

BARBADOS AUDIT OFFICE



REPORT Of the AUDITOR GENERAL for the year 2005

Report of the Auditor General for the year

2005

CHAPTER 1

Introduction

This is my Annual Report to the House of Assembly for 2005. The Report is a compilation of the results of the audit of accounts of Ministries and Departments in accordance with the provisions of the Financial Administration and Audit Act.

1.2 In addition to the accounts referred to above, the financial statements of the Accountant General for the year ended March 31st 2005 were examined. Also examined were the accounts of other public authorities and regional agencies as prescribed by law or agreement.

1.3 The Report 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.

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

- Chapter one highlights the mandate of the Office and informs of the various 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.
- Chapter three highlights the observations of the Office with respect to general issues facing Ministries and Departments
- Chapter four consists of the findings of the audits of statutory boards, regional and other Governmental agencies. Included in this Chapter is a report on the operations of the Sanitation Service Authority, especially as it relates to the Authority's rolling stock.

1.5 The appropriation and revenue accounts of Ministries and Departments and the financial statements for the year ended March 31st 2005 are published as an independent volume.

Audit Mandate

1.6 In accordance with Section 113 of the Constitution of Barbados, the Auditor General, at least once annually is required 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.

1.7 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.*

1.8 A number of statutory entities, in accordance with the various Acts under which they are incorporated, have the authority to appoint auditors. In these circumstances, the audits are not carried out by the Office of the Auditor General. Such audits are conducted by auditors recruited from the private sector.

Scope of Audit

1.9 As determined by the F.A.A. Act, Cap. 5, the onus for the proper discharge of financial administration and the preparation of financial statements rests with the Accountant General and Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on these statements based on the audits carried out by his Office.

1.10 The audits were carried out in accordance with provisions in the Constitution of Barbados, the F.A.A. Act, Cap. 5 and other applicable laws, rules and administrative directives.

1.11 An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the statements. 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.

1.12 In exercising my auditing and reporting functions, I was not subject to the direction or control of any person or authority.

Financial Audits

1.13 Financial statements were submitted by Ministries and Departments for audit examination. With the exception of the Ministry of Social Transformation's Head 24-423-435, National Disabilities Unit and the Ministry of Agriculture and Rural Development's Head 25-165-180, Meteorology Department Services, all appropriation and revenue accounts were examined.

1.14 The audits of a number of statutory boards were undertaken during the year. A number of the audits were however not completed at the time of preparing this report. The audits not completed related mainly to statutory boards that had not submitted their accounts in a timely manner.

Special Reports

1.15 The Ministry of Finance, in December 2003, requested a special audit of the financial affairs of the Urban Development Corporation and certain aspects of the Commission's activities were reviewed and reported on in 2004. The audit has been ongoing however and other aspects of the Commission's operations are being examined.

1.16 In addition to the special audit of the Urban Development Corporation, a decision was taken to audit the financial affairs of the Rural Development Commission. This audit commenced during the year under review and is currently in progress.

1.17 The results of the audits of the two entities referred to above will be included in separate special reports. The reports will be transmitted to the House of Assembly in accordance with Section 28 (2) of the Financial Administration and Audit Act.

Committees Meetings

1.18 The Government has made a decision to change the basis of accounting from cash to accrual. In this regard, a committee has been established to oversee its implementation. The Office is represented on this committee and a number of meetings were called during the year.

1.19 In order to prepare for the change, a number of sub-committees or working groups were set up to discuss and advise on various aspects of the accounting process that will be affected by the change. The Office is also represented on these sub-committees and several meetings took place during the year.

1.20 The Public Accounts Committee of Parliament met on a number of occasions during the financial year. The Auditor General was invited to attend a number of these meetings.

Training and Conferences

1.21 The Office was represented at a number of training programs and conferences during the year.

1.22 The International Consortium on Government Financial Management held its annual International Conference and Training Programme in Miami during the period April 19th to 23rd 2004. The theme for the conference was "*Promoting Development by Eradicating Corruption, Enhancing Security, Improving Transparency and Strengthening Accountability*". The Office was represented by the Auditor General.

1.23 Audit Officer, Ms. Laurine Forde attended the International Auditor Fellowship Program of the United States General Accounting Office between May and October 2004. The program covered advanced auditing techniques and procedures and included an on the job attachment in Dallas, Texas.

1.24 The Deputy Auditor General, Mr. Leigh Trotman and Audit Manager, Mr. AtherleyBurrowes attended a workshop organized by the Caribbean Public Finance Association. The workshop, held in St. Kitts from November 23rd to 25th 2004 had as its theme, "*Strengthening Public Financial Management in the Caribbean*".

1.25 Audit Manager, Ms. Linda Carter attended a one day seminar on April 26th 2004 dealing with forensic auditing.

Acknowledgements

1.26 The Audit Office recently lost one of its longest serving officers. Mr. Jeffrey Atherley, Senior Auditor, passed away on November 25th 2005. The contribution made by Mr. Atherley during his more than 38 years service as an audit officer is greatly appreciated and, on behalf of the management and staff of the Office, I would like to extend deepest sympathies to his wife and family.

1.27 Sincere appreciation is extended to members of staff for their support during the year. The support and co-operation of Accounting Officers, Heads of Departments and other state agencies 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 2005, were submitted to the Barbados Audit Office in accordance with Section 12 (2) of the F.A.A. Act, Cap. 5. The Accountant General is required to prepare, sign and submit financial statements to the Auditor General within four months after the close of the financial year.

2.2 The financial statements included the Receipts and Payments accounts of the Consolidated Fund; statements of Capital Expenditure; Assets and Liabilities; Advances and Loans; Public Debt and Sinking Funds; and Special Funds.

2.3 The statements listed above were received from the Accountant General on August 3rd 2005.

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

Other Statements

2.5 In addition to the statements listed above, the Accountant General submitted the following statements:-

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

Receipts and Payments

2.6 The Abstract Account of Receipts and Payments is a summarized statement of receipts and payments of all accounts maintained by the Accountant General. This includes receipts and payments relating to Temporary Borrowing from the Central Bank, the Consolidated Fund, the issue and redemption of Treasury Bills and transactions relating to loans and advances.

2.7 This account also shows the total cash and bank balance in the Treasury Department as at March 31st 2005. The balance was shown as \$24,390,736 and this compares to a balance of \$93,447,348 as at March 31st 2004, a reduction of \$69,056,612.

2.8 The cash and bank balances at March 31st 2005 were made up as follows:-

	\$	\$
Cash at Treasury	500,452	
Treasury bank accounts	36,085,366	
Special deposit accounts	70,922,216	
Special funds and other deposits	<u>7,540,672</u>	115,048,706

Less:

Cheques& Payable orders not presented (Paymaster/pension a/c)	<u>(90,657,970)</u>
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Ending Cash Balance	<u>24,390,736</u>
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Consolidated Fund

2.9 The Consolidated Fund is the main Fund of the Government of Barbados into which all revenues are paid and out of which sums are charged for the purpose of meeting the cost of public services.

2.10 Revenue include 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.

2.11 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.

2.12 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.

2.13 For the current financial year, current revenue collections were \$1.897 billion. This was an increase of \$31.0 million over the previous financial year.

2.14 Overall however, current revenues were \$43.2 million less than had been estimated. There was a shortfall of \$83.5 million on the collection of taxes on income, and \$26.1 million on land taxes. Revenue items performing better than expected included corporation taxes and property transfer tax which exceeded the amounts estimated by \$39.5 million and \$12.9 million respectively.

2.15 Capital revenue was reported to be \$415.9 million and this was \$145.7 million more than that reported for the previous financial year.

2.16 Total Consolidated Fund expenditure for the year amounted to \$2.40 billion. When compared to the previous financial year, total expenditure increased by approximately \$63.1 million. It was noted that current transfers, personal emoluments and property acquisition increased significantly by amounts of \$44.7 million, \$24.4 million and \$15.4 million respectively.

2.17 The Consolidated Fund deficit for the year was \$69.96 million and this compared with a deficit of \$189.9 million for the previous financial year.

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

	\$	\$
Current Revenue	1,897,406,244	
Capital Revenue	415,899,585	
Annexed Revenue		
(Post Office)	<u>20,848,856</u>	
 Total Revenue	 2,334,154,685	
 Current Expenditure	 2,177,482,128	
Capital Expenditure	<u>226,628,503</u>	
 Total Expenditure	 <u>2,404,110,631</u>	

Deficit **69,955,946**

Statement of Current Assets and Liabilities

2.19 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.

2.20 The statement of current assets and liabilities therefore represents end of year cash balances resulting from cash transactions in the accounts of the Treasury. Current assets and current liabilities are shown as \$273.2 million and \$709.1 million respectively. The net liability represented by the Consolidated Fund Accumulated Deficit was therefore \$435.9 million.

Statement of Advances and Loans

2.21 Advances and Loans include sums of money advanced by Government to state agencies and other Governments and Administrations. The statement of Advances and Loans shows the outstanding amounts due to Government as \$193.6 million.

Loans to State Agencies

2.22 Two state agencies, the Caribbean Broadcasting Corporation (CBC) and Hotels and Resorts limited (HRL), were granted significant loans.

2.23 CBC was granted a loan of \$20,609,446 which stipulated that interest and principal payments should 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 2005 no payments had been made on this loan and interest arrears amounted to \$3.24 million.

2.24 Hotels and Resorts limited was granted a loan of \$145,328,264. The loan agreement stipulated that interest and principal repayments are to commence from June 30th 2006 but interest would accrue from the date of disbursement. As at March 31st 2005, accrued interest payments amounted to \$29.76 million.

Statement of Public Debt and Sinking Funds Investments

2.25 The outstanding public debt of Barbados at March 31st 2005 stood at \$4.47 billion. This was \$26 million more than the previous year and was made up as follows: -

	\$
Loans raised under the Local Loans Act	2,209,917,150
Loans raised under the External Loans Act	763,578,508
Caribbean Development Bank Loans	160,941,950
Inter-American Development Bank Loans	343,126,106
Loans raised under the Special Loans Act	119,523,361
Contingent Liability Loans taken over	84,625,783
Savings Bonds	116,033,850
Treasury Bills and Tax Certificates	<u>674,431,100</u>
Total Outstanding	<u>4,472,177,808</u>

IADB Loan 755/OC-BA

2.26 The interest recorded for this loan was understated by \$743,324.00. This amount was due for payment in May 2004 and was erroneously omitted from the records. The error is being addressed and it is expected that the relevant adjustment would be made to the accounts.

Contingent Liabilities

2.27 Loans guaranteed by Government were reported to be \$526.89 million. This was \$137.28 million more than in the previous year. Notable increases in the contingent liabilities included an increase of \$98.5 million for the Barbados Water Authority, \$13.3 million in respect of the Port Authority and \$46.3 million in respect of the Grantley Adams International Airport. During the year, contingent liabilities of \$84.62 million were taken over by the Government and now form part of the public debt.

Sinking Fund Investments

2.28 The Sinking Fund Contributions represent amounts invested with the Central Bank to assist in the redemption of securities issued under the Local Loans and External Loans Acts. The total investments in the Sinking Fund as shown at March 31st 2005 were \$427,310,325.

Bank Reconciliation

2.29 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

2.30 A reconciliation statement as at March 31st 2005 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 records show significant differences occurring between December 2004 and February 2005. Efforts should be made to resolve the differences as soon as possible.

Barbados National Bank and First Caribbean International Bank

2.31 Bank reconciliation statements were not completed for the accounts held with the Barbados National Bank and First Caribbean International Bank. There are a number of issues and transactions relating to the accounts that are proving difficult to resolve. It is acknowledged however that efforts are being made to reconcile the accounts.

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

Revenue and Expenditure Analysis

2.33 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.

Property Insurance

3.2 In 1999 a special audit was carried out on property insurance. This aspect of Government's operations is one of the responsibilities of the Property Management Unit (PMU) of the Ministry of Housing.

3.3 The special audit of 1999 examined the adequacy of the insurance coverage. The report suggested that, as a result of substantial expansion work, several of the properties should be revalued. Recommendations included the following: -

“The Property Management Unit, as a matter of urgency, should determine by survey which Government buildings are substantially under-valued and seek to have new valuations on them carried out as soon as possible.”

3.4 It was noted at the time that Glendairy Prisons was substantially undervalued and was insured for less than \$1.0 million. In July 2003, correspondence from the Ministry of Home Affairs to the Permanent Secretary, Ministry of Housing indicated that the Commissioner of Land Tax had recently valued the property at \$43.2 million.

3.5 No action was taken to address the issue and in March 2005 a fire caused extensive damage to the property. Inadequate insurance of this property resulted in Government losing the opportunity to recover several million dollars.

3.6 In order to avoid a repeat of the Glendairy Prisons experience, the values of a number of other Government buildings should be reviewed as a matter of urgency. The following list is representative of those buildings that ought to be urgently reviewed.

Building	Current Insured Value (\$)
Government Headquarters	1,040,100
Ellerslie Secondary School	359,000
Government Industrial Schools - Boys	452,000
St Leonard's Boys' Secondary School	3,144,000
Government Industrial Schools - Girls	83,000
Cheapside Market	305,000

Maintenance of Government Buildings

3.7 An audit review of the procedures used by the Ministry of Public Works for the maintenance of Government buildings and properties was carried out. The review included interviews with Ministry personnel and the examination of selected files and related accounting records. A number of site visits were also conducted.

3.8 The investigations revealed that there is no scheduled maintenance program and no maintenance history records. Maintenance is generally not planned but is carried out in response to requests and according to the availability of funds. Information obtained also suggests that repairs to buildings are often carried out only after significant deterioration has occurred.

3.9 The Ministry of Public Works is not responsible for maintaining all Government buildings. Certain other Ministries, for example the Ministry of Education and the Ministry of

Agriculture, have some maintenance responsibility and they usually engage the services of private contractors. It was noted however that a number of these buildings were also in a state of disrepair.

3.10 A number of sites were visited to observe the condition of the buildings. These included buildings that were maintained by the Ministry of Public Works and buildings under the control of other Ministries. The site inspections revealed that several buildings were in a state of disrepair and were not occupied. They included the following: -

Building	Location
Herbert House	Fontabelle
Former Personnel Administration Building	Collymore Rock
Former Probation Office	Country Road
Welfare Department	Bay Street
Flodden	Culloden Road
Enmore Health Centre	Martindales Road
Fish Market	Bay Street
Licensing Authority	Oistins
Rates and Taxes	Oistins
Christ Church District Hospital	Oistins
Ministry of Health/Education	Jemmotts Lane

3.11 The major challenge facing the Ministry in carrying out an effective repair program relates to the availability of funds. Funds allocated on an annual basis are usually not sufficient to allow the Ministry to adequately respond to the several requests submitted to them.

3.12 It is considered however, that Government's failure to properly maintain its buildings is being reflected in the rapidly rising cost being incurred in renting office space. The records show that, over the last ten years, rental costs have increased from \$1.9 million per annum in 1995 to \$27.7 million per annum in 2005. It is also being reflected in the increasing number of industrial relations activities relating to poor working conditions.

3.13 The Ministry of Public Works, as well as other Ministries that have responsibility for building maintenance, should devise and implement programs that would allow for routine

scheduled inspections of buildings, a timely response to effecting repairs and the keeping of proper and up-to-date maintenance records.

Arrears of Revenue

3.14 For several years, Collectors of Revenue have been experiencing some difficulty in promptly collecting moneys due to the Crown.

3.15 Section 12 of the Financial Administration and Audit Act, Cap. 5 states that: “A collector of revenue is accountable to the House of Assembly through the Public Accounts Committee for the punctual collection of all revenue due to the Crown for which he is responsible.”

3.16 Section 41 of the Act requires all officers charged with the collection of revenue or other moneys due to the Government to furnish to the Auditor General returns showing the state of arrears at the end of September and March of each year.

3.17 For several years, Collectors of Revenue have been experiencing some difficulty in promptly collecting moneys due to the Crown and, as stated in a previous audit report, the true position of arrears due to the Government is not known since several Government entities fail to submit returns in accordance with the requirements of the Financial Rules.

3.18 The total arrears reported, as at March 31, 2005 was \$442.64 million. This included the major revenue collecting Departments of Inland Revenue, Customs and Excise (including Value Added Tax) and the Land Tax Department. Details were as follows: -

Ministry/Department	2005-03-31
Inland Revenue Department	161,665,955
Customs & Excise Department	172,283,406
Land Tax Department	105,848,056
Post Office	787,134
Government Printing Department	374,777
Ministry of Housing, Lands and the Environment	1,683,592

Total	\$442,642,920
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Inland Revenue Department

3.19 The Inland Revenue Department reported arrears of revenue as at March 31st 2005 of \$161.7 million. This was \$20.1 million more than the previous year. Tax of \$133 million was in respect of individual taxpayers and \$28.7 represented amounts due by corporations. The Department should institute measures to reduce this high level of arrears.

Customs and Excise Department

3.20 The Customs and Excise Department reported arrears of revenue of \$172.3 million for the period ending March 31st 2005. This was \$63.4 million more than the previous year. Of this amount \$44.0 million was reported as Excise Taxes and \$128.3 million as Value Added Tax. The Department stated the following in respect of the Excise Tax:-

“This was occasioned by the adjustment in the rates of wholesale gasoline and diesel. The deposit system that was in place was not being followed because of the pending implementation of the new rates. The amount has since been reduced.”

3.21 The Value Added Tax component of the arrears increased from \$107.6 million to \$126.8 million during the year. This is considered to be a major concern for the Division.

Land Tax Department

3.22 The arrears of revenue reported by the Land Tax Department at March 31st 2005 was \$105.8 million. This was approximately \$3.0 million more than the previous year. Efforts should be made to reduce the outstanding amounts to a more manageable level.

Post Office

3.23 The Post Office reported arrears of \$787,133.58. This was significantly higher than the amount of \$258,591.23 as reported for the previous year. The Post Office should take action to ensure that the outstanding amount is not allowed to escalate and to become unmanageable.

Government Printing Department

3.24 The Government Printing Department reported arrears of \$374,777. Of this amount \$115,508 was reported as due for printing and binding and \$259,269 for Gazette advertisements. A high percentage of the work carried out by this department is for the benefit of other Government entities and these entities account for \$306,968, or approximately 82%, of the outstanding debt.

Ministry of Housing, Lands & Environment

3.25 The Ministry of Housing and Lands reported arrears of revenue at \$1.7 million. This was \$0.3 million more than the previous year. These arrears are owed by individuals and business entities in respect of rents for Government properties. Some of the amounts are long overdue and the Ministry should take action to effect recovery.

General Comments

3.26 The collection of outstanding monies due to Government has proven to be a challenging exercise for the various Ministries/Departments. The response to the traditional methods of collection is less than favourable. All options available, including taking legal action, should therefore be employed, in an effort to better manage the collection process.

Value Added Tax Division

Review of Refund Process

3.27 A review of the refund process of the Value Added Tax (VAT) Division of the Customs Department was carried out. The objective of the review was to determine the factors hindering the timely processing of refund claims submitted by registrants.

3.28 Interviews and discussions were held with various personnel of the Refunds Unit as well as with senior management officers of the Division.

3.29 It was observed that the processing of refunds generally took a long time to be completed. This has resulted in a large build up of interest arrears due to registrants. At March 31st 2005, amounts due to registrants were approximately \$45 million with an additional estimated \$10 million in interest payments being owed.

3.30 The VAT Office attributed the delays to a high turnover of staff affecting productivity of the unit, and also the high level of manual intervention in the approval process. In the short term the Office is looking at working overtime in order to substantially reduce the arrears.

3.31 In the longer term, the Office is expected, in the very near future, to acquire additional computer hardware that would allow them to implement automatic approval of refund claims using risk analysis. They are also pursuing plans to increase staff to a level that would allow for increased productivity in the section.

St. Leonard's Boys' Secondary School

3.32 In 2003 a special audit review of the repair/construction program at the St. Leonard's Boys' Secondary School was undertaken. The Government of Barbados had signed a loan agreement with the Caribbean Development Bank (CDB), the funds to be used for the redevelopment of the school. The project commenced in 1996.

3.33 The firm to which the contract was initially awarded experienced some financial and administrative difficulties and was unable to complete the job. A second firm was contracted to undertake the project but also experienced difficulties in completing. The loan conditions were not all satisfied and the Government was therefore unable to access any of the

loan funds. As at March 2005, commitment fees on the loan, amounting to \$1,290,943, were paid to the CDB.

3.34 In October 2004, the Consultant project manager appointed by the Cabinet noted that the outstanding work was not executed effectively and in a regular and diligent manner by the contractor. The Project Manager, supported by the Architects, recommended that a Certificate of Practical Completion be issued. This relieved the contractor of any obligation to complete outstanding works. As at March 31st 2005 however, in excess of \$15 million had been spent on the project and, after nine years of construction, the school had still not been completed.

3.35 Subsequent to March 31st 2005, the close of the financial year, the Cabinet agreed to the cancellation of the CDB loan, the acceptance of practical completion and the provision of small works contracts/packages to complete any outstanding works. This decision was taken to save Government the increasing interest and commitment fees. A number of blocks have now been completed and handed over to the school. The school therefore has beneficial use of the plant.

Post Office

Reconciliation of Records

3.36 The review of the accounting records of the Post Office revealed that no reconciliation was performed between cash sales recorded and the stock records maintained by the Chief Stamp Seller. Such a review is necessary to ensure that all stamps are properly accounted for.

Surprise Examinations

3.37 Surprise examinations of cash were not carried out at irregular intervals of time (not exceeding six months) as required by Financial Rule 71(2). The Post Office has been experiencing some problems with serious cash shortages. More frequent cash inspections should be instituted therefore in order to eliminate, or at least minimize, the occurrence of such shortages.

Revenue Account

3.38 Total revenue of \$17,137,495.20 as shown in the General Ledger did not correspond with the actual receipts of \$17,342,758.00 as shown in the Revenue Account. The difference of \$205,262.80 represents the amount paid directly to the Treasury Department by the National Insurance Department for postage. The relevant adjustments should have been made in the records of the Post Office.

Insurance

3.39 The furniture and equipment at the Post Offices are not covered by insurance. Considering that the values involved are significant, it is suggested that the Post Office seek to effect coverage as soon as practicable.

Ministry of Public Works and Transport

Requests for Records

3.40 The accounting records for several sub-programs were not made available for audit inspection despite several verbal and written requests. Efforts should be made to ensure that all accounting records are properly maintained and easily accessible. It should be recognized that failure to make records available is a breach of the Financial Rules.

Bank Reconciliation

3.41 The Ministry maintains two (2) bank accounts and it was observed that up-to-date bank reconciliation statements were not prepared for these accounts. The Ministry informed that the setback was a result of problems with the computer software being used. The issue is being addressed.

Inventory

3.42 A complete inventory of Government property was not maintained in accordance with Rules 122 and 123 of the Financial Rules, 1971. This situation also existed at the Government Electrical Engineering Department. It was explained that steps would be taken to address the problem as soon as possible.

International Transport Division

Inventory

3.43 An inventory of furniture and equipment was not made available for inspection. It was explained that a new list was being compiled.

Bank Reconciliation

3.44 An examination of the relevant records showed that the salaries bank account was not being reconciled. This breach of the Financial Rules was previously drawn to the Division's attention.

Attorney General's Office

Special Account

3.45 A special bank account is maintained by the Ministry into which funds are deposited for the settlement of compensation claims. The balance on this account as at May 31st 2005 was in excess of \$675,000 of which just under \$0.5 million represents accumulated interest.

3.46 It was observed that the funds mainly represent unclaimed compensation monies. In accordance with Section 3.2 of Chapter 93 of the Laws of Barbados therefore, the funds should be paid into the Treasury.

Trust Accounts

3.47 Forty-three bank accounts in respect of Trust Funds are held at the Barbados National Bank (BNB) on behalf of the Solicitor General. At the end of March 2005 the monies

in the accounts totalled over \$0.75 million. Details relating to the Trust Funds are very limited, there is no activity on the accounts and they are classified as inactive by the bank.

3.48 In addition to the above, there is a current account held at the BNB. The balance on the account is \$1.03 million and it has been dormant since 2001. No interest is earned on the account but bank charges have accrued.

3.49 A concerted effort should be made to obtain relevant information on these funds and to ensure that the beneficiaries of the funds are not disadvantaged. The Ministry could also examine the possibility of making alternative arrangements for retaining the funds in order to avoid having dormant accounts.

Inventory

3.50 No inventory was maintained for any of the sub-programs or entities under this Ministry. This is a breach of the Financial Rules and should be addressed.

Overseas Missions

3.51 An audit of accounts of selected Overseas Missions was conducted during the current financial year. The audit related to the financial years ending March 31st 2004 and March 31st 2005. The accounts were generally well kept. The following issue relating to the Mission in Ottawa was however observed during the course of the audit.

Inventory - Ottawa

3.52 Overseas Missions are required to maintain a register of office equipment and furniture and other Government property for which they are responsible. This is in accordance with the Financial Instructions (Overseas Missions). This register should be kept up to date and properly maintained to the satisfaction of the Auditor General. Copies of the inventories should be forwarded to the Permanent Secretary, Ministry of Foreign Affairs at the beginning of each financial year.

3.53 In a previous audit report, it was drawn to the attention of the Ministry of Foreign Affairs that maintenance of inventory records at the residences of the High Commissioner and Counselor was inadequate. Audit examination of recent lists revealed that some items of furniture and fittings were not included.

3.54 A physical inspection of all inventory should be carried out annually in order to verify existence and to maintain up-to-date records. It is also important that inspections are carried out when a High Commissioner or Counselor demits office and other officers take up residence. The Ministry has advised that such inspections will be carried out at the residences in the near future.

CHAPTER 4

Special Funds and Other Accounts

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

Barbados Community College

4.2 The audit of the accounts of the Barbados Community College is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. The College submitted accounts for audit for the Financial Years ended March 31st 2004 and March 31st 2005. These audits are in progress.

Barbados Hospitality Institute

4.3 The Barbados Hospitality Institute, which falls under the Barbados Community College, conducts training for persons in the hospitality industry. This entity was previously behind in the submission of its accounts for audit. However, during the course of the year, accounts were submitted for the six Financial Years, 1999 - 2000 to 2004 - 2005. With the exception of the financial year ending March 31st 2005, the audits were completed. No material errors were found during the course of the audit.

Barbados Defence Force

4.4 The accounts of the Barbados Defence Force for the Financial Years 2002-2003 and 2003-2004 were submitted for audit. These audits were completed during the course of the year.

Barbados Boxing Board of Control

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

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

Barbados Liaison Service - Miami

4.7 The Barbados Liaison Service administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. Issues relating to the overpayment of benefits to the Former Chief Liaison Officer were identified. The officer was in receipt of a fixed travel allowance while at the same time being provided with a fully maintained vehicle. This suggests that the terms and condition of service were not properly addressed at the start of his contract. The matter has subsequently been dealt with.

Barbados Liaison Service - Toronto

4.8 The Liaison Officer in Toronto was appointed under a three year contract which started January 1st 2005. The contract stipulates that the officer should make a contribution to his housing but does not stipulate the amount to be paid. This matter was previously drawn to the Ministry's attention but no action has been taken on the matter. It should be noted that the Liaison Officer in Miami makes contributions to housing and utilities.

4.9 An Officer was appointed in a temporary post of Assistant Liaison Officer. He was contracted to work with the Barbados Liaison Service in Canada for six months a year and to work in Barbados for two months a year. The officer was given a letter of appointment and he traveled to Canada before clearance and accreditation to work were obtained from the Canadian Authorities. He did not receive clearance and was therefore unable to perform any duties. The Ministry of Labour, before posting officers abroad, should seek guidance and work closely with the Ministry of Foreign Affairs in these types of matters.

4.10 As at March 31st 2005, a significant balance remained on the workers savings account. The funds represent unallocated savings of workers received from Canadian farmers during the Financial Year ending March 2004. The funds should have been transferred to the Ministry of Labour and Social Security for distribution to workers on their return to Barbados.

4.11 This situation may have developed as a result of the Liaison Service not reconciling amounts due to workers with the outstanding bank balances. The unallocated amount was shown to be CDN \$48,724.63. This matter needs to be addressed as a matter of urgency in order for workers to receive the correct amounts due to them.

Hydrology

4.12 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 2004 were audited. No material errors were discovered during the course of the audit.

Caribbean Centre for Development Administration

4.13 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 2000 and 2001 were audited during the year. Financial statements for the three years ending March 31st 2004 have now been submitted.

Central Emergency Relief Fund

4.14 The Auditor General is required under Section 14 of the Central Emergency Relief Scheme, to audit the statements of income and expenditure of the Central Emergency Relief Fund. The accounts for the Financial Years ended December 31st 2003 and 2004 were audited during the year. No material errors were discovered during the course of these audits.

Central Liaison Service

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

4.16 The accounts of the Central Liaison Service for the financial years ending March 31st 2001, 2002, 2003 and 2004 were submitted for audit. The audits are in the process of being finalized.

Community Legal Services Commission

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

4.18 The accounts of the Commission for the financial year ended March 31st 2005 are in the process of being finalized.

Erdiston Teachers' Training College

4.19 The accounts of the Erdiston Teachers' Training College for the Financial Year ended March 31st 2004 have been submitted. The audit will commence shortly.

Land Reclaimers Limited

4.20 Financial statements were initially received for Land Reclaimers Limited for the Financial Years ended December 31st 1999, 2000, 2001 and 2002. Adjusted statements are however expected to be submitted shortly and will be audited. The company is seeking to wind up its operations

National Assistance Board

4.21 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.

4.22 The accounts of the National Assistance Board for the two Financial Years ended March 31st 2003 and 2004 have been audited. No material errors were discovered during the course of the audit. The statements for the Financial Year ending March 31st 2005 have been submitted for audit.

National Insurance Fund

4.23 The audit of the accounts of the National Insurance Fund is currently five years in arrears. The issue of the outstanding accounts should be of some concern to its management and Board. In order for the accounts to be brought up-to-date, the Department will have to deploy the relevant resources to get the job completed.

4.24 The longer the audits remain outstanding the more difficult it will be to respond to issues that may be raised during the auditing process. Strenuous efforts should therefore be made to have these accounts prepared and presented for audit in a timely manner.

Public Enterprise Investment Fund

4.25 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. The Accounts of the Fund for the Financial Year ended March 31st 2005 were audited during the course of the year. No material errors were discovered during the course of the audit.

Sugar Workers' Provident Fund

4.26 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.

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4.27 The audit of the accounts for the financial years ending December 31st 2002 and 2003 has commenced. As stated in our previous Report, the Office is awaiting additional information from the National Insurance Department in order to finalize these audits. The Department's inability to provide the information requested is an area of concern.

Severance Payment Fund

4.28 The accounts of the Severance Payment Fund for the Financial Year ended December 31st 2004 were submitted for audit. No material errors in the accounts were discovered during the course of the audit.

Samuel JackmanPrescod Polytechnic

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

4.30 The Polytechnic had submitted financial statements for the six Financial Years to March 31st 2003. The Statements were however deficient and the audit could not be completed. The management and the Board of the Polytechnic should take decisive action on this matter in order that the accounts may be finalized.

Sanitation Service Authority

4.31 The accounts of the Sanitation Service Authority for the Financial Year ended March 31st 2004 were submitted. The audit is in the process of being finalized. The accounts for the financial year ending March 31st 2005 have not yet been submitted.

Management of Vehicles

4.32 In addition to the audit of the accounts referred to above, an audit review of the management of refuse collection vehicles and the impact on collection and removal of refuse by the Sanitation Service Authority (SSA) was carried out. The period reviewed was for the Financial Year ended March 31st 2005.

Introduction

4.33 The SSA is required, in accordance with Section 4(1) of the Act, to provide a number of functions. One of their main responsibilities relate to the removal of refuse from premises as authorized by the Minister.

Audit Objective

4.34 The objective of the audit was to assess whether the Authority has an adequate program in place for collection and disposal of refuse. The audit exercise consisted of a review of the Authority's records for the Financial Year ended March 31st 2005 and focused primarily on the adequacy and management of the refuse collection vehicle fleet.

Methodology

4.35 A review of the accounting and vehicle report records of the Authority was carried out. In addition interviews were conducted with the acting Manager of the Authority and staff of the personnel, accounts and maintenance departments.

Background

4.36 The Authority receives its funding from the Consolidated Fund. During the Financial Year ending March 31st 2005, the Authority received \$26.95 million to administer its current operations and a further \$0.5 million was provided for capital expenditure. Revenue collected by the Authority relates to fees charged for burial certificates, grave digging, providing commercial refuse collection services and cesspool emptier operations. The amount collected for the year amounted to \$0.79 million and this was paid into the Consolidated Fund.

Refuse Collection Services

4.37 The collection of refuse is one of the major responsibilities of the Authority. For collection purposes, the island is divided into 4 geographical areas and these are as follows:-

- The Northern area comprising of the parishes of St. James, St. Peter, St. Lucy, St. Thomas, St. Andrew and St. Joseph.
- The Southern area comprising of the parishes of St. John, St. Philip, St. George and part of Christ Church.
- The St. Michael East area comprising of a section of each of the parishes of St. Michael and Christ Church.
- The St. Michael West area comprising of a section of the parish of St. Michael.

4.38 There is also a Commercial Division that provides for a fee, a refuse collection service for business places and householders.

4.39 The Authority provides refuse collection services to approximately 83,000 households in Barbados. The service, depending on the population density of the area, may be on a daily basis, three times a week, twice weekly or weekly. According to information derived from a study, tonnage of refuse

disposed at the landfill for the years 2004 and 2005 was 341,600 and 348,600 respectively. Ninety percent (90%) of the refuse is estimated to be collected by the Authority's vehicles.

Adequacy of Fleet

4.40 The Authority had 70 vehicles in operation of which sixty-two (62) were employed in the refuse collection service. The vehicles include compactors and open back type trucks, the majority of which are Leylands. The Authority has stated that, with 57 routes to service, a minimum of 57 compactor vehicles would be the ideal number to have on the road. The Authority has however had to operate from time to time with as few as 25 vehicles.

4.41 As a result of not having an adequate number of vehicles on the road, the Authority has experienced delays in the collection of refuse and has received frequent complaints from the public.

4.42 The SSA estimates that a compactor truck should function effectively for between 7 to 10 years. It is recognized however that because a large number of vehicles are acquired at the same time a significant number of that group are also due for replacement simultaneously.

4.43 The issue of obtaining funding for replacing these vehicles is a major challenge to the Authority. Notwithstanding having produced a strategic plan for the period 2000 to 2010 that included a systematic replacement policy, the funding has not been provided in accordance with the plan and the Authority has been forced to operate with an inadequate fleet. At the time of the audit, 21 vehicles were over 10 years old with 9 of those being over 15 years. It was also observed that in excess of 20 vehicles were usually undergoing repairs on any particular day.

Mechanical Workshop

4.44 A mechanical workshop, administered by a transport superintendent with a staff of 32, is charged with the responsibility of maintaining and servicing the Authority's vehicles. The workshop is monitored by a Workshop Committee comprising selected members of the Board.

4.45 From as far back as 1999, concern was registered at Board/Management level about the unsatisfactory functioning of the workshop and the impact such a situation could have on its ability to service vehicles on a timely basis. As a result, a consulting firm was commissioned to carry out an assessment and a report was submitted in June 2000. The report from the consultants dealt with operations, resources, industrial climate and relationships between management and staff.

4.46 Arising out of the recommendations made by the consultants, the workshop committee discussed proposals for the restructuring and reorganization of the workshop. The objective was to enhance efficiency, particularly as it related to staffing at the senior levels.

4.47 Despite efforts to address these concerns, reports by the Board suggest that production in the workshop continues to be slow. The following contributing factors were identified:-

- Four to eight weeks wait for parts requisitioned
- The challenge of a single workstation being responsible for a large number of welding jobs
- Budget constraints
- Lack of a preventative maintenance program.

4.48 At present, the majority of spare parts are imported and essential spares are often acquired only as the occasion demands. It was explained that replacement parts for Leyland trucks bought in 1999 are specialized, are generally not kept in stock by the suppliers and are difficult to source.

4.49 Procedural delays were also identified as a contributing factor. For example, it is a requirement to seek quotations from not less than three suppliers before parts costing in excess of \$1,500 can be ordered.

4.50 In view of the fact that the vehicles are specialized, it may be necessary for the Board of the Authority to review this requirement and to look at alternative ways of dealing with the purchase of parts.

Preventative Maintenance

4.51 A preventative maintenance program is not in place. A report identifying the need to have such a program in place was considered by the Board in 2004. It was however considered too late at that time to make provision for the relevant costs to be included in the following financial year. It is expected therefore that this issue will be addressed in the near future.

4.52 The vehicle manufacturers' manuals recommend the frequency and kinds of service checks appropriate for the various vehicles. Observing these recommendations appears not to be practical however given the demand for the vehicles to be always on the road. Preventative maintenance is therefore very limited.

Stores Management

4.53 The stores management system employed by the Authority was examined and was found to be deficient in some areas. It was observed that storage space is inadequate and that physical stock checks are not effective.

4.54 With respect to the storage, the Authority has indicated that room for expansion at the Wildey compound is limited but efforts are being made to address the problem. In relation to stock checks, the Authority has decided to improve the system by instituting quarterly checks.

Training

4.55 Mechanics were exposed to a one-day seminar designed to familiarize them with the vehicles purchased in 1998. Considering the importance of having a properly functioning mechanical workshop, the Authority should consider whether more extensive training sessions would enhance the mechanics' abilities to be more effective in maintaining vehicles. The Authority has indicated that efforts will be made to address this issue.

Recommendations

4.56 Recommendations made to the Authority included the following:-

- A preventative maintenance program should be put in place that should be strictly adhered to.
- The Authority should carry out extensive research prior to purchase in order to determine durability of vehicles and availability of spare parts.
- The Authority should ensure that mechanics are given the training necessary to be competent in dealing with the various types of vehicles included in its fleet.
- The methods of acquisition, storage and retrieval of spare parts should be reviewed to ensure proper management control and the ready availability of essential parts.

- The Authority should develop a comprehensive performance measurement system. The system should include a set of performance measures to track efficiency and effectiveness of all vehicles.

Social Investment Fund

4.57 The accounts of the Social Investment Fund for the financial year ended March 31st 2005 have been audited as required by Section 9 of the Social Investment Act. No material errors were discovered during the course of the audit.

Sugar Factory Smoke Control Board

4.58 The Revenue and Expenditure Account of the Sugar Factory Smoke Control Board for the years ended December 31st 2001 to 2004 have not been submitted in accordance with Section 3 (11) of the Registered Sugar Factories Smoke Control Act, Cap. 355. The audit of these accounts therefore remains outstanding.

Sugar Industry Research and Development Fund

4.59 The Receipts and Payments Account for the Financial Year ended December 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

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

4.61 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.

4.62 Statements were submitted for the Financial Years ending March 31st 1993 to March 31st 2004. These statements were however deficient and relevant information requested was not supplied. The audits could not be completed at this time.

Unemployment Fund

4.63 The accounts of the Unemployment Fund for the financial year ended December 31st 2004 have been audited. No material errors were discovered during the course of the audit.

General Observations

4.64 A number of Government agencies have been experiencing difficulties in providing financial statements for audit. These entities need to review their operations and make a serious effort to resolve the issues affecting their abilities to produce timely financial statements. Accounts submitted long after the close of financial years often lead to problems in finalizing the audits.

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BARBADOS

January 31st 2006

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."*

A statement of sums waived during the financial year ended March 31st 2005 comprise of a waiver of levies, taxes, duties, and penalties and are as follows: -

<u>Department</u>	<u>Tax</u>	<u>Amount</u>
		\$
Land Tax		
	Tax	5,414,666.60
	Penalty	272,342.55
	Interest	2,937,774.20
	Relief Granted	1,217,180.54
Land Registry	Property Transfer Tax	85,790.37
Customs		
	Import Duty	1,678,753.62
	Environmental Levy	465,071.88
	Excise Tax	75,829,037.71
	VAT	52,303,978.32
	VAT Interest & Penalties	28,732.06
Tax Remitted Re: -		
	Agriculture & Fisheries	6,323,259.12
	Manufacturing	56,162,818.58
	Hotels	10,742,473.39

	Vehicles for Diplomats	6,890,846.10
	Fiscal Incentives	8,206,055.60
Inland Revenue	Interest	216,687.21
Registrar of		
Corporate Affairs	Property Transfer Tax	<u>700,000.00</u>
Total Tax Remitted		<u>229,475,467.85</u>