

BARBADOS AUDIT OFFICE



REPORT
of the
AUDITOR GENERAL
for the year
2004

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Report of the Auditor General for the year 2004

CHAPTER 1

Introduction

This is my Annual Report to the House of Assembly for 2004. It is a compilation of the results of the audit of accounts of the ministries, departments and state agencies which are required to be audited in accordance with the provisions of various statutes. It has been prepared for laying in the House of Assembly in accordance with Section 113 of the Constitution of Barbados and Section 28 (3) of the Financial Administration and Audit Act, Chapter 5, hereafter referred to in this Report as F.A.A. Act, Cap. 5.

1.2 I have examined the accounts of the ministries and departments of the Government of Barbados and the financial statements of the Accountant General for the year ended March 31st 2004. I have also examined the accounts of such other public authorities or regional agencies as prescribed by law or agreement.

1.3 The Report is designed to bring to the attention of Parliament those matters arising out of the audits which are considered to be significant. It is divided into six chapters that address areas of audit activity as indicated below:-

- Chapter one highlights the mandate of the Audit Office and the various legislative authorities under which the Office is required to carry out its functions. This chapter also informs of staff training activities and conferences at which the Office was represented.
- Chapter two is a summary of the results of the examination of the financial statements of the Accountant General. Audit findings and recommendations are included.
- Chapter three highlights the observations of the Office with respect to general issues facing ministries and departments. The chapter also contains audit findings and recommendations.
- Chapter four is a special report on the Barbados Tourism Authority. This audit was carried out at the request of the Ministry of Finance.
- Chapter five is a special report on the activities of the Urban Development Commission. This audit was also requested by the Ministry of Finance.
- Chapter six consists of the results and findings of the audits of statutory boards, regional and other Governmental agencies.

1.4 The appropriation and revenue accounts of ministries and departments and the financial statements for the year ended March 31st 2004 are published as an independent volume.

Audit Mandate

1.5 Section 113 of the Constitution of Barbados requires the Auditor General, at least once in every year, to audit and report on the accounts of the Supreme Court, the Senate, the House of Assembly and all departments and offices of the Government. The mandate of the Office is further outlined under Section 26 of the F.A.A. Act, Cap. 5.

1.6 In accordance with Section 26 of the F.A.A. Act, Cap. 5 the Auditor General shall:-

- *be responsible for the audit and inspection of all public accounts whether such accounts are of general revenue paid into, and expenditure met from, the Consolidated Fund, or of special funds or departmental accounts and statutory bodies which receive all or part of their funds from the Consolidated Fund;*
- *apply to the public accounts such 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;*

- *satisfy himself that all standing instructions, enactments and other laws of Barbados relating to finance and accounts are strictly observed; and*
- *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 the Act.*

1.7 It should be noted that the Office of the Auditor General does not audit the accounts of all statutory agencies as required under Section 26 of the F.A.A Act, Cap 5. Some statutory entities, in accordance with the various Acts under which they are incorporated, also have the authority to appoint auditors. In these circumstances, the audits are generally conducted by auditors recruited from the private sector.

1.8 The Auditor General can however carry out examinations into the economical, efficient and effective use of resources of any ministry, department or any other entity required to be audited by him.

1.9 Section 11 (2) of the F.A.A. Act, Cap. 5 requires the Auditor General to submit to the House of Assembly a Statement of Revenue Remitted. The Statement of Revenue remitted is shown at Appendix 1.

Scope of Audit

1.10 The F.A.A. Act, Cap. 5 places the onus for the proper discharge of financial administration and the preparation of financial statements on the Accountant General and Accounting

Officers of the ministries and departments. It is the Auditor General's responsibility to form an independent opinion on the financial statements of Government, based on the audits carried out by his Office.

1.11 The audits were conducted in accordance with the Constitution of Barbados, the F.A.A. Act, Cap. 5 and other applicable laws, rules and administrative directives, applying generally accepted auditing standards.

1.12 The audits were not designed to disclose every error in the accounts but to ascertain whether the accounts were kept using acceptable systems, were punctually and properly posted, that checks against irregularities and fraud were adequate and effective and to give reasonable assurance that the financial statements are free of material misstatements.

1.13 The audits were also designed to evaluate internal control issues and efficiency in the use of resources by ministries and departments. The management of these entities have a responsibility for ensuring that adequate control systems are put in place to minimize risks from fraud.

1.14 I can report that in exercising my auditing and reporting functions, I was not subjected to the direction or control of any person or authority.

Office Activities

1.15 Financial Audits - The appropriation and revenue accounts of the Consolidated Fund were examined. There were however a number of special audits that were not completed at the time of preparing this Report. These related to statutory boards that had not submitted their accounts for audit in a timely manner.

In addition, there were a few audits from ministries and departments that had commenced but had not been completed.

1.16 Other Audits - The Office has been given a mandate to conduct examinations into the economical, efficient and effective use of resources in ministries and departments and other audit entities. In this regard, a number of special audits were conducted during the course of the year. These audits related to the Urban Development Commission, the Rural Development Commission and the Barbados Tourism Authority. The findings of two of these audits are included in this Report.

Financial Management Reform

1.17 The Government of Barbados has been pursuing a number of reforms to its financial management system over the past few years. One of the more recent reforms has been the computerization of the accounting process through the use of the Smart Stream computer program. This change has yielded significant benefits in the financial management and accounting process for ministries and departments.

1.18 Following the initial teething problems that were experienced, the system has contributed to more accurate accounts being prepared and to a more timely preparation of the appropriation accounts of central Government. Over the years, it was customary for the Audit Office to be reporting on the non submission of revenue and appropriation accounts by ministries. In the current financial year, only the accounts of the National Disability Unit has not been submitted for audit examination.

Accrual Accounting

1.19 The Minister of Finance recently announced that the accounting system of the Government of Barbados will be moving from a cash basis to an accrual basis and this has a number of implications with respect to the accounting and reporting on the operations of Government.

1.20 Under the cash basis of accounts transactions are recorded when payment is made or when cash is received. This system, while considered simple to maintain, is not designed to provide information relating to assets and liabilities. The picture of Government's financial position is therefore not complete under this system of accounting.

1.21 The Government financial operations of a number of countries, notably New Zealand, Australia and Sweden are now conducted using the accrual accounting system. Revenue is recorded when earned and expenses are recorded when the good or service is provided. In addition, Government's assets and liabilities are properly accounted for, financial reports are more meaningful and should allow for better planning and decision making. It is a more complex system to operate, but it has certain advantages over the cash based system.

1.22 Accrual accounting should ultimately lead to a consolidation of the financial statements of all Government owned or controlled entities at the end of an accounting cycle. This would provide a comprehensive overview of the total financial resources and liabilities for which Government has responsibility.

1.23 The Audit Office supports this initiative and is currently represented on the Steering Committee charged with the responsibility for its implementation.

1.24 Accrual accounting is normally associated with the private sector where profitability is used as a performance measure. It is recognized however, that Government's focus in

many of its operations, is not to make a profit but to provide certain essential goods and services for its citizens.

1.25 It is further recognized therefore that while introducing accrual accounting will provide significantly more financial information than currently exists, it would be more meaningful if linked to other reform initiatives, such as a change in the preparation of budgets focusing more on the measurement of outputs.

1.26 The current reporting systems of Government which focus on comparing actual revenue and expenditure with estimated revenue and expenditure, may be considered deficient. As observed in some other jurisdictions, the preparation of estimates of ministries and departments is now geared toward achieving clearly defined objectives. Performance is therefore judged on the extent to which those objectives have been achieved.

1.27 Adoption of this system of operation would assist in making managers of Government funds more accountable. It would allow stakeholders such as Parliament to more adequately assess the performance of ministries and departments and it would facilitate the Audit Office in being better able to conduct performance audits.

1.28 A move in this direction has been observed as the Ministry of Finance has requested ministries and departments to report on their performance when submitting the 2005-06 Estimate requests.

Public Accounts Committee

1.29 The Audit Office was invited to two meetings of the Public Accounts Committee during the year. The Auditor General and Deputy Auditor General attended both meetings. The Office was requested to outline its role in the operations of Government

and some discussions were held on aspects of the 2003 Auditor General's Report.

1.30 I would like to thank the Committee for its invitations to these meetings and would like to reiterate that the Office stands ready to assist the Committee in carrying out its functions.

Training

1.31 Mr. Leigh Trotman, Deputy Auditor General, attended a workshop on Auditing in a Computerised Environment sponsored by the Caribbean Public Finance Association and the Caribbean Regional Technical Assistance Centre (CARTAC). The workshop was conducted during the period 3rd to 4th February 2004 in Port-of-Spain, Trinidad.

1.32 A number of officers were granted short periods of study leave. This was to facilitate their attendance at the Cave Hill Campus of the University of the West Indies while pursuing studies in accounting and other disciplines. Leave was also granted to allow officers to prepare for professional accounting exams.

Acknowledgements

1.33 Sincere appreciation is extended to members of staff for their support throughout the year. The support and cooperation of Accounting Officers, Heads of Departments and their staff is also appreciated.

CHAPTER 2

Financial Statements of the Accountant General

Statutory Requirements

The financial statements of the Accountant General, for the year ended March 31st, 2004, were submitted in accordance with Section 12 (2) of the F.A.A. Act, Cap. 5 which requires the Accountant General to prepare, sign and submit, to the Auditor General, within four months after the close of the financial year, the following statements:-

- Annual abstract account of receipts and payments of the Consolidated Fund and of other receipts and payments;
- A detailed statement of revenue actually paid into the Consolidated Fund as compared with the estimates of revenue;
- A detailed statement of capital expenditure;
- A statement of the current assets and liabilities of the Crown at the end of the financial year;
- A statement of advances and loans outstanding at the end of the financial year;

- A statement of public debt and sinking funds;
- A statement of special funds.

2.2 The statements listed above were received from the Accountant General on July 14th 2004. This is within the prescribed time established by statute.

2.3 My analysis and observations relating to the audit of these statements are listed below.

Other Statements

2.4 In addition to the statements listed above, the Accountant General submitted other statements as follows:-

- Statement of cash flow;
- Statement of Consolidated Fund;
- Statement of loans and credits guaranteed by Government;
- Detailed statement of total expenditure.

Abstract Account of Receipts and Payments

2.5. The Abstract Account of Receipts and Payments is a summarized statement of all receipts and payments of the Consolidated Fund, and all other accounts maintained by the Accountant General. This includes receipts and payments relating to Temporary Borrowing from the Central Bank, the issue and

redemption of Treasury Bills and transactions relating to loans and advances.

2.6 This account also shows the total cash and bank balance in the Treasury Department as at March 31st 2004. The balance was shown as \$93,447,348 and this compares to a balance of \$101,679,527 as at March 31st 2003, a reduction of \$8,232,179.

2.7 The cash and bank balances at March 31st 2004 were made up as follows:-

	\$	\$
Cash at Treasury	377,652	
Treasury bank accounts	8,588,052	
Special deposit accounts	128,211,413	
Special funds and other deposits	<u>46,951,194</u>	184,128,313
Less:		
Payable orders not presented (Paymaster a/c)		<u>(90,680,966)</u>
Ending Cash Balance		<u>93,447,348</u>

Consolidated Fund

2.8 The Consolidated Fund is the main Fund of the Government of Barbados into which all revenues are paid. Revenue means all levies, taxes, rates, duties, fees, penalties, forfeitures, rents and dues, proceeds of sale and all other receipts of the Crown from whatever sources arising, over which Parliament has the power of appropriation but does not include the proceeds of short term loans. Expenditure comprises those charges arising by virtue of any of the provisions of the Constitution or any

other enactment and also other amounts as approved by Parliament.

2.9 In the financial statements, revenue is classified as either current revenue or capital revenue. Revenue from all sources with the exception of the proceeds of medium and long term loans is categorized as current revenue. The loan proceeds as referred to above are categorized as capital revenue.

2.10 For the three financial years commencing April 1st 2000 and ending March 31st 2003, current revenue collections remained constant at approximately \$1.72 billion. For the current financial year however, there was an increase of \$140.0 million with current revenue moving to \$1.86 billion. The main contributing factors were increases in revenue from taxes on goods and services, and taxes on international trade of \$116.4 million and \$34.0 million respectively.

2.11 Capital revenue was reported to be \$270.2 million and this was \$159.4 million less than that reported for the previous financial year.

2.12 Total Consolidated Fund expenditure for the year amounted to \$2,340,989,694 and this comprised capital expenditure of \$254,301,488 and current expenditure of \$2,086,688,206. When compared to the previous financial year total expenditure increased by approximately \$78.9 million. It was noted that debt amortization payments, grants to public institutions and retiring benefits expenses increased significantly by amounts of \$78.3 million, \$132.7 million and \$18.7 million respectively.

2.13 The Consolidated Fund deficit for the year was \$189,902,683 compared with a deficit of \$96,522,226 for the previous financial year.

2.14 A summary of the Consolidated Fund revenue and expenditure is as follows:-

	\$	\$
Current Revenue	1,865,693,324	
Capital Revenue	270,240,247	
Annexed Revenue (Post Office)	<u>15,153,440</u>	
Total Revenue		2,151,087,011
Current Expenditure	2,086,688,206	
Capital Expenditure	<u>254,301,488</u>	
Total Expenditure		<u>2,340,989,694</u>
Deficit		189,902,683

Statement of Current Assets and Liabilities

2.15 The accounts of Government are maintained on a cash basis and as a result the values of fixed assets such as property, plant and equipment, furniture, fixtures and other inventory are excluded from the statement of current assets and liabilities. Also excluded from the statement are long term liabilities, amounts due to creditors for goods and services received but not yet paid for and accounts receivable.

2.16 The statement of current assets and liabilities therefore represents a list of Government's cash holdings, fund deposits, advances and short term loans. Current assets and current liabilities are shown as \$294.6 million and \$660.5 million respectively. The net liability represented by the Consolidated Fund accumulated deficit was therefore \$365.9 million.

Statement of Advances and Loans

2.17 The statement of advances and loans shows the outstanding amounts due to Government declining by \$54.5 million from an amount of \$248,849,901 as shown in the previous year. The main contributing factor to the decline was the repayment of loans totalling \$50 million by the Public Enterprise Investment Fund on behalf of Grantley Adams International Airport Inc. and Needham's Point Holdings.

2.18 Amounts shown as advances represent sums of money advanced by Government to state agencies and other Governments and Administrations. The total advances at the end of the year was \$5.6 million down from \$7.09 million in the previous year. An amount of \$854,113 advanced to the Caribbean Meteorological Institute was written off during the year. In addition pension advances made on behalf of the Barbados Water Authority declined by \$762,574. These were the main factors contributing to the decline in advances.

Non Repayment of Loans

2.19 The loan agreement between the Caribbean Broadcasting Corporation and the Government of Barbados in respect of a loan of \$20,609,446 stipulated that interest and principal payments shall commence on October 31st 2003. The interest rate was fixed at 7.25% per annum on the reducing balance accruing daily. As at March 31st 2004 no payments had been made on this loan and interest arrears amounted to \$1.82 million.

Statement of Public Debt And Sinking Funds Investments

2.20 The outstanding public debt of Barbados at March 31st 2004 stood at \$4.2 billion and was made up as follows:-

	\$
Loans raised under the Local Loans Act	2,065,255,150
Loans raised under the External Loans Act	780,642,771
Caribbean Development Bank Loans	144,078,626
Inter-American Development Bank Loans	351,459,051
Loans raised under the Special Loans Act	170,165,711
Savings Bonds	112,405,121
Treasury Bills and Tax Certificates	<u>587,725,735</u>
Total Outstanding	<u>4,211,732,165</u>

2.21 In addition to the above, loans guaranteed by Government were reported to be \$389,601,033. This amount is however short-stated by \$25.0 million as the proceeds of a bond issue raised by the Barbados Tourism Authority and guaranteed by Government has been omitted.

Sinking Fund Investments

2.22 Certain specified amounts are invested to assist in the redemption of securities issued under the Local Loans and External Loans Acts. The total investments as shown at March 31st 2004 was \$370,665,578.

Errors and Omissions

2.23 A number of errors and/or omissions were discovered in the public debt accounts. Examples are as follows:-

Tax Reserve Certificates

2.24 The amount outstanding as Tax Reserve Certificates on the Statement of Public Debt was \$4,003,000 this figure was understated by \$886,000 as it excluded a certificate issued in March 2004. The certificate was however brought to account in the following financial year.

Loans from the Republic of China

2.25 Included in the Special Loans Act schedule are three loans from the Republic of China, the balances of which are incorrect as a result of some errors and omissions. They include the following:-

- A principal repayment made in May 2003 for \$491,551.81 was omitted from the records.
- In July 2003, a principal repayment of \$386,744.01 was recorded under the wrong loan.

2.26 In addition to the above, the Treasury Department was unable to account for all transactions pertaining to these loans from the Republic of China. All the information relating to loan disbursements was not readily made available and negatively impacted on the accounts being properly maintained.

2.27 Timely and accurate information needs to be made available to the Treasury in order to ensure that the public debt balance is accurately reported.

2.28 A number of outstanding loans included in the schedule for Loans raised under the Special Loans Act, Cap. 105 are considered to be incorrectly classified. The loans referred to are contingent liabilities taken over by Government as a result of the inability of the borrowing entities to service their debts. They include the following:-

Borrower	Amount Outstanding \$
Barbados Transport Board	8,724,786
	17,872,886
	9,000,000
	1,000,000
Barbados Agriculture Management Company	8,500,000
	12,000,000
National Housing Corporation	7,500,000
Total	64,597,672

2.29 It is recommended that guaranteed loans taken over by Government should be separately identified and classified.

Appropriation Accounts

2.30 Sinking Fund contributions of \$1,127,437.50 were incorrectly posted to foreign debentures interest account. This resulted in the debenture interest account being over-stated by \$1,127,437.50 and the Sinking Fund contribution account being short-stated by a similar amount.

Bank Reconciliation

2.31 The Accountant General maintains current accounts with the Central Bank of Barbados (CCB), The Barbados National Bank (BNB) and First Caribbean International Bank (FCIB). Issues relating to the reconciliation of these accounts are as follows:-

Central Bank Account

2.32 A reconciliation statement as at March 31st 2004 was submitted for audit review. The statement revealed a number of discrepancies that exist between the records of the Accountant General and the records of the Central Bank. The discrepancies occurred during the period October 2000 to February 2004. Efforts should be made to have them satisfactorily resolved

2.33 The differences include withdrawals not recorded by the Accountant General which are in excess of \$1.8 million and deposits not recorded which are in excess of \$6.8 million. Included in these deposits is a transaction of \$4.48 million referred to in my Report of 2003 as warranting investigation and resolution.

Barbados National Bank

2.34 A reconciliation statement as at March 31st 2004 was submitted. Similar to the Central Bank Account, differences exist between the Accountant General's records and the records of the Barbados National Bank that needs to be resolved. Deposits not recorded by the Accountant General are in excess of \$1.7 million and these transactions date between April 2000 and February 2004.

First Caribbean International Bank

2.35 The account with First Caribbean International Bank was not reconciled as at March 31st 2004. The Accountant General reported experiencing great difficulty in reconciling the account. It is recognized however that efforts are being made to resolve the issues contributing to the problem.

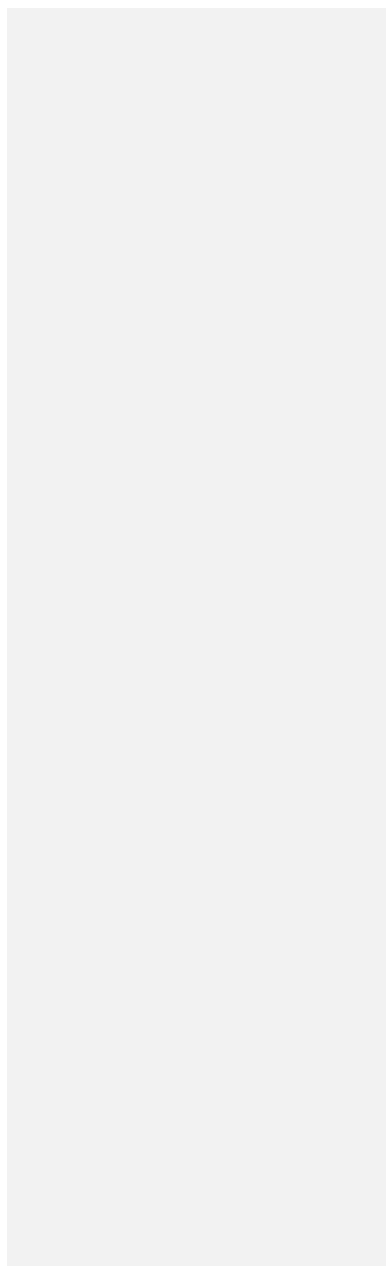
2.36 It is important that efforts are made to ensure that the reconciliation of all accounts are kept up to date.

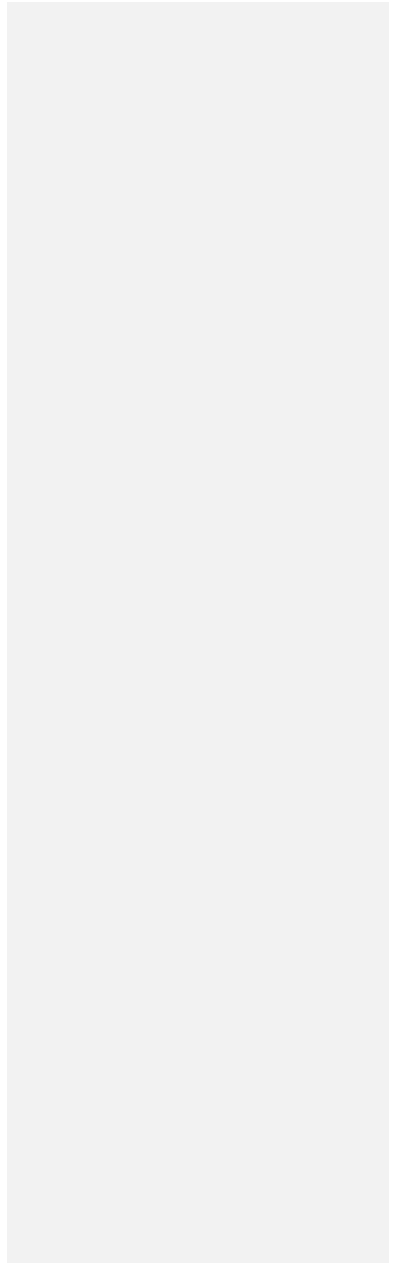
Revenue and Expenditure Analysis

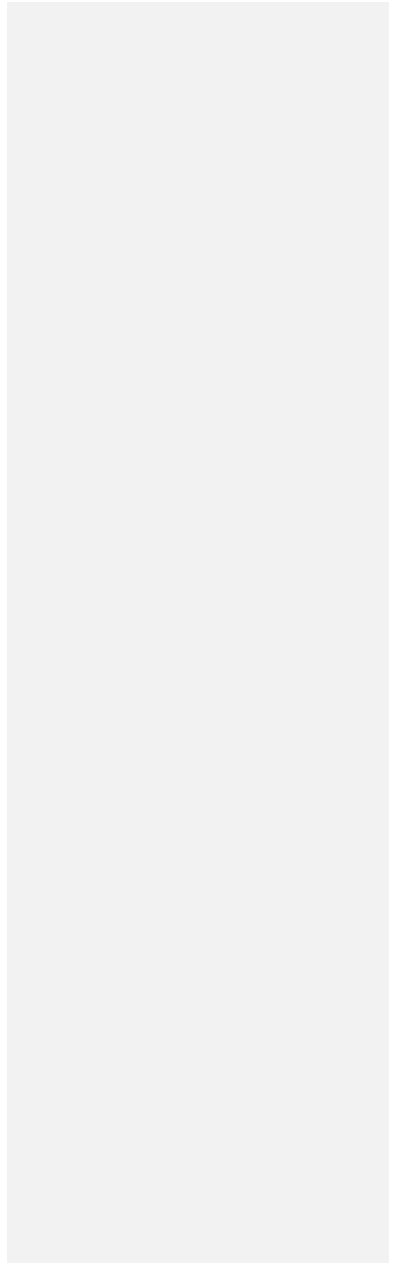
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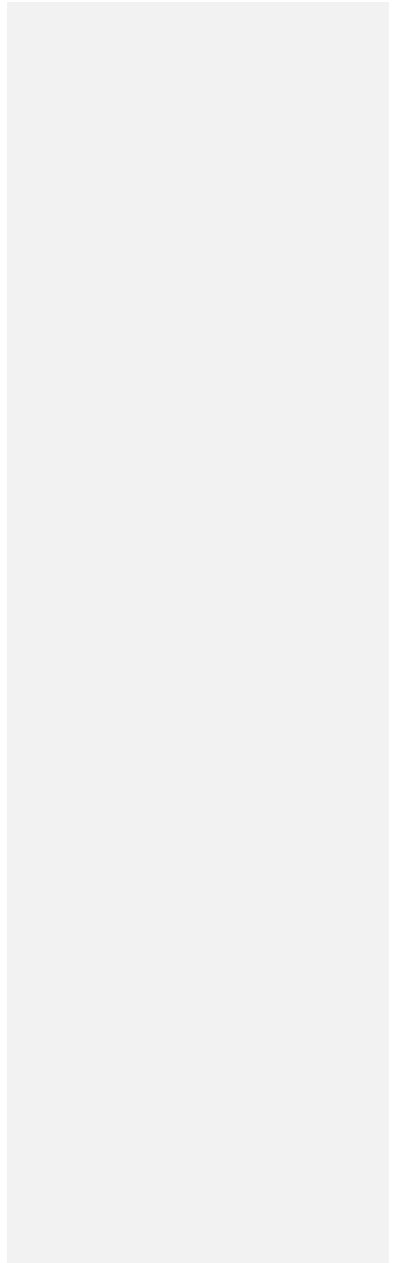
Following are charts that show:-

- Main sources of revenue
- Distribution of actual expenditure according to Ministries
- Distribution of actual expenditure according to main object classification.









CHAPTER 3

General Audit Concerns and Observations

This chapter highlights general accounting concerns observed during the course of the audits of Ministries and Departments.

Post Office

3.2 An examination of the relevant records at various district post offices for the year under review revealed a number of instances where the officers responsible for cash were short by significant amounts.

3.3 Surprise examinations were not conducted in a timely manner at many district post offices. There was also no evidence that the shortages were reported to the Director of Finance and Economic Affairs, the Auditor General and the Accountant General in accordance with Section 93 (1) of the Financial Rules.

3.4 Revenue earned by the Post Office has been declining in recent years. This may be attributed to competition from other entities including the transmission of information via the internet. Revenue earned for the current year was \$15.15 million.

3.5 The Post Office has indicated that arrears of revenue for the financial year was \$238,591.23. This figure could not however be verified as no supporting evidence was made available for audit inspection.

Psychiatric Hospital

3.6 A review of pay-sheets and other payment records of the Psychiatric Hospital revealed that there was a high number of short and overpayments during the year. The Hospital needs to strengthen its internal checking to ensure that information relating to salaries and wages is accurate and that calculations are verified prior to payments being made.

Ministry of Public Works

3.7 An audit of the materials/stores management systems employed at various depots of the Ministry of Public Works and Transport revealed instances of poor materials management at the depots. Balances determined by the physical check could not be reconciled with the records of the depots and could not therefore be verified.

3.8 At one depot, gabion baskets stored at the depot were overgrown by vegetation and appeared to be unused for several years. There was evidence to indicate that 2,060 additional gabion baskets costing approximately US\$131,737.00 were purchased by the Ministry for this depot during the period under review.

3.9 It was explained that storage was such that new stocks were more readily accessible for use, hence the older stock was being bypassed. This method of operation is unacceptable as it leads to obsolescence and wastage.

3.10 It is recommended that materials should be ordered in manageable quantities and, especially for materials stored outdoors, consideration should be given to employing the first in first out basis in order to avoid wastage and losses due to outdoor exposure and vegetation overgrowth.

3.11 It was evident from our review that sufficient care and attention is not given to the proper maintenance of stock records at depots. It was also observed that there is some unfamiliarity with the requirements of the Financial Rules with respect to the keeping of and accounting for stores.

3.12 Lack of proper records and inadequate supervision signify weaknesses in internal control procedures. Such deficiencies leave the system open to abuse and unless steps are taken to address the problem the situation could get progressively worse. Immediate action should be taken to recognize the deficiencies observed and to make improvements to the systems in operation at the depots.

3.13 Other substantive findings during the audit related to overpayments. In one instance a contractor was overpaid \$108,325.80 when value added tax was added to a contract price that was already VAT inclusive. In another instance the Ministry paid twice for the same service resulting in an overpayment of \$21,214.05.

3.14 The Ministry has been advised to recover the overpayments as indicated above. They should also ensure that systems are in place to prevent a repeat of these types of errors.

Ministry of Housing and Lands

3.15 The Ministry of Housing and Lands reported arrears of revenue for the financial year ended March 31st 2004 of \$1,385,366.28. This was down from the previous year's arrears of \$2.0 million.

3.16 One firm was reported as the largest single debtor to the Ministry with arrears in excess of \$290,000.00. This represents seven years rental arrears. There were several other tenants who were also years behind in paying their rents.

3.17 This Ministry has indicated that a vigorous exercise is being undertaken by the Property Management Section in conjunction with the Legal Unit Section to deal with the high outstanding arrears.

3.18 When compared to previous years, it is recognized that the Ministry of Housing and Lands has made some progress in reducing the arrears due by tenants. The Ministry should ensure that the effort to reduce the receivables is sustained.

Customs Department

3.19 The arrears of revenue statement submitted by the Customs Department showed the arrears outstanding at March 31st 2004 as \$108,875,805. The figure was up \$15.9 million from the previous year total of \$92,927,548.

3.20 The Value Added Tax component of the arrears was \$107,641,203. Included in this amount is a total of \$12,575,014 which represents an estimate of the tax due by business entities that failed to file VAT returns. Despite taking measures such as garnishments, the level of arrears for this department continues to rise to unacceptable levels.

3.21 The departments needs to examine all options available in terms of dealing with the increasing receivables and, it should take firm action to reduce the outstanding balances to acceptable proportions.

Land Tax Department

3.22 The arrears of revenue for the Land Tax Department were reported as \$102,850,559 at March 31st 2004. This was \$1,160,607 less than reported at March 31st of the previous year. Despite this modest improvement the amount of arrears due to the Land Tax Department remains very high. The Department needs

to reassess its collection efforts in order to make them more effective.

Inland Revenue Department

3.23 The Inland Revenue Department reported arrears as at March 31st 2004 of \$141.6 million. \$25.6 million was reported as corporation tax and \$115.9 million was reported as due by individual tax payers. The total of \$141.6 million is compared with \$143.8 million for the previous year.

3.24 These arrears would include amounts that are unlikely to be collected. The department should therefore review its collection strategies to ensure that amounts shown as outstanding are properly managed.

General Comments on Arrears

3.25 For several years this Office has been commenting on the high level of arrears of revenue owed to Government departments. The total arrears as shown on the arrears statements was in excess of \$353 million. The true position is however not known as several Government entities fail to submit returns in accordance with the requirements of the Financial Rules. Those in breach of the Rules include the following:-

- Ministry of Agriculture and Rural Development
- Registration Department
- Corporate Affairs and Intellectual Property
- Land Registry
- Government Printing Department

- Ministry of Health
- Ministry of Public Works and Transport
- Ministry of Home Affairs
- Telecommunications Unit.

3.26 Ministries and Departments need to improve their information systems, not only for audit purposes, but also to assist them in being able to properly manage their receivables. It is an unacceptable situation when a revenue department is not in a position to determine and quantify their receivables.

3.27 Given the high level of arrears and the difficulty that has been experienced in their collection, it may be necessary to consider setting up of a debt collection unit. The longer amounts due remain outstanding, the greater the risk of them not being collected.

3.28 As Government seeks to transform its accounting system from a cash based system to an accrual basis, it will be necessary for revenue departments to be able to generate timely and accurate data since under the accrual system these outstanding amounts must be included in the end of year balances shown on the financial statements. It is therefore imperative that ministries and departments maintain up-to-date records.

CHAPTER 4

Special Report on the Barbados Tourism Authority

The Ministry of Finance in March 2004, requested the Barbados Audit Office to conduct a special audit on the financial practices and current financial position of the Barbados Tourism Authority (BTA) and this has been the focus of the audit. The Barbados Audit Office is empowered to conduct such an audit in accordance with Section 21 (2) of the Barbados Tourism Authority Act, Cap. 342.

Background Information

4.2 The Barbados Tourism Authority (BTA) is a body corporate established under Chapter 342 of the Laws of Barbados. The main functions of the Authority are to promote, assist and facilitate the efficient development of tourism in Barbados. These functions are carried out primarily through designing and implementing suitable tourism marketing strategies and making provision for adequate air and sea passenger transport services to and from Barbados.

Scope of the Audit

4.3 The audit involved a review of the financial statements for three financial years ending March 31st 2004, other financial information, budgets, Board minutes and contracts. Interviews/discussions were also conducted with personnel from the BTA, including the Directors of Finance and Human Resources, and the former President and Chief Executive Officer of the Authority.

4.4 The findings and conclusions included in this Report are based on information available up to June 30th 2004. It should be noted that the audit did not examine the effectiveness of the expenditure incurred by the BTA.

Audit Findings

4.5 The BTA received in excess of \$200 million in financing from the Government of Barbados during the three financial years commencing April 1st 2001 and ending March 31st 2004. During this time, expenses were not kept in line with the allocations as approved and the Authority had found itself in a precarious financial position. This was due in large part to unanticipated expenditures incurred in financing the “Best of Barbados” Program.

4.6 An analysis of the main factors leading to the above situation is as follows:-

Year Ending March 31st 2002

4.7 As at April 1st 2001, the beginning of the financial year, the audited accounts of the BTA showed outstanding payables of \$10.5 million. This effectively meant that \$10.5 million of the funds allocated for the year were not available for current year operations since it had to be used to meet outstanding obligations.

4.8 Revenue for the year exceeded expenses by \$7.3 million. Revenue received was \$62.5 million while expenses amounted to \$55.2 million. Notwithstanding this operating performance however, there was a working capital deficit of \$2.9 million at the end of the financial year.

4.9 Accounts receivable at March 31st 2002 was \$7.8 million. This included Government grants receivable of \$7.6

million. Accounts payable and accrued liabilities were shown as \$12.1 million.

Year Ending March 31st 2003

4.10 The audited financial statements for the financial year ending March 31st 2003 showed revenues of \$63.7 million and expenditures of \$74.9 million resulting in a deficit of \$11.2 million for the financial year.

4.11 Expenditure exceeded revenue primarily as a result of a number of unbudgeted activities being undertaken and a number of planned programs exceeding their budgeted allocations. The following are examples:-

- A \$300,000.00 subvention paid out, but not included in the budget. This expenditure was incurred as a result of a Cabinet decision and a subsequent directive from the Ministry of Finance. The intention was to reimburse the BTA by way of a supplementary.
- Expenditure of \$62.0 million with respect to marketing, public relations and promotional expenses as compared to budgeted amounts totalling \$53.2 million.
- The cost incurred for the “Best of Barbados” program for the year was approximately \$21.9 million while the funds received to finance the program was \$12.0 million.

4.12 The “Best of Barbados” program was explained by the BTA to be the centre-piece of a recovery plan agreed to by the

BTA and the Ministry of Tourism in response to the downturn in tourism resulting from the September 11, 2001 disaster.

4.13 The program involved the BTA effectively financing a portion of the visitors travel costs. This was achieved through arrangements being made with tour operators, a number of participating hotels and their guests who were all required to meet certain specified conditions.

4.14 Budgetary control appeared to be weak and the Authority was unable to accurately assess the expenditure that was likely to be incurred. There was no system in place that would allow the BTA to properly determine what its liabilities were likely to be.

4.15 The BTA acknowledged that the full cost of the program far exceeded the \$12 million they received to fund it. They also indicated that the Ministry of Tourism had agreed to provide an additional \$5.0 million to assist with reducing the substantial deficit that inevitably was incurred. The additional \$5.0 million was however never received.

4.16 As a result of concerns relating to the execution of the program, a firm of Chartered Accountants, was contracted by the BTA to conduct an audit. Certain observations made by them are included later in this report.

4.17 At the close of the financial year ending March 31st 2003, accounts payable of the BTA stood at \$15.1 million while liquid assets were \$1.1 million. The working capital deficit as at the end of the financial year was \$13.9 million. This was an increase of \$11.0 million when compared with a deficit of \$2.9 million at the end of the previous year.

Year Ending March 31st 2004

4.18 At the commencement of the financial year, April 1st 2003, the BTA's financial statements showed accounts payable of \$15.1 million and current assets of \$1.1 million. To maintain its budgeted program therefore, it was necessary for the BTA to secure funds at a level sufficient for them to meet their outstanding liabilities, and to finance operations for the current year.

4.19 Total funding of \$74.8 million was received for the financial year. This funding included grants from central Government of \$49.88 million and \$25.0 million by way of a bond issue. \$10 million of the bond proceeds was for securing new airline services and \$15 million was for assisting with regular operations. A deficit of \$10.1 million, as at the end of the financial year, was however projected.

4.20 In explaining the budgeted deficit, the BTA indicated that the outstanding liabilities of \$15.1 million had to be settled. In addition, the BTA incurred expenditure on a number of unbudgeted events as directed by the Ministry of Tourism. These events included expenditures on the following:-

	\$
• World Travel Awards	925,000
• 375 th Anniversary of Bridgetown Celebrations	376,020
• Tourism Awards	334,817

4.21 The BTA's records also indicated that the cost incurred in financing the "Best of Barbados Program" for that year was at least \$10.0 million higher than anticipated.

2004 - 2005 Financial Year

4.22 The BTA was informed that the Budget for the financial year would be \$55.7 million. This represented a reduction of nearly \$20 million when compared with the budget of the previous financial year. The BTA is however concerned that this reduced budget will impact negatively on tourism performance especially as it relates to programs to secure airlift and also on the Best of Barbados initiative. In addition, the BTA has indicated that the British pound and the Euro have appreciated an estimated 10% to 15% thereby reducing its spending power.

4.23 The BTA indicated that certain activities would be curtailed as a result of inadequate financing. Expenses for the first three months of the financial year were estimated to be \$21.0 million of which \$10.0 million was to be used for settling outstanding payables, \$7.7 million for marketing and \$3.3 million for administrative expenses. A total of \$14 million was however received.

4.24 It was explained that the “Best of Barbados” program is in place for the 2004 - 2005 financial year. It was further explained that the program is being executed with a reduced budget and a finite amount of packages to be offered to visitors. This is considered a prudent way to operate and manage the program.

Other Issues

4.25 There are a number of issues which have been impacting on the finances of the BTA. One issue relates to the level of accounts payable and is outlined as follows:-

Accounts Payable

4.26 The BTA has been carrying forward significant accounts payable at the end of each financial year. Balances brought forward with respect to the last three financial years and the balance carried forward as at March 31st 2004 are as follows:-

Date	Amount \$ million
April 1 st 2001	10.4
April 1 st 2002	12.1
April 1 st 2003	15.1
April 1 st 2004	15.6

4.27 This untenable situation has been causing serious concern for the BTA and unless rectified will continue to add to the financial difficulties of the Authority in the future. The budgets, as currently prepared, do not take these brought forward amounts into consideration and, until some positive remedial action is taken, the BTA will constantly find itself under pressure to meet its commitments as they fall due.

4.28 Correspondence sent to the Ministry by the BTA often speak of accounts payable impacting on the allocations for the subsequent year. It is evident however that no decisive action has been taken by the BTA to rectify the situation. The Authority responded as follows: -

... "while the BTA's internal budget estimates always reflect amounts to cover outstanding liabilities, the Ministry of Tourism on repeated occasions, has indicated that such amounts cannot be included in the estimates as they would be recovered through separate discussions between the Ministry of Tourism and Ministry of Finance officials."

Internal Control and Financial Management

4.29 The President and Chief Executive Officer of the BTA indicated that one of the major problems facing the BTA is the control of finances. He explained that the overseas offices spend substantial amounts of money but accounting for all transactions is done at the BTA's Head Office. The information however is not always processed on a timely basis and as a result management, both at head office and overseas, is not always in a position to ensure that expenditure is kept in line with the amounts budgeted.

4.30 Managing the BTA's finances has proven to be problematic for a number of years and this has been recognized by the BTA. In 2001 one accounting firm was hired to conduct a review of the completeness and accuracy of outstanding liabilities. Another accounting firm was hired to conduct an internal audit of the "Best of Barbados" Program and, in July 2001 the Board decided to engage the services of a consultant to examine the current accounting processes, and to make recommendations for improvement in the financial and management reporting.

4.31 The BTA has been experiencing cash flow problems for a number of years and, in addition to those issues referred to earlier in this report, a number of other decisions made contributed to this state of affairs. Examples are as follows:-

- The Board, in August 2002, before securing the necessary funds, agreed to marketing support of \$2.5 million, over a 3 year period, for a tour operator to increase its volume of passengers to Barbados and to increase flights from 5 to 8 per week. The first payment due of \$1.0 million could not be settled until the succeeding financial year.

- As outlined in the minutes of August 2001, the Board was informed of the BTA entering into an agreement with an airline for the re-establishment of a service to Barbados commencing in November 2001. After making the decision, the Board decided that supplementary funding of Bds\$500,000 should be sought to fund the project and associated guarantee.
- In the last three financial years there were instances of inadequate budget preparation and control. Actual expenditure was consistently as much as 50 to 90% higher than the budgeted amounts for utilities, travel and stationery/office supplies. There was also significant over spending on public relations, subscriptions, and professional fees.

4.32 With respect to the agreements mentioned above the BTA responded by stating the following: -

... "these arrangements were executed with the sanction of the Ministry of Tourism which advised of its intention to secure the additional funding required."

... "it must also be acknowledged that the BTA for almost two years functioned without a qualified Financial Controller and local accounting staff lacked the requisite experience to manage a large global accounting system."

Audit of “Best of Barbados” Program

4.33 With respect to the “Best of Barbados” Program, the report submitted by a firm contracted to carry out the audit indicated that the accounts department of the BTA was not vigilant in processing the claims submitted.

4.34 The report identified a number of deficiencies in the system. It stated that all claims submitted by participating tour operators and hotels were processed by the BTA but there were instances where some claims were not in compliance with the rules, regulations and criteria of the particular program.

4.35 Recommendations made by the auditors included the following:-

“Personnel at the BTA who are responsible for processing rebates/claims should ensure that all claims submitted to the BTA by participating tour operators and hotels comply with the rules, regulations and criteria governing each program.”

4.36 After consideration of the report, The Board of the BTA requested that management seek to recover amounts where appropriate.

Unbudgeted Separation packages

4.37 During the last three years the BTA met the cost of significant separation packages paid to a number of senior staff members who either resigned their positions or were made redundant. The separation packages, not included in the budgets, consisted of lump sum payments totaling in excess of \$600,000. This contributed to the BTA’s current deficit financial situation.

4.38 The separation packages were, in some cases, executed through agreements reached between the BTA and the officer(s) in question or his/her representative. The conditions agreed however did not always accord with the officers' employment contractual arrangements and, in certain cases, the payments were made contrary to Section 14 (1)(a) of the Severance Payments Act, Cap. 355A. In this regard a total of \$343,058.00 was paid to three officers. However, Section 14(1) (a) of this Act specifically excludes the payment of severance to officers employed in Statutory Boards.

4.39 Examples of the above are as follows:-

- The contract of employment for the Senior Vice President indicated that termination was subject to 3 months notice on either side. There was evidence that the officer resigned with almost immediate effect but was however paid six months emoluments in lieu of notice.
- The Director Marketing Services was paid a significantly enhanced severance pay and the BTA further agreed to apply to the relevant authorities for immediate payment of pension and gratuity. This however has not been paid to date.
- In accordance with the various specific agreements reached between the parties, other senior officers whose positions were made redundant, were paid amounts in lieu of notice, severance pay, other compensation monies, as well as pension and gratuity.

4.40 With reference to the above, the BTA indicated that the packages were discussed with the Minister/Ministry of Tourism and were based on business practice.

BTA's Response Re Deficits

4.41 The BTA has acknowledged finding itself in a precarious financial position. The explanations offered, specifically with reference to the persistent deficit situation, are as follows:-

Persistent deficits in the BTA are endemic and historical and are not unique to the last 3 years.

Persistence of these deficits is related to:

- *Sharp cuts in submitted estimates that often leave the institution in a precarious position to meet the new marketing challenges as well as to liquidate previous years' deficits.*
- *Short disbursements of funding by the Ministry of Finance as in the case of the Best of Barbados.*
- *The Board's investments in opportunities for building capacity in the form of new air services whether charters or scheduled and new tour operator alliances etc. These often go outside of normal operating payments, but are necessary to create a platform for growth. Arising out of a meeting with the Ministry of Finance on the question of the persistent deficit, it was*

recognized that the absence of a development budget and the idea of year to year budgeting is not in the best interest of a business from which we expect growth and on which we rely so heavily. As a result, a three year budget cycle was agreed by the Ministry of Finance for the very first time for the BTA on a test basis.

- *The matter of the financing of the BTA is one for careful study as the principal business of the country, which must not be subsumed in normal public sector financing, if the country is to maintain and optimize its economic objectives.*

Conclusions and Recommendations

4.42 The BTA has obviously experienced a deteriorating financial situation for which serious and urgent corrective action must be taken. There are areas of the BTA's operations that must be addressed in order to return to a state of financial stability.

4.43 It serves no useful purpose to have budgets that make no provision for known significant liabilities. As indicated earlier in this report, the BTA has been carrying forward substantial payables at the end of each year. As no provisions were made in the estimates for settlement of these liabilities, the resulting expenditure adversely affected the ability of the BTA to effectively implement its program while meeting past liabilities. It is important to ensure that all known liabilities are provided for.

4.44 Proposed spending relating to the various items of expenditure should be properly and realistically estimated and provided for in the budgets. In addition, efforts should be made to contain expenditure within the approved allocations and, at no

time should the BTA commit itself to expenditure beyond its available resources.

4.45 From time to time the Authority was asked to make substantial payments on behalf of the Ministry of Tourism and on occasions supplementary funding was promised but not received. Situations such as these contribute to the financial woes of the BTA and to cash flow difficulties being experienced. The BTA and the Ministry must cooperate with each other to ensure that the financial stability of the BTA is not jeopardized.

4.46 If, during the financial year, additional funding is required to finance programs not originally included in the budget, as was the case with the “Best of Barbados Program”, such programs, before implementation, should be properly evaluated, the cost determined and the source of funds identified either through reallocation of existing funds or by supplementary funding from Government.

4.47 There are a number of instances, as recorded in the minutes of the Board, where members expressed some measure of dissatisfaction with the financial data made available to them. In addition, the financial reports presented to the Board tended to be inadequate and often projected surpluses that were not achieved.

4.48 The BTA should review and revise, where necessary, its accounting systems and efforts should be made to ensure that financial information submitted to the Board is reliable, relevant and realistic, and made available in a timely manner. This would allow the Board and management to make better informed decisions.

CHAPTER 5

Special Audit Report on the Urban Development Commission

The Ministry of Finance in December 2003 requested the Barbados Audit Office to conduct a special audit of the financial affairs of the Urban Development Commission (UDC). The Barbados Audit Office is empowered to conduct such an audit in accordance with the provisions of Section 31 (1) of the Financial Administration and Audit Act.

Audit Scope

5.2 The audit review covered a number of activities of the UDC from its inception in August 1997 to March 31st 2004. **The audit did not examine the effectiveness of the expenditure incurred by the UDC.** The areas of activity audited included the following:-

- A. Housing Loan Fund;
- B. Enterprise Loan Scheme;
- C. Personnel; and
- D. Capital Works Program.

5.3 Matters relating to the poverty alleviation program and the acquisition of house spots will be issued in a separate report.

Comment [G1]: See Board minutes for date of 2nd meeting

Audit Objective

5.4 The objective of the audit was to determine whether the Urban Development Commission's programmes were being administered in an effective and efficient manner.

Audit Criteria

5.5 The audit criteria for assessing the above were as follows:-

- Application of the Urban Development Commission Act;
- Application of the administrative rules and decisions established by the Board of the Commission; and
- The employment of good business practices in ensuring expenditures were made on activities associated with the Commission's mandate and with due regard to efficiency.

Methodology

5.6 Interviews and discussions were held with the Director, and other members of staff of the UDC. Interviews were also conducted with the Permanent Secretary, Ministry of Social Transformation and officers of the Ministry of the Civil Service.

5.7 Applicable statutory instruments issued between the years 1997 and 2004 were reviewed along with accounting information, supporting schedules and correspondence to the Commission originating from the Ministry of the Housing, and the

Ministry of Social Transformation in respect of matters related to the Urban Development Commission.

5.8 Site visits were made to various projects and properties on which expenditure was incurred by the Commission. During these visits audit personnel were accompanied by members of staff of the Commission.

Background

5.9 In accordance with Section 6 (h) of the Urban Development Commission Act, the functions of the Commission are to encourage, promote and provide assistance in the development of economic activity and enterprise in urban Barbados. This is achieved through a number of activities that include the following:-

- providing housing loans;
- providing other loans to start up or assist small businesses;
- the construction and repair of houses through the Poverty Alleviation Programme;
- road repair and construction; and
- granting financial and technical assistance to persons living in urban areas for the purpose of acquiring house spots.

A. Housing Loan Fund

5.10 The Urban Housing Loan Fund was established by the Urban Development Commission for the purpose of carrying out its mandate as required under the Act. The Board of the UDC created this Fund at its second meeting held on September 24th 1997. The Fund was set up to function as a revolving fund providing loans to persons between the ages of 18 years and 65 years for the purpose of financing the following:-

- Acquisition of a house;
- Acquisition of a house spot;
- Construction of a house;
- Refurbishment of a house;
- Alterations, enlargement, repair or improvements to a house or other building; and
- Removal of a chattel house from one location to another.

5.11 Based on information provided by the UDC, approximately \$2.2 million, representing approximately 122 loans, have been disbursed to finance the projects as outlined above.

5.12 Loans were made available to persons residing in the area determined as urban by the Urban Development Commission Order, 1997. This Order, S.I 1997 No. 131 specified the boundaries within which the UDC should operate for the purposes of the Act.

Loan Eligibility and Approval

5.13 Initially, in order to qualify for a loan, the Commission required that the income of applicants not exceed an average of \$600.00 per week. This criteria was subsequently amended in March 1999 putting in place a maximum qualifying annual income of \$15,000.00 for all new loans. This policy has to date not been changed by the Board of the Commission.

5.14 A review of job letters, application forms, loan proposal documents and paysheets revealed that of the one hundred and seventeen loans examined, fifty-six loan applicants did not qualify for disbursement because they were earning incomes above the stipulated level.

5.15 In a number of cases, pertinent information was not included with the loan documents. For example, job letters for a number of clients were not on their respective files.

5.16 This information deficiency suggested that the Commission was not in possession of all relevant data for decision making before funds were approved and disbursed to applicants.

Commission's Response:

In his response the Director expressed the view that where a Board saw the social good as being more important than that of "in house" bureaucratic practices, that the Board had a duty to change those rules to achieve that social good and that the cases specifically highlighted by the auditors fell into this case.

Application of Default Interest

5.17 Interest on a loan is calculated on the outstanding balance as per the agreement between the two parties. The Housing Loan Program Regulations also make provision for a default interest of 3% above the lending rate to be applicable where the applicant has defaulted in the payment of an installment for ninety days or more from the due date. Default interest was not applied to several loans where installments were in arrears for ninety days or more as required by the Regulations.

5.18 The UDC's position on this issue however was that management had taken a conscious decision not to calculate the interest. This, they explained, was due to technical problems being encountered with the software. It was further stated that the effort to recoup the interest was more time-consuming than the actual benefit to the Commission.

Loan Arrears

5.19 It was determined from an examination of the loan statements that, as at March 31st 2004, the total arrears were approximately \$400,000. The records provided revealed that approximately 82% of the active loans were in arrears. Other issues relating to arrears of loans were as follows:-

- For several loans, the frequency of loan repayments was sporadic and a few loans were being serviced by amounts that were less than contractually agreed.
- No repayments were made with respect to eleven loans for which a total of approximately \$147,000 was disbursed. The oldest of these loans was disbursed over five years ago.

- Evidence was seen where efforts were made to collect outstanding monies through letters encouraging defaulters to either fulfil their obligation or to visit the UDC's Office to discuss the status of their loans. As at March 31st 2004 only one loan was referred to an attorney for legal action to be taken.
- The UDC has not utilized other means of collecting outstanding arrears, including the employment of debt collectors.

5.20 The evidence shows that the Urban Development Commission is not as efficient as it ought to be with respect to ensuring that clients meet their repayment obligations. The Commission's failure in this area of activity has an adverse effect on their ability to fully utilize the benefits of operating a revolving fund. In order to maintain the fund and continue to make disbursements, additional capital injections will be required.

Loan Security

5.21 Good business practice would dictate that the Commission should ensure that there is adequate loan security in place for all loans granted. A review of a sample of 27 loan files indicated that was not always the practice.

5.22 It was observed that there were at least two instances of salary deductions being considered security and one instance where a standing order was accepted. It was also observed that additional security for one of the above loans was recorded as the assignment of a fire insurance policy. No evidence was however produced to show that the house was in fact insured.

5.23 Not having adequate security in place increases the risk of the UDC in lending funds. In the event of such loans not

being serviced, the chances of UDC recovering the funds would be seriously jeopardized.

Insurance

5.24 The Housing Loan Program Regulations stipulate that a house in respect of which the loan is granted should be insured for an amount that is not less than the amount borrowed. The house should be insured against such risk as the Commission may decide and the policy is to be assigned to the Commission. For several loans however, no evidence of the houses being insured was seen.

5.25 The UDC informed that there were clients awaiting the completion of the transfer of title process and in those instances where there were no insurance policies the Commission gave the assurance that they would immediately have the cases rectified. Such assurance is readily accepted as properties without insurance increase the risk of loss of funds to the UDC.

Follow-up Procedures

5.26 It was observed that a payment of \$38,165.00 was made as a single disbursement to a contractor for the construction of a house. The house has not been built to date and a legal battle is apparently in progress between the borrower and the contractor. This risk of loss of funds to the UDC could have been minimized if the funds were released in installments.

5.27 The UDC should release funds in installments after being satisfied that progress fairly represents the value of any previous disbursement.

Errors on Loan Statements

5.28 The audit examination of a number of loan statements revealed some errors that could effectively result in incorrect interest charges being made, over/under charging of borrowers and possible loss of income to the Commission. The errors may be attributed to deficiencies in the accounting systems and weaknesses in internal control. Examples are as follows:-

- The records revealed that a disbursement of \$6,000 was omitted from a loan statement. The loan was shown as fully repaid without the \$6,000 being taken into consideration.
- Disbursements recorded for five loans were short stated by amounts totalling approximately \$29,500.00.
- Disbursements as recorded on a particular statement could not be verified as being made to the borrower.

5.29 The UDC acknowledged that clerical errors had occurred as the Commission attempted to convert its manual loan system to a computer based system. It was indicated that the issue continued to challenge the UDC but steps were being taken to rectify the situation.

Conclusions

5.30 Some of the above issues would have resulted from the personnel of the UDC not adhering to the Regulations of the Housing Loan Programme. Loans made to persons who do not qualify, limits the availability of funds that could be used to assist future eligible borrowers.

5.31 The UDC can ill afford to rely solely on the goodwill of its borrowers to repay. It is therefore necessary for them to ensure that every loan is covered by adequate security.

5.32 Urgent improvements are required in the management of the Housing Loan Program. This is required in order to minimize the risks associated with the lending of money and to ensure that the maximum benefit is gained in the pursuit of the program.

5.33 The loan Regulations must be adhered to and adequate security instituted for all loans. The high level of arrears has inevitably restricted the fund being operated as a true revolving fund and, as a consequence it has impaired the ability of the UDC to effectively carry out this aspect of its operations.

Recommendations

5.34 Recommendations are as follows:-

- The Regulations of the Housing Loan Programme should be adhered to when considering the approval of loans and the management of loans.
- All loans should be adequately secured to reduce the risk of loss to the UDC.
- The application of loan proceeds should be scrutinized, and where appropriate all loans should be disbursed in stages after confirmation that the previous disbursements have been utilised as intended.

- The UDC needs to take action, including instituting legal proceedings to recover outstanding amounts.
- The accounting system should be reviewed and revised to ensure that disbursements and repayments are accurately recorded and that interest charges are correctly applied. Efforts should be made to ensure that the statements sent to borrowers are not deficient.

B. Enterprise Loan Scheme

5.35 In accordance with Section 6 (h) of the Urban Development Commission Act, 1997 the Commission has a mandate “to encourage, promote and provide assistance in the development of economic activity and enterprise.”

5.36 The Enterprise Loan Scheme was established by the UDC with the stated objective of reducing unemployment in urban Barbados. A survey, undertaken two years before the Enterprise Loan Scheme came into effect, showed that 40% of the population reside in the greater Bridgetown Area and the area accounts for 48% of unemployed Barbadians.

5.37 During its seven-year tenure, the Scheme has attempted to facilitate the establishment and expansion of scores of businesses of varying types. Over 430 loans have been approved by the Commission with disbursements being made of over \$4.2 million.

Audit Observations

Loans Procedure

5.38 The Enterprise Loan Scheme’s Regulations require that all persons seeking loans should complete an application form. A loans officer is required to process the information and to make a written recommendation, through the Director, to the Board or the Finance and Loans Committee of the Board. The Board also gave permission for the Chairman and Director to approve loans with values not exceeding \$10,000.

5.39 The decision of the Board or Committee is communicated to the loans officer who in turn should inform the applicant of the decision. Where a loan has been approved, a directive is given to the accounts section by the Business Development Officer for the funds to be disbursed.

Unauthorized Loans

5.40 Audit examination revealed that persons received \$44,000 in loan funds under the Scheme **without ever completing an application form** and without being subject to any of the screening processes required.

5.41 The loans referred to above were not approved by the Board, the funds disbursed were unsecured, little or no personal information relative to the persons who benefited was recorded and quite significantly, at the time of writing no repayments have been made with respect to any of these loans.

5.42 It was explained by the Director of the UDC that a former Chairman and Deputy Chairman were responsible for all of the arrangements pertaining to these loans and the Commission Staff had little or no involvement.

Internal Controls Weaknesses

5.43 There were a number of instances that further highlighted the weakness or lack of internal control procedures at the Commission. These included the following:-

- Instances where applications were completed and funds disbursed without approval being given by the Board or Committee.
- Numerous instances where loan funds were disbursed without the appropriate authority being given to the accounts section by the loans officer.

- Cheques being prepared and issued with insufficient funds at the bank resulting in overdraft charges being incurred.

Security Issues

5.44 A number of loans were granted without the necessary security being in place. In some instances promissory notes and guarantee agreements had been drawn up but were not appropriately signed as required for the disbursement of loans to take place.

5.45 The UDC should ensure that appropriate security is in place before loans are disbursed. This includes signed promissory notes and agreements signed by guarantors accepting liability in the event that the borrowers fail to repay their loans.

Loans In Arrears

5.46 Arrears due to the UDC amount to over \$1,000,000 and this represents a quarter of the loan portfolio. There are currently over 175 defaulters.

5.47 There is evidence that some action is being taken against defaulters. This includes efforts to recover monies from defaulters through court action and bailiff services. The success of this is however minimal as the level of arrears has remained high for the past three years.

5.48 The high level of arrears outstanding has affected the extent to which UDC has been able to make funds available for lending. In the financial year ending March 31st 2003, over \$1.25 million was disbursed and in the following financial year the amount disbursed fell to just over \$0.25 million.

Loans Never Serviced

5.49 As at March 31st 2004, no repayments were made in respect of over fifty of the loans. The value of the funds disbursed amounted to \$509,400. The individual loans varied in amounts from \$1,500 to \$30,000 and no action to effect recovery had been taken against a number of these defaulters.

Follow-up Checks

5.50 The UDC approved some loans for the purchase of business stock and in other cases for business expansion. Based on audit fieldwork, some businesses could not be located and in one instance the business had been sold. Examples are as follows:-

- On February 21st 2003, a borrower received a loan of \$20,000 to purchase business stock. Audit personnel, along with an officer from the UDC, visited the business in May 2004. The business was under new management who indicated that they had taken over the operation since September 2003. That was approximately 6 months after the loan was disbursed. This loan was not being serviced.
- A borrower received \$25,000 for business operations. The business could not be found following a visit to the location with an officer from UDC. There is no evidence that the business ever existed and the loan has never been serviced.
- Two other loans in the amounts of \$25,000 and \$10,000 were granted to

finance setting up small business operations. The businesses could not be found following visits to the locations with an officer from the UDC. The loans are also not being serviced.

Businesses Failures

5.51 The status of a number of businesses that would have been expanded or were established with assistance from the Enterprise Loan Scheme was reviewed. With respect to viability, there was a failure rate of over 50% of the sample selected.

UDC's Response

5.52 In response to a number of the issues raised, especially those relating to unauthorised loans and breaches of internal control, the UDC management indicated as follows:-

The approval and disbursement of the kind of loans highlighted were carried out to the exclusion of authorized staff of the Urban Development Commission

During these periods of breaches and break-down in internal and other controls, (that is October to December 2002 and May 2003) the Director was not present at the Commission.

Every internal procedure established to direct the operations of the Urban Enterprise Loan Scheme was overruled, superseded, by persons other than the management and staff of the Commission.

UDC staff suffered humiliation by members of the Board, threats to their employment, coercion to act in capacities beyond their remit. Verbal abuse and threats of physical violence by persons accessing the Commission's services, commandeering of payment vouchers, applications to incur expenditure and cheque books by persons other than the accounting officer.

Conclusions

5.53 In its seven-year existence, the UDC approved a large number of loans for the establishment and expansion of businesses. The ultimate goal of the UDC is to create employment opportunities to assist with a reduction of the high level of unemployment in urban Barbados and some success has been achieved in this regard.

5.54 Certain factors have however impacted negatively on the program as carried out by the UDC. The Commission's policies and procedures were often not followed and internal control was lax. Sufficient and relevant data is not being compiled in order to determine the degree to which the UDC is achieving its core mission of reducing unemployment in urban Barbados.

5.55 A substantial number of the disbursements made under this programme cannot be reasonably classified as loans since none of the procedures relating to loan application, processing, disbursement or loan servicing have been adhered to.

5.56 Persons responsible for such disbursements should be held accountable and, if warranted, action should be taken to recover these funds. In addition, there needs to be a re-examination of the institutional arrangement at the UDC to ensure it has the capacity to adequately manage the program.

Recommendations

5.57

Recommendations are as follows:-

- Payment vouchers should be prepared and cheques written on the basis of the appropriate authority being received from the loans section and subject to the availability of funds.
- Employment and other statistical data should be collected on a continuous basis. Such data should be analyzed to determine the extent to which the Commission's objective is being realized.
- The management and staff of the Commission should adhere to the policies and procedures as set out by the Board for the processing of loan applications. This is to ensure that only suitably qualified applicants are granted loans.
- There needs to be greater control and proper authorization relative to the disbursement of funds. The Commission needs to establish a culture of discipline in the management of the resources of the Scheme.
- The UDC needs to better manage the risk associated with its operations by ensuring that adequate security is in place for all loans and by performing more in-depth assessment of the viability of projects.

- The Commission should consider putting a programme in place to assist and advise borrowers with respect to making good business decisions and in maximizing the return on their investment.
- The UDC needs to actively manage the Scheme's loan portfolio and to take appropriate action when necessary to recover funds from delinquent borrowers.

C. Personnel

5.58 An audit examination was carried out with respect to the creation and establishment of posts at the UDC.

Overview

5.59 In accordance with the Urban Development Commission Act, 1997-10, the Commission may appoint and employ such officers, agents and servants as it considers necessary for the proper carrying into effect of this Act, on such terms and conditions as the Minister approves in writing. The Commission therefore has power to appoint persons to posts under the Act by which it was established with the approval of the Minister.

5.60 Further to the above, and in accordance with a Cabinet decision issued in 2001, all temporary posts created at Statutory Boards that receive funding in whole or in part from the Consolidated Fund must receive the prior approval of the Ministry of the Civil Service.

5.61 Staff at the Ministry of the Civil Service and the Urban Development Commission were interviewed and, correspondence exchanged between the Ministry of Housing and the Ministry of Social Transformation with respect to UDC staffing matters were reviewed.

Objective

5.62 The objective of the audit exercise was to review the recruitment practices of the Commission focusing on the procedures employed as they relate to the application of established procedures, relevant law and Cabinet's directive.

Background

5.63 During the seven years of the UDC's existence, the Commission has created and established a number of positions and currently employs 44 persons. A number of the posts are temporary and others have been established as permanent positions. In addition, there are 49 persons working under a capital works programme.

Audit Findings

Cabinet Decision not Followed

5.64 Investigations revealed that a number of temporary posts at the UDC were not approved by the Ministry of the Civil Service as directed by the Cabinet.

5.65 The Minister, under whose responsibility the UDC falls, supported and approved the creation of six temporary posts for the UDC. The approval of the Ministry of the Civil Service was however not sought. The Commission having been informed that the Minister had approved the posts, proceeded to fill the positions which are as listed below:-

Project Manager
Business Development Officer
Technical Officer
Technical Assistant II
Administrative Officer I
Assistant Accountant

Posts Filled Without Following Proper Procedures

5.66 For some temporary posts, no documented evidence was seen to indicate that the Board sought the support and approval of the Minister as required.

Chief Project Officer

5.67 The Division of Housing, responsible for the UDC at the time, requested the secondment of an officer to a position of Chief Project Officer. This post was not approved by the Minister or created by the Ministry of the Civil Service as required by the Cabinet.

Principal Legal Assistant & Legal Assistant

5.68 The Board of the Commission approved an appointment to a position of Legal Assistant. The UDC however employed the incumbent in a position of Principal Legal Assistant. No documented record of Board or Ministerial approval was seen for this post. The position was also not created by the Ministry of Civil Service as directed by the Cabinet.

5.69 There was an established post of legal assistant however, in 2002 this post was abolished by statutory instrument as requested by the Board, through the Ministry of Social Transformation. The resulting effect is that the person currently assigned is not employed in either an approved temporary or established position. The situation should be investigated and regularized.

Project Analyst II

5.70 The Board of the UDC agreed to the creation of two posts of Project Analyst II, with a salary scale Z16-11 and these

posts were created by the Ministry of the Civil Service with effect from April 15th 2003.

5.71 The Board made an appointment to the post of Project Analyst II effective June 1st 2002. This appointment was therefore made prior to the creation of this position by the Ministry of the Civil Service and also prior to approval by the Minister.

UDC's Response

5.72 The UDC informed that they had a meeting with the Ministry of the Civil Service. It was agreed at the meeting that all outstanding staffing matters concerning the UDC would be addressed.

Conclusions

5.73 The Urban Development Commission failed to consistently follow the required procedure for creating new positions and for making appointments to posts. The number of posts in existence at the UDC therefore would not accord with the records maintained by the Ministry of the Civil Service.

5.74 The Minister's approval in writing was not always sought before appointments to posts were made and the Commission at times made decisions that were not sanctioned by the Board.

Recommendations

5.75 Recommendations are as follows:-

- The UDC should follow the procedures for creating posts and for making

appointments to posts as required by the UDC Act.

- Management should carry out the decisions of the Board as directed.
- The decisions of the Cabinet should be adhered to and the creation of all posts should be approved by the Ministry of the Civil Service.

D. Capital Works Program

Overview

5.76 The activities of the Commission include a number of capital works programmes which are generally short term in nature. One of the programs currently in place involves workers clearing and cleaning urban areas.

5.77 A review of the program has raised some concerns regarding the status of these workers, the activities being carried out and other issues relating to the collection and removal of refuse.

5.78 The Commission has indicated that the program initially involved the hiring of individuals on short term cleaning projects, the number of persons involved have varied over the years from 16 to 100. There are currently fifty workers employed under the Capital Works Program at an annual cost of over \$750,000.

5.79 While the program would have started out as a short-term project, the conditions under which the current workers are employed exhibit the characteristics of full time employment. These workers earn vacation leave, they are paid weekly and national insurance contributions are deducted from their wages.

Findings

Recruitment and Deployment

5.80 A review of the personal files revealed that, for these workers, there were however no letters of appointment or job descriptions. An enquiry was therefore made as to the method of recruitment.

5.81 The Director indicated that he was unaware of the method of recruitment. He explained that the Commission does not exercise any administrative control over the workers and that they are supervised by an officer from the National Housing Corporation (NHC).

5.82 This officer from the NHC was interviewed and he indicated that the workers were deployed mainly in the Pine, Wildey and Deacons Farm areas. He said they were mainly employed in clearing and de-bushing various areas around National Housing estates. He also indicated that, from time to time, he responded to the needs of certain Constituency Representatives when assigning work.

5.83 In February 2003 Cabinet made a decision that, for work including the beautification and cleaning of National Housing estates, the workers in the program should be absorbed by the National Conservation Commission. This decision has so far not been implemented.

Removal of Refuse

5.84 With respect to the removal of debris generated by the workers, our investigations revealed that a firm had been employed to provide this service. This firm was paid approximately \$168,059 for the 2002 - 2003 financial year, \$113,210 in the 2003 - 2004 financial year, and to date \$85,210 in the 2004 - 2005 financial year. These sums also include payments for the removal of some garbage normally handled by the Sanitation Service Authority.

5.85 The hiring of this firm was not subject to the tender process being followed nor was there any competitive bidding involved. The Commission was therefore not in a position to ensure it was receiving the best price available for this service.

5.86 A sample of the claims submitted by the firm during the period April 18th to 25th 2002 was examined in detail. The

information showed that a total of \$14,000 was claimed for delivering 133 loads of refuse to the Mangrove Landfill.

5.87 An examination of the records of the Mangrove Land Fill in relation to the trips claimed during the period identified was undertaken. The vehicle registration numbers, as provided by the Supervisor, were checked against the records of the land fill and the check revealed that 10 loads were received from these trucks during the period. It should be noted that the supervisor admits that although he certified the claims for the trucking service he would not know with any certainty the number of loads removed.

5.88 In February 2003, Cabinet had agreed that the Ministry of Public Works and Transport should make vehicles and other equipment available for this de-bushing exercise at no additional cost to the program. This decision has not been adhered to during the 2003 - 2004 and 2004 - 2005 financial years and, in violation of the decision of Cabinet, in excess of \$198,000 has been paid to the firm for providing the service.

Conclusions & Recommendations

5.89 There are several areas of concern with respect to the recruitment and the functions of persons employed under the Capital Works Programme and, with respect to the disposal of refuse generated as a result of de-bushing activities.

5.90 The workers are effectively employees of the Commission, employed on a full time basis even though the Director of the Commission has indicated that they were not recruited by the Commission and he was unsure of their activities. Significant expenditure is incurred annually on this Programme without any proper evaluation of its effectiveness. One person is charged with the responsibility of supervising workers, often located in different areas, and it is unlikely that this task can be adequately performed.

5.91 The workers are not formally employed and appropriate positions have not been created by the Ministry of the Civil Service. The status of these workers therefore needs to be regularized.

5.92 It is essential that the provisions of the Financial Rules as they relate to the award of petty contracts costing in excess of \$100,000 be adhered to. This would ensure that the Commission accepts the best competing offer for the services being rendered.

5.93 The decision of the Cabinet as it relates to the disposal of refuse needs to be implemented. In addition, the Commission should refrain from expending large sums of money on those services that clearly fall under the aegis of the Sanitation Service Authority. Measures should to be put in place in order to avoid such situations in the future.

Tree Cutting Program

5.94 It was observed that during the financial year ending March 31st 2003, substantial expenditure was incurred in financing the removal and trimming of trees in urban areas. Approximately \$850,000 was paid to contractors for this service.

5.95 The Director of the Commission acknowledged that within the urban area there were some trees that posed direct threats to the homes of some elderly people. He however indicated that the type of tree-cutting that was undertaken was not properly organized, nor was it under the control of the management and staff of the Commission. He further stated that the work never originated with the UDC.

5.96 It was also stated that, when the UDC was told about trees, officers would visit the area and on a few occasions

were in time to see a tree actually falling or they saw some other evidence that a tree previously existed.

5.97 Notwithstanding the above, it was observed that officers of the UDC prepared requisitions and certified payments to facilitate the settlement of claims relating to this exercise. Other audit findings are as follows: -

Absence of Competitive Bidding

5.98 There was no evidence of competitive bidding by the contractors to supply this service and in some instances there was no evidence of authorization or certification for some of the work performed. In one particular case, a contractor was paid twice for the same work performed.

5.99 There were a number of instances in which firms were paid amounts in excess of \$20,000 and the tender or competitive bidding process was not employed by the UDC. During the course of the financial year, payments in excess of \$170,000 each were made to two of the firms employed. The issues identified below primarily relate to these two firms.

Uncertified Expenditures

5.100 Payment vouchers amounting to \$83,000 were not certified for payment by staff members of the Commission.

5.101 A number of the sites as listed on the claims were visited and some of the persons benefiting from the exercise were interviewed. Information received was that those persons never approached or made any arrangements with the UDC concerning the problems with their trees.

5.102 It was explained that observations were made of neighbours having their trees trimmed. The workmen on site were approached with respect to having their trees dealt with and the work was subsequently carried out.

Unauthorized Expenditures

5.103 One transaction of note was a payment in February, 2003 of \$37,800.00 to a particular firm. The job in question was apparently not authorized by officers of the Commission but involved cutting down trees on eleven properties. The claims for the individual jobs ranged between \$1,000 and \$7,000 per job.

5.104 Members of the technical staff of the Commission, who were interviewed, indicated that they were not aware of this work and had not authorized this firm or any other entity to carry out the specific tasks claimed. It was not determined under whose authority the firm had performed this work but the claims were nevertheless settled in full by the UDC.

5.105 Audit investigations further revealed that, included in the payment of \$37,800.00, claims to the value of \$13,400 were previously paid for in December 2002. The firm was therefore paid twice for the same work. The overpayment should be recovered.

5.106 In addition to the above, an amount of \$11,500.00 was paid in May 2003 to this same firm for work done to facilitate the building of a home in the city. The UDC staff indicated that they made no arrangements with the firm to carry out this work and indicated that the payment was for the removal of an ackee tree.

5.107 According to a memorandum from the Chairman of the UDC to the Director, the Minister had advised and approved the payment. This memorandum, attached to the payment voucher, refers to a project to facilitate the building of a home for a resident.

5.108 The service as detailed on the invoice and payment voucher however referred to the "*demolition of a spot, the*

removal of debris, and transportation of materials'. It is not known why the service was described as such when the payment related to the trimming of a tree.

5.109 The payment voucher relating to this claim was incomplete. It was not certified as is the proper procedure. The officers who normally prepare the vouchers indicated that the then Chairman directed that the documents be prepared following which the firm was issued with a cheque for \$11,500.00 on May 30th 2003.

5.110 The officers' statement was corroborated in a written submission by the then Project Manager. He stated that the late Chairman assured him that all was well with this cheque and instructed him to sign on behalf of the Director who was not in office at the time.

5.111 It should be noted that Cabinet, on January 30th 2003, had made a decision that there should be no tree trimming program. The Cabinet's decision stated that if there is a need for a tree to be removed the request should be referred to the Ministry of Public Works and Transport. The Cabinet also directed that the law as it refers to seeking Town Planning permission must be adhered to and permission sought.

Other Unauthorised Payments

5.112 There were several instances of expenditure being incurred by the UDC for which no supporting evidence of service rendered was seen. Officers of the UDC explained that the then Chairman was directly involved in having these payments made.

5.113 On December 18th 2002, the UDC made a payment to a firm in the amount of \$6,000. The service description on the voucher was "*Christmas hampers for pensioners in the Pine*". There were no supporting invoices or other documentation with respect to this payment.

5.114 Commission staff stated that the cheque was prepared at the request of the former Chairman. The officers indicated that when they inquired of the Chairman as to whether an invoice or quotation would be forwarded to them, he replied in the negative. The UDC received no additional information to properly account for these funds.

5.115 During the months of December 2002 and May 2003, a number of payments amounting to \$21,200 and ranging between \$2,200 to \$5,000 per transaction were made to various individuals.

5.116 No details regarding the service received was recorded and the UDC staff could provide absolutely no information to support the expenditure incurred.

Conclusions

5.117 All accepted controls and procedures relating to the disbursement of funds were abandoned when the transactions referred to above took place. In addition, no evidence was provided to verify that service was received and that the funds were used for purposes consistent with the Commission's mandate.

5.118 The method of operations and the procedures employed appear to represent an undermining of the management and accounting controls that should exist in an agency of Government. These actions constitute inappropriate use of Government funds and all persons responsible for these breaches should be held accountable.

CHAPTER 6

Special Funds and Other Accounts

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

Barbados Community College

6.2 The Audit Office completed the audit of the accounts of the Barbados Community College for the financial year ended March 31st 2003. This audit was conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. No material errors in the accounts were discovered during the course of the audit. The Office also received statements for the financial year ended March 31st 2004. This audit is due to commence shortly.

Barbados Hospitality Institute

6.3 The Barbados Hospitality Institute which falls under the Barbados Community College operates a small hotel which is used to conduct training for persons in the hospitality industry. During the course of the year an audit of the financial statement for the year ended March 31st 1998 was conducted.

6.4 The audit revealed that the financial records of the Institute were not properly maintained. As a result the totals in the main book of accounts differed from the amounts shown on the financial statements. In addition, although the accounts were prepared on a cash basis accrued amounts were listed under Receipts.

6.5 Since the financial statements are prepared on a cash basis only actual receipts and actual cash expenditure should be shown on the financial statements. The Institute needs to take urgent action to bring its accounts up to date in order for them to be audited in a timely manner. The audit of the accounts are currently six years in arrears and this situation is unacceptable.

Barbados Defence Force

6.6 Accounts of the Barbados Defence Force for the financial years ended March 31st 2002, 2003 and 2004 have been audited. The format for the presentation of the statements is being discussed, following which the audit will be finalized and the reports issued.

Barbados Boxing Board of Control

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

6.8 This matter should be investigated by the relevant Ministry to ensure that the Boxing Board complies with the provisions of the Boxing Act.

Caribbean Institute for Meteorology and Hydrology

6.9 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 December 31st 2003 were audited. No material errors were discovered during the course of the audit.

Caribbean Centre for Development Administration

6.10 The Caribbean Centre for Development Administration (CARICAD) provides assistance to the countries of the Caribbean area for the purpose of improving their administrative capability. The accounts of CARICAD for the financial year ended March 31st 2001 have been submitted and are currently being audited. Financial statements for the years ending March 31st 2002, 2003 and 2004 have not yet been submitted for audit examination.

Central Emergency Relief Fund

6.11 The Auditor General is required under Section 14 of the Central Emergency Relief Scheme, to audit the statements of income and expenditure of the Central Emergency Relief Fund. The accounts for the financial year ended December 31st 2003 have not yet been submitted for audit.

Central Liaison Service

6.12 The Central Liaison Service (Regional Security System) is an organization supported by certain Caribbean countries. Its purposes include the prevention and interdiction of illegal narcotics, assisting with relevant emergencies and combating threats to national security in member states.

6.13 The accounts of the Central Liaison Service for the financial years ending March 31st 2001, 2002, 2003 and 2004 were submitted for audit during the course of the year. These audits are currently in progress.

Community Legal Services Commission

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

6.15 The accounts of the Commission for the financial year ended March 31st 2004 were audited. No material errors were discovered during the course of the audit.

Erdiston Teachers' Training College

6.16 The accounts of the Erdiston Teachers' Training College for the financial year ended March 31st 2002 and 2003 were audited during the course of the year. The accounts for the financial year ended March 31st 2004 have been submitted and the audit will commence shortly.

Friendly Societies

6.17 In accordance with Section 29 (1) of the Friendly Societies Act, Cap. 379, Friendly Societies are required to submit accounts for audit by the Audit Office at least once in every year.

6.18 The Friendly Societies Legislation was enacted when Friendly Societies were prevalent and provided a source of investment and assistance for persons with low incomes. In recent years these societies have virtually become extinct and it is not expected that there will be submission of accounts by Friendly Societies in the future.

Land Reclaimers Limited

6.19 The Barbados Audit Office has received financial statements for the Land Reclaimers Limited for the financial years ended December 31st 1999, 2000, 2001 and 2002 and the accounts will be audited shortly.

6.20 The Land Reclaimers Limited is in the process of winding up its operations. It is expected that all outstanding liabilities will be settled and any remaining funds will be transferred to the Consolidated Fund.

National Assistance Board

6.21 The National Assistance Board provides assistance to poor and needy persons in the country. In accordance with Section 6 (2) of the National Assistance Act, Cap. 48. The National Assistance Board is required to submit its annual accounts within 3 months of the end of each financial year to the Auditor General for audit.

6.22 The accounts of the National Assistance Board for the financial years ended March 31st 2003 and 2004 have been submitted. The audits of these accounts are currently in progress.

National Insurance Fund

6.23 The audit of the accounts of the National Insurance Fund is currently four years in arrears. The Audit Office had experienced some difficulty in verifying revenue and cash on hand balances for the 1999 financial year. These matters which were material in nature have now been resolved to the satisfaction of the Audit Office. The accounts for the 2000 to 2003 financial years have to date not been submitted for audit.

Public Enterprise Investment Fund

6.24 The Public Enterprise Investment Fund provides funding for specific investment projects, the rehabilitation of enterprises in the public sector and for the repayment of public debt. The Fund receives revenue arising out of the disposal of shares or other interests in enterprises owned by the Barbados Government.

6.25 During the course of the year the Fund received \$191.4 million from the sale of shares in the Barbados National Bank, and the Insurance Corporation of Barbados. A total of \$158 million was invested in various state enterprises, notably the Grantley Adams International Airport Inc. and Needham's Point Holdings Limited.

6.26 The total expenditure shown for the Grantley Adams International Airport Inc. for the year was overstated by \$13,000,000. A total of \$72,950,000 was shown on the statement

this figure should have been \$59,950,000. The total of \$13,000,000 purportedly representing the brought forward amount at 1st April 2003 should not have been shown on the financial statement.

Sugar Workers' Provident Fund

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

6.28 The audit of the accounts for the financial years ending December 31st 2002 and 2003 has commenced. The Office has, for some time, been awaiting additional information from the National Insurance Department in order to finalize these audits.

Severance Payment Fund

6.29 The accounts of the Severance Payment Fund for the financial year ended December 31st 2003 were submitted for audit. No material errors in the accounts were discovered during the course of the audit.

Samuel Jackman Prescod Polytechnic

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

6.31 In previous reports the Audit Office had been reporting that financial statements have not been submitted for audit as required. However, during the course of the year the Polytechnic submitted financial statements for the period March 31st 1998 to March 31st 2003. The audit of these accounts is currently in progress.

Sanitation Service Authority

6.32 The accounts of the Sanitation Service Authority for the financial year ended March 31st 2003 have been audited. The following observations were made with respect to the audit.

6.33 The Authority contracted a firm during the financial year to excavate, reshape and reduce to formation levels a parcel of land containing 7017 square metres at the Mangrove Pond for consideration of \$1,116,684 VAT inclusive.

6.34 As part of the agreement the contractor was to purchase from the Authority a maximum of 68,000 cubic metres of excavated materials at a cost of \$578,000, which was to be deducted from the contract price. This was however not taken into consideration when payment was made and the contractor was therefore overpaid.

6.35 Subsequent to this issue being drawn to their attention, the Authority has acknowledged the overpayment as an oversight on their part. The Authority has also indicated that the company has accepted this and that the situation will be rectified.

6.36 The Authority's bank account went into overdraft during the year. As at September 30th 2002 the overdraft was \$1,075,667. The overdraft was not authorized and resulted in interest charges being incurred.

6.37 In addition to the above, there were a number of accounting and internal control irregularities which would suggest that the management of the Authority should pay greater attention to these areas in the future.

Social Investment Fund

6.38 The accounts of the Social Investment Fund for the financial year ended March 31st 2004 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

6.39 The Revenue and Expenditure Account of the Sugar Factory Smoke Control Board for the years ended December 31st 2001 to 2003 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 remain outstanding.

Sugar Industry Research and Development Fund

6.40 The Receipts and Payments Account for the financial year ended March 31st 2004 were submitted for audit as required by Section 15 (2) of the Sugar Industry Act, Cap. 270. No material errors in the accounts were discovered during the course of the audit.

Training Funds

6.41 The Training Fund was established under Section 3 (1) of the Training Act, Cap. 35 for the purpose of financing training courses.

6.42 The Training Loan Fund was established under Section 4 (1) of the abovementioned Act for the purpose of making loans to assist persons in pursuing courses of study or for training courses as approved by the Minister responsible for training.

6.43 For a number of years the Audit Office has been asking the Training Division to submit statements of accounts for audit. During the course of the year the Division submitted statements for the financial year ended March 31st 1993 to March 31st 2004. These statements are currently being audited.

Unemployment Fund

6.44 The accounts of the Unemployment Fund for the financial year ended December 31st 2003 have been audited. No material errors in the accounts were discovered during the course of the audit.

General Observations

6.45 Some improvements were seen in the submission of accounts by Government agencies during the year. These agencies should however strive to submit their accounts by the statutory deadlines.

6.46 Audits submitted long after the close of financial years often lead to problems in finalizing the audits. Problems include accounting personnel being unable to provide answers to issues identified. This is especially as it relates to those issues that

would have occurred prior to their assuming responsibility for maintaining the accounts.

Hallam E. Phillips
Auditor General

Weymouth Corporate Centre
Roebuck Street
St. Michael
BARBADOS

January 26th 2005

APPENDIX 1

Statement of Revenue Remitted

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

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

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

The statement of sums waived during the financial year ended March 31, 2004 comprise a waiver of levies, taxes, duties, and penalties and are as follows:-

<u>Department</u>	<u>Tax</u>	<u>Amount</u>
		\$
Land Tax	Interest	637,821.83
	Relief Granted	1,073,162.73
Land Registry	Property Transfer Tax	2,785,422.32
Customs	Import Duty	9,448,517.80
	Environment Levy	2,484,321.56
	Excise Tax	28,656,879.29
	VAT	207,555.12
	Tax Remitted Re: -	
	Agriculture	6,070,840.03
	Manufacturing	60,950,198.70
	Hotels	10,851,016.49
	Vehicles for Diplomats	<u>9,660,567.55</u>
Total Tax Remitted		<u>132,826,303.42</u>