

BARBADOS AUDIT OFFICE



REPORT **of the** **AUDITOR GENERAL** **for the year** **2008**





THE BARBADOS AUDIT OFFICE
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11th May 2009


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

Sir,

In accordance with Section 113 (3) of the Constitution of Barbados and Section 38 (5) of the Financial Management and Audit Act, 2007 - 11, I forward for laying before the House of Assembly my Report of the examination of the accounts of the Ministries and Departments of Government, and of other financial statements and accounts required to be audited by me in respect of the financial year ended 31st March 2008.

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,


Carver G Hinds
Auditor General (Ag.)



MISSION STATEMENT

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

THE GOAL

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



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CHAPTER 1

General Audit Issues

Introduction

This is my Annual Report to the House of Assembly for the year 2008. It is issued in accordance with Section 38 (1) of the Financial Management and Audit Act, 2007 - 11 which states:

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

- 1.2. I wish to take this opportunity to apologise for the late submission of the Report which was caused by inadequate staff levels, and slow responses from ministries/departments to requests for information, amongst other factors.

Mandate of the Auditor General

- 1.3. This Report is a compilation of the results of the audit of accounts of ministries, departments and other Government agencies in accordance with the provisions of the Financial Management and Audit Act, 2007-11 and the Constitution.
- 1.4. Section 113 of the Constitution of Barbados requires the Auditor General, at least once in every year, to audit and report on the accounts of the Supreme Court, the Senate, the House of Assembly and all departments and Offices of the Government. The mandate of the Office is further outlined under Part IV of the Financial Management and Audit Act, hereafter referred to in this Report as the F.M.A Act. The section of this Act which sets out the responsibility of the Audit Office is listed at Appendix 1.
- 1.5. My Office has examined the accounts of the ministries and departments of Government for the year ended 31st March 2008. The Office has also examined the accounts of other public authorities and regional agencies

as prescribed by law or agreement. This Report contains significant observations and recommendations arising from these audits. Where ministries and departments or other agencies of Government have provided responses to matters raised by my Office, they have been included in the Report.

Scope of Audit

- 1.6. The F.M.A. Act places the onus for the proper discharge of financial management of Government funds on the Accountant General and Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on the accounts and statements examined based on the audits carried out by his Office.
- 1.7. The audits were conducted in accordance with the Constitution of Barbados, the F.M.A. Act and administrative directives issued by appropriate authorities of the Government, applying Generally Accepted Auditing Standards.
- 1.8. An audit includes an examination on a test basis of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The audits do not draw conclusions upon areas that have not been examined.
- 1.9. The audits were not designed to disclose every error in the accounts but to ascertain whether the accounts were using acceptable systems, were punctually and properly posted, that checks against irregularities and fraud were adequate and effective, and to give reasonable assurance that the financial statements were free of material misstatements.
- 1.10. The audits were also designed to evaluate internal controls and, to a limited extent, the efficiency of the use of resources in ministries and departments. Audit findings are discussed with the ministry or department concerned and the entity is requested to provide a written response to any matters conveyed in our management letter.
- 1.11. The audits conducted do not in anyway relieve Accounting Officers of their responsibility to ensure that there are adequate internal controls and that the Financial Rules and other regulations are adhered to.

- 1.12.** My opinion on the Financial Statements of the Government for the year ended 31st March 2008 is issued, together with the statements, in a separate document.

Audit Methodology

- 1.13.** A main function of the Audit Office is to assess whether there has been accountability for public funds. This responsibility is discharged through the conduct of financial audits. This work includes obtaining evidence supporting compliance with Government laws and regulations, Public Sector Accounting Standards and procedures, and the evaluation of internal controls. In order to provide an independent and professional audit service, the Barbados Audit Office adheres to the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards for guidance.
- 1.14.** Senior Officers in the Audit Office are requested to prepare annual audit plans for audits to be undertaken during the calendar year. This includes audits of all ministries and departments and some Statutory Boards. The auditors seek to provide an overall assurance of the general accuracy and propriety of the Government's financial and accounting transactions.

Financial Management and Audit Act

- 1.15.** During 2007 the Financial Administration and Audit Act was repealed and replaced with the Financial Management and Audit Act, 2007-11. The main changes introduced through the new Act enabled the transitioning of the accounts of the Government from cash based accounting to accrual based accounting, and provided a greater degree of independence to the Office of the Auditor General.
- 1.16.** One change introduced in the Financial Management and Audit Act which directly affects the Office relates to the Estimates of Expenditure for the Office. Section 38 (3) of the Act states that the Estimates of Expenditure of the Office of the Auditor General shall be transmitted to the House of Assembly through the Public Accounts Committee. The Committee can make suggestions for the revision of the estimates. There is some uncertainty over this provision since the Constitution states that the Minister of Finance is responsible for the laying of the estimates of the Government. I have submitted the Estimates to the Public Accounts

Committee as requested and forwarded a copy to the Ministry of Finance for incorporation into the general estimates. It is time however that the Office has greater control over its annual allocations, which should be approved on a lump-sum basis. This would allow the Office more discretion in how its votes are utilized.

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

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

1.18. At its meeting held on 7th November 2007, the Public Accounts Committee decided that a legal opinion should be sought on this matter so that the Committee does not request audits on entities over which it has no oversight. The Chairman at that meeting indicated that it was important that the Committee not exceed its powers.

Accrual Accounting

1.19. In accordance with the new legislation, the accounts of the Government were reported on an accrual basis from 31st March 2008. These accounts were governed by the International Public Sector Accounting Standards issued by the International Federation of Accountants.

1.20. An essential feature of the Accrual Accounting System is that revenues are reported when due even if no cash has been received, while expenses are recorded when services are provided or goods received even if no cash payments were made. This allows for a matching of income earned and related expenses over a given period. Another important feature in accrual accounting relates to the accounting treatment of large capital purchases such as buildings. In the cash based system all payments made in respect of these capital purchases would have been immediately expensed while under the accrual system such purchases will be amortized over their useful life.

1.21. The shift from cash to accrual accounting has been challenging and, in many critical areas, Public Sector Accounting Standards have not been adhered to. Adequate and timely record keeping is critical, and staff in the ministries and departments must be familiar with the accounting standards so that transactions can be properly recorded, but this has not occurred. It was always highly unlikely that the accounts of Government would comply with the International Public Sector Standards by March 2008, given the large amount of work required to change the existing system to accommodate accrual information.

1.22. The change to accrual accounting, and the expansion of the Office's mandate, also presented some challenges to the Audit Office. Substantial training of existing officers and the recruitment of additional qualified personnel is required if the Office is to adequately fulfill its mandate. In my 2006 Report I had indicated that the Office as then constituted could not adequately fulfill its mandate, and one year later the situation has improved marginally. In December 2007 the Ministry of the Civil Service approved the reorganization of the Office and action now has to be taken on the recruitment of staff approved by that Ministry.

Constitutional Amendment

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

Recommendations of the Constitution Review Commission

1.24. The 1998 Constitution Review Commission had made a number of recommendations towards strengthening the role and functions of the Auditor General's Office, and a number of these recommendations have since been legislated.

1.25. One recommendation which has not been legislated to date relates to the delegation to the Auditor General of the power to directly recruit staff. The current practice is for the Personnel Administration Division (PAD) to

recruit staff for ministries and departments. However, for the past ten years the Audit Office has been allowed the facility where it interviews persons and then makes recommendations to the Personnel Administration Division. This practice could be improved upon by delegating the recruitment process to the Audit Office.

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

Public Accounts Committee Meetings

- 1.27. During 2008, there was one meeting of the Public Accounts Committee. This meeting was held to examine the draft estimates of the Audit Office. The Committee approved a budget of \$4,812,898 for the 2009-2010 financial year.

General Audit Concerns

Public Private Partnerships/Contract Management

- 1.28. The operations of Government have been expanding and at the same time growing in complexity. One area in which this is particularly evident is the number of Public Private Partnership (PPP) arrangements which have been undertaken.
- 1.29. This type of arrangement is relatively new to Barbados but occurs frequently in countries such as the United Kingdom and Australia. This arrangement was initially seen in some countries as a way of increasing capital assets without increasing the National Budget, since these projects were 'off budget.' However, with the change in Barbados from the cash basis to the accrual basis, PPP projects are considered as capital leases and will be included in the National Debt.

- 1.30.** These projects are not without risk as can be seen with the Newton Business Park Development Project, where there was poor construction of the building and termination of the contract; and the ABC Highway Project, which also encountered difficulties. A great deal of care needs to be taken in determining which projects should be undertaken using a PPP.

Request for Information

- 1.31.** Gaining access to information is also a matter of concern. In a number of instances some Government Officials appeared to be ignorant of the provisions of the Financial Management and Audit Act, which requires the Audit Office to have access to all information. In some cases the work of the Audit Office was held back as a result of a lack of cooperation by Ministry/Department Officials.

- 1.32.** Even now critical information, such as responses to audit queries, has still not been made available to my Office. I would like to advise ministries, departments, statutory boards and all Government controlled entities that I therefore expect full cooperation in any audit investigation. In some instances what transpired during the past year was unacceptable.

Response to Audit Queries

- 1.33.** On a number of occasions, the Audit Office has requested information/clarification on matters arising out of the course of audits. However, in a number of instances responses from audited entities were not forthcoming in a timely manner, if at all. These responses are necessary to provide clarity to issues, and to give the ministry or department an opportunity to express its views on the matter. According to the Constitution of Barbados, the Audit Office is responsible for the audit of all Government entities, and should have any relevant information to carry out its duties. It is therefore in everyone's interest for entities to respond to requests for information from the Office.

Accountability

- 1.34.** Over time I have noted that persons are not being held accountable for actions which result in loss or wastage of Government funds. This is a serious challenge which needs to be addressed by Government.

- 1.35.** Accountability is a relationship based on obligations to take responsibility for performance. Key to accountability in practice is how those responsible are held to account. When accountability is not working well there are neither appropriate organisational changes nor consequences for responsible individuals. I have reported on a number of serious matters over time in which there have been no consequences to those involved, and this needs to change to improve performance and to avoid loss and wastage in the public service. A number of these matters are reported in Chapter 3.

Contracts

- 1.36.** The Financial Rules require contracts to be in place for expenditures in excess of \$20,000. On many occasions, however, ministries and departments have not been complying with this rule which seeks to establish safeguards for the satisfactory completion of work. Often, the ministries and departments have indicated that the draft contracts which have been forwarded to the Office of the Solicitor General for review, remain with that office for long periods of time, thereby preventing the work from commencing in a timely fashion. This situation has been ongoing for some time and needs to be urgently addressed.

Special Audits

- 1.37.** During the year, the Office conducted a number of special investigations and these involved the National Housing Corporation (NHC), the ABC Highway Project and the National Insurance Department. These will be issued separately as Special Reports.

Office Accommodation

- 1.38.** For the past eight years a section of the Audit Office located in the Weymouth Corporate Centre has been affected by a foul odour. This matter has been investigated by the landlords and the Government Environmental Unit in the past, but there appears to be some uncertainty about its origin, and attempts to get rid of the problem have been unsuccessful to date.

- 1.39.** This problem has negatively impacted on the work of the Office, as officers have had to move out of the affected areas until the odour dissipates. During the course of the year a decision was taken to relocate officers from the affected areas to the Office's conference room and other available areas. This is however, only an interim measure. There are several vacant posts the Office is seeking to fill and there is an absence of accommodation to house them.
- 1.40.** The response from the Ministry of Housing and Lands has been extremely disappointing, despite a number of letters outlining the challenges the Office is facing. There has been little action taken to resolve the matter.
- 1.41.** The Ministry should not be making payments for premises that are uninhabitable. It should be actively working towards a solution to the Office's housing needs.

Staffing

- 1.42.** In December 2007, the Ministry of the Civil Service approved a reorganization of the Audit Office including the creation of a number of new posts. The reorganization coincided with the introduction of a new Public Service Act. The action taken by the Personnel Administration Division to have the new posts filled has been tardy, and has worked to the detriment of the Office. At the 31st December 2008, the Office is still seeking to have these posts filled.
- 1.43.** The need to circularise or advertise all posts before they are filled and the renewal of temporary appointments every three months have tested the capacity of the Personnel Administration Division. There is obviously a need for some delegation of the recruitment process. One way in which this can be done is for each ministry and department to have a panel of interviewers who would have responsibility for interviewing all prospective employees. The Personnel Administration Division could supervise the process to ensure compliance with prescribed guidelines. A continuation of the current process will only lead to further delays in the recruitment process for ministries and departments.

Attendance at Conferences/Seminars

- 1.44.** During the course of the year, a number of Officers attended workshops and conferences and these included the following:-
- 1.45.** The Auditor General, Mr. Leigh Trotman, attended a Strategic Planning meeting of regional audit offices in Trinidad from 4th to 6th March 2008.
- 1.46.** The Auditor General also attended the 13th Commonwealth Auditors General Conference in Bermuda during the period 5th to 10th July 2008. The theme for the conference was Accountability for the 21st Century. Auditors General from around the Commonwealth shared their experiences and looked at the challenges confronting the profession in the 21st Century.
- 1.47.** Senior Auditor, Mrs. Vincia Thomas and Senior Auditor (Ag), Ms. Pamela Humphrey attended a one week Value-for-Money Workshop in Guyana during the period 13th to 17th October 2008. This regional workshop was funded by the Canadian Comprehensive Audit Foundation (CCAF).

Other Issues

- 1.48.** The Reports of the Office for a number of past years can be found on our webpage www.bao.gov.bb. Also available are relevant pieces of legislation relating to the Audit Office, including the Financial Management and Audit Act; the Public Accounts Committee Act; and extracts from the Constitution. It is hoped that members of the public can provide feedback on our reports, and on issues relating to the Public Sector that are of concern to them using this medium.

Acknowledgements

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

CHAPTER 2

Analysis of the Financial Statements of The Accountant General

The financial statements of the Accountant General were submitted to the Barbados Audit Office in accordance with Section 22 (2) of the Financial Management and Audit (FMA) Act, 2007-11. The Accountant General is required to prepare, sign and submit financial statements to the Auditor General within four months after the close of the financial year. The financial statements for the year ended 31st March 2008 were received in July 2008 and this was within the stipulated time frame.

Audit Mandate and Objective

- 2.2** In accordance with the provisions of Part IV, Section 36, of the FMA Act, 2007-11, an audit was conducted by the Barbados Audit Office on the accounts of the Treasury Department for the financial year ended 31st March 2008.
- 2.3** The objective of the audit was to express an opinion as to whether:
- (a) 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;
 - (b) Appropriate internal control systems exist and were adhered to; and
 - (c) The financial statements were in accordance with International Public Sector Accounting Standards (IPSAS).

Methodology

- 2.4** Audit procedures consisted mainly of the analytical review of documentary evidence supporting the financial statements, and interviews with the Accountant General and officers from her Department, in addition to personnel from the Ministry of Finance.

General

- 2.5** The Government of Barbados made a decision to change its accounting process from the cash to the accrual basis with effect from 1st April 2007. It was determined that the accounts would follow the International Public Sector Accounting Standards set out by the International Federation of Accountants (IFAC). The philosophy underlying international accounting standards is that they set a series of principles against which the decisions about the recording and reporting of particular transactions could be judged.
- 2.6** The accrual system is much more complex than the traditional cash system. However, it was anticipated that the information available from the accrual based accounts would facilitate a better quality of management and decision making, including decisions on the allocation of resources. It also facilitates the cost of capital assets being spread over the useful life of these assets, and allows for a more effective and reliable assessment of the health of Government's finances. One of the key features of accrual accounting is the allocation of revenues and expenses to the period to which they relate.
- 2.7** There were a number of conceptual issues which needed to be resolved prior to the implementation of the accrual system, and these included the determination of assets to be included in the financial statements, and the valuation method to be employed.
- 2.8** In addition, there was a need for clarity over the recognition points for taxes, and the treatment of Government's pension liability. Some of these issues have not been properly addressed. In this regard, the notes to the financial statements were not explanatory enough to provide users with adequate information on these aspects of the operations of Government.

Transitional Provisions

- 2.9** The International Public Sector Accounting Standards (IPSAS) offer Governments who are changing from the cash to accrual basis certain transitional provisions, which allow reporting entities additional time to meet the full requirements of certain standards. There is however, the stipulation that the entities disclose the extent to which such provisions have been applied. The Government could therefore have chosen these provisions

and, in accordance with the standards, disclosed this fact in the notes to the financial statements. There was no record in the financial statements that any of these provisions were adopted by Government. As a result the financial statements were assessed as fully complying with all aspects of the Public Sector Accounting Standards. Matters arising from the audit of these financial statements are as follows:-.

Presentation of Financial Statements

- 2.10** There were instances in which disclosures were not made on the face of the financial statements as required by International Public Sector Accounting Standards (IPSAS), and these included the following:

(a) Exchange Transactions

- 2.11** Under Presentation of Financial Statements, paragraph 88, a reporting entity is required to record its receivables and payables from exchange transactions on the face of the financial statement. It was however observed that this requirement was not adhered to.

(b) Transitional Provisions

- 2.12** Under IPSAS 1 paragraph 132, a reporting entity is required to indicate the extent to which it has applied any transitional provision in any of the International Public Sector Accounting Standards. The extent to which any provision was accepted or applied was not stated. In my view this was a significant omission by the Treasury. Based on the findings of the audit, significant aspects of the recording and reporting of assets and liabilities could have benefited from the reprieve offered by the transitional provisions.

(c) Other Issues

- 2.13** IPSAS 1 also requires that the rounding level used in presenting amounts in the financial statement be indicated. This requirement is stated under Presentation of Financial Statements, paragraph 63 (e); however, this was not followed.

(d) Disclosure on Risk

- 2.14** IPSAS 1, Presentation of Financial Statements, paragraph 129 (d) requires that a reporting entity states the financial risk facing it, but this factor was not disclosed as required. Examples which could be cited are the many cases in which the Crown is being sued by individuals or companies, or where the value of its assets could be impacted upon by external factors.

(e) Disclosure of Interest-Rate Risk

- 2.15** IPSAS requires the disclosure of interest-rate risk on financial instruments. This includes exposure to the effects of failure, changes in the prevailing rate of interest (since these changes can have an impact on cash flow), and information on whether rates are fixed. These disclosures would provide information to users evaluating the interest-rate risks to which the Government is exposed. Such information was however not provided in the notes to the financial statements as required.

(f) Estimating Uncertainty

- 2.16** Under Presentation of Financial Statements, paragraph 140, a reporting entity is required to disclose, in the notes, information about the key assumptions, concerning key sources of uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, and this should have been stated for items such as Accounts Receivable and the carrying value of Government's equity in Leeward Islands Air Transport (LIAT).

(g) Other Disclosures

- 2.17** The following disclosure requirements were not adhered to as required by IPSAS 1 paragraph 150, Presentation of Financial Statements:
- The domicile and legal form of the entity;
 - A description of the nature of the entity's operations and principal activity.

(h) Notes to the Financial Statements

- 2.18** The notes to the financial statements were limited in respect of Other Capital Assets and Investment, and the relevant schedules were not attached. These schedules were requested for audit verification; however,

they were not submitted for most of the Other Capital Assets at the time of writing.

- 2.19** Based on the foregoing, there are issues of inadequate presentation and disclosure in the financial statements submitted for audit examination. These are fundamental issues that impact on users' understanding of the financial statements.

2.20 Treasury's Response

Exchange transactions relate to sales of goods and services by public sector entities. Most of the departments which engage in these types of activities do not have the necessary staff or systems to effectively manage the receivables relating to these activities on a daily/monthly basis. As a result information relating to the receivables for such activities has not been communicated to the Treasury Department for reporting.

The report which the audit requested is not a delivered report that is, there is no one report available from the system which incorporates all this information. We are in the process of designing such a report and this will be available for the financial year ended March 2009.

Statement of Financial Position (IPSAS 1 – Appendix 1)

- 2.21** For the Statement of Financial Position, IPSAS paragraph 88 requires, at a minimum, the Net Assets/Equity approach, which is the sum of all assets less liabilities. However, the Treasury prepared the statement using a 'Net Debt' approach, in which financial assets were deducted from Current and Long-Term Liabilities to arrive at what was termed the 'Net Debt Position'. The 'Net Assets/Equity' Section was therefore not reflected on the Statement of Financial Position, as required by IPSAS 1.
- 2.22** Assets were not recorded in order of liquidity as required by IPSAS. Whereas Current Assets were recorded before Liabilities, Non-Financial Assets were recorded after Liabilities. Categories of assets should be listed together in accordance with IPSAS paragraphs 76 – 87.

2.23 Treasury's Response

It is our opinion that the Net Debt position is more informative for the presentation of the statement of financial position for the Government of Barbados. This is the figure that is of interest to financial institutions and other stakeholders given the size of public sector debt.

This method was therefore used based on our interpretation of paragraph 76 – 91 of the referenced Standard. All items have been presented in order of liquidity but being a public sector entity we felt it more appropriate to use headings of financial and non-financial assets and liabilities rather than current and long-term assets. This presentation is also acceptable.

Auditor's Comment

- 2.24 IPSAS requires that the net assets/equity be listed on the face of the financial statements. The Treasury is free to include appropriate schedules for clarity but must adhere to the required standard.

Conclusion

- 2.25 When viewed in the light of IPSAS requirements, there are issues of inadequate presentation and disclosure in the financial statements submitted for audit examination. These deficiencies could result in users of the financial statements not having adequate information to carry out informed assessment of the matters contained therein.

Revenue

- 2.26 The change from the cash to accrual basis of accounting requires revenue collection departments to change the way monies collected are recorded. Previously, cash received was treated as revenue for the period in which it was collected. The change in the basis of accounting requires that relevant systems be in place to allocate collections to the relevant accounts, i.e. Revenue, Accounts Receivable or Prepayments.
- 2.27 Revenue was reported as \$2.5 billion, and this was \$3 million more than what was budgeted. The major components of this revenue were Goods

and Services (\$1 billion) and Taxes on Income & Profits (\$928 million). Other significant contributions came from Taxes on International Trade (\$216 million) and Property Taxes (\$144 million).

- 2.28** The Notes to the Financial Statements indicated that Revenues are recognised in the fiscal year to which they relate and that amounts received prior to the year to which they relate will be treated as liabilities. This policy was however not embraced, and revenues were accounted for on a cash basis. A major issue was the lack of preparedness of ministries and departments to account for revenue on the accrual basis.

Collection of Revenue

- 2.29** Accrual accounting also requires adequate estimates for Revenue and Accounts Receivable, where revenue is earned but not collected. A review of a number of revenue departments revealed that there were inadequate systems in place to account for revenue on an accrual basis as follows:

Inland Revenue

- 2.30** The change from the cash to the accrual basis of accounting required that revenues from Inland Revenue be recorded on an accrual basis and estimates made of revenue collectible at 31st March 2008. In addition, the policies for estimating revenue should have been clearly stated. It was however noted that revenues were recorded on a cash basis, and significant policies in respect of revenue estimations were not disclosed.

Revenue - Value Added Tax

- 2.31** The Value Added Tax (VAT) Division recorded its revenues on a cash basis, and this was not in conformity with IPSAS. Given the material nature of this revenue item, this action constitutes a significant departure from the accrual basis of accounting.

Treasury

- 2.32** Revenues collected directly by the Treasury include Banking, Franchise, Petroleum Storage Licences, as well as Inspection Fees for the storage of petroleum. An audit investigation was conducted to determine whether all revenues were accounted for, and the existence of any receivables.
- 2.33** A schedule of rates was not available, neither was the Department able to provide a listing of entities/persons required to purchase licenses. Funds were collected for all licence categories except Franchise. However, subsidiary information was not kept; therefore any unrecorded receivables remained unknown as at the time of writing.
- 2.34** Audit research revealed that information on the various licences could be obtained from (a) the Central Bank of Barbados re: Banking Licences, (b) the National Petroleum Corporation re: Selling and Storage Licences, and (c) the Ministry of Finance re: Franchise Licences. These licence fees form part of the Treasury's revenue; therefore the Treasury should liaise with the entities to ensure that reports are received to allow for the collection of revenue and recording of receivables. It would also allow the issuing of timely reminders for payment if necessary.

Other Revenue Collecting Agencies

- 2.35** The issue, as it relates to the collection of revenue on a cash rather than accrual basis was also applicable to other revenue collecting agencies. Greater effort is required for all agencies of Government to establish accrual systems that accurately account for revenue and the relevant accounts receivable.

2.36 Treasury's Response

I must agree with this comment. During the financial year we noted that the revenue collecting agencies continued to report on the cash basis. During the third quarter correspondence was sent out requesting an up-dated position of their receivables. This in many instances was received too late to be included in the financial statements prepared at March 31, 2008.

We have also observed that in many situations where we are provided with information by entities, when the Auditor General seeks confirmation of the same information more up-to-date/corrected

figures are presented to the Audit Department resulting in the Accountant General receiving an audit query for differing balances being shown in the financial statement.

Expenditure

- 2.37** The total expenditure was reported as \$2.7 billion. The major component of this expenditure was Personal Emoluments (\$753 million), Grants to Public Institutions (\$740 million), Interest Expense (\$388 million), Goods and Services (\$357 million) and Retiring Benefits (\$206 million). Overall there was a deficit of \$197 million recorded for the year on the Consolidated Fund.

Smart Stream Security

- 2.38** As part of its internal controls the Treasury requires that transactions in the Smartstream computer system receive the approval of two officers before payments are made. It was however observed that invoice No. 490556-004 dated 01-31-2008 in the amount of \$4.0m, was paid from the Ministry of Energy – Capital Grant to Public Institution (49 650 0556 416 62416100 CGP100) to Caves of Barbados Limited without any approval. This was a major breach of system security, which should be investigated to determine the reason for its occurrence. Corrective action should be taken to ensure such practices do not recur.

2.39 Treasury's Response

This security feature was removed during the migration from one version of Smartstream to another. This has now been rectified in the computer system.

Database Agreement

- 2.40** Expenditure is recorded in two data bases: Funds Control and Ledger. These databases should carry the same totals at the end of the year. It was however observed that differences existed between the expenditure totals of the two, as at 31st March 2008. A reconciliation was not prepared by the Treasury. Investigation should be carried out to determine why

such differences occurred, and action should be taken to rectify the situation. Differences in these databases could cause doubt about the integrity of the data from the system.

2.41 Treasury's Response

The funds control module in Smartstream represents the Government's Vote Book. The General Ledger has always been managed by the Treasury Department and departments have always been required to reconcile their Vote Book to the Treasury's accounts. This has not changed with computerisation.

The problem we have however noticed is that departments do not reconcile to the Treasury on a monthly basis and therefore differences exist between Funds Control and the Ledger.

The reconciliation of the two systems would be more efficient and timely if accounting officers took responsibility for their Votes and ensured that they are reconciled to the Treasury on a monthly basis.

Assets

NON FINANCIAL ASSETS

Inventories

2.42 Inventories include materials or supplies for sale, or awaiting use in some process, and these would include postage stamps, supplies at the Printing Department, and vehicle spares at the Ministries of Public Works and Agriculture. IPSAS requires inventories to be measured at lower of cost and net realizable value, except when acquired through a non-exchange transaction.

2.43 Inventories reported as \$1,845,418 at March 2008 related to stock held at the Central Purchasing Department (CPD). Stock quantities were confirmed. However, when the cost was applied to the quantities, it summed to \$1,003,603.86, instead of \$1,845,418.00 as recorded in the General Ledger. Therefore, the inventory held at CPD was overstated by \$841,814.14.

- 2.44** It should also be noted that inventories held at other ministries/ departments were not included in the annual report, for example, the Drug Service, and the Ministries of Agriculture and Public Works and Transport. As a consequence the amounts shown as Inventories in the financial statements were short-stated.

2.45 ***Treasury's Response***

The only department which "officially" carries inventory in Government is the Central Purchasing Department. This is shown as assets in the financial statements. All other departments' stock is expensed on purchase and is therefore not reflected on the face of the financial statements.

Auditor's Comment

- 2.46** The system currently being used by Government is an accrual one, therefore inventories of substantial value held by other departments should also be included in the financial statements.

Land

- 2.47** Crown lands were placed on the Financial Statements for the first time, with an opening balance at 1st April 2007 of \$1,001,490,373.

- 2.48** Confirmation of land values at 1st April 2007, according to the extract from the 2007-2008 Land Tax Roll submitted, totalled \$1,177,050,475. Overall, the value of lands in the Balance Sheet was therefore understated by \$175.5 million.

Land Improvements

- 2.49** In respect of recordings under Land Improvements, expenditure totalling \$394,546.21 on items such as gabions, boulders, and PVC pipe was capitalized to the land account.
- 2.50** These types of expenditure should not be capitalized to the land account. Only expenditure relating to the purchase or disposal of land should be recorded in this account.

Buildings

2.51 The figure reported in the financial statements, as at 31st March 2008, was \$1,111,955,294 (\$1,226,842,902 less accumulated depreciation of \$114,887,608). Confirmation of Crown buildings requested from the Ministry of Housing and Lands has not been received as at the time of writing. It should however be noted that the values given were derived for insurance purposes, and the basis for these valuations is unknown.

2.52 Given the material nature of this item, due care should have been taken to ensure that the buildings were adequately valued. Without information on values from a competent valuation authority, the Audit Office was unable to verify these amounts.

2.53 Treasury's Response

The information presented in the financial statements was obtained from the Commissioner of Land Tax. I cannot account therefore for any information provided to the Audit that differs from what was provided to the Treasury.

We depend on the Commissioner of Land Tax for all valuations of land and on the Ministry of Housing for valuations of Government's property since we do not have the staff in-house to provide such valuations.

Auditor's Comment

2.54 The listing provided by the Treasury did not include a number of properties owned by the Government.

Assets under Construction

2.55 Assets Under Construction were reported at a total of \$45.7 million in the Financial statements. However, this total includes some amounts for activities which should be classified as expenses, and should therefore not be included in Assets Under Construction.

Other Capital Assets

2.56 A list of other assets entered into the system at 1st April, 2007, was requested on a departmental basis, to confirm opening balances. It should be noted that these other assets were in excess of \$1.2 billion. The

Treasury has reported that assets recorded since 1998 were depreciated to derive the opening balances in the financial statements.

2.57 A copy of the Asset Register, containing cost, location, purchases, disposal, depreciation and net book value of all assets, was requested, to facilitate the existence and completeness checks of assets included in the financial statements. At the time of writing this has not been presented for audit examination.

2.58 The records kept by the ministries and departments currently cannot be compared to those presented by the Treasury. These entities do not have asset registers with relevant information on cost of items, depreciation expenses and current values. Without such information it is not possible to verify amounts shown in the financial statements. This matter should be rectified to ensure that the amounts in the statements are verifiable.

2.59 ***Treasury's Response***

We have noted that across all the asset accounts departments have been reporting certain expenditures as assets which should be reported either as 'Maintenance of Property' or 'Goods and Services'.

The Estimates process is however such that it is impossible for us at the Treasury Department to review each Vote in the departments' budgets for correct allocation prior to the Estimates being presented to Parliament to ensure funds are allocated appropriately.

The Budget Section needs to assist with this verification.

Therefore, when the departments spend the funds, and the message to add the item to the Asset Register goes to the Asset Manager at the Treasury, who then notes the error, it is impossible to correct the transaction since no funds have been voted under the correct item of expenditure. The result is that the expenditure is recorded in the General Ledger as an asset but is not included in the Asset Management system.

There are also some departments which are blatantly disregarding the accounting policies and Financial Act and knowingly continue to use their Votes inappropriately. Accounting officers are also not

paying sufficient attention to how the Votes are used.

The computerization of Government's system was not intended to transfer responsibilities of the accounting officers to the Treasury, only to ensure that there was standardisation of processing and reporting of transactions; reduction in redundancy of functions and easier access to information across the public service.

Capital Lease

- 2.60** The Barbados Prison Facility was officially handed over to the Government of Barbados on 15th October 2007. The facility lease of US \$144, 301,325 (Bds \$288, 602,650) met the criteria of a capital lease. Hence the lease obligation was recorded as a liability in February 2008.
- 2.61** The facility was also brought to account as an asset in January 2008 at a dollar value of Bds \$294,374,703. This differed from the leased obligation of Bds \$288, 602,650 by \$5,772,053, and resulted from the fact that exchange rates of \$2.04 and \$2.00 were used to convert the asset and lease obligations respectively. The exchange rate of \$2.00 should have been used for both, with the higher rate used when foreign exchange was being purchased. The asset was therefore overstated by \$5,772,053.00.

FINANCIAL ASSETS

Cash and Bank

- 2.62** Total Cash and Bank reported was \$81,978,769. Of this amount \$2,252,812 represented cash held by ministries and departments. Actual cash held in the Treasury, as verified by the Board of Survey, was \$555,409.80. The difference of \$1,597,402.20 included cash in hand at the Post Office (\$1,590,482.44) and the VAT Department (\$91,762.01). There was however no independent verification of cash held at the other ministries and departments.
- 2.63** It is recommended that all entities with cash in hand of a significant amount be checked at the end of business on the last day of the financial year, or the beginning of business at the start of the following financial year, and a cash report prepared. This physical count should occur to ensure existence, and reveal any cash shortage that might exist.

- 2.64** It should be noted that funds held in banks by other ministries and departments at the close of the financial year were quite substantial, with bank balances at the Inland Revenue and Customs Departments exceeding \$35 million. These amounts should have been included in the financial statements.

2.65 ***Treasury's Response***

Balances held at the bank relating to the Inland Revenue Department and VAT represent un-presented tax refund cheques. These do not belong to the Crown but to individuals and business entities. They cannot therefore be shown on the financial statements since revenue has already been reduced by the amount and the liability discharged.

These entities should reconcile the accounts on a monthly basis to monitor their un-presented cheques.

The balance at the General Post Office is a revolving fund used to meet obligations of Government pension and money orders. These funds should still exist since we are not aware of a change in policy regarding the system used.

Bank Reconciliation Statements

- 2.66** Bank Reconciliation Statements were prepared on a monthly basis. However, each month the Reconciliation Statements carried large unreconciled differences.

- 2.67** Other difficulties encountered with the reconciliation pertained to deposits, which were listed on the reconciliation as being in the Treasury Ledger but not on the bank statement. However, in several instances, transactions listed on the reconciliation were not seen in the Ledger.

2.68 ***Treasury's Response***

The reconciliation process of the Treasury is complex and time consuming because of the large number of transactions which go through the bank accounts on any one day. There is currently no computerised reconciliation process for these banks.

Regarding the Central Bank of Barbados reconciliation, we were able to bring this unreconciled difference to what was considered acceptable in the past, that is less than \$100,000. However with the implementation of accrual accounting and the multi-currency ledger the unreconciled difference increased significantly, mainly due to a lack of understanding of how to handle foreign exchange differences.

Work was done to investigate the differences and at February 2008 the unreconciled difference stood at \$485, 177.78. However at March 31st this jumped to \$1.7 million and at September 2008, the last date of the reconciliation, the unreconciled difference was \$2.1 million.

The reconciliation statements are currently being addressed by myself and the Financial Controller (Ag.).

Crown Agents General Account

- 2.69** The Crown Agents General Account reconciliation statements carried amounts labelled 'Gains & Loss' (difference in exchange). On investigation it was revealed that these figures, which appeared in January 2008 (\$15,915.25), February 2008 (\$16,663.66) and March 2008 (\$711.67), were in fact balancing amounts. This account was therefore not reconciled as reported.

Conclusion

- 2.70** Reconciliation of the Ledger to the bank account ensures that the process of cash management is effective and could assist in the detection of errors. Hence it is an important control measure that should be performed in a timely manner, with all differences thoroughly researched and resolved. This action would ensure that all the Crown's cash and bank transactions are properly brought to account.

Investment Fund Accounts

Public Enterprise Investment Fund (PEIF)

- 2.71** The PEIF financial statements as at 31st March 2008 reported investments in excess of **\$300 million**. However, according to a legal opinion of the Solicitor General, the PEIF cannot hold securities or other financial instruments in its own right. Therefore, financial assets listed with this Fund should be recorded as assets of the Treasury. Investments listed on the financial statements were therefore understated by \$300 million in this instance.

Recommendations

- 2.72** The opinion of the Solicitor General should be upheld. All loan issues and equity investments should be brought to account as assets of the Crown. However revenue from sale of Government assets and disbursements should continue to be captured in the PEIF financial statements.

2.73 Treasury's Response

This issue is being dealt with by the Ministry of Finance.

The Public Enterprise Investment Fund is considered to be a separate entity to the Consolidated Fund and though we are on an accrual basis we are not yet consolidating. It is therefore our opinion that the assets, liabilities, revenue and expenditure should be kept separate. The financial statements reflect this position.

We await the response from the Solicitor General on this matter.

Tax Receivables

- 2.74** There were a number of tax errors and omissions reported in the financial statements in respect of tax receivables. Differences exist between the balances provided by the ministries and departments, and those reported in the Accountant General's report as follows:-

- (a) The balance reported in the Accountant General's Report for the Land Tax Department was \$106,863,631. However, the balance as shown in the Ledger of the Department was

\$105,931,837.70. The balance in the financial statements was overstated by \$931,793.30.

- (b) The balance reported in the Accountant General's Report for the Licensing Authority was \$3,331,762. However, the balance as shown in the ledger of the Department was \$4,089,935. The balance in the financial statements was understated by \$758,173.

- 2.75** The Accounts Receivables were short-stated by \$267,834.30 in this instance. Receivables from the Inland Revenue Department were not received by the Audit Office as at the time of writing. It was unclear what the basis was for the increase in Income Tax Receivable shown in the financial statements, since the Inland Revenue Department had not provided any information to substantiate these amounts.

Unrecorded Receivables

- 2.76** All receivables due to the Crown were not recorded in the accounts of the Accountant General as at 31st March, 2008. Examples are as follows:-

Amounts Not Reported in the Financial Statements

Department/Agency	\$
Telecommunications Unit	1,310,357.00
Printing Department	130,876.74
International Transport	5,990,235.47
Analytical Services	402,437.13
Markets	<u>321,857.00</u>
Total	<u>8,155,763.34</u>

- 2.77** There needs to be a more comprehensive recording of receivables from all Government ministries and departments. Indeed all revenue collecting agencies are required to submit information in respect of Accounts Receivable, and this information should be captured in the financial statements.

Provision for Bad Debts

- 2.78** Provision for Bad Debts was recorded in the amount of \$200,842,747.34 as listed in the table below. Official documentation outlining the basis for the provision was requested but not provided.

Provision for Bad Debts

	\$
Corporation Tax	55,040,000.00
Import Duties	4,000,000.00
Value Added Tax	25,145,613.34
HRM (Hotel & Resorts)	116,181,730.00
Motor Vehicles	421,484.00
PSVs Registration	30,510.00
Driver's Licenses	23,410.00
	<u>200,842,747.34</u>

In the absence of the information requested, the reasonableness of the provisions could not be attested to.

Advances to Statutory Corporations**Barbados Tourism Investment Inc.**

- 2.79** The financial statements of the Accountant General have reported the receivables from Barbados Tourism Investment Inc. (BTII) as \$235,300,000 plus accumulated interest of \$12,756,263.02. Therefore total receivables of \$248,056,263.02 were recorded as outstanding as at 31st March, 2008 as detailed below:-

Loans Disbursed

	\$
World Cup Cricket	96,000,000.00
Kensington Oval	74,300,000.00
BTI I	<u>65,000,000.00</u>
Total Disbursed between 2006 to 2008	235,300,000.00
Accumulated Interest	<u>12,756,263.02</u>
Total as per AG records	<u>248,056,263.02</u>

2.80 The Treasury advanced the BTII \$235.30 million to carry out various development projects including Kensington Oval. As at 31st March 2008 Letters of Intent between the BTII and the Government of Barbados totalling **\$235.30 million** (\$93.8 and \$141.5M) remained unsigned.

2.81 The Financial Management and Audit Act, Section D (31 - 35) sets out the rules applicable to advances to Government agencies, one of which states that a loan agreement or debenture mortgage shall secure the loan. There was no loan agreement in place at the close of the financial year as required. The expenditure carried out by the BTII was done on Government's behalf. The relevant expenditure should have been reported in the accounts of the Treasury.

2.82 ***Treasury's Response***

This is an administrative issue for the Ministry of Finance. We are awaiting a directive as to the treatment of the amounts disbursed to the BTII and the relevant Letters of Intent or Agreements.

Caribbean Broadcasting Corporation (CBC)

2.83 The opening balance for the financial year 2007/2008 included an amount of \$25,410,949 in respect of Accounts Receivable from CBC. This amount consisted of loan amounts of \$8,799,720 and \$11,809,726, plus accumulated interest of \$ 4,801,583.

2.84 The Ministry of Finance, by correspondence reference 5148/1 dated 15th November 2006 to the General Manager, CBC, had stated that confirmation had been given at a Cabinet meeting held on 28th March 2002 to convert the loan amount of \$8,799,720 to equity. However, this action was not taken.

2.85 A Provision For Doubtful Debt in respect of this loan was shown in the opening balance for 2007/2008. Subsequently Journal Voucher No. 382 of March 2008 was prepared in the amount of \$8,799,720, which reduced both the CBC Receivable account and the CBC Provision for Doubtful Debts account, thereby eliminating the loan of \$8,799,720 from the records. The manner in which the accounts were adjusted was inappropriate.

2.86 An agreement between CBC and the Government has allowed CBC to submit billings for services offered to the Government Information Service

(GIS). These amounts have been applied to the loan amount of \$11,809,726, plus accumulated interest. The total amount carried as outstanding by CBC as at 31st March 2008 was \$10,732,272.68. Confirmation requested by the Barbados Audit Office (BAO) from the CBC indicated that its indebtedness to the Government of Barbados as at 31st March 2008 was \$9,878,695.11. Therefore the records of the two entities differ by \$853,577.57.

2.87 Treasury's Response

The Caribbean Broadcasting Corporation does not often agree with the amounts the Government Information Service accepts and approves. Our figures are however based on the Government Information Service approvals.

General

- 2.88** There will always be challenges in partly recording equity in an entity which is fully owned by the Government. In situations where none of the previous equity has been recorded, to record only a fraction of the entity's injection would be incomplete. I would suggest that these injections be treated as Capital Contribution until a decision is taken on the full consolidation of all Government accounts.

Restricted Cash and Cash Equivalents

Sinking Fund Assets

- 2.89** The Central Bank of Barbados (CBB) manages the investment of Sinking Funds on behalf of the Government. Contributions to the Sinking Fund investments are made by the Central Bank on a six month basis. This investment is used in deferring the cost of redemption of both domestic and foreign bonds issued.
- 2.90** The Statement of Financial Position as at 31st March 2008 carried Sinking Funds as \$548,903,513, which included amounts relating to BTA and BTII Sinking Funds, while the notes which should support the Financial Statements indicated that the Sinking Funds were \$565,863,198.
- 2.91** Audit confirmation of Sinking Funds from the Central Bank of Barbados revealed a market value of \$578,447,501.44 as at 31st March 2008. Hence Sinking funds were understated by \$29.5 million. It should also be

noted that Sinking Fund amounts relating to BTA and BTII should not be included in these financial statements.

Receivables - Public Officers, Parliamentarians and Registering Officers

Vehicle Loans

- 2.92** The opening balances shown in the POLTA receivable account on behalf of a number of officers differed from the actual amounts disbursed. The opening balance agreed with the letters of approval in each instance. However, the receivable accounts should have been opened with the amounts actually disbursed. This action resulted in the Ledger being understated by \$8,079.10.
- 2.93** It was noted that a receivable account for \$46,310 was opened for a Foreign Service Officer I, but no funds were disbursed on his behalf. In this instance Accounts Receivable was overstated by \$46,310.
- 2.94** Schedule 7 of the Accountant General's report carries Car Loans balances of \$108,876.38 for Parliamentarians, while the Ledger balance was stated as \$128,869.46. Hence the annual report was understated by \$19,993.08 in this instance.
- 2.95** Schedule 7 of the Accountant General's report carries car loans balances of \$510,536.65 for Registering Officers, while the ledger balance was stated as \$471,716.14. Hence the annual report was overstated by \$38,820.51 in this instance.
- 2.96** Car loans are maintained on a subsidiary ledger. Reconciliation of this ledger with the control receivables account revealed:
- The POLTA subsidiary ledger carried a total of \$18,631,326.61, while the control account in the ledger carried \$16,306,702.03. Therefore it appears that the POLTA Accounts Receivable was short-stated by \$2,259,070.40.
 - The reconciliation of the subsidiary ledger also contains an unreconciled difference of \$31,490.22 as at 31st March 2008. Differences existed for all months within the financial year.

Recommendations

- 2.97** Reconciliation of the POLTA and its subsidiary ledger should be completed in a more timely manner, so as to be effective and to ensure that accurate figures are placed in the annual financial statements.

2.98 ***Treasury's Response***

This reconciliation was started during the 2007/2008 year by the Financial Controller at the Treasury but was not completed once again due to staff changes.

An officer will be assigned to complete this task as soon as possible.

Overdrawn Salaries

- 2.99** Overdrawn salaries occurred when, for various reasons, officers received salaries to which they were not entitled. This receivable was recorded as \$1, 182,236.06. However, there were approximately 246 persons repaying overdrawn salaries whose indebtedness to the Crown had not been captured in the records. In addition, other individuals exist whose indebtedness was neither recorded nor serviced. As a result, the amount recorded for overdrawn salaries was understated.

- 2.100** While it was indicated that accounting for overdrawn salaries should be handled similarly to POLTA, the required sub-ledger to record these receivables had not been brought into use.

Recommendations

- 2.101** The Treasury should obtain the relevant information from ministries and departments on amounts outstanding, which should in turn be part of the figure recorded as Accounts Receivable in the financial statements.

2.102 **Treasury's Response**

The Treasury staff has been trying to the best of their ability to manage this situation. However since we are dependent on departments providing this information to us it has not met with much success. The balance shown in the financial statement was determined by totaling the amount being repaid by individuals through the computerized paysheet based on the indicated start and end dates.

Investments

Investments in CDB and IMF

- 2.103** An amount totalling \$3,024,198.03, which represented contributions to the Caribbean Development Bank (CDB) and International Monetary Fund (IMF), along with other promissory notes, was shown as an asset under Investments. These payments are yearly contributions to these institutions that should be expensed in the year to which they relate. It therefore appears that Investments were overstated by the above amount in this instance.

Investments in Leeward Islands Air Transport (LIAT)

- 2.104** The Ministry of Finance in correspondence dated 26th April 2006, indicated that loans to Leeward Islands Air Transport (LIAT) should be converted to equity. The financial statements showed equity in LIAT as BDS \$61,086,114.72. This consists of a loan amount of BDS \$40,283,251.54 drawn down from the Caribbean Development Bank, and a further \$20.7 million which includes receivables from the International Transport Division, and amounts previously advanced as bridging finance from the Consolidated Fund.
- 2.105** The conversion of bridging loans and accounts receivables to equity contravenes the requirements of the FMAA 2007-11 which stipulate that all capital contributions be appropriated.

2.106 **Treasury's Response**

The Treasury is aware that all monies transferred to LIAT were to be converted to equity. However, we at the time, did not have in our possession the relevant share certificates nor were we aware of

the total value of the investment. A decision was therefore taken that the disclosure on the face of the financial statements would be based on the verifiable information which we had; this was represented by the amount of draw - down on the Caribbean Development Bank loan, the amounts transferred from the Consolidated Fund and the amount owed to the Ministry of International Transport.

A meeting was held in November 2008 with the Ministry of International Transport to reconcile the investment account. This is almost completed and the total investment will be brought to account in the 2008/2009 financial statements.

Equity in Caves of Barbados

- 2.107** According to the Ministry of Finance Memorandum Reference 5514 T2, dated 29th June 2007, funds advanced from the PEIF/Special Deposit amounting to \$13.9m, should be converted to equity, along with \$4.0m advanced from the 2007/2008 Estimates of Revenue and Expenditure. However, as at March 31, 2008 the equity in Caves of Barbados was not brought to account.

Liabilities

CURRENT LIABILITIES

Temporary Advances

- 2.108** The FMA Act 2007-11 Section 13 (1) states that temporary advances from any bank or banks should not exceed 10 per centum of the net receipts of the estimated revenue of the Government for that financial year. Total estimated revenue for the period under review was stated as \$2,380,049,197.70; therefore advances should not exceed approximately \$238,049,197.70 (ten percent) at any given time. However, as at September 2007, advances were recorded as \$245,300,000, thus exceeding the stipulated level by \$7,250,802.30.

2.109 Treasury's Response

The temporary excess of \$7.2m was due to a misunderstanding by the Central Bank of Barbados which was using projected revenue rather than projected receipts to establish the overdraft limit.

To prevent this situation arising again correspondence is sent by the Ministry of Finance to the Central Bank of Barbados at the beginning of the financial year stating the projected receipts and overdraft limit for the year.

Accounts Payable

2.110 Accounts Payable as reflected in the financial statements totalled \$8,856,904. This included Accrued Utilities, unpaid invoices (PAL Account), Paymaster Account and other payables from the financial years 2007/2008 (of \$3,875,720.41) and 2006/2007 (of \$661,021.74). Subsidiary ledgers were not maintained for Accounts Payable. Detailed listings to support the amount from 2006/2007 of \$661,021.74 were not presented for audit inspection.

2.111 There were material omissions in respect of amounts due by the Crown to various private sector entities. These omissions included \$55.7 million in refunds due by the Value Added Tax Division, along with amounts due by other agencies such as the Inland Revenue Department and the Drug Service.

2.112 These omissions resulted in a substantial short statement of accounts payable in the financial statements.

2.113 Treasury's Response

In order for the Treasury to have complete information on Government's outstanding current liabilities, including tax refunds payable, this information must be fed to us by the relevant department. We have been unable to get the necessary cooperation from the ministries and departments to carry out this function efficiently. We will continue working on this during the current and subsequent years.

Government's Bank Accounts - Paymaster and Pensions

2.114 The Paymaster Account reflects all payable orders that have not been cashed. The detailed listing to support the Paymaster Account recorded payable orders issued and not presented from April 2007 to March 2008. However audit investigation revealed that this list was incomplete as payable orders not listed were presented for payment during the 2007/2008 financial year, for example payable orders totalling \$34,650 and \$25,640.40 which related to previous financial years.

2.115 Unpresented pension cheques and payable orders stood at \$236,797,323 as at 31st March 2008. However the Paymaster and pension bank information carried a balance of \$234,149,614.84 (\$229,182,734.73 and 4,966,880.11). Hence, an unreconciled difference of \$2,647,708.16 exists. The payable orders and pension cheques outstanding could not be verified in the absence of up-to-date reconciliations.

2.116 Unreconciled differences should be investigated and corrective action taken to bring the reconciliation up to date.

2.117 ***Treasury's Response***

This is being investigated for corrective action.

Current Portion of Long Term Debt

2.118 The current portion of Long-Term Debt was stated as \$417,863,035. This was short stated as it excluded \$3,000,000 owed to the contractor for the 'Road Rehab Project'.

2.119 ***Treasury's Response***

This was an oversight. The \$3m represents the amount to be paid in 2008/2009 which should have been transferred from Long Term to Current Portion of Long Term Debt.

LONG TERM LIABILITIES

Debt

2.120 The amount quoted in the Statement of Financial Position for debt under the heading Long-Term Liabilities was \$4,652,235,672 (with reference to

Note Ten of the financial statements). However, the Note Ten total differed, as it stated Total Public Debt outstanding as \$5,762,120,000. This is misleading to users of the financial statements, as the notes should explain and reflect the amount stated on the face of the statements.

2.121 The Special Loans Act Cap 105, according to Note Ten, totalled \$518.07 million. However, the Integrated Coastal Surveillance System loan balance was recorded as \$14,889,499.00 instead of \$13,077,498.96, resulting in a difference of \$1,812,000.04. Hence, the Special Loans Act Cap 105 was overstated by \$1,812,000.04.

2.122 The schedule for the 'Loans Raised Under Special Loans Act, Cap 105' carried incorrect redemption / maturity dates as listed below: -

Loan	Incorrect Date	Corrected Date
Coast Guard	28 Sept 2006	04 Jan 2031
Integrated Coastal Surveillance System	11 Aug 2006	31 Jan 2018
Defence and Security-Ships Expo. Ref	10 Aug 2007	10 Jan 2020

2.123 ***Treasury's Response***

This represents total debt, both current and long-term, which includes Treasury Bills, Current Portion of Long Term Debt and Long Term Debt. This is reflected in Note 10.

The note number was however inadvertently left off the face of the financial statements for the current portion of the debt. This will be added to the face of the financial statement in the future.

The Schedule will be adjusted for the corrected maturity dates.

Regarding the difference reported re Cap. 105, the ledger was updated for a transaction after the schedules were prepared and the schedules were not changed to reflect the transaction.

Caribbean Development Bank (CDB) Loans

- 2.124** Repayments of CDB loans were in order. However the balance outstanding carried in the multi-currency ledger totalled US \$100,280,189.42 while the Lending Agency Statement totalled US \$100,369,420.00, a difference of US \$89,230.58. This difference was not reconciled.

Pension Liability

- 2.125** There was no record of liability for pensions in the financial statements. The Government has a defined benefit plan for its workers as outlined in various pension enactments. It would have been useful for the Government to apply the transitional provisions, to give itself time to carry out the actuarial review that will be required to provide the estimate of the pension liability.

2.126 ***Treasury's Response***

Pension liability is not reflected in the financial statements. Government currently uses the Pay as You Go system and so the liability exists only when the Pension Payable is computed and approved by the Governor General. All payments approved during the financial year were made.

In the future a note will be included in the financial statements regarding the contingent liability.

Auditor's Comment

- 2.127** The comment from the Accountant General is not supported.

Other Funds

Sugar Industry Research and Development Fund

- 2.128** This Fund receives its revenue from the Barbados Agricultural Development and Marketing Corporation (BADMC) based on sugar production. The Ministry of Agriculture directs the Accountant General in

terms of any expenditure to be met from the Fund. According to the Act the revenue becomes due in the year following sugar production.

- 2.129** Financial statements were prepared on the accrual basis for the year ended 31st December 2007. Examination of these accounts revealed that the December 2006 financial statements were not restated to facilitate the transition to accrual accounting. Sugar Levy of \$ 511,812.97 for the year 2005, which would be revenue for 2006, was recorded as 2007 revenue. Therefore, the revenue reported for 2007 was overstated by \$ 511,812.97 in this instance.

Public Enterprise Investment Fund

Hotel and Resorts Ltd.

- 2.130** A loan in the amount of \$9,583,913.11 was reflected in the Public Enterprise Investment Fund (PEIF) Report for 2007-2008. However, an interest free loan in the amount of \$14,496,325.61 was issued in accordance with the loan agreement, and is repayable by September 2014. Therefore, the loan amount was understated by \$4,912,412.50.
- 2.131** The amount of \$18,912,413.00 reflected in the report as Investments was therefore overstated by \$4,912,412.50. The correct amount should have been \$14,000,000.

Needham's Point Holdings Ltd.

- 2.132** Investment was reported as \$84,676,174. However, audit investigation indicates that this should in fact have been reflected as \$64,676,174.19. Hence, equity was overstated by \$20 million in this instance.

	\$
Loans	10,066,781.00
Equity	<u>64,676 174 19</u>
Total	<u>74,742,955.19</u>

Loans to Government Agencies

- 2.133** The Principal outstanding from the Barbados Cricket Association stood at \$2,250,000 as at 31st March, 2008. According to the loan agreement, the loan was for a duration of fifteen years, with a seven year grace period.

Therefore, repayments should have commenced with effect from January 2005. In addition, ninety-six monthly instalments of \$2,250 were due to commence from the last working day in 2005. As at 31st March 2008 no payments were received in relation to this loan.

Investments Written Off

- 2.134** The investment in the companies of Carib Express (\$500,647.50) and KDI Dev. Inc (\$575,000) were written off in the financials of 1997. The combined total of \$1,075,648 was still reported on the financial statement of 31st March, 2008.

Tourism Loan Fund

- 2.135** An amount of \$10,169,313 stated as equity in the Tourism Loan Fund should be classified as expenditure and not investment, as per Ministry of Finance memorandum, reference no. 5490/3/1, dated 17th September 2002.

Conclusion

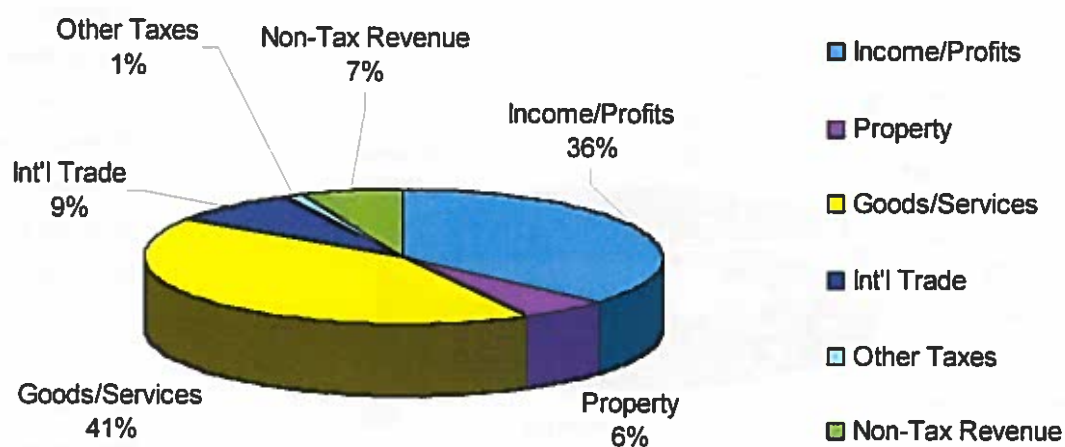
- 2.136** This is the first year that the Government is reporting its financial statements under the accrual basis, and it is expected that there would be some errors and omissions. Some of these errors however, have been of a material nature, and these included the following:-
- (i) The short statement of land by \$175 million;
 - (ii) Inadequate supporting documentation for Other Capital Assets valued over \$1.2 billion;
 - (iii) The presentation of Revenue on a cash basis;
 - (iv) The inability to supply supporting evidence for buildings valued at \$1.1 billion;
 - (v) The omission of \$300 million in assets originating from PEIF;
 - (vi) The absence of information on Public Service pension liability;

- (vii) Uncertainty surrounding the classification of \$248 million in expenditure made by the BTI on behalf of the Government;
- (viii) Outstanding refunds due by revenue agencies; one agency's refunds was in excess of \$50 million;
- (ix) Understatement of Sinking Fund Assets by \$29.5 million.

2.137 In view of the possible material effects on the financial statements of the matters described in the preceding paragraph, I am unable to express an opinion as to whether these financial statements are presented fairly in accordance with International Public Sector Accounting Standards.

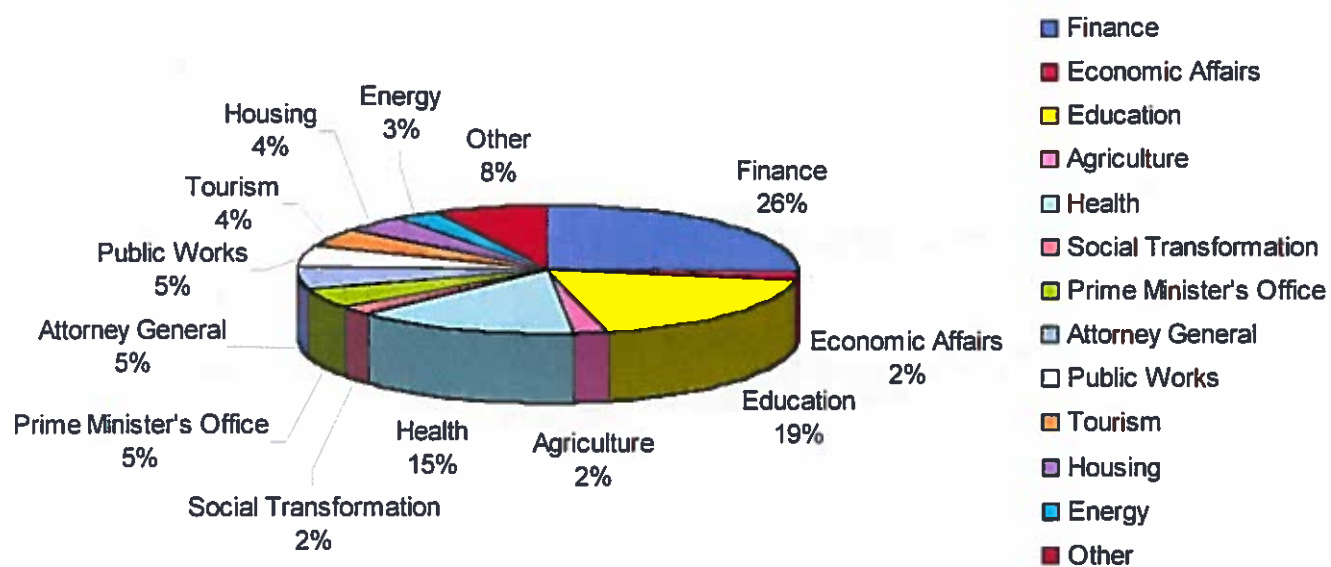
Total Revenue 2007 – 2008

CLASSIFICATION BY REVENUE AREA



Total Expenditure 2007 – 2008

CLASSIFICATION BY MINISTRY



CHAPTER 3

General Audit Concerns and Observations

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

Audit Mandate

3.2 An audit of the accounts of the Ministries and Departments of Government for the financial year ended 31st March 2008 was conducted by the Barbados Audit Office as required by Section 26 of the Financial Management and Audit Act, 2007-11.

3.3 As determined by this Act, the onus for the proper discharge of financial administration and the preparation of financial statements rests on the Accounting Officer. It is the Auditor General's responsibility to form an independent opinion on the accounts, based on the audits carried out by this Office.

Audit Purpose and Scope

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

- Adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them have been duly observed;
- Expenditure is properly controlled, has been properly authorized, and made for the purposes for which the funds have been appropriated by the Parliament;
- Immovable and movable property is properly procured, recorded, controlled and appropriately disposed of;

- Public monies are expended economically and efficiently;
- The figures contained in the Revenue and Appropriation accounts are correctly and properly stated.

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

Special Audit of The Immigration Department

- 3.6** There has been considerable discussion with regard to the number of persons residing in Barbados without the necessary permission, and the management of this issue by the Immigration Department. In accordance with its mandate to review the efficiency and effectiveness of Government Ministries and Departments, the Office undertook a review of the Immigration Department with a view to assessing how efficiently and effectively this Department was handling migration into the country. Audit issues observed form the basis of the following Report.

Executive Summary

- 3.7** One of the most critical factors for decision making in managing the migration process is the availability of accurate information on visitors. It would be expected that the Immigration Department would have a system in place which would record all the relevant information on persons entering and leaving the country. The production of reports on persons remaining without permission should be evaluated; and effective action taken to better manage the process. However, there is no evidence that such reports were requested and analysed by management on a systematic basis, for the purpose of decision making.
- 3.8** The Immigration Department has invested in a computer system called the Immigration Management and Control System (IMCS) AS/400, for controlling and monitoring immigration. This computerised system is a valuable tool for improving officers' ability to manage arrivals, departures and enforcement cases that involve investigations, detentions and removals.
- 3.9** Information on persons entering the country is entered into a database at the Department. However, the Department informed that it was not possible to accurately state from this data the number of persons in the country without permission.
- 3.10** The lack of adequate monitoring of, and enforcement action against, persons who overstayed their visit, has led to a growing but unknown

number of persons who remain in Barbados without the permission of the Immigration Department. This includes non-nationals whose applications for work permits, extensions and visas were unsuccessful. In the 2006-2008 period, the number of persons who were refused work permits, extensions and visa applications was 3,916. These persons were expected to leave Barbados voluntarily. It is however unclear where they are, since there is inadequate keeping of records and follow-up action to ensure that they return to their homelands.

- 3.11** Over the last two years, the Department has issued 15,803 work permits. These were issued mostly in the two main sectors – the agricultural sector (2,600) and the construction sector (7,627). There was no clear evidence that the Department had established a basis for the issuance of work permits to the various sectors, for example, labour market information to show the labour shortages prior to work permits being issued. It is also unclear how the Immigration Department determines that applicants are bona fide artisans in the absence of certification.
- 3.12** There has been much discussion of the impact of the Caribbean Single Market and Economy (C.S.M.E) on migration. Investigations revealed that 328 persons applied for resident status in Barbados as a result of the freedom of movement provisions of the CSME as spelt out in the Revised Treaty of Chaguaramas (RTC) 2001. In addition, 33 businesses were established in Barbados under these provisions. Thus the C.S.M.E has not significantly impacted the movement of skilled CARICOM nationals into Barbados.
- 3.13** Under the Immigration Act “a person may not engage or employ another person who is not a citizen, permanent resident or immigrant unless there is a work permit in force.” It was however observed that:
- Employers were hiring persons who were in the island illegally and applying for work permits on their behalf;
 - Many of these applications were favorably considered and approved.
- 3.14** Furthermore, work permits were in some instances issued to individuals without the requisite documentation, and this included the submission of incomplete application forms.

- 3.15** In situations where applications for extensions or work permits were refused, applicants were simply told that the application had not been granted and they were required to leave the island. In general this information was not immediately communicated to the Investigation Section for enforcement.
- 3.16** This lack of timely information has hampered the Investigation Section in carrying out its mandate effectively. In addition, the number of officers attached to this unit is insufficient and should be increased.

Introduction

- 3.17** The Barbados Audit Office has a mandate to conduct performance audits under the Financial Management and Audit Act, 2007-11. A Performance Audit is an independent appraisal of an entity to determine the extent to which resources (financial, human and physical) are managed with due regard to economy, effectiveness and efficiency in conformity with applicable regulations, rules and procedures.
- 3.18** The Immigration Department, headquartered at Careenage House, The Wharf, Bridgetown, controls Barbados' ports of entry at the Grantley Adams International Airport (G.A.I.A.), which includes the International Aircraft Management (I.A.M.) facility and the Simpsons' Hangar Incorporated, the Bridgetown Port, and the Port St. Charles Marina in St. Peter.
- 3.19** This Department has responsibility for immigration matters in Barbados, in accordance with the Immigration Act, Cap.186 to Cap.190. The functions of the Department involve issuing work permits, visas, and passports, processing applications for immigrant status, and the processing of visitors to the island. There has been considerable debate on the number of persons staying in the Island illegally. As a result of this public discourse, the Barbados Audit Office conducted a Performance Audit on the Immigration Department.

Methodology and Scope

- 3.20** Interviews and discussions were held with the acting Permanent Secretary of Defence and Security, the Chief Immigration Officer (Ag.), members of the Enforcement Division and officers of the Data Processing Unit. In

addition, relevant records in the Department were reviewed, along with accounting information and the Department's operational manual. The audit covered the period 1st April 2006 to 31st March 2008.

Objectives and Scope

3.21 The audit evaluated the efficiency and effectiveness of the Immigration Department with respect to the management and control of immigrants for the period 1st April 2006 to 31st March 2008. The objectives of this review were to:

- Determine whether adequate systems are in place to record and monitor persons allowed entry into and exit from the country in accordance with the laws, regulations and policies (Immigration Act Cap.190);
- Determine whether the resources available to the Department are adequate and efficiently utilized to achieve the Department's mandate;
- Review and report on the extent to which persons are in Barbados illegally and the action the Immigration Department is taking to combat the problem;
- Provide management with practical recommendations to improve operations.

3.22 This audit was conducted in accordance with the Financial Management and Audit Act 2007-11, and INTOSAI Auditing Standards and other administrative directives.

Arrivals and Departures

3.23 Although arrival and departure information is entered into a computerized database at the Department, a common identifier for tracking each person entering and exiting the country is not assigned. This was one of the factors which made it challenging to provide relevant statistics on persons in the island without relevant permission.

- 3.24** The Data Processing Officer stated that some persons travel on multiple passports and different names, and could therefore enter the country using one passport, but exit using another. In such cases, the system would not match the departure information to the arrival information.
- 3.25** This situation regarding the absence of up-to-date information on persons staying in the Island illegally has developed over time, and shows a major deficiency in the operations of the Department. Management of the migration process requires timely and accurate information for decision making. There is an urgent need for corrective action to address this information deficiency.

Inadequate Monitoring of Arrivals

- 3.26** There are no facilities in place at the Bridgetown Port or Port St. Charles Marina for monitoring the arrival and departure of yachts. The onus is solely on the yacht's captain to bring the documentation for Immigration Officers to check, and then return to Carlisle Bay or Port St. Charles Marina, from whence the yacht departs. Thus, the checking on entry and departure of yachts is dependent on the captain's integrity to report the vessel's arrival and departure.
- 3.27** For instance, on 15th December 2006 it was realized that yacht "LeiJia" had arrived in Barbados and anchored in the area off Rockley Hotel. The three crew members on board proceeded to disembark without clearance from Immigration officials. After further investigations it was revealed that the yacht arrived in Barbados on the 14th December 2006, and one of the crew had been previously deported. Inadequate monitoring of the seaports is a security risk that should be urgently addressed.

Work Permits

- 3.28** In accordance with Section 17 (1-2) of the Immigration Act, Cap. 190, "a person may not engage or employ another person who is not a citizen, permanent resident or immigrant unless there is a work permit in force." In contravention of the Act, some employers were employing non-nationals and then applying to the Immigration Department for work permits. This is an offence, nevertheless such applications have been favorably considered by the Department and work permits have been granted.

Recommendation

- 3.29** Persons who engage or employ non-nationals are in violation of the Immigration Act and should be held accountable for their action.

Issuing of Work Permits without Appropriate Documentation

- 3.30** There are two categories of work permits, short-term and long-term. Short-term work permits are valid for six (6) months, while long-term work permits are generally approved for periods ranging from one to three years, but can be extended to five years in the case of University lecturers.

Audit Findings

- 3.31** A sample of 250 applications was examined to ensure compliance with the Department's policies in respect of the issuing of work permits. Overall, 30% of the population sampled were granted work permits without requirements such as:

- The application being signed by the employer;
- Cover letter being signed;
- Police certificate from the applicant's homeland;
- Application being approved by the Minister;
- Complete documentation (in case of a permit for one year).

Issuing of Work Permits

- 3.32** In the period 2006-2008, approximately 6,300 work permits and 9,500 work permit renewals were granted as follows:

Work Permits

Period	New Applications	Approvals	Refusals	Renewals Applications	Renewals Approvals	Refusals
2006– 07	4,095	3,272	823	4,575	4,303	272
2007– 08	3,801	2,995	806	5,436	5,233	203
Total	7,896	6,267	1,629	10,011	9,536	475

- 3.33** The system of granting work permits needs to be reviewed to ensure that permits are issued in accordance with the established criteria backed by data showing the shortage of local labour in the particular area.

Caricom Single Market and Economy and Migration

- 3.34** The CARICOM Single Market and Economy (CSME) (Article 45 of the Revised Treaty of Chaguaramas 2001) makes provision for the free movement of persons. This provision can be divided into two broad categories:
- (i) The Free Movement of Skills/Labour;
 - (ii) The facilitation of Travel/ Hassel-Free Travel.
- 3.35** The Treaty accords to Community Skilled Nationals the right to free movement in search of career enrichment, and to conduct economic activities in all CARICOM Member States as either a wage-earner or non-wage earner, without the need to obtain a work permit.
- 3.36** This entitlement applies to several categories of CARICOM Nationals, including university graduates, artistes, musicians and artisans.
- 3.37** The processing of qualifying workers is done by either the Barbados Accreditation Council (BAC), or the Immigration Department, depending on the category. In the event that a CARICOM National does not fall into one of the approved categories, then the National would require a work permit to work in Barbados.

Findings

- 3.38** Over the past two years the BAC granted Certificates of Recognition of CARICOM Skills Qualification to 328 non-nationals. In addition 33 businesses were established under CSME.

Auditor's Comments

- 3.39** The influx of CARICOM nationals into the country has not been greatly affected by Barbados' commitment under the Revised Treaty of Chaguaramas. This influx of CARICOM nationals was seen mostly in the agricultural and construction sectors, for which work permits are required.

Enforcement

- 3.40** In the 2006-2008 period 2,104 applications for work permits and renewals were not approved by the Department. It is not known whether the affected persons left the Island, since the Department does not have a systematic policy of carrying out follow-up activity on such persons.

Recommendation

- 3.41** Enforcement procedures should be integrated with the application process, and the information on newly failed applicants should be promptly passed to Investigation Section for necessary action.

Staffing

- 3.42** The Investigation Section has a staff complement of six Enforcement Immigration Officers with the mandate to track down illegal persons and ensure they are deported in accordance with Cap. 190. This manpower appears to be currently inadequate, given the challenges of this Section.

Recommendation

- 3.43** Management should maintain an up-to-date listing of overstays, thereby creating a database which can be sourced by the Investigation Section at any given time, in order to effectively carry out its duties.

Conclusions

- 3.44** One of the main challenges the Department faces, relates to the production of information to Management on the extent of illegal persons present in the country. The controls that should have been in place to manage this process have been absent or relaxed, and as a result the Department has the monumental task of determining the number of persons who are in the Island illegally.
- 3.45** The application and enforcement processes were operating largely as separate systems. For example, when persons were denied work permits and were therefore required to leave the country, the information was not immediately communicated to the Investigation Section, thereby hindering timely follow-up action.
- 3.46** Individuals seeking employment are not entitled to apply for their own work permits, yet in many instances such persons applied for work permits and were granted, including many who were in the country illegally.
- 3.47** In addition many work permits were granted without the provision of the necessary documentation, such as a Police Certificate of Character and application forms signed by the potential employer.
- 3.48** The Department has not been successful in ensuring that a large number of persons in the island without permission were promptly dealt with. The Department would have exacerbated the situation by approving permits for some of these persons who were in violation of the Immigration Act.
- 3.49** In order to ensure that the Immigration laws of the country are complied with, a major effort should be undertaken to halt the flow of illegal immigrants, and to account for those persons currently in the Island without permission.

3.50 **Department's Response**

The Department will ensure that in the future the Immigration laws and policies are strictly followed when processing applications. Also greater emphasis will be placed on the proper completion of all application forms. It is recognized that the overstayers are a problem but the Department will continue to improve the computer system currently being used to meet the challenges highlighted in your report to arrive at an estimate.

Value Added Tax Division

Introduction

- 3.51 The Value Added Tax Division is an integral part of the Customs and Excise Department, and has responsibility for the collection of VAT generated locally. The operations of the Division are governed by the Value Added Tax Act, Cap 87, and the Value Added Tax Regulations 1996. The Division collected \$485 million in taxes for the financial year ended 31st March 2008. Of this amount, \$112 million was refunded to registrants.

Audit Objectives

- 3.52 The objectives of this review were as follows:
- (a) Assess the Division's policy to ensure all qualified vendors are registered;
 - (b) Assess the risk-analysis strategy for choosing applicants to be audited, and the impact of audits on the generating of additional taxes;
 - (c) Assess the refund process, including the reasons for delays in processing;
 - (d) Determine whether follow-up action is taken to recover overdue taxes in a timely manner.

Methodology

- 3.53 Interviews were conducted with the Director as well as personnel from the Registration, Refund, Compliance and Audit Sections within the Division. Files, reports and tax-payable records were reviewed.

Registration Section

- 3.54 The VAT Act Section 51(1) and 38 (3; 7-8) gives the Comptroller of Customs the authority to cancel the registration of a person who had been

registered for a period of at least one year and had not, since being registered performed any taxable activities.

3.55 It should be noted that the deregistration of a person does not affect their obligations and liabilities under the Act in respect of anything done or omitted to be done by the person while registered or required to be registered.

3.56 At 31st March 2008, there were 1,116 businesses awaiting deregistration. The Division therefore needs to take the necessary action to remove those persons who are currently registered, but are not engaged in the level of business specified in the VAT Act. However, with a limited amount of staff available to conduct audits, a system needs to be introduced to determine whether any firm which is being deregistered should be audited. It should be noted that some firms on the list have been registered since 1997 and have not done any taxable activity.

3.57 It should also be noted that a company has the right, under Section 75(3) of the VAT Act, to destroy records and books of account after seven years, unless authorized otherwise by the Division. Therefore, the timely completion of the inspection of these companies should be carried out, if deemed necessary, before this time has expired.

3.58 Division's Response

It should be noted that a person would not be "deregistered" in the following circumstances: (a) where the person has filed returns that were in 'error', mathematical or otherwise, (b) where the registrant is awaiting refunds, (c) where the registrant is in arrears, or (d) there are outstanding returns.

3.59 Auditor's Comment

Notwithstanding the above circumstances the Division needs to resolve any outstanding issues and effect deregistration expeditiously.

VAT Audits

- 3.60** The Audit Section of the Value Added Tax Division has responsibility for conducting audits on the accounting and other records of registrants. These audits can be carried out if there is any suspicion of tax evasion, and can serve as a deterrent to other registrants, who may not be complying fully with the provisions of the VAT Act.

Audit Selection

- 3.61** The Division recognizes that identifying and targeting 'high risk registrants' is the key to assigning its audit resources in the most effective manner. However, there is no evidence that this practice is adhered to.

Duration of Audits

- 3.62** Once a decision is taken to conduct an audit, a file is created on the computer system. A total of 1,618 audit files were created over the eleven year period 1997-2008, of which 118 have been cancelled. Of the remaining 1,500, a total of 454 cases (30%) have been completed as shown in the following table.

Audits Opened During 1997-2008

Year	Selected Cases	Opened Cases	Completed Cases
1997-98	132	35	97
1998-99	164	107	57
1999-00	82	65	17
2000-01	142	115	27
2001-02	149	82	67
2002-03	216	120	96
2003-04	151	116	35
2004-05	74	54	20
2005-06	145	107	38
2006-07	185	185	0
2007-08	60	60	0
Totals	1,500	1,046	454

- 3.63** The number of audits conducted annually has declined, with no audits being completed during the past two years. Some audits have taken several years to be completed, that is, from the time the audit is initiated to when the assessment is submitted. It was also noted that some audits opened since 1998 remained outstanding.
- 3.64** The Division needs to take action to reduce the time taken to conduct these audits in order to convey reassessment to registrants in a timely manner, and to allow the relevant action to be taken to recover outstanding amounts. This action would contribute to a more efficient use of resources.
- 3.65** It should also be noted that the staffing complement of the Audit Section consists of 16 persons and is inadequate to handle the current volume of audit work. In the 2006-2008 period, 245 cases were opened; to date none of these audits was shown in the system as complete.
- 3.66** The reassessments resulting from past audits have increased the amounts owed to the Division by \$16 million. However, these reassessments were not shown in the computerized records. It is not clear why the records have not been updated, since the results of audits indicate that there can be substantial benefit from this activity.

3.67 **Division's Response**

The actual start date of the audit could be a long time after this (selection) as there are a large number of selections and a few auditors..... Since the final stage of the audit process is the generation of the assessment notice, when this stage has been completed the system should have been programmed to automatically close the case. A number of these cases have since been closed and we are working on hitches in the system, which prevent the closing of some others.

Limitation Period

- 3.68** The Value Added Tax Act, Section 75(3) states that every registrant is required to retain books and records for a period of seven years, or such other period as may be prescribed. In respect of those audits which were in excess of seven years, no notices were seen authorising registrants to keep their records longer, as stipulated by Section 75(5) of the Act.

- 3.69** There were 322 audit files opened between 1997 and 2001 which have exceeded the period of limitation, and unless the registrants were notified to keep the records, these audits should be urgently concluded.

Auditor's Comments

- 3.70** The closure of files when audits are not completed will result in the restriction of the planned audit coverage. In many instances the additional time spent on partially completed audits would have been wasted.
- 3.71** Currently there are not enough staff members assigned to the audit of registrants. This has resulted in a backlog of audit cases, and a narrowing of the audit base.
- 3.72** Audit activity should be increased as it could serve as a deterrent factor and result in increases in tax due.

Refund Section

- 3.73** The Refund Section is responsible for the processing of all refunds claimed by registrants and non registrants.
- 3.74** At 31st March 2005, there were 6,830 refunds outstanding with a value of \$45 million; 60% being at the initial stage. In contrast, at 31st March 2008, there were 8,398 refunds outstanding with a value in excess of \$55 million of which 64% were at the initial stage of processing.
- 3.75** Refund claims have increased by an additional 1,568 over the past three years and there are over 6,000 claims currently being processed. The Refund Section has a staff compliment of 11 officers and with the increasing number of outstanding claims, the Section will be further challenged to process refunds in a timely manner.

Unallocated Funds

- 3.76** In addition to the large number of refunds outstanding, there is a significant amount of Unallocated Funds to be processed. These "Overpayments" as they are referred to, represent payments from registrants which are in excess of amounts filed as output taxes, or amounts not entered correctly on the tax payers' accounts. Amounts listed

as Unallocated Funds have been steadily increasing, rising from \$2.6 million in 2005 to approximately \$25 million in 2008.

- 3.77** These unallocated amounts must be investigated to determine whether the registrants should be refunded, or the funds properly allocated to the appropriate tax period in the registrants' account. The challenge of reducing the Unallocated Funds in a timely manner has been compounded, due to internal staff arrangements. Unless concerted action is taken on this matter, it will become increasingly difficult to process these large unallocated amounts in a timely manner. This delay is likely to result in complaints from registrants about the accuracy of their accounts. Unallocated funds are as follows:

Unallocated Funds

Year	No. of "Overpayments"	Amount
		\$
2005	2,305	2,658,556.37
2008	3,421	25,050,000.00

3.78 Division's Response

Unallocated Funds or "Overpayments" as they are referred to, represents payments received from registrants which were in excess of amounts filed as tax payable... Each must be investigated on a case by case basis.

Outstanding Refund Interest

- 3.79** Cap. 87, Section 47(4) (c) states that "where the refund for the taxable period is not paid or applied as required ..., within 6 months after the month in which the return for the taxable period was filed, interest is payable to the registrant ... at the prescribed rate ... for each month or part thereof during which any amount of the refund remained unpaid" However, tax payers who submit their applications late or have outstanding returns are not entitled to late refund interest.
- 3.80** The Division has not been paying late refund interest of 1% as required by the VAT Act. Thus, interest is only paid if the registrant makes a written application requesting such. This is in contravention of the Act.

- 3.81** Late refund interest in the sum of \$1,378,897.85 was paid to 72 registrants over the past five years. In the period 2006-2008, only 13 registrants were paid interest in respect of late refunds. This figure would have been significantly more had the Division adhered to the Act. The Division's policy of not paying interest without an application has resulted in the understatement of interest payable, and in addition, exposed the Division to litigation.

Compliance Section

- 3.82** The Compliance Section is responsible for ensuring outstanding returns are filed, collections of arrears, investigations, responding to breaches of the VAT legislation, complaints, and administering the Public Entertainments Act.

Arrears of Revenue

- 3.83** The tax debt continues to grow substantially. At 31st March 2008, the total uncollected taxes, penalties and interest owed totaled \$196,150,748.57, and involved 2,507 registrants. This was \$31,250,096.48 more than the previous year's total of \$164,900,652.09. The categories of businesses that are indebted to the VAT Division with the largest amount of arrears appearing first are as follows:

Categories of Businesses Owning Arrears

Sector	\$	%
Tourism	45,788,829.00	23.2
Finance	43,022,958.00	21.8
Wholesale	37,891,628.00	19.2
General	22,115,509.00	11.2
Construction	20,691,652.00	10.5
Manufacturing	15,796,263.00	8.0
Transport	8,950,638.20	4.5
Other Agriculture	1,312,403.00	0.7
Mining	885,193.29	0.4
Government	294,654.99	0.1
Electricity	225,957.88	0.1
	196,975,686.36	100%

3.84 The above table shows the various areas of commerce that owe amounts to the Division. It would be expected that the Division would have some risk assessment strategies, targeting those sectors to which percentages of outstanding arrears are high. There was no evidence that the Division has been pursuing such a strategy.

3.85 There are firms being paid considerable funds by Government agencies, inclusive of VAT, who have not paid this tax over to the Division. Reports on these firms/persons need to be obtained from the Ministries and Departments and follow-up action taken against the defaulters. This information could contribute towards the identification of non-registrants and assist in the collection of the tax debt from persons in the shadow economy.

Collection of Arrears

3.86 The Division has sought to utilize several methods of enforcement to reduce the amount of taxes outstanding, but these methods have not been effective. This is shown in the following:

Unpaid Tax Certificates

3.87 Unpaid Tax Certificates (UTC) in the sum of \$9,428,016.35 were lodged in the Supreme Court from the year 1999, in respect of 55 claims against registrants. The relevant files were sent to the Solicitor General's Chambers between September 2001 and October 2004, but there is no evidence that action has been taken on this matter. The UTC method of enforcing the recovery of VAT has therefore not been effective.

Revenue Arrears Payment Programme

3.88 The Ministry of Finance and Economic Affairs, through the VAT Division implemented an amnesty programme called Revenue Arrears Payment (RAP). This programme allowed tax registrants to reduce their arrears through an Instalment Agreement from 1st September 2002 to 31st August 2005, thus suspending penalties and interest if the registrants complied with the stipulations. Failure to comply with the terms of the programme would result in the registrants being liable for penalties and interest due.

3.89 At the commencement of the RAP programme, there were 3,047 tax registrants eligible for waivers, with arrears totaling \$71,134,101.06

including penalties and interest. Only 295 registrants responded and \$6,754,252.56 (9.5%) in taxes was collected.

- 3.90 The waiver of penalties and interest should have been an incentive to reduce the VAT arrears by registrants. The RAP programme however was not very effective in reducing the level of arrears.

Collections of Garnishments

- 3.91 The VAT Act Cap 87, Section 91, provides the authority for Demands on Third Parties. The Act stipulates that when a registrant is indebted to the Crown and is owed money by a third party, the Comptroller may deliver to the third party a demand for payment, which is called a garnishment.

- 3.92 The garnishing of tax registrants commenced in 1999. At 31st March 2008, total revenue of \$49,136,155.25 had been collected from 2,268 tax registrants.

Uncollectible Outstanding Debt

- 3.93 An analysis of outstanding amounts at 31st March 2007 is shown in the table below. The Ageing Analysis excludes \$10 million recommended for write-off. The majority of the outstanding arrears are in excess of five years. Early action in the lifecycle of a tax debt account is important to the successful collection of outstanding amounts. The longer the debt is outstanding, the more difficult it is to collect.

Ageing Analysis as at March 31st 2007

Period	Amount
	\$
Under 6 months	12,642,500.59
6 months to 1 year	8,377,248.51
Over 1 year and up to 2 years	21,428,513.59
Over 2 years and up to 3 years	14,150,332.63
Over 3 years and up to 4 years	13,892,540.33
Over 4 years and up to 5 years	15,293,923.98
Over 5 years	71,495,607.59
Total	157,280,667.22

Human Resources

- 3.94** According to the established Public Service Staff List, there were 22 vacant posts at the Division as at 31st March 2008. This reflects a serious shortage which is a challenge and limits the Division's effectiveness in achieving its mandate. Delays in filling vacancies have impacted negatively on the smooth operations of the Division.
- 3.95** The Compliance Section, staffed by 11 officers, is responsible for ensuring that 8,078 registrants comply with the VAT Act. Over 2,500 of these are currently in arrears.
- 3.96** This section needs additional personnel and should be restructured with components having responsibility for Accounts Receivable, Investigations and Public Entertainment.
- 3.97** An analysis of the human resource requirements of the VAT Division should be conducted and consideration given to urgently filling vacant posts, with the aim of increasing the level of monitoring of tax registrants.

General Observations

- 3.98** In accordance with the Financial Management and Audit Act, 2007-11, the financial statements of the Government are to be accounted for in accordance with the International Public Sector Accounting Standards (IPSAS). In order to comply with IPSAS, the Treasury requires revenue information on an accrual basis. It was however noted that revenue was reported primarily on a cash basis. Such action could lead to a qualification of the Government's Accounts.

Recommendation

- 3.99** The Division should therefore take steps to ensure that its revenue is reported in accordance to IPSAS.

Special Audit of the Barbados Agricultural Development and Marketing Corporation

Introduction

- 3.100** In response to a request from the Chief Executive Officer on 6th May 2008, a special review of the accounting system of the Barbados Agricultural Development and Marketing Corporation (BADMCO) was carried out in accordance with the provision of Section 36 of the Financial Management and Audit Act, 2007-11.

Background

- 3.101** The Barbados Agricultural Development and Marketing Corporation was established to develop the agriculture sector by providing technical, financial and marketing services. Some programmes provided include Irrigation and Extension Services, and Land for the Landless.
- 3.102** The Corporation is mainly funded by Government grants which were \$2,700,000 for the financial year ended 31st December 2007.

Audit Objectives

- 3.103** This audit was conducted to:
- (i) Analyse the accounting system and records of the Corporation to ensure its operations comply with the directives of the Board, the Barbados Agricultural Development and Marketing Act 1993 and generally accepted accounting principles;
 - (ii) Review the operations of the Corporation to identify whether the internal controls are effective;
 - (iii) Review the operations of the Finance and Accounts Department.

Methodology and Scope

- 3.104** Interviews were conducted with the Chief Executive Officer and other officers in the accounts and personnel sections of the Corporation. Documentary evidence was obtained from accounting records, minutes of the Board of Management and reports from previous auditors.
- 3.105** The audit review took into consideration the Corporation's operations during the period 1st January 2005 to 31st May 2008.
- 3.106** The audit did not assess the specific human resource requirements of the Corporation.

Audit Findings

- 3.107** The BADMC faces a number of critical challenges relating to the management and control of its assets such as land and inventory. In addition it has been challenged to produce financial statements for audit in a timely manner in accordance with International Accounting Standards.
- 3.108** The Finance and Accounts Department needs to access the skills of a professional accountant with adequate experience to effectively manage its operations and prepare its financial statements on a timely basis. This observation is supported by the degree of involvement of the auditors in the process of producing the Corporation's financial statements. This practice is a major concern, as it compromises the auditors' independence and increases the cost of audits. In addition, there is a need for an adequate procedural manual to guide the operations of the Finance and Accounts Department.
- 3.109** The ACCPAC accounting software is used as the main accounting application, supported by the Green Trees computer program and Microsoft Excel. However, these programs are not integrated and require manual transfer of data across systems. This situation has created some challenges for the Department in ensuring that there is an accurate transfer of data to the General Ledger.
- 3.110** The decision not to carry forward year-end account balances to the succeeding financial year until the final accounts of the previous financial year have been audited, has created significant problems for the Finance and Accounts Department. Any financial reports produced would therefore be unreliable, since brought-forward balances of assets and liabilities

would be excluded from the accounts. The last audited financial statement was for the year ending 31st December 2003. This is unacceptable and this practice therefore needs to be addressed urgently.

Ministry of Agriculture and Rural Development

- 3.111** The objectives of this Ministry include the guiding and directing of agricultural and fisheries development in the country and improving the livelihood of residents in rural areas. The audit of the accounts for the financial year ended 31st March 2008 revealed the following:

Rental Arrears re: Markets

- 3.112** Arrears for the rental of stalls and other spaces at Markets totaled \$321,857 at 31st March 2008. Some of the outstanding balances have accumulated over several years, but efforts to collect the arrears have met with little success.

Fixed Assets

- 3.113** A complete listing of assets was not in place at the time of the audit inspection. In keeping with the Financial Rules this information should be prepared and kept up to date so as to provide a proper control and check to the satisfaction of the Auditor General. It should also be noted that the Ministry needs to keep accurate account of its assets, their values and depreciation allowances for reporting purposes under the accrual system of accounting that has been adopted by the Government with effect from 1st April 2007. Instructions 7.2.8 to 7.2.10 and 7.4.1 to 7.4.3 issued to Departments, set out the policies regarding fixed assets, depreciation and inventory. Such instructions should be adhered to.

Government Analytical Services

Samples

- 3.114** Arrears totalling \$402,437.13 for the testing of samples were owed to the Government Analytical Services at 31st March 2008. This figure has continued to increase each year since the collection efforts employed have been ineffective. This situation is unsatisfactory and firm and decisive action is needed to have the uncollectible amounts written off and the remainder collected.

Barbados Drug Service

- 3.115** The activities of the Barbados Drug Service include the provision of drugs and related items to all Government Health Institutions, as well as the provision of medication free of cost or at reduced prices to all residents who qualify.

Contracts

- 3.116** A formal contract between the Barbados Drug Service and private participating pharmacies has not been put in place since the previous one expired on 31st March, 2005. This contract was however still in operation at 31st March 2008, based on a letter (dated 31st March 2005) from the Drug Service informing the private pharmacies that the contract would remain in force until further notice, pending legal guidance from the Solicitor General. The failure to have a new contract in place after three and a half years is unsatisfactory, particularly since the existing arrangement was not agreed to in writing by both parties.

3.117 ***Department's Response***

A contract was issued for one year from April 1st 2004 to March 31st 2005, pending review by the Attorney General's Office. To date, a review has not been done and contracts were extended until further notice. The Ministry of Health is in the process of revisiting all outstanding issues with the Attorney General's Office.

Ministry of Home Affairs

Prison Department

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

Assets/Inventory

- 3.119** A complete listing of assets and inventory was not prepared as required by the Financial Rules. It was explained that the information was currently being prepared in electronic format. This information should be finalized as soon as possible. It should be noted that the Prison has numerous assets, including items valued at \$446,839 purchased during the year, and these need to be properly accounted for.

Stores

- 3.120** An up-to-date stores ledger showing the receipt, issue and balance on items in stock was not in place as required by the Financial Rules. Over \$1.9 million was spent on food items during the year. The failure to keep adequate records for large quantities of stock can lead to wastage or misuse going undetected.

3.121 *Department's Response*

The record keeping in the storeroom is in place but not adequately updated because of the transfer from the Harrison's Point Facility. However, the Financial Controller and Information Technology Section at the Ministry of Home Affairs along with the Steward from the Storeroom are in the process of putting systems in place to correct all issues in Storeroom.

Contracts

- 3.122** During the year under review substantial sums totalling in excess of \$950,000 were paid out for the supply of food items without any contracts being drawn up with the suppliers. The Financial Rules state that contracts or written agreements shall be drawn up for the supply of goods or the undertaking of works or services in excess of \$20,000. These contracts act as a safeguard for Government and should be in place when substantial expenditure is involved.

Government Industrial Schools

Barrows Construction Project

- 3.123** The renovation of the former Barrows Children's Home has been ongoing since December 2006 and was still not completed when an audit team visited the site on 15th October 2008. In accordance with a Cabinet decision, the work on the project is being carried out by personnel from the Ministry of Public Works, but stoppages over the issue of payment for overtime claimed, low productivity as stated by the Project Consultant in a report dated 20th August 2008, and the absence of a fixed date for completion, have contributed to the length of time spent on the project. Sums totalling in excess of \$627,000 have been spent on the project as at August 2008 and a further \$877,000 has been approved to pay for the remaining work. It is recommended that the proposal by the Project Consultant to demobilize the Ministry's staff from the site and hire small contractors in specialized work groups for labour-only contracts be considered as soon as possible.

3.124 ***Ministry's Response***

The Ministry of Home Affairs concedes that this project has exceeded time and budgetary estimates. In this regard the Project Unit has begun the process utilizing contracts to execute some of the works in an effort to advance the project.

Inland Revenue Department

- 3.125** The Inland Revenue Department is one of Government's major revenue collecting agencies. The responsibilities of this Department include the collection of revenue from taxes on income and profits, property and international trade. During the financial year ending 31st March 2008, the Department collected approximately \$953 million in revenue out of which \$114 million was refunded. Issues arising from the audit of the accounts of this Department were:

Balance on Tax Refunds Bank Account

- 3.126** The balance on this bank account was \$30,751,487.57 as at 31st March 2007 and \$25,041,439.00 as at 31st March 2008. This account has not been reconciled for a number of years and has exposed the Department to the risk of not being able to detect errors and irregularities in the activities of the account, and to identify unrepresented refund cheques.

Recommendation

- 3.127** A bank reconciliation should be carried out on a monthly basis and differences promptly investigated and resolved. Excess cash should be paid into the Treasury.

Provision for Doubtful Debts

- 3.128** A decision was made to allot 2% of Accounts Receivable to Provision For Doubtful Debts. No documented evidence was made available to the Audit Office to substantiate such policy or the reasonableness of the provisions.

Recommendation

- 3.129** The Department needs to provide information showing the reasonableness of the Provision For Doubtful Debts.

Accounting for Revenue

- 3.130** The Financial Management and Audit Act, 2007-11 requires the Financial Statements of the Government to be accounted for in accordance with

International Public Sector Accounting Standards. In order to comply with these standards, the Treasury requires revenue information on an accrual basis. It was however noted that revenue was reported primarily on a cash basis. Such action could lead to a qualification of the Government's Consolidated Financial Statements.

Recommendation

- 3.131** The Department should therefore take steps to ensure that it reports its revenue in accordance with International Public Sector Accounting Standards.

Ministry of International Transport

- 3.132** Audit of the accounts for the Ministry of International Transport for the financial year ended 31st March 2008, revealed the following:

Arrears of Revenue

- 3.133** Sums owed to the Government of Barbados by Airline Companies and Concessionaires operating from the Grantley Adams International Airport totalled \$5,990,235.47 at 31st March, 2008. This sum includes balances that were outstanding for over ten years. Efforts to have them settled, including written correspondence and proposed legal action have met with little success. Some of the companies have requested copies of the outstanding invoices for their own investigations, but these requests have not been facilitated. There is no obstacle to the Ministry providing this information since it maintains ledger accounts for each customer, supported by duplicate invoices and receipts.

3.134 **Ministry's Response**

The Ministry proposes to seek the advice of the Solicitor General as to the most effective and efficient way of collecting the arrears in order to liquidate the outstanding receivables.

Commission for Pan African Affairs

The Bicentennial Global Dialogue

- 3.135** In October 2007, the Commission for Pan African Affairs hosted a Bicentennial Global Dialogue. It was estimated that the cost of this activity would be approximately \$534,419. Based on the initial Cabinet approval, the Commission booked air travel and hotel accommodation for persons who had indicated a willingness to attend. The late confirmation of the Conference resulted in cancellation by a number of the persons previously booked. Consequently, the Commission had to pay the full air travel cost and one night's accommodation for these delegates.
- 3.136** Some of the cancellations were in respect of persons who had key roles in the execution of the Conference. The Commission sought to replace such persons, which resulted in additional costs in respect of airfare and accommodation.
- 3.137** From the information submitted by the Prime Minister's Office and the Commission for Pan African Affairs, it was determined that total expenditure for the Conference was **\$1,071,405.08**.
- 3.138** Total expenditure exceeded the budget. This can be attributed to the fact that there was not enough regard paid to the authorized ceiling. It is also necessary that the Commission ensures that funds are available before incurring expenditure.
- 3.139** The Prime Minister's Office and the Commission for Pan African Affairs should ensure that the financial management of future events complies with the Financial Rules. In cases where additional funds are required, a supplementary appropriation should be sought before Government is committed to such expenditures.

National Disability Unit

Slow Implementation of Programs and Inadequate Storage

3.140 The Disability Unit has experienced delays in implementing a number of programs for which it has acquired equipment and furniture. As a result, a large number of items remained unused. The Disability Unit lacks adequate storage space/facilities, and as a result has been storing items at a number of locations, including two instances where the items remained with the vendors.

3.141 This situation has created a number of problems for the Disability Unit, including loss, wastage, and lack of adequate control over assets.

Purchase of Chairs

3.142 In March 2002, the Disability Unit paid \$13,356 for the construction of two storage units (\$3,996) and 60 chairs (\$9,360). These items were not immediately collected by the Disability Unit. Late in 2005, it was reported that 33 chairs had become termite infested and had been discarded. This has resulted in a loss of \$5,148 in public funds.

Purchase of Equipment

3.143 In 2002, the Unit paid \$75,000 (VAT inclusive) for purchasing four pieces of equipment. These items remained in storage at the importer up to the time of writing.

3.144 Officers from the Audit Office and the Disability Unit visited the site on 25th September 2008, but were not allowed to inspect the equipment in the absence of the Chief Executive Officer, who was reportedly not on the premises at the time. Further attempts to visit the site for inspection purposes have been unsuccessful. The Disability Unit has since written to the importer requesting that the items be handed over.

3.145 Payment for items not delivered to the Unit constitutes a breach of Rule 48 (2) (f) of the Financial Administration and Audit (Financial) Rules, 1971, which requires the Certifying Officer to ensure that "stores purchased have been supplied and accounted for." Failure to observe this regulation deprived the Unit of control over the assets in question. In addition, there

is no evidence that the Unit entered into any written agreements over the storage of these items, which exposed the Unit to the risk of being unable to recover such items in the event of damage, loss or misuse.

Problems Resulting From Lack of Use and Inadequate Storage Facilities

- 3.146** The Unit presently has a large number of unused items. These items, some bought as far back as 2002, have a value in excess of \$180,000. As a result of rapid technological changes, some of this equipment, such as computers, can be outdated and/or obsolete within a few years. The Unit therefore faces the prospect of equipment becoming outdated and/or obsolete before being put to use.
- 3.147** Evidence indicates that the Disability Unit has been in correspondence with the Ministry of Housing over the years seeking accommodation for the various projects which it has planned. It has however experienced difficulty in obtaining this accommodation.

Recommendations

- 3.148** The Ministry of Housing needs to provide the necessary accommodation in order for the Unit to implement its projects.
- 3.149** The Unit should desist from purchasing additional equipment for projects until the necessary accommodation has been acquired.

Outstanding Issues From 2007

3.150 In my Annual Audit Report for the year 2007, there were a number of issues reported, in respect of various Ministries and Departments, which at that time remained unresolved. I requested an update on what action, if any, had been taken to resolve the matters mentioned in my Report. Following are the issues related to the relevant ministries/departments and their responses.

Ministry of Agriculture

3.151 I had outlined a number of issues relating to the management of contracts at the Ministry of Agriculture which were of concern. In my view these matters have not been properly addressed and I have asked the Permanent Secretary to supply the relevant update on the following:-

- (a) The payment of the full contract price for remodelling 13 stalls near the Speightstown Bus Terminal even though the work was not completed;
- (b) The method used by the Ministry to approve the variation submitted by the construction company contracted to conduct repairs to the roof of the Veterinary Laboratory;
- (c) The Ministry's basis for approval of numerous variations submitted by the contractor for renovation to the roof of the Oistins' Fish Market, which resulted in cost overruns being incurred.
- (d) The payment of performance bond expenses and insurance, to which the construction company hired to carry out renovations and extensions to the old Griffith's Reliance Pharmacy Building, Palmetto Square, was not entitled.

3.152 At the time of compiling this report, my Office had not received any response from the Ministry.

Department of Corporate Affairs and Intellectual Property

- 3.153** I had indicated that the Department had received an advance payment of \$3.8 million in respect of Property Transfer Tax as a result of the transfer of 25 million shares in one commercial bank to another. I had indicated that an amount of \$652,500 was outstanding in respect of Property Transfer Tax and Stamp Duties. I had also indicated that there was no action taken to collect the outstanding amount.
- 3.154** Since then the attorneys for the Bank have objected to the valuation and have indicated that the information on the valuation was only communicated to them some four years after the transaction was finalized. The attorneys have also stated that to request these funds now would be inequitable.
- 3.155** This matter has been outstanding for some time and the necessary follow up action needs to be taken by the Department to bring this issue to a conclusion.

Ministry of Housing and Lands

- 3.156** I had outlined a number of issues relating to the Ministry of Housing and Lands which were of concern. In my view these matters have not been properly addressed and I have asked the Permanent Secretary to supply the relevant update on the following:-
- (a) The absence of up-to-date information in relation to land acquired over the years;
 - (b) The absence of Cabinet authorization for lease agreements on commercial properties;
 - (c) Inadequacy of insurance coverage on Government buildings.
- 3.157** At the time of compiling this report, my Office had not received any response from the Ministry.

Ministry of Public Works and Transport

3.158 I had outlined an issue pertaining to the rental of the Ministry's Crane to a firm, under an arrangement in which the Ministry not only receives lease payments from the firm, but also pays rental money to the firm when the crane is used by the Ministry. In my view this matter has not been properly addressed, and I have asked the Permanent Secretary to supply the relevant update on the recovery of amounts outstanding for the lease of this Crane.

3.159 The Ministry had previously responded by indicating that correspondence had been sent to the General Manager of the company in question, informing him of the outstanding debt and asking for prompt settlement. Instructions had been given that no further payments were to be made by the Ministry for the rental of the crane.

3.160 *Ministry's Response*

After thorough investigation and discussion it was concluded that the date of termination of the contract was 31st March, 2006 as agreed between the parties.

Since payment (of the outstanding debt) was made the crane which has now become obsolete is in the possession of this Ministry and can be located at the Buildings and Drainage Unit at the Old Livestock Station, Pine North-South Road, St. Michael. The Ministry is in the process of having the said crane boarded.

Newton Business Park

3.161 It was noted that the B IDC entered a contract with a developer for the design and construction of a business park at the Newton Estate for \$18.5 million. The contract was terminated by the B IDC in March 2007.

3.162 The B IDC commissioned an independent consultant who determined that there were defects in the construction of the buildings in the park. It was also indicated that it would take in excess of \$7 million to rectify the situation. The Corporation had indicated that it had given the contractor

notice to remedy the specified defects and complete the unfinished work within 30 days.

- 3.163** I requested information from the BIDC as to what action had been taken against the contractor on this matter, and the BIDC responded as follows:-

3.164 ***BIDC Response***

Rectification of the defects which were discovered by the Project engineers formed part of the works to be carried out under the new contract between Newton Business Park Project Company Ltd. (NBPPCL) and the new Contractor.

No action was taken by the former Contractor to remedy any of the defects.

The BIDC on behalf of NBPPCL has retained the services of the Attorney-at-Law to pursue its claims against the former Contractor.

Construction of Police Station at Crab Hill, St Lucy

- 3.165** I had outlined an issue pertaining to the substandard work left by the former contractor of the Police Station at Crab Hill, St. Lucy. The main concern of this project related to the wastage of Government funds. This project was awarded to a contractor for \$1,483,485.28 in 2004. The project is now estimated to cost in excess of \$4 million, and this is some \$2.6 million more than had been anticipated.

- 3.166** In my view this matter has not been properly addressed and I have asked the Permanent Secretary to supply the relevant update on the recovery of costs relating to these deficiencies.

- 3.167** At the time of compiling this report, my Office had not received a response from the Ministry.

CHAPTER 4

Audit of Statutory Boards, Government Companies and Controlled Entities

- 4.1** The Barbados Audit Office is required to conduct audits of all Statutory Boards, Government companies and other Government controlled entities in accordance with Section 113 (1) of the Constitution of Barbados (Constitutional Amendment April 2007). The Audit Office however does not conduct audits of all these entities as some audits are conducted by auditors in the private sector. The Audit Office will however report to Parliament on the status of the accounts of all Government entities annually, whether the audits were conducted by the Auditor General's Department, or by auditors in the private sector. The following is a status report on the audit of Government Statutory Boards and companies known to the Audit Office.
- 4.2** There are a number of Statutory Boards which are late in presenting their financial statements for audit, and these include the National Insurance Department and the Samuel Jackman Prescod Polytechnic which are in excess of five years in arrears. This late financial reporting is contrary to the legislation under which these entities were established and can create an environment where fraud can remain undetected.
- 4.3** In order to have up-to-date audited financial statements available to stakeholders, a major effort will be required from these entities and my Office. All Government entities should be able to produce annual financial statements in time to have them audited within six months after the close of the financial year. The reasons these entities are late in submitting their reports are dealt with further in this Chapter.

Audits Conducted By the Audit Office

Barbados Boxing Board of Control

- 4.4** The Barbados Boxing Board of Control has responsibility for the promotion and regulation of boxing in Barbados. The Board receives an annual grant from the Barbados Government. Regulation 16 of the Control of Boxing Act requires the Auditor General to audit the accounts of the Board. The Boxing Board has however not submitted any accounts for audit since the financial year ended 31st December 1993.
- 4.5** This matter should be investigated by the relevant Ministry to ensure that the Boxing Board complies with the provisions of the Boxing Act. A suspension of the subvention should be considered, given the lengthy period in which the accounts have not been submitted for audit.

Barbados Community College

- 4.6** The audit of the accounts of the Barbados Community College is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. The audit of the accounts of the College is currently in arrears. The accounts for the financial years ended 31st March 2005 and 2006 were audited during 2008. The financial statements for the year ended 31st March 2007 have been submitted for audit while those for the year ended 31st March 2008 remain outstanding.

Barbados Defence Force

- 4.7** The accounts of the Barbados Defence Force for the financial years April 2001 to March 2007 have been audited. No material errors were found during the course of the audit. The audit for the financial year ended March 2008 is currently in progress.

Barbados Hospitality Institute

- 4.8** The Barbados Hospitality Institute, which falls under the Barbados Community College, conducts training for persons in the hospitality industry.
- 4.9** The audit of the accounts of the Institute is currently in arrears. The financial statements for the years ended 31st March 2006 and 2007 have

been submitted and will be audited during 2009. The financial statements for the year ended March 2008 have not been submitted for audit.

Barbados Liaison Service - Miami

- 4.10** The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. The audits for the financial years 2005-2006, 2006-2007 and 2007-2008 are in progress.

Barbados Liaison Service - Toronto

- 4.11** The Barbados Liaison Service in Toronto administers a program relating to farm workers attached to farms in Canada. The audits for the financial years 2005-2006, 2006-2007 and 2007-2008 are in progress.

Caribbean Centre for Development Administration

- 4.12** The Caribbean Centre for Development Administration (CARICAD) provides assistance to the countries of the Caribbean area for the purpose of improving their administrative capability. The accounts of CARICAD for the financial year ended 31st March 2007 were audited during 2008. No material errors in the financial statements were discovered during the course of the audits. The audit of the accounts for financial year ended 31st March 2008 is in progress.

Caribbean Support Initiatives

- 4.13** CARICAD also performs administrative functions for Caribbean Support Initiatives (CSI) a parent-support project aimed at improving child-rearing practices in the Caribbean. The accounts of CSI for the financial years ended 31st December 2006 and 2007 have been audited. No material errors were found during the course of the audit.

Caribbean Institute for Meteorology and Hydrology

- 4.14** The Caribbean Institute for Meteorology and Hydrology is a training and research organization funded by Governments in the Caribbean region. Receipts and Payments accounts for the year ended 31st December 2007

were audited. No material errors in the financial statements were discovered during the course of the audit.

Catastrophe Fund

- 4.15** The Catastrophe Fund, which was established in April 2006, provides financial aid to any low income earner who owns and occupies a chattel house which is valued at not more than \$125,000, and is damaged or destroyed by a catastrophe. The accounts of the Catastrophe Fund for the financial year ended 31st December 2007 were audited. No material errors in the financial statements were discovered during the course of the audit.

Central Emergency Relief Fund

- 4.16** The Auditor General is required under Section 14 of the Central Emergency Relief Scheme to audit the statements of income and expenditure of the Central Emergency Relief Fund. The financial statements for the years ended 31st December 2006 to 2008 were not submitted for audit during the year, and these audits, therefore remain outstanding.

Central Liaison Service

- 4.17** The Central Liaison Service (Regional Security System) is an organization supported by certain Caribbean countries. Its purposes include assisting with the fight against illegal narcotics, assisting with relevant emergencies and combating threats to national security in member states. The accounts of the Central Liaison Service for the 2005-2006, 2006-2007 and 2007-2008 financial years are currently being audited.

Community Legal Services Commission

- 4.18** The Community Legal Services Commission provides legal aid to persons in the community who meet certain criteria. The accounts of the Commission for the financial year ended 31st March 2008 are currently being audited.

Erdiston Teachers' Training College

- 4.19** The audit of the accounts of the Erdiston Teachers' Training College is currently in arrears. The financial statements for the year ended 31st March 2007 have been submitted and are awaiting audit. The financial statements for the year ended 31st March 2008 have not been submitted for audit.

Land Reclaimers Limited

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

National Assistance Board

- 4.21** The National Assistance Board (NAB) provides assistance to poor and needy persons in the country. In accordance with Section 6 (2) of the National Assistance Act, Cap. 48, the NAB is required to submit its annual financial statements within three (3) months of the end of each financial year to the Auditor General for audit.
- 4.22** The audit of the accounts of the NAB for the financial year ended 31st March 2007 is currently in progress. The financial statements for the year ended 31st March 2008 have been submitted to the Audit Office and will be audited during 2009.

National Insurance Fund

- 4.23** The accounts of the National Insurance Fund for the years 2000, 2001 and 2002 were audited. The audit for the 2003 financial year is in progress.
- 4.24** The audit of the accounts of the National Insurance Fund has been a source of concern for some time. This audit is currently five years in arrears. As previously stated by this Office, audits conducted several years after the period in which they were due do not assist the accountability process, and are of little help to decision makers. The financial statements of this fund should be audited no later than six months after the close of the financial year in accordance with the provisions of the National Insurance and Social Security Act, Cap 47.

- 4.25** The Department is making an effort to bring the accounts up-to-date so that they can be submitted for audit, but the time has come for the establishment of a project team with the sole aim of bringing the accounts up-to-date so that they can be audited in a timely manner.

Samuel Jackman Prescod Polytechnic

- 4.26** 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 1st October, in respect of the preceding financial year, Statements of Account audited by the Auditor General.

- 4.27** The Polytechnic has submitted financial statements for the six financial years up to 31st March 2003. These statements were found to be deficient with information not being available to support amounts reported in the financial statements. It is unclear why the Board of Management has not dealt with this matter. The absence of audited financial statements for such a lengthy period should be of great concern to the Polytechnic's Board.

- 4.28** I have been stating for some time that the Ministry of Education needs to take appropriate steps to rectify this situation as the Polytechnic staff appears to lack the capabilities of producing the relevant financial statements and keeping the accounts in good order.

Sanitation Service Authority

- 4.29** The accounts of the Sanitation Service Authority for the financial year ended 31st March 2007 were audited during the course of the year. No material errors were discovered during the course of the audit. The audit of the accounts for the financial year ended 31st March 2008 is currently in progress.

Severance Payment Fund

- 4.30** The audit of the accounts of the Severance Payment Fund for the financial year ended 31st December 2006 has been completed. No material errors were found during the course of the audit. The audit for the financial year ended 31st December 2007 is currently in progress.

Social Investment Fund

- 4.31** The accounts of the Social Investment Fund for the financial year ended 31st March 2008 have been audited as required by Section 9 of the Social Investment Act. No material errors were discovered during the course of the audit.

Sugar Factory Smoke Control Board

- 4.32** The financial statements of the Sugar Factory Smoke Control Board for the years ended 31st December 2001 to 2007 have not been submitted in accordance with Section 3 (11) of the Registered Sugar Factories Smoke Control Act, Cap. 355. The audit of these accounts therefore remains outstanding.

Sugar Industry Research and Development Fund

- 4.33** The financial statements for the year ended 31st December 2007 were submitted and audited as required by Section 15 (2) of the Sugar Industry Act, Cap. 270. No material errors were discovered during the course of the audit.

Sugar Workers' Provident Fund

- 4.34** The Sugar Workers' Provident Fund provides pension and funeral grants to persons previously employed in the Sugar Industry, and who were not entitled to a contributory or invalidity pension under the National Insurance and Social Security Act.
- 4.35** The absence of relevant schedules in respect of payments from this Fund has held up this audit for a number of years. The inability of the National Insurance Office to provide this basic information has been an area of concern for sometime.

Training Fund

- 4.36** The Training Fund was established under Section 3 (1) of the Training Act, Cap. 35 for the purpose of financing training courses for officers in the Public Service. The audit for the financial year ended 31st March 2007 was completed during the year. No material errors were discovered during the course of the audit.

Training Loan Fund

- 4.37** The Training Loan Fund was established under Section 4 (1) of the above-mentioned Act for the purpose of providing loans to assist persons in pursuing courses of study or for training courses as approved by the Minister responsible for training. The audit for the financial year ended 31st March 2007 was completed during the year. No material errors were discovered in the financial statements during the course of the audit

Unemployment Fund

- 4.38** The audit of the accounts of the Unemployment Fund for the financial year ended 31st December 2006 has been completed. No material errors were found during the course of the audit. The audit for the financial year ended 31st December 2007 is currently in progress.

Audits Conducted by Private Sector Auditors

Barbados Agricultural Credit Trust Ltd

- 4.39** The principal activity of the Barbados Agricultural Credit Trust Ltd (BACTL) is the management of the debt of the Barbados Sugar Industry Ltd (BSIL) and the Heavily Indebted Plantations (HIPs), which was assumed from the Barbados National Bank in the form of a portfolio transfer. Audit of the accounts for the financial year ended 30th June 2008 has been completed.

Barbados Agricultural Development and Marketing Corporation

- 4.40** The Barbados Agricultural Development and Marketing Corporation (BADMC) consists of two merged entities: the Barbados Marketing Corporation (BMC) and Barbados Agricultural Development Corporation (BADC). The principal activity under Section 10 of the Act is the management of the production, marketing and processing of produce in Barbados. The BADC was established by the BADC Act, 1965 - 21 to stimulate, facilitate and undertake the development of agriculture and to develop and manage, on a commercial basis, Government plantations along the line of Government policies.
- 4.41** The BADMC has indicated that the auditors are in the process of completing the financial statements for 2004, and the Board of Directors has approved accountancy support for the completion of the audits for 2005-2008.

Barbados Conference Services Ltd

- 4.42** The Barbados Conference Services Ltd (BCSL) is responsible for the operations of Sherbourne Conference Centre and provides destination management and transport services under the brand names, Horizon Events Planners and Horizon Coaches and Tours respectively. Audit of the accounts for the financial year ended 31st March 2008 has been completed.

Barbados Investment and Development Corporation

- 4.43** The Barbados Investment and Development Corporation (BIDC) was established under the Barbados Investment and Development Corporation Act, 1992 - 30 for the purpose of developing Barbados' industrial, off-shore financial, export and other related activities. Audit of the accounts for the financial year ended 31st March 2008 has been completed.

Barbados National Oil Company Limited

- 4.44** The Barbados National Oil Company Ltd (BNOC), through its wholly owned subsidiaries is involved in the exploration and production of crude oil, natural gas and liquefied petroleum gas (LPG). The BNOC is also engaged in the processing of crude oil and the sale of petroleum products to the Barbados market. Audit of the accounts for the financial year ended 31st March 2008 has been completed.

Barbados National Productivity Council

- 4.45** The principal activity of the Barbados National Productivity Council (BNPC) is to create and develop methodologies for measurement, management and improvement in the public service and private sector, and to provide technical advice and assistance for devising productivity related payment schedules. Audit of the accounts for the financial year ended 31st March 2008 has been completed.

Barbados Port Inc.

- 4.46** The principal activity of The Barbados Port Incorporated is to manage the Port of Bridgetown, for the main purpose of enabling the Port to operate as a commercial activity. The financial statements of Barbados Port Inc. for the year ended 31st December 2007 have been audited.

Barbados Tourism Authority

- 4.47** The principal activities of the Barbados Tourism Authority (BTA) are to promote, assist and facilitate the efficient development of tourism and to design and implement suitable marketing strategies for the effective promotion of the tourism industry. Audit of the accounts for the financial year ended 31st March 2006 has been completed. The BTA has reported

that the accounts for the financial year ended 31st March 2007 are currently being audited.

Barbados Tourism Investment Corporation

- 4.48** The principal activities of the Barbados Tourism Investment Corporation are the facilitation of tourism investment in Barbados and the development of its vested properties in private and public partnership. Audit of the financial statements for the period 1st January 2006 to 31st March 2007 has been completed. The Corporation has indicated that the preparation of the financial statements for the year ended 31st March 2008 is currently ongoing and should be completed shortly.

Barbados Vocational Training Board

- 4.49** The National Training Board was set up under the Occupational Training Act, 1979, Cap. 42 to ensure an adequate supply of trained manpower through occupational training for apprentices and trainees. The name of the Board was subsequently changed to the Barbados Vocational Training Board under Section (2) of the Technical and Vocational Educational Training Act, 1994 - 11. The Mission of the Board, however, has remained unchanged.
- 4.50** The audit of the accounts for the Training Board is currently in arrears. Audit for the financial year ended 31st March 2005 has been completed. The Board has reported that the statements for the period ended 31st March 2006 are 90% completed and should be issued before the end of March 2009.

Barbados Water Authority

- 4.51** The Barbados Water Authority was established by the Barbados Water Authority Act 1980 - 42 to take over the functions, rights and liabilities of the Waterworks Department on the "appointed day", which is regarded as 1st April 1981. The audit of the financial statements for the period ended 31st March 2006 has been completed. However, the audits for the period ended 31st March 2007 and 2008 have not been completed. The Barbados Water Authority has indicated that the Accounts Section did not have the necessary resources to dedicate to this task.

Caribbean Broadcasting Corporation

- 4.52** The principal activity of the Caribbean Broadcasting Corporation (CBC) is the provision of broadcasting services through radio and television. The audited accounts of the Corporation up to the financial year ended 31st December 2005 have been submitted to the Audit Office. The Corporation has reported that the audit report on the financial statements for the year ended 31st December 2007 has been completed and has been submitted to the Prime Minister's Office for laying in Parliament.

Caves of Barbados Limited

- 4.53** Caves of Barbados Ltd is mandated under the Caves Act 2000 - 12 to manage and develop Harrison's Cave and any other caves in Barbados. The audit of the financial statements for the year ended 31st December 2004 has been completed. The entity has indicated that the audit for 2005 is in progress and will be followed with the audits for 2006, 2007, and 2008.

Child Care Board

- 4.54** The principal activities of the Child Care Board are to provide and maintain child care institutions for the safe keeping of children in need of care and protection, and to make grants to voluntary organizations or bodies operating child care institutions. Audit of the accounts for the financial year ended 31st March 2008 has been completed.

Enterprise Growth Fund Limited

- 4.55** 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. Audit of the accounts for the financial year ended 31st December 2008 has been completed.

Fair Trading Commission

- 4.56** The principal activities of the Fair Trading Commission (FTC) are to enforce the Utilities Regulation Act, Cap. 282, the Telecommunications Act, Cap. 282B, the Fair Trading Competition Act 326C and the Consumer

Protections Act, Cap 326D. The Commission should promote efficiency and competitiveness, improve standards of service and quality of goods and services supplied by service providers and business enterprises over which it has jurisdiction. Audit of the accounts for the financial year ended 31st March 2008 has been completed.

Grantley Adams International Airport Inc.

- 4.57** 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). Audit of the accounts for the financial year ended 30th June 2008 has been completed.

Hotels and Resorts Limited

- 4.58** Hotels and Resorts Ltd. was incorporated under the Laws of Barbados on 27th December 1995. The principal activity of Hotels and Resorts Ltd. is the investment in and development of hotel properties. The audit of the accounts for the financial years ended 31st December 2002, 2003, 2004 and 2005 have been completed. However, audits for the financial years 2006 to 2008 are currently outstanding.

Islandcrafts (Barbados) Inc.

- 4.59** The principal activity of Islandcrafts (Barbados) Inc. is the sale and marketing of indigenous handicraft items. Audit of the accounts for the financial years 2006, 2007 and 2008 are currently outstanding

National Conservation Commission (NCC)

- 4.60** The principal activity of the National Conservation Commission (NCC) is the management, maintenance and development of the public parks, beaches and open areas of Barbados. Audit of the accounts of the Commission has been completed up to the financial year ended 31st March 2005. The NCC has indicated that the auditors will proceed to the draft statements for the financial year ended 31st March 2007, upon the completion of the financial statements for the year ended March 2006. In addition, the audited financial statements for both years are anticipated to be finalised before their fiscal year end.

National Council on Substance Abuse

- 4.61** The principal activity of the National Council on Substance Abuse (NCSA) is to advise the Ministry of Home Affairs on measures for the eradication or control of substance abuse. The NCSA has submitted completed financial statements for the year ended 31st March 2005 and has reported that the auditors are currently finalising the financial statements for the year ended March 2006.

National Cultural Foundation

- 4.62** The principal activities of the National Cultural Foundation (NCF) are to stimulate and facilitate the development of culture, organize and assist in cultural activities and develop, maintain and manage theatres and other cultural facilities and equipment provided by the Government of Barbados.
- 4.63** The audited accounts of the Foundation for the financial year ended 31st December 2006 have been submitted to the Audit Office. NCF has reported that the audit for the financial year ended 31st December 2007 has been completed and final reports will be issued early in 2009. Additionally, the audit of the 2008 accounts is scheduled to begin during April 2009.

National Housing Corporation

- 4.64** The principal activity of the National Housing Corporation (NHC) is managing the development of areas designated for development and related purposes. Audit of the accounts of the Corporation up to the financial year ended 31st March 2004 has been completed. The Corporation has reported that it is awaiting the audited financial statements for the years ended 31st March 2005 and 2006, and that the audit for the year ended 31st March 2007 is being conducted.

National Petroleum Corporation

- 4.65** The National Petroleum Corporation (NPC) has as its principal activity the supply of natural gas to industrial, commercial and domestic customers. Audited accounts for the financial year ended 31st March 2008 have been submitted in draft form. The NPC has reported that these accounts will be ratified and the balance sheet signed at the next Board Meeting.

National Sports Council

- 4.66** The principal activities of the National Sports Council (NSC) are to maintain and develop sporting facilities provided for public use, and to stimulate the development of sport in Barbados. Audited financial statements for the year ended 31st March 2008 have been submitted to the Audit Office.

Rural Development Commission

- 4.67** The Rural Development Commission (RDC) was incorporated on 21st 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.
- 4.68** Audit of the accounts of the Commission for the financial period ended 31st March 2004 has been completed. The Commission has reported that financial statements for the years ended 31st March 2005 and 2006 have not been signed off by the Board. The auditors are still awaiting confirmation from the Ministry of Social Care regarding monies received for those financial years.

The Securities Commission

- 4.69** The Securities Commission's principal activities are to maintain surveillance over the securities market in order to ensure that fair, equitable and proper practices are maintained, and to act as a regulatory body over all organizations involved in the business of securities, so as to protect the rights of the investing public. The audited accounts for the financial years ended 31st March 2008 have been submitted to the Audit Office.

Student Revolving Loan Fund

- 4.70** The principal activity of the Student Revolving Loan Fund (SRLF) is to assist in the educational process through the provision of loans. The SRLF has reported that the draft financial statements for 2002 are under review by their auditors, and work is being continued on the audits for the years 2003-2009.

Technical and Vocational Education and Training (TVET) Council

- 4.71** The principal activities of the Technical and Vocational Education and Training (TVET) Council are to provide advice on policy, prepare plans and establish standards for technical and vocational education at the tertiary level, in accordance with national policies and economic needs. The audited financial statements of the TVET Council for the year ended 31st March 2007 were submitted. The audit of the financial statements for the period 2007-2008 is outstanding. However, the council has indicated that permission has been sought from the Ministry of Labour and Immigration to appoint an auditor; this has not been granted to date.

Transport Board

- 4.72** The Transport Board's principal activity is the provision of transportation to the general public. Audit of the accounts of the Board for the financial year ended 31st March 2007 has been completed. The Transport Board has indicated that the audited financial statements for the year ended 31st March 2008 are yet to be finalised and will be forwarded to this office upon receipt.

Urban Development Commission

- 4.73** The principal activities of the Urban Development Commission (UDC) are to undertake slum clearance and improve social amenities in urban areas. The UDC also provides loans to individuals with small enterprises, and for assistance in house acquisition, repairs and improvements.

- 4.74** Audit of the accounts of the Commission for the financial year ended 31st March 2004 has been completed. The Commission has reported that the audit for the financial year ended 31st March 2005 is in progress, and that the delays are due to staffing and scheduling problems. It has also indicated that every effort will be made to have the audits current.

Audit of Secondary Schools

- 4.75** 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 31st March. The status of the accounts of these schools at 31st December 2008 was as follows:

Alexandra School

- 4.76** The audit of the accounts of the Alexandra School has been completed for the financial year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Alleyne School

- 4.77** The audit of the accounts of the Alleyne School has been completed for the financial year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Alma Parris Memorial Secondary School

- 4.78** The audit of the accounts of the Alma Parris Memorial Secondary School has been completed for the financial year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Christ Church Foundation School

- 4.79** The audit of the accounts of the Christ Church Foundation School has been completed for the financial year 2006-2007. The Board has reported that audited financial statements for the year 2007-2008 will be submitted upon completion.

Coleridge and Parry School

- 4.80** The audited accounts of the Coleridge & Parry Secondary School for the financial years ended 31st March 2003, 2004 and 2005 were submitted. The audits of the accounts for the years ended 31st March 2006, 2007 and 2008 are outstanding.

Combermere School

- 4.81** The audit of the accounts of the Combermere School for the year ended 31st March 2008 has been completed. The accounts of this school are therefore up-to-date as required by the Education Act.

Deighton Griffith Secondary School

- 4.82** The audit of the accounts of the Deighton Griffith Secondary School has been completed for the year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Ellerslie Secondary School

- 4.83** The Ellerslie School has reported that the audit of the accounts for the financial years ended 31st March 2006 and 2007 has been completed. Audit for the financial year ended 31st March 2008 is currently outstanding.

Garrison Secondary School

- 4.84** The audit of the accounts of the Garrison Secondary School has been completed for the financial year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Grantley Adams Memorial School

- 4.85** The audit of the accounts of the Grantley Adams Memorial School has been completed for the year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Harrison College

- 4.86** The audit of the accounts of the Harrison College has been completed for the year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Lester Vaughan School

- 4.87** The audited financial statements of the Lester Vaughan School for the financial year ended 31st March 2007 were submitted to the Audit Office. The school has reported that the audit of the financial statements for the year ended 31st March 2008 is progress.

Lodge School

- 4.88** The audit of the accounts of the Lodge School has been completed for the financial year 2007-2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Parkinson Memorial School

- 4.89** The audit of the accounts of the Parkinson Memorial School has been completed for the financial year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

Princess Margaret Secondary School

- 4.90** The audit of the accounts of the Princess Margaret Secondary School has been completed for the financial year ended 31st March 2007. Audit for the financial year ended 31st March 2008 is currently outstanding.

Queen's College

- 4.91** The audit of the accounts of Queen's College for the financial years ended 31st March 2007 and 2008 has been completed. The accounts of this school are therefore up-to-date as required by the Education Act.

Springer Memorial Secondary School

- 4.92** Springer Memorial Secondary School has indicated that the audit for 2008 was not completed, as the sub-committee responsible for finance is currently in the process of selecting new auditors. The audit is expected to be completed by during 2009.

St. George Secondary School

- 4.93** The audit of the accounts of the St. George Secondary School has been completed up to the financial year ended 31st March 2005. Audits for the financial years ended 31st March 2006, 2007 and 2008 are currently outstanding. Audit of the accounts of this school is therefore three years in arrears.

St. James Secondary School

- 4.94** The audit of the accounts of the St. James Secondary School has been completed for the financial year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

St. Leonard's Boys' Secondary School

- 4.95** Audited financial statements of the St. Leonard's Boys' Secondary School for the financial year ended 31st March 2008 were submitted in draft form. The school has indicated that the final financial statements are being prepared by the auditors. It should be noted that in my report for 2007, I had reported that the audits for the School for the years 2005, 2006 and 2007 were outstanding. There is therefore some uncertainty as to when the accounts of this school were last audited.

St. Lucy Secondary School

- 4.96** The audit of the accounts of the St. Lucy Secondary School has been completed for the financial year ended 31st March 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

St. Michael School

- 4.97** The audit of the accounts of the St. Michael School has been completed for the financial years ended 31st March 2007 and 2008. The accounts of this school are therefore up-to-date as required by the Education Act.

General Observations

- 4.98** The audits of a number of Government agencies are currently in arrears and this is cause for concern. The main purpose of the audit is to provide stakeholders of the entity with independent assurance on the accuracy of the information on the financial statements.
- 4.99** It is evident that not enough attention is being paid to insuring that audits are completed on a timely basis. Those entities that are in arrears in their audits need to make a serious effort to bring these accounts up-to-date expeditiously. In some cases they will require some assistance from outside the organization. Boards of Management/Directors of these entities should always view the non-submission of audited financial statements with a degree of concern.
- 4.100** The submission of accounts long after the due period often leads to problems in finalizing the audits. This is contrary to statutory requirements and can create an environment where fraud can thrive and remain undetected.


Calver G Hinds
Auditor General (Ag.)

Weymouth Corporate Centre
Roebuck Street
St. Michael
BB11080
BARBADOS

11th May 2009



Appendices



FINANCIAL MANAGEMENT AND AUDIT ACT, 2007-11

PART IV

The Audit Office

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

last day of December following the close of each financial year, the results of his examination of the accounts and any failure to observe the enactments or other laws of Barbados.

- (2) Notwithstanding subsection (1), the Auditor General may at any time, if it appears to him to be desirable, transmit to the House of Assembly a special report on any matter incidental to his power and duties under this Act.
 - (3) The estimates of expenditure of the office of the Auditor General shall be transmitted to the House of Assembly through the Public Accounts Committee; and the Public Accounts Committee shall consider the estimates in accordance with subsection (4).
 - (4) In considering the estimates of expenditure under subsection (3), the Public Accounts Committee shall ensure that the estimates of expenditure are adequate to enable the Auditor General to fulfill the responsibilities of the office of Auditor General and for this purpose may make comments for the consideration of the Auditor General who shall consider the comments and, if necessary, revise the estimates of expenditure for resubmission to and the approval of the Public Accounts Committee.
 - (5) Every report of the Auditor-General shall be addressed to the Speaker of the House of Assembly who shall lay the report before the House of Assembly as soon as possible after the report is received by him.
 - (6) A copy of every report of the Auditor General shall also be transmitted to the Senate for information.
39. (1) For the purpose of his examination under section 36 the Auditor General is at all times entitled to
- (a) have access to all books, records, including data held or stored electronically, vouchers, payment requests, documents, returns, cash, stamps, securities, stores or other property in whatever form existing in the possession of the audited body; and every facility shall be given for carrying out the examination;
 - (b) send for and have custody of any books, accounts, vouchers, payment requests, papers, data held or stored electronically or any other information in whatever form existing under the control of the audited body relating to the matter under examination and to keep such books, accounts, vouchers, payment requests or papers for such time as he may require them;
 - (c) call upon any officer for any explanation and information the Auditor General may require in order to enable him to discharge his duties;

- (d) require any department concerned to furnish him from time to time or at regular period with accounts of the transactions of such department up to the date as he may specify;
- (e) without payment of any fee, cause a search to be made in, and extracts to be taken from, any book, document or record in any public office;
- (f) summon and examine upon oath, declaration or affirmation (which oath, declaration or affirmation the Auditor General is hereby empowered to administer) all persons whom he thinks fit to examine respecting
 - (i) the receipt or expenditure of money;
 - (ii) the receipt or issue of any stores affected by this Act; and
 - (iii) all other matters and things whatever necessary for the due performance of his functions;

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

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

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

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

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

- (a) any irregularities have occurred in the collection, custody or expenditure of public moneys or in the accounting for the same;
- (b) any irregularities have occurred in the receipt, custody, issue, sale, transfer

or delivery of any stamps, securities, stores, or other property of the Crown or in the accounting for the same;

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

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

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

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

examine the accounts of any person or organisation

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

- (ii) in respect of whom Financial aid from the Crown is sought,

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

- (2) Where the Minister fails within a reasonable time to present the report referred to in subsection (1) to the House of Assembly the Auditor General shall transmit the report to the Speaker of the House of Assembly to be presented by him to the House of Assembly.

42. (1) The Auditor General may, subject to approval by the Minister, charge a fee for auditing the accounts of a person or body whose expenditure is not met from the Consolidated Fund.

- (2) Any fees received by the Auditor General under subsection (1) shall be credited to the Consolidated Fund.

43. (1) The Auditor General may engage the services of professionally competent persons to assist in the conduct of audits, and payment for such services shall be charged on the Consolidated Fund.

- (2) Where under subsection (1) the Auditor General engages a private auditor to conduct the audit of a Government entity, the auditor of the entity shall make available all working papers and other documents to the Auditor General.

44. The Audit Office shall consist of the Auditor General and such other officers and employees as are assigned to him.

Theft and Losses Reported to the Auditor General

The following reports of missing funds were submitted to the Auditor General during 2008:-

Ministry/Department	Amount Reported Missing/Stolen \$
General Post Office	20,139.86
Post Office - St. Thomas	10,817.17
Total	30,957.03

Statement of Revenue Remitted

Section 21 (2) of the Financial Management and Audit Act, 2007-11 reads as follows:

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

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

A Statement of Sums Waived during the financial year ended 31st March, 2008 was submitted by the Ministry of Finance. The Statement comprises a waiver of levies, taxes, duties, and penalties. It was however not possible for the Audit Office to verify this Statement, which follows: -

Department	Tax	Amount \$
Land Tax	Penalty	265,169.52
	Interest	1,267,474.77
	Relief Granted	143,561.46
Corporate Affairs and Intellectual Property Office	Property Transfer Tax	1,854,600.00
	Stamp Duty	742,340.00
Customs Division		1,256,456,769.29
Land Registry	Property Transfer Tax	647,555.49
Inland Revenue		630,164.58
Total Tax Remitted		1,262,007,635.11





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