Departments would be unable to utilize the land for its intended purpose (for example, the land at Murphy's Pasture behind St. Mary's Primary School). The solution to such problems places an additional financial burden on Government, either through the acquisition of additional land for the original purpose or to remove and/or relocate the squatters.

- (d) Squatters bypass other applicants for Government lands on the waiting list at the Government agency responsible for providing housing solutions for citizens. In addition, these persons can claim adverse possession<sup>11</sup> of a statutory corporation's land after ten (10) years of continuous occupancy and, likewise, in the case of Crown Lands, after thirty (30) years according to the 1997 Limitations of Actions CAP 231. In this regard, the squatters would also be acquiring Government lands without making any payment.
- (e) Squatting can also put the offending individuals at risk as persons have built their homes within five (5) feet of the main natural gas line in the Belle. The seriousness of leaks of natural gas is borne out by the advice provided by the NPC for dealing with this problem<sup>12</sup>. The advice includes, among other things, not using the telephone in the building if there is a leak. This could lead to carbon monoxide poisoning if there is a leak that goes undetected.

<sup>11</sup> The owner of land may lose his title to it if a squatter takes over possession of the land and treats it as his own for a period of ten (10) years.

<sup>12</sup> [National Petroleum Corporation](http://www.npc.bb/natural-gas-safety/) - <http://www.npc.bb/natural-gas-safety/>



In the case of those squatting on Blenheim playing field, the houses were located close to the water course, which could lead to land slippage and damage these structures due to flooding. If this occurs, residents of these areas would look to the Government to provide solutions to these problems, and this would be at a significant cost.

### ***Adherence to Sustainable Development Goals***

**5.84** The Member States of the United Nations (including Barbados) adopted seventeen (17) Sustainable Development Goals (SDGs) in 2015. One of the targets of SDG No. 11 is to ensure access for all citizens to adequate, safe and affordable housing. As a prerequisite to meeting this target by 2030, Government must be able to identify and assist the most vulnerable in the society, many of whom are squatters. Activities of all persons should however be in compliance with the law. Furthermore, the Ministry of Housing and the Town and Country Planning Department are deficient in the enforcement capabilities needed to deal with the increase in squatting. The laidback approach by both agencies in carrying out their mandate with respect to squatting has contributed to its increase in all the areas visited by the Audit Office. There needs to be an assessment of the magnitude of the squatting problem with a view to reducing its level and finding a solution to this negative practice.



## Conclusion

**5.85** Critical decisions are required in handling the matters pertaining to the current squatting community, and these matters should be treated with some degree of urgency by the relevant authorities. The problem is entrenched and outstanding for many years but will not go away by itself. The evidence suggests that it is likely to grow, resulting in further unplanned development through the illegal seizure of additional state lands. This prevents the orderly development of infrastructure such as road works, proper drainage, waste water disposal, access by emergency vehicles and the provision of potable water and other basic amenities. Squatting also results in the State being denied revenues from the sale or rental of land.

## Recommendations

**5.86** It is recommended that:

- (i) *The Ministry determines the full extent of squatting on state lands.*
- (ii) *The capacities and capabilities of the Ministry of Housing, Lands and Rural Development, and the Town and Country Planning Department for the task of dealing with squatting should be strengthened.*
- (iii) *These agencies must be allowed to function in accordance with Government policies and the relevant legislation.*



- (iv) *The Ministry conducts adequate monitoring through site visits, and record observations and any actions taken as a result of the site visits.*
- (v) *The Ministry removes unauthorised structures when there is non-compliance with the relevant Notices in a timely manner.*
- (vi) *The Ministry ensures corrective action is taken to restrict further squatting.*
- (vii) *The Ministry resolves the issue with the Town and Country Planning Department relating to the difficulty in locating some of the areas mentioned in the Enforcement Notices.*
- (viii) *The Ministry, where possible, regulates the existing conditions in squatting environments.*
- (ix) *Attention should be paid to the provision of greater access to land and housing at affordable rates.*
- (x) *The Ministry creates a plan to meet the Sustainable Development Goal No. 11 which deals with the provision of adequate, safe and affordable housing for citizens.*

#### **Response to the Report**

*The Auditor General sought the comments of the Ministry of Housing, Lands and Rural Development on this matter but none were received at the date of this report.*



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## Follow-Up Audit of the High Rise Apartments at the Grotto

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### *Introduction*

**5.87** The National Housing Corporation (hereinafter referred to as the NHC or the Corporation) is mandated to provide housing units for sale or rental to lower and middle-income persons. Over the years, the Corporation has been providing various housing solutions to meet the needs of these persons. One such solution is the High Rise Apartments at ‘the Woods at Dalkeith’ (hereinafter referred to as the Grotto) in St. Michael, which were constructed to provide housing solutions for lower income earners. This project, along with a similar one at Valarie in Collymore Rock, St. Michael, was the subject of a Special Audit Report issued in 2016.

**5.88** The key findings of the Special Report issued in 2016 included:-

- the poor financial state of the Corporation;
- high construction costs per unit relative to the cost range set for low income housing;
- poor financial planning for the construction of the apartments by the NHC;
- lack of regard for the role and responsibility of the NHC Board by the parent Ministry (Ministry of Housing, Lands and Rural Development);





- absence of proper analysis before decisions were made; and
- failure to follow prudent procurement procedures.

**5.89** The overall goal of the National Housing is to contribute to the improvement of the housing conditions of citizens of Barbados. This includes the provision of affordable housing, which is defined as the delivery of a quality product at a reasonable price. The Corporation aims to provide these solutions without placing an undue financial burden on members of the community.

#### **Reason for Audit**

**5.90** This audit was conducted as a follow-up to the above-mentioned Special Audit on the High Rise Apartments at the Grotto and Valarie for which a report was issued in September 2016.

#### **Audit Objectives**

**5.91** The main objective of this audit was to determine whether the units were allocated according to the policy of the National Housing Corporation, the level of default among the tenants and whether the cost of constructing the units would be recouped.

#### **Auditor' Expectations**

**5.92** It was expected that the:-



- National Housing Corporation would have allocated the units in accordance with eligibility criteria similar to that for the 'Rent-to-Own' programme at the Airlie Heights Development, as recommended by the Ministry of Finance, and implemented similar criteria for the 'Rent-to-Buy' programme.
- NHC would have stringent controls in place to ensure that rent arrears would be kept to a minimum given that this was a relatively new project.
- NHC would have selected tenants after the receipt of mortgage certificates confirming that each applicant was eligible for a mortgage equivalent to the purchase price of the units.
- Corporation would have implemented the provisions of the Condominium Act CAP 224A, which would facilitate the sale of the units.

### **Audit Scope**

- 5.93** The audit covered the period 1<sup>st</sup> April 2016 to 30<sup>th</sup> November 2018 with special focus on the allocation of tenants to the units at the Grotto, and the Corporation's ability to recoup its investment through the monthly charges and/or purchase prices applied.

### **Methodology**

- 5.94** Interviews were conducted with the Deputy General Manager, the Project Coordinator, and other Senior Officials of the National Housing



Corporation. In addition, information was collected and analysed. This included information retrieved from files and other records.

### **Audit Mandate**

#### **5.95**

The audit was conducted in accordance with Section 113 (2A) of the Barbados Constitution. Under this Section, the Auditor General may, on his own initiative, carry out examinations into the financial management of Ministries, Departments, Statutory Authorities and Government controlled entities, including the manner in which entities use their resources in discharging their functions as regards the efficiency and effectiveness of these resources.



## Detailed Audit Findings

- 5.96** The construction of the high rise apartment units at the Grotto was included in a number of projects of the National Housing Corporation, undertaken between 2009 and 2014, with the aim of providing housing solutions for rental/sale for the lower-middle income to lower income group of citizens. Eighty (80) units were built at a cost of approximately \$35.40 million including interest paid and the cost of the land. Construction costs have moved the units into the middle to upper income category, with each unit constructed at a cost of \$442,509. Seventy-nine (79) units were allocated to tenants; one was reserved to be used for the Office of the Site Superintendent.
- 5.97** This audit examined the process for allocating the units, the level of default and whether the monies received covered the cost of the investment. Below is a summary of the main findings of the audit.

### **Divestment of Units**

- 5.98** The Cabinet at its meeting on 30<sup>th</sup> June 2016 agreed to a combination of the direct sale to individuals (Rent to Buy) in addition to a Rent-to-Own proposal. Under the direct sale to individuals' option, the Corporation agreed to allow Buyers to occupy the units for a monthly charge of \$1,000 pending the implementation of the requirements of the Condominium Act, Chapter 224A.



### Allocation of the Units

**5.99** The allocation process was challenging for the NHC. The first challenge was that the construction cost (over \$400,000 per unit) moved the units from the lower- middle income to the middle-upper income category. Therefore, persons from the lower income sector would no longer benefit from this development under a sale arrangement. The second challenge was the additional cost of ongoing monthly maintenance charges and insurance associated with the units if sold as condominiums. In light of the high cost foreseen for the purchase of the Units, the NHC opined that the Government would have to consider whether it was prepared to subsidise the cost of the units to make them more affordable to low and middle income earners.

**5.100** The criteria for allocation of the units under the Rent-to-Own programme included:-

- a) Applicants must enter into an agreement for a minimum period of seven (7) years.
- b) The Tenant must deposit two (2) months' rent which would represent a security deposit, and then make monthly payments equal to 30% of income as rent for a period of seven (7) years in the first instance.
- c) During this first seven (7) year period, the payment distribution would be 70:30 with 70% of the rent being credited to the purchase amount and 30% going towards the landlord to cover maintenance, insurance and any other service charges.



- d) If the Tenant could not afford to purchase after seven (7) years, the agreement could be extended for a further two (2) years with a modified 60:40 distribution of monthly payments. Sixty percent (60%) of the rent at that stage would be credited to the purchase amount and 40% would cover maintenance, insurance and any other service charges. This arrangement would continue until the full purchase price was paid.
- e) The security deposit would be credited towards the purchase price.
- f) The monthly rental payments should be 30% of the person's monthly income.

This option was applied to the first, second and third floors of each building which were referred to as 'basic' units. The cost of each unit would be \$215,000. It should be noted that the minimum payment of \$800 monthly for the Rent-to-Own units was approved by the Board of the National Housing Corporation.

**5.101** No criteria were presented to the auditors for the Rent-to-Buy programme. However, using the occupancy agreement, it was determined that the tenants would make monthly payments of \$1,000 for a minimum period of one (1) year during which time the tenant would source a mortgage. This option was applied to the fourth floor of each building. Monies paid during the occupancy period were not refundable and would not be credited to the purchase price of \$225,000.

**5.102** Other issues in relation to the allocation of the units were as follows:-



i. Lack of Mortgage Certificates

Personnel from the NHC indicated that each successful applicant for the units at the Grotto was expected to submit a mortgage certificate from a financial institution confirming their eligibility for a mortgage of \$225,000 or \$215,000 respectively based on the particular option of purchase. Only one mortgage certificate was presented for audit inspection. No evidence was provided to verify that the other tenants at the Grotto had submitted mortgage certificates at the time of applying to rent/purchase the units.

ii. Tenants' Income Lower Than Recommended Threshold

It was proposed that one of the criteria for selecting the tenants for the units would be that the rental charge should not be more than thirty percent (30%) of the tenant's monthly income. Therefore, based on the minimum monthly rental charge of \$800.00, the minimum income of any tenant would have to be \$2,667<sup>13</sup> per month. However, it was observed that the combined monthly income of fourteen (14) tenants was below the minimum monthly amount.

iii. Subsidisation of Selling Price

The selling prices of the units were set way below the construction cost per unit which means that NHC is subsidising the purchase of these units by the tenants. The cost per unit

<sup>13</sup> Calculated as \$800 divided by 30%



was approximately \$442,509 inclusive of the cost of the land. For tenants under the Rent-to-Own Programme, the purchase price per unit would be \$215,000, which is \$227,509 less than the construction cost per unit. If these sixty-three (63) units were sold at the end of the scheduled nine (9) year period, the Corporation would recover approximately \$13.55 million, a shortfall of \$14.33 million<sup>14</sup>.

Under the Rent-to-Buy Programme, the total monies to be paid for these units would be \$237,000 (includes the purchase price of \$225,000 and an occupancy charge of \$1,000 monthly for one year) which is \$205,509 less than the construction cost per unit. If these sixteen (16) units were sold at the end of one year, the Corporation would recover approximately \$3.79 million, a shortfall of \$3.29 million<sup>15</sup>. When the cost of insurance and maintenance is added, the Corporation will recover even less under both options.

### **Audit Comment**

**5.103** Failing to ensure that mortgage certificates were provided before tenants were selected, the NHC has exposed itself to the possibility of having tenants who cannot acquire a mortgage to purchase the units at the time of sale. This would result in tenants continuing to rent beyond the stipulated time.

**5.104** Since the NHC has allocated forty-seven (47) units to tenants whose combined monthly income is above the threshold for low income earners,

<sup>14</sup> Calculated as 227,509.33 X 63 (Number of units to be sold at \$215,000)

<sup>15</sup> Calculated as \$205,509.33 X 16 (number of units to be sold at \$225,000)





it means that NHC was providing a subsidy for persons who should be in a better position to access a mortgage to obtain a home in the private market. The process was disadvantageous to those long standing applicants to the NHC who would not easily qualify to purchase a home in the private market because of their low income levels.

**5.105** Persons on the waiting lists who were employed by Ministries, Departments and State Owned Enterprises would have been a better selection for tenants of the Grotto as the monthly charge would be deducted from their salaries. This would have alleviated the high level of default and the NHC would be in a better position in collecting monies.

- **Rental Charges and Collection**

**5.106** The Audit observed that the combined monthly income of fourteen (14) tenants was below the estimated minimum income of \$2,667<sup>16</sup> per month which would have allowed them to comfortably afford the minimum monthly charge of \$800.00. This means that the possibility of default was high.

**5.107** With monthly income below the thirty percent (30%) of income threshold, it was a foregone conclusion that there would be some level of default. At the 30<sup>th</sup> November 2018, the amount due to the Corporation for arrears was \$148,971.74. Forty-nine (49) tenants in the Rent-to-Own programme defaulted in the amount of \$112,671.74. Of these tenants, ten (10) each had a combined monthly income which was less than the estimated threshold of \$2,667 and thirty-two (32) each had a combined monthly income in excess of \$3,000.00 per month. A tenant whose salary

<sup>16</sup> Calculated as \$800 divided by 30%



was less than \$2,000 with a monthly rental charge of \$859, also owed in excess of \$11,000.

- 5.108** Thirteen (13) tenants in the Rent-to-Buy programme defaulted in paying their monthly occupancy charge totaling \$36,300. Of these tenants, eleven (11) each had a combined monthly income in excess of \$3,000 while the others had a monthly income of less than \$3,000.
- 5.109** There was only one case where the NHC enforced the provision of the contract by repossessing the apartment of a tenant who defaulted. This tenant's contract was terminated on 12<sup>th</sup> February 2018 with the condition that all outstanding monies (approximately \$7,200.00 at that time) should be paid on or before the 31<sup>st</sup> March 2018. No evidence was received to indicate that these arrears were paid.
- 5.110** Notices of Arrears dated 12<sup>th</sup> March 2018 were issued to thirteen (13) tenants in the 'Rent-to-Own' programme who were in arrears as at 28<sup>th</sup> February 2018. At the 30<sup>th</sup> November 2018, the total arrears for nine (9) of these tenants had increased by one hundred and thirty-eight percent (138%) whereas the arrears had decreased by forty-four percent (44%) for the other tenants. No evidence was provided of any further letters being sent to tenants who were in arrears.
- 5.111** Security deposits serve to protect the landlord if the tenant damages the unit or violates the terms of the agreement. Clause 2 of the agreement signed by the "Rent-to-Own" tenants required a security deposit of two (2) months' rental charge which should be credited to the purchase price on the exercise of the option to purchase. However, the audit observed that twelve (12) tenants were allowed to pay a security deposit which was less



than two months' rental charge. Ten (10) of these tenants owed arrears totaling \$43,088.72 at the 30<sup>th</sup> November 2018.

- 5.112** The Corporation included the amount paid as the security deposit in the total amount paid when calculating the arrears for tenants. This resulted in the total arrears being understated by \$73,750.00.

#### **Audit Comment**

- 5.113** NHC has been lax in dealing with its defaulters. The high volume of defaulters at the Grotto is alarming as this is a relatively new project. If this situation is allowed to continue, the Corporation will have difficulty recovering monies spent on constructing the high rise apartments at the Grotto, and will have to allocate additional resources in order to collect the outstanding monies.
- 5.114** The issuance of the Notice of Arrears to tenants was not effective in reducing the arrears as evidenced by a one hundred and thirty-eight percent (138%) increase in total arrears for nine (9) of the tenants receiving the Notices. Furthermore, the non-enforcement of the provision in the contract for managing defaulters shows a weakness in enforcement by the NHC.
- 5.115** The decision to allow persons to pay a reduced security deposit exposed the Corporation to the risk of not being able to recover costs in case of damages to the units caused by the tenants. In addition, the purpose of the security deposit means that NHC should not have allocated it to the monthly rental charge. The need to allow tenants to pay a reduced security deposit should have been a red flag to the Corporation that these tenants might be individuals with a high risk defaulting. The fact that



eighty-three percent (83%) of the tenants who paid a reduced security deposit were in default at 30<sup>th</sup> November 2018 implies that the Corporation has not been closely monitoring these tenants.

#### ***National Housing Corporation's Response***

*While the report shows forty-four (44) of the sixty-two (62) tenants as being in default at November 2018, twenty-three (23) of those are for default on one (1) month's payment of less.*

*Several of those shown as in default, payments are by deductions. The Corporation has over the years suffered from slow remittances from some Government Departments and Business Entities.*

- **Compliance with the Condominium Act**

#### **5.116**

All units were to be sold to the tenants after a certain period using the provisions of the Condominium Act Cap 224A. Personnel from the National Housing Corporation indicated that as at 31<sup>st</sup> July 2018, the provisions of the Condominium Act had not been put in place. These provisions include:

- A Declaration which represents an instrument by which the property is expressly declared to be subject to the Condominium Act and includes any lawful amendments to that instrument;
- The Declaration must be prepared and filed at the Land Registry Department; and



- The establishment of a management company.

**5.117** On the lodgment of a Condominium Declaration, the proprietors of all the units become established as a Body Corporate. The Body Corporate is responsible for the following inter alia:

- The operation of the property for the benefit of all unit proprietors;
- Keeping the common property in a state of good repair;
- Insuring the buildings,;
- Complying with notices or order issued by any competent public authority requiring repairs or work to be done to the buildings;
- Carrying out the directions of the unit proprietors; and
- Carrying out duties prescribed by the Declaration or the bye-laws.

**5.118** In this regard, the National Housing Corporation will have to be part of the Body Corporate in order to manage and upkeep the properties including providing insurance as all the units will most likely not be disposed of at the same time.

**5.119** The NHC has not been able to register the properties under the Condominium Act. Hence, none of the tenants in the Rent-to-Buy programme could purchase their units as at 30<sup>th</sup> November 2018, even though the minimum period of one (1) year for occupancy had expired. Thirteen (13) of these persons owed a total of \$36,300 in arrears.

**5.120** A major challenge facing the Corporation in the future would be how to deal with the monies collected during the period before the provisions in the Condominium Act are implemented. The Corporation indicated that these monies would not be credited to the purchase price of the unit at



the time of sale during the year. However, what happens after the year has passed should be a concern for the Corporation. No evidence was presented to show how this issue will be dealt with by the Corporation.

### **Audit Comment**

- 5.121** Meeting the provisions of the Condominium Act has proven difficult for the NHC in the past and it continues to be difficult. The Corporation has been attempting to sell apartments at Flat Rock, St. George since 2001 under the Condominium Act but, because it has not implemented the required provisions of the Condominium Act, these apartments have not been transferred to the prospective owners. If the present situation continues, the sale of the units at the Grotto will be further delayed. This is one challenge which should be addressed by the Corporation before it decides to sell any more units under the Condominium Act.
- 5.122** Dealing with the issue of the monies paid to the Corporation as occupancy rent for more than one (1) year should be a cause of concern for the Corporation. It is highly unlikely that persons would be willing to pay an occupancy charge for a long period of time and still have to purchase the unit at the sale price.

### **National Housing Corporation's Response**

*The Rent to Buy Agreement states clearly that the tenants can occupy the property for a minimum period of 1 year until NHC gives written to the tenant that the property has been registered under the Act. In essence, the Agreement contemplates that it may take longer than 1 year to complete all the requirements and as a result allows for the extension of the tenancy until NHC gives the relevant notice that the property is registered.*



*Time is not of the essence in the Agreement and as a result, it is not a major challenge in that regard. Furthermore, the tenant has the option to terminate the Agreement by giving 1 months' notice and is not prejudiced by any extension. That notwithstanding, it is not the intention of the NHC to delay this matter for any protracted period of time but it has taken steps to meet the requirements of the Act.*

- **Fulfilment of Mandate**

**5.123** The overall goal of the Corporation is to contribute to the improvement of the housing conditions of citizens of Barbados. This includes the provision of affordable housing which is defined as the delivery of a quality product at a reasonable price. The Corporation aims to provide these solutions without placing an undue financial burden on members of the community.

**5.124** As at 31<sup>st</sup> December 2018, there were thirty-six thousand, eight hundred and thirty-eight (36,838) applications for housing solutions from the National Housing Corporation. The Corporation decided to construct five (5) high rise apartment blocks at the Grotto as part of its objectives to satisfy the needs for housing solutions in the urban areas. The Corporation had indicated that the reason for building the units was to provide housing for those persons with lower income, and such properties fell within a range of \$125,000 to \$195,000 each. However the units at the Grotto were constructed at a cost of \$442,509 per unit – way above the range of persons for whom they were built. This resulted in the NHC not meeting its mandate to supply housing for lower income persons.



## Audit Comment

**5.125** In constructing the units at the Grotto, the NHC was unable to meet its mandate due to the high construction cost. The NHC needs to be more aware of the cost of construction when seeking to provide housing for lower income persons thus ensuring that their needs are met. With a construction cost of \$35.40 million, the Corporation could have provided approximately one hundred and eighty-one<sup>17</sup> (181) housing solutions (126% more than those provided at the Grotto) for persons in the lower income bracket. When embarking on a construction project, the relevant assessments need to be undertaken and proper financial analysis carried out to ensure that the mandate is fulfilled.

- **Implications for the Future**

**5.126** The financial situation at the Corporation plays a major part in whether the housing needs of the country can be fulfilled. In this regard, it would not be expected that the Corporation will continue to provide housing solutions for the lower income earners and be unable to collect monies owed. Careful consideration therefore needs to be given in relation to any future construction projects especially if adequate sources of finance are unavailable.

**5.127** With the inability of the Corporation to meet the requirements of the Condominium Act CAP 224A, the choice of high rise apartments for sale ought not to be considered for construction in the near future. If the high rise units are being constructed for rental, tenants chosen should be able to pay the monthly rental charge set by the Board. The Corporation

<sup>17</sup> \$35.40 million divided by \$195,000 (figure at the high end of housing for lower income persons)





should not be heavily subsidizing rents or sale price of units for middle income earners who can acquire properties in the private market.

- 5.128** One criterion for selection of tenants should be their ability to pay the monthly rental charge, thus alleviating the high level of defaulters. At the Grotto, approximately seventy-eight percent (78%) of the tenants had defaulted within twenty-three (23) months of these units being occupied. This is unacceptable and the Corporation should seek to ensure that this does not happen in any future housing projects.

### **Conclusion**

- 5.129** The Corporation did not follow its own eligibility criteria when the units at the Grotto were allocated. NHC allocated units to persons whose monthly combined income did not qualify them to be low income earners. In addition, units were allocated to tenants whose monthly income was below the required threshold which would allow them to comfortably pay the minimum monthly charge. The NHC also failed to ensure that the required mortgage certificates were presented before the selection of the tenants. Hence, there was no guarantee at the time of selection that those individuals could afford to purchase the units.
- 5.130** A major issue of concern is that the Corporation is selling units to persons who should be able to access a mortgage in the private market at a subsidised selling price. Any subsidization of selling prices should be to the benefit of persons deemed as lower income earners. In addition, sixty-seven percent (67%) of these higher income individuals have already defaulted in their payments to the Corporation. This implies that the selection process for tenants should be reviewed.



**5.131** The Corporation has not been able to sell any of the units in the Rent-to-Buy category, as it has not been able to implement the requirements of the Condominium Act, especially as it relates to the establishment of a management company. This will result in tenants continuing to rent and not being able to own their units. In addition, these tenants in the Rent-to-Buy programme may be disadvantaged since the contract does not make provision for monies paid to be credited to the purchase price at the time of the sale.

### **Recommendations**

**5.132** It is recommended that:

- i. The NHC should ensure that, once the rental and sales policies are established, the eligibility criteria for selecting tenants are adhered to.*
- ii. The high subsidization of rents for persons who may be able to afford a mortgage in the private market should not be allowed for future projects.*
- iii. The Corporation should seek to reduce the number of persons defaulting on their monthly occupancy charge/rent and ensure that actions, as outlined in the tenancy agreements for default, are taken in a timely manner.*
- iv. The Corporation should seek to implement the requirements of the Condominium Act, especially the establishment of a management company, to ensure that the units at the Grotto can be sold to the tenants in a timely manner.*



- v. *The NHC should ensure that, in the future, any high-rise units available for sale meet the requirements of the Condominium Act, CAP 224A.*
- vi. *The NHC should review its contract with the individuals in the Rent-to-Buy programme especially as it relates to the stipulation that monies paid in occupancy rent cannot be applied to the purchase price of the units.*
- vii. *Special attention needs to be paid to the cost of construction to ensure that the target population can meet the cost recovery targets set by the Board.*
- viii. *Lessons learned from this project should be applied to future ones to ensure that the same issues are not encountered.*