

BARBADOS AUDIT OFFICE



REPORT of the AUDITOR GENERAL for the year 2003

Report of the Auditor General for the year 2003

CHAPTER 1

Introduction

This is my Annual Report to the House of Assembly for 2003. It is a compilation of the results of the audit of accounts of the Government for the financial year ended March 31st 2003. It has been prepared for laying in the House of Assembly in accordance with 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 2003. I have also examined the accounts of such other public authorities or regional agencies as prescribed by law or agreement. The Report contains significant observations and recommendations arising from the audits conducted.

1.3 The Report is divided into five chapters which address the following areas of audit activity:-

- 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. The 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 comprises a number of special reports relating to audit investigations carried out during the year. Investigations were carried out at the request of a Ministry or Department or on the initiative of the Audit Office.
- Chapter five consists of the results and findings of the audits of statutory boards, regional or other Governmental agencies.

1.4 The Accounts and Statements for the year ended March 31st 2003 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 Auditor General currently do not Audit all Government accounts as indicated under Section 26. Some statutory entities, in accordance with the various Acts under which they are incorporated, have discretion in the hiring of auditors. In these circumstances the audits are 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 or Department or any other entity which receives all or part of its funds from the Consolidated Fund.

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. It is the Auditor General's responsibility to form an independent opinion on Government's accounts 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. The International Organization of Supreme Audit Institutions' (INTOSAI) Auditing Standards were also used as guidelines in the conduct of audits.

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. The audits were also designed to evaluate internal control issues and the use of resources in Ministries and Departments.

1.13 The audits do not in any way relieve Accounting Officers of their responsibilities to ensure that there are adequate internal controls and that the Financial Rules and other regulations are adhered to.

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

Public Accounts Committee

1.15 The Public Accounts Committee has been reorganized and expanded with the passing of the new Public Accounts Committee Act, 2003. In accordance with Section 7 of the Act, the Committee is required to report to both Houses of Parliament on any matters in the Auditor General's reports which it considers should be drawn to the attention of Parliament.

1.16 In addition to the Committee's role in examining the reports of the Auditor General, the Committee is also mandated to consider the following:-

- i the operations of the Office of the Auditor General;*
- ii the resources of the Office of the Auditor General, including funding, staff administrative structures, information collection analysis, retrieval and reporting capabilities;*
- iii reports of the independent auditor on operations of the Office of the Auditor General.*

1.17 The Barbados Audit Office is committed to establishing a viable and effective working relationship with the Public Accounts Committee.

Reorganization of Office

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

1.19 With the increasing demands for transparency and accountability within the Public Service and, considering the need, in a changing global environment, to achieve and maintain international accounting and auditing standards, there is need for some reform in the Audit Office. Parliament and the Barbados

public in general, are seeking assurances that all Government entities are functioning in accordance with Parliament's intentions and are operating in an effective and efficient manner.

1.20 The Audit Office has a responsibility to ensure that it is equipped to conduct the relevant reviews, examine the use of resources of Ministries, Departments and other entities to ensure that their accounting systems have the relevant systems and controls in place to give this assurance.

1.21 To be more effective in this area there is a need to strengthen the human resource capability of the Office and, in this regard, a review of the operations and the operating capabilities of the organization will be undertaken and, proposals will be submitted to the Ministry of the Civil Service for early consideration.

Office Activities

1.22 Financial Audits - The Audit Office was able to complete all financial audits relating to revenue and expenditure from the Consolidated Fund. There were however a few special audits which were in arrears at the end of the year. These related to Statutory Boards which had not submitted their accounts to the Office for audit.

1.23 Other Audits - The Office has been given a mandate to conduct examinations into the economical, efficient and effective use of resources in Ministries/Departments and other audit entities. Three special audits were conducted during the course of the year. These related to the Licensing Authority, the Magistrates Courts and the St Leonard's School Construction Project. The findings of these audits are included in this Report.

Training/Conferences

1.24 During the course of the year members of staff benefited from a number of training initiatives, these included a six day in-house training seminar for staff. This seminar covered several aspects of audit and other public service activity. The Office was also represented at a Regional Audit Workshop in Trinidad and Tobago and at a SmartStream User seminar which was held in Grenada.

1.25 Mr. Leigh Trotman, Deputy Auditor General, attended the Sixth Congress of the Caribbean Organization of Supreme Audit Institutions (CAROSAI) in Bermuda during the period August 10th to 15th 2003.

1.26 The primary objective of CAROSAI is to promote the interchange of ideas and experiences, and provide opportunities for training and continued education amongst its members. The Organization has recently secured funding from an international financial institution to strengthen the training capacity of its members in the region.

Acknowledgements

1.27 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, 2003, were submitted in accordance with Section 12 (2) of the F.A.A. Act, Cap. 5 which require 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, within the prescribed time, on July 9th 2003.

Other Statements

2.3 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

2.4. The abstract account of receipts and payments is a summarized statement of total receipts and payments of the Consolidated Fund, and of other accounts maintained by the Accountant General. The account 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.

2.5 The balance of \$101,679,527 as shown on the receipts and payments account represent the total cash and bank balance in the Treasury Department as at March 31st 2003. This compares with a balance of \$409,127,282 as at the end of March 2002, a reduction of \$307,447,755.

2.6 The cash and bank balances at March 31st 2003 were made up as follows:-

	\$	\$
Cash at Treasury	635,034	
Treasury bank accounts	56,002,202	
Special deposit accounts	98,596,858	
Special funds and other deposits	<u>2,945,016</u>	158,127,170
Less:		
Payable orders not presented (Paymaster a/c)		<u>(56,499,583)</u>
Ending Cash Balance		<u>101,679,527</u>

2.7 Payments other than through the Consolidated Fund exceeded Non-Consolidated Fund Receipts by \$210,925,521. This could be attributed to a number of significant loans made to state owned companies and enterprises.

Consolidated Fund

2.8 The Consolidated Fund is the main Fund of the Government of Barbados into which all revenue is paid. Revenue includes all taxes, fees etc., proceeds of sale and all other receipts of the Crown over which Parliament has the power of

appropriation. Revenue does not however include the proceeds of short term loans. Expenditure from the Fund comprise 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 Current revenue receipts for the financial year amounted to \$1,735,926,426 and was \$76,025,322 short of the amount estimated to be collected. The shortfall can be attributed mainly to the collection of taxes on goods and services which fell short of the estimates by approximately \$82.3 million. Capital loan receipts however totaled \$429,585,324.

2.10 Total Consolidated Fund expenditure for the financial year amounted to \$2,262,033,984 and was \$221,824,218 less than estimated for the year.

2.11 The Consolidated Fund statement therefore shows a deficit of \$96,522,234 for the financial year. This compares with a surplus of \$152,689,226 for the previous financial year. The accumulated deficit as at March 31st 2003 was \$176,027,673.

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

	\$	\$
Current Revenue	1,716,405,362	
Capital Revenue	429,585,324	
Annexed Revenue (Post Office)	<u>19,521,064</u>	
Total Revenue		2,165,511,750
Current Expenditure	1,914,238,005	
Capital Expenditure	324,821,999	
Annexed Expenditure (Post Office)	<u>22,973,980</u>	
		<u>2,262,033,984</u>
Deficit		<u>96,522,234</u>

Statement of Current Assets and Liabilities

2.13 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.

2.14 The statement, representing a list of Government's cash holdings, fund deposits, advances and short term loans, shows current assets to be \$362.66 million and current liabilities to be \$538.69 million. Net assets represented by the Consolidated Fund accumulated deficit is therefore \$176.0 million.

Statement of Advances and Loans

2.15 The statement of advances and loans shows outstanding amounts due to Government of \$248.85 million. This is a significant increase of \$208.43 million when compared with the amount outstanding at March 31st 2002 of \$40.42 million.

Loans

2.16 This significant increase under advances and loans is due primarily to new loans amounting to \$215,937,710 made to various state entities. Details are as follows:-

\$

Hotel and Resorts Limited	145,328,264
Needham's Point Holdings	25,000,000
Grantley Adams International Airport Inc.	25,000,000
Caribbean Broadcasting Corporation	<u>20,609,446</u>

215,937,710

2.17 Section 25A of the FAA Act, Cap. 5 requires the following:-

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

2.18 Audit investigations revealed that the relevant loan agreements are in place. Other information indicate however that the \$25 million loan to the Grantley Adams International Inc. is temporary and will be converted to equity over time.

Advances

2.19 Amounts shown as advances represent sums of money advanced by Government to facilitate arrangements primarily with Overseas Missions/Embassies, Other Governments and other state entities. The outstanding balance as shown in the statement of advances and loans is \$7,097,397. A summary is as follows:-

	\$
Caribbean Meteorological Services	883,272.22
Other Governments and Administrations	1,340,307.13
Postmaster General Advances	1,424,996.39
Overseas Embassies	393,541.80
Pension Advances (B'dos Water Authority)	3,010,691.82
National Sports Council Pensions	31,584.38
Cash Imprest	<u>13,002.97</u>
Total	<u>7,097,396.71</u>

2.20 Issues relating to Advances are as follows:-

**Pensions Advances
(Barbados Water Authority)**

2.21 The Barbados Water Authority is required to reimburse the Treasury for expenditure incurred in paying a number of pensioners on behalf of the Authority. The balance due to the Treasury has been growing over the years and currently stands at \$3,010,766.52 as compared with \$2,140,937.31 at March 31st 2002.

2.22 In a previous report I had indicated that if this trend is allowed to continue the Authority's debt may escalate beyond manageable proportions. It is evident that the situation has worsened and it is imperative that the matter be urgently addressed at the earliest possible time.

Caribbean Meteorological Services

2.23 It is noted that the balance due from other Governments with respect to the Caribbean Meteorological Institute continues to increase and now stands at \$883,272.22. As indicated previously, steps should be taken to ensure that the balance does not continue to escalate.

**Statement of Public Debt
and Sinking Funds**

2.24 The outstanding amount relating to the Public Debt of Barbados as at March 31st 2003 was \$3,975,548,311, an increase of \$190,918,625. This outstanding balance represents the long-

term debt of Government. Short term loans resulting from the issue of Treasury Bills are not included in this amount.

2.25 Some discrepancies were observed with respect to the amounts shown as outstanding in the accounts of the Treasury when compared with statements from the Caribbean Development Bank and the Inter American Development Bank (IADB). The differences result mainly from foreign exchange differences as a result of loan payments and loan revaluations which were not taken into account by the Treasury Department.

2.26 In addition to the above, audit investigations discovered a number of posting errors and omissions in the accounts. Examples are as follows:-

**CDB Secondary Education Project
Loan 5/SF/OR**

- The balance as shown on the statement is incorrect as a result of a principal repayment of \$308,867.52 not being taken into account.

CDB Industrial Estates Loan 8/OR

- The balance as shown on the statement does not include a principal repayment of \$298,445.00.

**IADB Education Sector Enhancement
1154/OC**

- The balance shown is incorrect. A loan disbursement from IADB of \$3,294,564 is not included and an

amount of \$2,922,826 is erroneously included as a disbursement.

2.27 It is considered that careful attention should be paid to ensuring that all loan transaction are posted to the accounts, that the necessary exchange differences and revaluation adjustments are properly accounted for, and that the balances of the various loans as reported accurately reflect Government's liability at the end of the financial year.

2.28 In addition, in order to maintain complete informative records, and to facilitate the audit, more attention should be paid to providing adequate information on the journals posted to the accounts.

Statement of Special Funds

2.29 Special Funds are accounts maintained by the Accountant General and usually relate to activities administered in accordance with the specific legislation under which the fund is set up.

2.30 The total of Special Funds as at March 31st 2003 was \$23,435,380.69 as compared with \$37,465,883.93 as at March 31st 2002. The main reason for the reduction relates to expenditure from the Public Enterprise Investment Fund amounting to \$18.83 million.

General Comments

Bank Reconciliation

2.31 With respect to the Treasury account held at the Central Bank of Barbados, There are a number of transactions

shown on the bank reconciliation statement at March 2003 which warrant some investigation and satisfactory resolution. These include:-

- (i) a number of withdrawals, not recognized on the bank statements, totalling in excess of \$1.8 million, of which the transactions took place between October 2000 and November 2002.
- (ii) a deposit shown on the bank statement dated April 2nd 2001 for \$4,485,699.32 which is not accounted for in the books of the Accountant General.

2.32 The Accountant General should carry out the necessary investigations to ensure that long outstanding issues are not continually being carried forward.

2.33 Continuous improvement in the operations of the Treasury department is observed. It is also noted that the internal audit activities of the department, which extend to assisting other Government Departments in improving their accounting capabilities is ongoing.

2.34 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

Audit Concerns and Observations

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

Management of Arrears

3.2 There continues to be a steady rise in the level of arrears with respect to the major revenue earning Government Departments. The risk of significant revenue loss is therefore high and unacceptable. It is important that Department Heads carefully analyze and manage their receivables in order to minimize this potential loss.

3.3 For the current financial year under review, several Government Departments did not comply with Rule 41 of the Financial Rules which require reports to be submitted showing the state of arrears at the end of September and March in each year. Audit investigation however revealed a number of concerns which are detailed as follows:-

Inland Revenue Department

3.4 The Inland Revenue Department submitted a statement showing arrears as at March 31st 2001 of \$143.8 million. These arrears comprised of \$28.4 million in corporation tax outstanding and \$114.4 million in Income Taxes due from individual Tax Payers.

3.5 It is doubtful whether the amounts outstanding for long periods can be recovered. Arrears should be written off for companies no longer in existence if it can be established that amounts owing will not be recoverable.

3.6 Arrears have been increasing steadily in recent years, rising by over \$92.9 million during the last seven years. There clearly is a need to focus greater attention on reducing these arrears to manageable proportions.

Customs and Excise Division

3.7 The Customs and Excise Department submitted an arrears statement for the period ending March 31st 2003. The total was shown as \$92,927,548.82. This compares with \$88,690,404 as reported at March 31st 2002.

3.8 The major component of these arrears relate to Value Added Tax (VAT) which was estimated at \$87,567,854.30. Included in the VAT assessment is an amount of \$12,368,854.3 which represent an estimate of the tax due by those businesses failing to file VAT returns.

Land Tax Department

3.9 The Land Tax Department reported arrears as at March 31st of \$104,011,167. This was \$16,523,111 more than the \$87,488,056 reported at March 31st 2002. The total amount comprise of \$74.2 million in taxes, \$2.5 million in penalties and \$27.19 million in interest charges. During the course of the year, efforts were made by the department to recover outstanding amounts by way of auctions. Despite these efforts however, tax outstanding continue to show a steady increase.

Ministry of Housing

3.10 The Ministry of Housing has a number of properties located throughout the island which are leased to individuals and firms. No statement was submitted showing the arrears position as at March 31st 2003, however audit examination of the records indicate that arrears of revenue from leases were approximately \$2 million as at that date. In some instances tenants had not paid rent for over ten years which suggest that management has to improve its collection efforts.

Treasury

3.11 The Treasury Department has responsibility for the collection of revenue from the Barbados Turf Club Lottery. As at March 31st 2003, the arrears from the Barbados Turf Club was approximately \$18.4 million.

Registration Department

3.12 Audit investigation revealed that the system of record keeping for court fines do not allow for the adequate monitoring or reporting of arrears. No statements were prepared, however the amount outstanding was estimated to be in excess of \$1.3 million.

Airport

3.13 The International Transport Division (Airport) submitted statements for the period ending March 31st 2003 which showed arrears of revenue of \$21,172,077. This compared with an amount of \$17,925,976 as at March 31st 2002. The major

component of this debt relates to amounts due by Airlines of which \$7.8 million is owed by the regional carrier LIAT (1974) Limited.

Queen Elizabeth Hospital

3.14 No statement of arrears was submitted by the Queen Elizabeth Hospital (Q.E.H.) for the financial year ended March 31st 2003. The records maintained by the Hospital were such that it was not possible to determine the amount outstanding. It is noted however that the services of debt collecting agencies were acquired in an effort to collect amounts due.

Markets

3.15 Arrears of revenue relate to amounts outstanding by vendors at public markets. No statements were submitted by the Ministry of Agriculture. An attempt to analyze the records and determine the outstanding amount was inconclusive due to the poor state of record keeping. Improvements in this area are important and necessary.

Recommendations of The Cabinet

3.16 In an effort to reduce the unacceptable level of receivables due to Government, The Cabinet made a number of decisions designed to assist persons indebted to the Crown and the National Insurance Fund in settling their outstanding debts. Decisions included the following:-

- Interest and penalties due on outstanding arrears as at March 31st 2002 to be frozen.

- All payments to be applied to outstanding principal first while interest and penalty remains static.
- The frozen interest and penalty to be paid after the principal has been paid off.
- A maximum of 36 months to be granted for liquidating the total outstanding amount.

Information received from the main revenue collecting agencies indicates that, to date, these options were generally not taken up by persons indebted to Government.

General Comments

3.17 The management of arrears continues to be a growing problem for Government Ministries and Departments. Based on information obtained total amounts due to Government are in excess of 380 million dollars. Efforts must therefore be made to allocate an appropriate level of resources, and to put adequate systems in place to properly manage receivables.

3.18 The management of arrears is an exercise, which departments must vigorously pursue. It is considered that collaboration and cooperation between Government entities can assist in controlling the problem and, it is also important that the departments use all of the powers of collection given to them in order to keep the outstanding amounts to manageable levels.

Financial Reporting

3.19 Section 12, subsections 3 (a) and 3 (b) of the F.A.A. Act require accounting officers to submit to the Auditor General appropriation accounts within three months of the end of the financial year.

3.20 Significant improvement is seen in the timeliness of Financial reporting by Ministries and Departments. Appropriation accounts were expected for 292 sub-programmes approved for the various Ministries and Departments. 120 accounts were received by the stipulated deadline of June 30th 2002, accounts for 171 sub-programmes were submitted late and accounts for one sub-programme, Head 24-423-435 (National Disability Unit) was not submitted.

3.21 Many of the statutory entities, whose accounts are audited by the Barbados Audit Office, continue to submit statements long after they are due. It has been eight years since the Samuel Jackman Prescod Polytechnic submitted financial statements for audit, and there are other statutory boards that are several years behind in their submissions. This is an area of concern.

Inventory Management

3.22 Inventory management continues to be deficient and this problem has been highlighted on numerous occasions in the past. The lack of adequate inventory records is widespread throughout Government. This is in spite of the large sums spent on the purchase of computers and office equipment and furniture on an annual basis. Adequate inventory management is important to ensuring Government assets are adequately accounted for.

Cash Management

3.23 The management of cash at the magistrates court was of some concern. A number of cash shortages were experienced and the Financial Rules were not being properly observed and applied. This issue is addressed later in the Report.

Tendering Process

3.24 There were instances in which the tendering process was not utilized for the acquisition of goods and services as required by the Financial Rules. The tendering process seeks to allow a number of suitably qualified suppliers of goods or services to submit quotations which are evaluated by a committee. This evaluation, taking the relevant factors into consideration, results in the contract being awarded in the best interest of Government.

3.25 A number of instances were seen where goods and services in excess of the \$100,000.00 threshold were obtained without the tendering process being activated. Examples of this could be seen at the Ministry of Agriculture and the Ministry of International Transport. A breach of the Rules was also evident with respect to the construction works of the St Leonard's Secondary School Project.

Purchase of Small Items

3.26 The current system employed by the Government requires Ministries and Department to submit estimates of expenditure several months before the start of the financial year. There are occasions however, where it may be necessary to urgently replace relatively inexpensive items and this cannot be done unless a supplementary is sought and approved.

3.27 In order to improve efficiency in the Public Service, it is suggested that the current system be reviewed and consideration given to allowing Ministries and Departments to purchase small items, not exceeding a pre-determined limit. This type of arrangement is currently in operation at the Overseas Missions where items not exceeding Bds\$500.00 can be purchased from the supplies and materials vote.

Audit of Overseas Missions

3.28 An audit of accounts of the Barbados Overseas Missions for the financial years ending March 31st 2002 and March 31st 2003 was conducted during the current financial year. The following issues were observed during the course of the audit

Short payment of Salaries - Geneva

3.29 As a result of errors made in determining the exchange rates between the Swiss Franc and the Barbados Dollar during April to September 2002, certain salary payments made resulted in loss of earnings to the recipients.

3.30 Examination of the relevant records show that, due to the errors made, certain Mission employees were short paid by amounts totalling in excess of Bds\$12,000.00 during the period.

Leased Computer Equipment

3.31 As a general policy, computer equipment is leased for three year periods. Based on our observation this may not always be in the best interest of Government. It is suggested that the Ministry evaluate the merits of lease versus purchase when the

various Missions are in the process of installing computer equipment. Decisions should be made based on arrangements that give the best value for money.

Rental of Office Space - Miami

3.32 The Barbados Government is currently renting 12,776 square feet of office space at the Alhambra Center Ltd. at US\$22.50 per square feet per annum for the Miami Consulate Office. Approximately 4,000 square feet, costing approximately BDS \$180,000.00 per annum, has not been in active use by the Consulate over the last four years.

3.33 In excess of BDS \$700,000.00, the approximate cost of renting the unused space, have been spent during this four year period. As indicated in my 1999 Audit Report, expenditure incurred in leasing this excess space cannot be justified given the space requirements of the Consulate. The current rental arrangement appears not to be in the best interest of Government and should be reviewed.

CHAPTER 4

Special Audit Reports

This section of the report details a number of special audits that were conducted during the course of the year. These audits relate to the financial and project management of the St. Leonard's Boys' Secondary School Refurbishment Project, Cash Management at the Magistrates Courts and a Review of the Process of Issuing Driving Licences by the Barbados Licensing Authority.

St Leonard's Boys' Secondary School Refurbishment Project

Audit Purpose and Scope

4.2 The Barbados Audit Office was requested by the Director of Finance and Economic Affairs to conduct an investigation into the financial arrangements of the St Leonard's Boys' Secondary School Project.

4.3 The audit was carried out by reviewing certain files provided by the Ministry of Education and through interviews conducted with Personnel from that Ministry. Also interviewed were personnel from the project management firm, the architectural consulting firm and the quantity surveyors consulting firm.

4.4 The findings and conclusions included in this report are largely based on evidence available up to 31st March 2003. The issues were discussed with the Permanent Secretary, Ministry of Education, Youth Affairs and Sports and with personnel from the Project Implementation Unit of that Ministry.

Background Information

4.5 The Government of Barbados, in February 1996, signed an agreement with the Caribbean Development Bank (CDB) for a loan in the sum of US \$12.226 million. This loan was to finance, inter alia, completion of the St. Thomas Secondary School, and Refurbishment of the St. Leonard's Boys' and Girls' School complex, to house the St. Leonard's Boys' Secondary School.

4.6 The St. Thomas Secondary School portion of the Project has been completed to date. The Redevelopment of the St. Leonard's Boys' Secondary School was conducted in two phases. Phase I was completed during the 1997/98 financial year while Phase II which commenced in 2001 is currently in progress.

4.7 The disbursement of funds by the CDB was contingent on certain conditions being met. Expenditure on the project would initially be incurred out of funds provided by Government. Reimbursement would subsequently be sought from the CDB after providing the Bank with satisfactory evidence of the expenditure incurred.

4.8 The conditions also require a performance bond and an executed contract to be in place. These conditions have not been met to date and have resulted in the Government not been able to access CDB funding.

Phase I of the Project

4.9 The portion of the CDB loan allocated to the Civil Works Component (Phase I) of the St Leonard's Boys' Secondary School Project amounted to BDS \$3.933 million.

4.10 In April 1996, a consulting firm was hired to provide Project management services with respect to the Re-development of the St. Leonard's Boys' Secondary School. Nineteen (19) contractors were recruited directly by the consulting firm to carry out the civil works on Phase 1 of the Project. The Ministry provided no evidence to show that the consulting firm had the authority to engage contractors.

4.11 Rule 129 (2) of the Financial Administration and Audit (Financial Rules, 1971) requires that where funds to be expended by Government are borrowed from an international financial institution there should be constituted a Special Tenders Committee. It was observed that a Special Tenders Committee was not constituted as required by the Financial Rules.

4.12 It was also observed that some of the contractors hired by the Consultant were paid over \$100,000.00 for work carried out on the Project. This action was in breach of the Financial Rules as no invitations were issued for tenders and no contracts were drawn up as required.

4.13 An agreement was entered into to provide construction work on the hard courts of the School for an amount of \$261,834.75. From correspondence received it would appear that the Ministry was unaware of this liability until it was drawn to their attention some three years after. The construction firm was therefore not paid during this phase of the Project.

4.14 During Phase 1 of the Project, the architectural consultants did not certify any of the civil works carried out by contractors as should have been done prior to payment being made.

Government Disqualified

4.15 As a result of the failure by the Ministry to meet the criteria set by the CDB the Government was disqualified from receiving loan disbursements under Phase 1 of the civil works component of the Project.

4.16 The Ministry's project consultant utilized a process of recruiting contractors in which there was no competitive bidding. No executed contracts were in place, no bills of quantities were produced and no security was provided by contractors.

4.17 The decisions taken, as indicated above, were not in accordance with the Bank's guidelines for procurement and resulted in Government being unable to draw down funds during this phase of the Project.

4.18 The inability of Government to draw funds also contributed to excess commitment fees being paid to the CDB. These fees which are paid quarterly, are calculated at the rate of 1% per annum and amount to approximately \$39,000.00 per year.

Phase II of the Project

4.19 After failing to utilize the CDB funds made available under Phase I of the project the Government in September 2001 requested that the funds be allocated to Phase II. The Government at that time had applied for an additional loan for Phase II of approximately BDS \$8.0 million.

4.20 The CDB approved the additional BDS \$8.0 million and agreed to allocate the unused portion of BDS \$3.97 million to Phase II bringing the total loan financing available for civil works with respect to Phase II of the project to BDS \$11.97 million. The criteria for reimbursement by the Bank remained the same.

4.21 A local firm was awarded the contract to carry out construction work for this second phase of the St Leonard's Boys' Secondary School redevelopment project for \$13.9 million in 2001.

4.22 There is a standard clause in these contracts, which require the successful bidder to provide a performance bond of 10% of the agreed cost after the tender has been accepted. This bond provides a measure of cover for Government in the event of the contractor failing to fulfill the terms and conditions of the contract.

4.23 The contractor was however allowed to commence work on the project before a performance bond was put in place and, notwithstanding the absence of the performance bond, a mobilization fee of \$1.4 million was paid to the contractor.

4.24 The Government, at the start of Phase II of the project, was therefore exposed to the high risk of sustaining substantial loss of funds in the event of non-performance or collapse of the contracting company.

4.25 After commencement of the project the contractor experienced financial difficulties and failed to perform to the satisfaction of the Ministry even before the total mobilization fee was recovered.

4.26 In order to facilitate continuation of the project, a compromise agreement was reached by the Ministry, which

allowed a subcontracting firm to continue the Project. As part of the agreement this firm was required to take over the performance bond.

4.27 The agreement to take over the bond did not materialize but work on the project continued and this allowed the Ministry to recoup the outstanding balance of the mobilization fees, which amounted to \$727,955.76. This was effected by deducting amounts from subsequent valuations submitted to the Ministry by the contractor.

Commitment Fees

4.28 The absence of a performance bond and an executed contract however not only inhibits Government's ability to seek reimbursements from the CDB but also contributes to additional commitment fees being paid.

4.29 According to CDB regulations, after the Bank has approved a loan, commitment fees are payable at the rate of 1% per annum on the undisbursed balance. Fees are payable on a quarterly basis and start to accrue sixty days after the date of the loan agreement. Fees remain payable until the full amount of the loan is disbursed.

4.30 As a result of Government's inability to seek reimbursements, fees calculated at the rate of 1% per annum of the loan balances, were paid on the Phase I loan balance of \$3.93 million from 1996 to the present time, and an additional amount in respect of the second loan of \$8.0 million from 2002 to the present time.

4.31 The project has been totally financed out of the Consolidated Fund to date and commitment fees are currently

being incurred at the rate of approximately \$29,800 per quarter with no clear indication as to when or if Government will meet the criteria to draw down CDB funds.

Payment for Hard Courts

4.32 As indicated earlier, an amount of \$261,834.75, due under Phase I for the construction of hard courts remained outstanding as the Ministry was unaware of the liability.

4.33 The Quantity Surveyors were instructed to include an amount of \$350,000 in the tender for the Phase II component of the Project to facilitate this payment. This meant that tenders were being invited for a component of the work that had already been completed.

4.34 Based on instructions given by the Project Consultant, the Architect gave permission on November 13th 2001 for the release of the funds and the Ministry of Education paid the amount to the contractor to be paid over to firm which had done the work in Phase I.

4.35 The contracting firm however did not pay over the money and it had to be recovered later through deduction from a subsequent valuation certificate.

Consultants' Fees

4.36 During Phase I of the Project, fees for consultants were determined and paid based on the estimated construction costs of \$3.93 million. However, work to the value of \$1.725 million was not carried out during this phase and was subsequently transferred to Phase II. Since consulting fees for Phase II were

again based on the value of work to be performed, it would appear that consultants will be paid twice for the same work

Consulting Engineers Fees

4.37 It was observed that the rates paid to the Consulting Engineers were increased from 1.8% to 3% of total construction cost during Phase II of the Project. This increase in fees was not approved by the Ministry or by Cabinet, and the excess paid amounted to \$162,331.44.

4.38 The above situation was brought to the attention of the Education Project Implementation Unit (EPIU) by this Office. The Consulting Engineers were informed of the error and a repayment was requested. The firm agreed to offset the \$162,331.44 through future billings and to have the matter concluded by the end of 2003.

Architect Fees

4.39 The Cabinet had approved payment of \$140,000 to the architect. This was calculated using rates of 3.25% of the construction costs for new works and 4.05% of the construction costs of old works. It was observed however that varying rates of 3.6% and 6% were used when actual payments were made and total fees paid to the Architect amounted to \$148,080.00. Overpayment therefore appeared to be in the amount of \$8,080.00.

4.40 It was also observed that a contract drawn up, reflecting the rates as approved by Cabinet was signed on behalf of the Architects but was not signed on behalf of Government. Other correspondence seen however confirm that the Architect's firm had agreed to the terms of the contract.

4.41 A subsequent Cabinet decision, dated May 2001, approved payment to the firm at the rate of 4.6% of the total construction costs of the completed works. Audit opinion is that this rate is intended to relate to total construction costs of Phase II of the project and not for Phase I since a contract was already in place for Phase I.

4.42 The opinion of the EPIU however is that the new rate also apply to the fees payable under Phase I of the project. This interpretation by the EPIU would translate into a substantial overpayment since, as previously indicated, work in excess of \$1.7 million for which the Architects had been paid did not commence during Phase I.

Project Manager/Consultant Fees

4.43 In July 1997, the Cabinet agreed that the appointed project manager/consultant, should be paid fees of \$92,000 in respect of the management of Phase I of the St. Leonard's Boys' Secondary School project. The above amount was paid in full even before a formal contract between the two parties was executed.

4.44 As a result of the project being extended, the Ministry entered into an agreement with the Consultants for a monthly fee of \$3,750.00 which became effective February 1, 2000. It was subsequently agreed between the Ministry and the Consultant that the above rate of \$3,750.00 per month would continue until the project was completed.

4.45 Subsequent to the payment of \$92,000 as approved by the Cabinet for Phase I, fees totalling \$129,750.00, for the period October 1999 to February 2003 have been paid to the

Consultants. As at the time of writing this report no Cabinet approval was sought to approve this expenditure.

Conclusions and Recommendations

4.46 The refurbishment of the St Leonard's Boys' Secondary School has been characterized by poor project management. During Phase I of the project the Project Manager/Consultant was allowed to enter into contracts for the Ministry with apparently little input from the Project Unit. The procedures followed were not in keeping with Government rules for inviting tenders for contract amounts in excess of \$100,000.00.

4.47 The award of contracts is expected to reflect Government's policy. This policy seeks to ensure that potential bidders have fair access through competitive bidding thus ensuring that value for money is received.

4.48 Phase II of the Project was allowed to start even though no performance bond was in place. In addition the tender included work that had already been completed. Failure by the main contractor to provide performance bonds also prevented the Solicitor General from finalizing the contracts as required in accordance with the Financial Rules. The Government was therefore unable to meet the criteria as set out by the CDB for reimbursement. In addition, substantial commitment fees are being paid for loans, which Government is unable to access.

4.49 The payment of the mobilization fee to the main contractor before a performance bond was in place also subjected the Government to unnecessary high financial risks.

4.50 The payment to the contractor of monies due to a subcontractor, for work carried out in Phase 1, and the lack of certification of the civil works carried out by contractors were irregular. Indeed, these events point to a break down of established procedures in key aspects of the management of the Project.

Recommendations

- ◆ The Ministry should ensure that the Financial Rules relating to the tendering process and the award of contracts are strictly followed. Construction work should not be allowed to commence until these provisions are met.
- ◆ The Education Project Implementation Unit should be in a position to ensure that the Project is going according to plan and early corrective action should be taken when there is a deviation from the Contract or the established policies of the Ministry.
- ◆ Legal issues arising out of the project, such as contract termination, should be referred to the Solicitor General for assessment and advice. It is important that contracts are executed as required in order that loan funds can be accessed and as a result the cost of commitment fees would be reduced.
- ◆ There needs to be adequate documentation of the work of consultant to the project. Such documentation should clearly state the nature and scope of the service contracted.

- ◆ Preparation of contract for consultants should be given high priority and any variations should be approved by the relevant authorities.
- ◆ Payment of fees to consultants also needs to be regularized. There are often no contracts in place and variations should not be made without the prior approval of The Cabinet.

Cash Collections at Magistrates' Courts

Purpose of the Review

4.51 The Registrar of the Supreme Court reported a cash shortage of \$21,134.00 at the District "E" Speightstown Magistrate's Court and requested the Auditor General to carry out an investigation. The results of a preliminary audit prompted a review of the cash collections and payment procedures at all Magistrate Courts.

Objective

4.52 The main objective of the exercise was to determine what were the underlying factors contributing to cash shortages at the courts, how these shortages were being accounted for and their impact on the operations of the courts.

Methodology

4.53 In conducting the audit discussions were held with The Registrar of the Supreme Court, the Court Administrator, Senior Legal Assistants and Legal Assistants. In addition, Surprise Inspection books were inspected and audit surprise cash inspections were carried out at all the District Courts of the Northern and Southern Divisions.

Surprise Cash Inspections

4.54 The investigation revealed that a number of courts failed to comply with Rules 71(1) and 71(2) of the Financial

Administration and Audit (Financial) Rules 1971. This requires internal surprise inspections to be carried out at irregular intervals with the results being recorded in a book to be kept for that purpose.

4.55 It was observed that inspections were few and far between and therefore not in full compliance with the relevant Financial Rules. It was also observed that two courts had no inspection books suggesting that no inspections were carried out at those locations.

4.56 The examination of available inspection books revealed instances of two to three years' time span between surprise inspections. There was also evidence of substantial cash shortages being recorded with no evidence of follow up action being taken to address the problems.

Cash Shortages

4.57 Cash inspections were carried out during the course of the audit, which revealed a number of shortages/excesses. The more significant findings are as follows:-

Court	Shortage	Remarks
	\$	
Speightstown "E"	21,421.73	A shortage of \$7,311.79 noted in the Court records in March 2001
Holetown "E"	6,404.22	
Civil Court "A"	61,111.20	A shortage of \$100,091.28 noted in records in March 2000
Criminal Court "A"	3,028.03	

4.58 As indicated earlier, the shortage of \$21,421.73 at the District “E” Speightstown Court prompted the audit investigation. As shown in the table above however, officers of the Court had been aware of an existing shortage of \$7,311.79, the result of an internal cash check on 2nd March 2001.

4.59 It would appear that no action was taken to deal with that matter. There was obviously lack of internal and management control at the Court and the shortage was allowed to escalate over a two-year period, reaching the amount now being reported of \$21,421.73.

4.60 The shortage of \$6,404.22 at the District “E” Hometown Court and \$3,028.03 at the District “A” Criminal Court also suggest lack of proper internal control at these Courts and reflect adversely on the officers responsible for the cash management and also on the supervisory management of the officers.

4.61. With respect to the District “A” Civil Court, St. Matthias, as indicated above, the surprise inspection conducted revealed a cash shortage of \$303.39. There was evidence to show however, that court officers were aware of a shortage of \$98,621.98 following a cash check in March 1999 and that the shortage increased to \$100,091.28 following an inspection of the books on 24th March 2000.

4.62 Information obtained from a Cabinet Paper of March 2001 seeking Supplementary Provision for Program Head 30 - Attorney General, show that the 1999 shortage of \$98,697.81 comprised of Treasury Revenue of \$60,697.81, Witness Compensation money of \$110.00 and amounts due Plaintiffs in Civil suits totalling \$37,813.47.

4.63 Supplementary Provision of \$37,813.47 was sought and received to settle the amount due to Plaintiffs. The total

amount of \$60,807.81 due as Treasury revenue and as witness compensation monies were not addressed in the Cabinet Paper with respect to write off or otherwise.

4.64 Further examination of the Court records however, shows that in addition to Supplementary Provision of \$37,813.47, a decision was taken in October 2001 to remove the \$60,807.81 referred to above from the books. These transactions contributed to the shortage being reduced to \$303.39 as at 2nd June 2003.

4.65 It should be noted that the decision to remove the shortage of \$60,807.81 was unauthorized and is in breach of the Financial Administration and Audit Act. This extra-ordinary action was taken by two experienced officers who either do not understand their responsibilities or were indifferent to the provisions of the Financial Administration and Audit Act and Rules.

4.66 It should be noted that amounts due to the Crown in excess of \$5,000 could only be written off with the authority of Cabinet in accordance with Section 11 (2) of the F.A.A. Act.

Changing Combinations of Safes

4.67 The Financial Rule requiring that combinations to safes be changed when the officer in charge is being replaced was not observed. This is a control mechanism, which should be practiced at all times.

Conclusion and Recommendations

4.68 Conclusions and recommendations are as follows: -

Cash Control

- Internal control at some of the Magistrates Courts is weak. Cash supervision is poor and failure to conduct surprise inspections in a timely manner may be contributing to officers having responsibility for cash not exercising the due care and diligence required to properly account for cash under their control. It was observed that despite some shortages being significant, all relevant authorities were not informed and no attempt was made to hold anyone accountable.
- Control of cash should be given the serious attention it deserves, internal control should be strengthened and cash inspections should be carried out in accordance with the Financial Rules. Attention is specifically drawn to Rule 93 (1) which require that shortages be reported to the head of department who in turn shall report the loss to the Accounting Officer, Auditor General, Director of Finance and Economic Affairs and the Accountant General.
- Officers should be aware that cash shortages are usually required to be made good by those officer responsible for the shortage, and where fraud or theft is suspected the matter should be reported to the Commissioner of Police. Excess cash should be paid into the Treasury and under no circumstances should attempts be made to write off losses without the approval of the Minister or Cabinet as provided for

under the Financial Administration and Audit Act.

- Rule 83 of the Financial Rules should be followed with respect to officers having responsibility for combination safes and their contents. This is an internal control measure, which should be implemented in order to safeguard Government's revenue and other assets.

Process of Issuing Driving Licences Licensing Authority

4.69 A review of the system of issuing driving licences, as managed by the Barbados Licensing Authority hereinafter referred to as “The Authority” was carried out in accordance with the provisions of the Financial Administration and Audit Act, Cap. 5.

Audit Objective

4.70 The objective of the audit was to examine and test adherence to legal and other requirements relating to the issuing of driving licences and, to ascertain that the relevant controls to protect the integrity of the system were in place and functioning appropriately.

Audit Criteria

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

- The Road Traffic Act Cap. 295.
- The business rules (unwritten) of the Barbados Licensing Authority.
- The Financial Administration and Audit (Financial) Rules, 1971.

Background

4.72 The issuing of a driving licence is authorised under Part V of the Road Traffic Act, Cap. 295 and the Road Traffic

Regulations, 1984. The regulations require that persons wishing to obtain a driving licence or a learner's permit must apply to the Licensing Authority. The Act also provides for the conducting of a driving test before the issuance of a licence.

Process

4.73 Persons applying for a driving licence for the first time must pass a regulation test, fill out the application form for a driving licence/permit and obtain a learner's permit after paying the required fee. The learner's permit is initially valid for six months and the applicant is given a date within the six months period to take the driving test. On the expiration of a permit, an extension for a period of three months may be granted for an additional fee.

4.74 The Licensing Authority has established guidelines where a person, who does not possess any class of licence, must wait approximately three months before they can be tested. Persons, in possession of a valid licence for a particular category of vehicle, who wish to apply for another category, are exempt from this requirement.

4.75 On the date of the driving test, the applicant pays for the test which is conducted under the supervision of a Testing Officer. After completing the test, the applicant is issued with either a pass or fail certificate. The person with the fail certificate may be given a new date for a subsequent test.

4.76 Applicants receiving a pass certificate are entitled to receive a driving licence after paying the relevant fees. As a control measure, the new driving licence is forwarded to the Chief Licensing Officer for his signature before it is issued. The licence,

pasted in a Barbados Driver's Licence Book, may be collected by the applicant on the following day or some time thereafter.

Sample Tests

4.77 A sample representing one hundred and thirty four licence holders was selected with a view to verifying that the required procedures were carried out. The names were tested to ensure that the holders obtained permits, received pass certificates and paid the required fees. In addition, the database, which contains information relating to license drivers was obtained and analyzed.

Supporting Documents

4.78 Of the one hundred and thirty four names selected, each name was checked for the existence of the relevant records, which include a permit, driving test receipt, pass certificate and driving licence. Driving tests receipts, pass certificates and driving licences were found for all of the names selected. As a result of inadequate record keeping however, only thirty-five permits were located.

Date Comparisons

4.79 According to guidelines set out by the Licensing Authority and as indicated before, applicants for a first licence are allowed to take the driving test only after having a permit for a minimum of three months. Applicants seeking to gain a license in a category other than that for which they were previously licensed can be tested in a much shorter time period.

4.80 Of the sample population of one hundred and thirty four, one hundred records were seen where the date of application for a licence was the same date on which the pass certificate was issued. While, as a result of the inadequate record keeping, it was not possible to further analyze these findings, the fact that 73.5% of the sample selected fall into the above stated category suggests some abuse of the system. It is a concern, which would merit further investigation by The Authority.

Database

4.81 The Authority stores its information on licensed drivers in an electronic database. This data was analysed and was found either to be replete with errors and omissions or revealing a serious departure from the rules and regulations under which The Authority operates. In any event the data would appear unreliable for use by The Authority. The following anomalies were observed in analysing the data.

- Three hundred and fifty three cases where the expiry date for the licence was shown as earlier than the renewal date.
- Twenty six thousand two hundred and ninety four cases where no receipt number was recorded. In addition, receipt numbers were duplicated.
- One hundred and seventy one cases where the licence renewal date shown in the system was before the issue date.

- One hundred and six cases where the expiry date was before the date the licence was issued
- Six entries where the amount paid were above \$1,000.00 although the highest amount payable for renewal of a licence is approximately \$313.20.

4.82 The above irregularities are a reflection of inadequate data management and control. This state of affairs effectively compromises the integrity of the data.

Control Issues

4.83 In the course of their duties, cashiers at The Authority enter information in the computer system relating to new licensed drivers. There are however no control checks and balances within the system to ensure accuracy and, in addition, the cashiers have the ability to make changes to all existing records.

4.84 The Authority should examine the current system with a view to strengthening the controls in this area. This would include restrictions and controls relating to the ability of personnel to make changes to key records.

Licence Books

4.85 There is inadequate control over the receipt and issue of licence books. The books do not carry unique individual stock numbers, which would facilitate management control.

Conclusion and Recommendations

4.86 Our review of the management by The Authority as it relates to the issue of driving licences, including the maintenance of records, reveal weaknesses in the systems of internal controls.

4.87 The system of filing and storage of documents is inadequate, control of access to data is not of an acceptable standard and the current available electronic data is unreliable. The weaknesses and system deficiencies observed result in numerous errors and inaccuracies, which remain undetected.

Recommendations

4.88 Recommendations are as follows: -

- ◆ The controls within the computer programme should be reviewed and particular attention should be given to ensuring that information relating to new entrants is checked and approved for accuracy before being part of the official records of the department.
- ◆ Records should be filed and stored in a manner that allow for easy access and retrieval.
- ◆ The Authority should consider creating an electronic record for an individual at the time of the application being made. This would ensure that a complete history of the applicant, including

activity during the period before the grant of a licence, is readily available.

- ◆ The stock of licence books should be numbered for control purposes and the receipt and issue of all books should be properly managed.
- ◆ The Authority should put measures in place to ensure that their rules and guidelines pertaining to the application and testing processes are adhered to.

4.89 It has been drawn to our attention that The Authority may be implementing changes with respect to its operations and which may include dispensing with the use of Licence Books. It is our opinion however, that any system and operational changes implemented, should incorporate strong internal control checks and balances which would serve to minimise abuse and guarantee the integrity of the data.

CHAPTER 5

Special Funds and other Accounts

This chapter pertains to the audit of Statutory Boards, Regional Bodies and other accounts which are required to be audited in accordance with several different statutes and agreements.

Barbados Community College

5.2 The financial statements of the Barbados Community College for the financial year ended March 31st 2002 were audited as required by Section 10 (1) of the Barbados Community College Act, Cap. 36. No material errors were discovered during the course of the audits. The Office also received statements for the financial year ended March 31st 2003. The audit is currently in progress.

Barbados Hospitality Institute

5.3 The audit of the accounts of the Barbados Hospitality Institute is in arrears by six years. Financial statements for the financial year ending March 31st 1998 have been submitted to the Audit Office but difficulties are being encountered in carrying out the audit. The inadequate keeping of records has contributed to these difficulties. The Office is working with the Institute in an effort to resolve this matter.

Barbados Defence Force

5.4 Accounts of the Barbados Defence Force for the financial year ended March 31st 2003 were submitted for audit. No material errors were discovered during the course of the audits.

Barbados Boxing Board of Control

5.5 The Barbados Boxing Board of Control has not submitted any accounts for audit since accounts for the financial year ended December 31st 1993. The Boxing 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.

Barbados Liaison Office - Miami

5.6 The Barbados Liaison Office in Miami has been in operation since August 2001, and the Office should have submitted financial statements for audit up to the period ending March 31st 2003. Although no statements have been submitted to date, it has been observed that the Office is attempting to address the problem and is currently receiving assistance from a consultant in this exercise.

5.7 An audit of the transactions and information available was however carried out and a number of issues relating to allowances and the use of credit cards were identified. These issues were drawn to the attention of the Ministry of Labour for appropriate action to be taken.

Barbados Liaison Office - Canada

5.8 The financial statements of the Barbados Liaison Office in Canada, for the financial year ended March 31st 2003, were submitted for audit. No material errors were discovered in the accounts however, certain administrative issues observed during the course of the audit were submitted to the Ministry of Labour and Social Security for consideration.

5.9 It was observed that there was a balance in excess of CAN\$272,000 on the bank account as at the end of the financial year and that this balance has been increasing over time. Considering that there were unauthorized attempts to withdraw funds from this account in the past, It is recommended that the Ministry take steps to reduce this balance. It may not be prudent for the Liaison Office to keep such a large bank balance in Canada.

Caribbean Meteorological Institute

5.10 The receipt and payments accounts for the year ended December 31st 2001 were audited and a report was issued. No material errors were observed during the course of the audits.

Caribbean Centre for Development Administration

5.11 The accounts for the financial year ended March 31st 2001 were audited. No material errors were discovered during the course of the audit. No financial statements have been submitted for the financial years ended March 31st 2002 and March 31st 2003.

Central Emergency Relief Fund

5.12 The Auditor General is required, under Section 14 of the Central Emergency Relief Scheme, to audit the Statements of Income and Expenditure of the Central Emergency Relief Fund. The accounts for the financial year ended December 31st 2002 were audited and a report was issued. No material errors were discovered during the course of the audit.

Central Liaison Service

5.13 The accounts of the Central Liaison Service (Regional Security System) for the 2001, 2002 and 2003 financial years are currently due but have not yet been submitted for audit examination.

Community Legal Services Commission

5.14 The accounts of the Community Legal Services Commission for the financial year ended March 31st 2003 were audited. No material errors were discovered during the course of the audit.

Erdiston Teachers' Training College

5.15 The accounts for the financial year ended 31st March 2002 were audited during the year. No material errors were discovered during the course of the audit. The Audit Office has not yet received statements for the financial year ended March 31st 2003.

Friendly Societies

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

5.17 The Friendly Societies Legislation was enacted when Friendly Societies were prevalent and provided a source of investment and assistance for persons with small incomes. Friendly Societies are now virtually extinct. Those Societies remaining are either fraternal or religious organisations. No Society submitted accounts for audit during the year.

Land Reclaimers Limited

5.18 Land Reclaimers Limited is in the process of winding up its operations and it is expected that a statement indicating how the proceeds were distributed will be presented for audit verification.

National Assistance Board

5.19 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.

5.20 The accounts of the National Assistance Board for the financial year ended March 31st 2002 were submitted and audited. No material errors were discovered in the accounts during

the course of the audit. The Audit Office has not yet received statements for the financial year ended March 31st 2003.

National Insurance Fund

5.21 The accounts of the National Insurance Fund for the financial years ended 31st March 1998 and 31st March 1999 have been submitted and audited. Some difficulty is being experienced in the verification of cash on hand at the end of 1999. This matter which is considered material in nature is being investigated. The accounts for the 2000 and 2003 financial years have to-date not been submitted for audit.

Public Enterprise Investment Fund

5.22 The accounts of the Public Enterprise Investment Fund for the financial year ended March 31st 2003 were submitted in accordance with Section 26 (a) of the Financial Administration and Audit Act. No material errors were discovered during the course of the audit.

Sugar Workers' Provident Fund

5.23 The accounts of the Sugar Workers' Provident Fund for the years ended December 31st 2000 and 2001 have been audited. No material errors were discovered during the course of the audit.

5.24 The financial statements of the Sugar Workers' Provident Fund for the year ended December 31st 2002 have been submitted. Additional information requested from the National Insurance Office is required in order to complete the audit.

Severance Payment Fund

5.25 The accounts of the Severance Payment Fund for the years ended December 31st 2000, 2001 and 2002 have been audited. No material errors were discovered during the course of the audits.

Samuel Jackman Prescod Polytechnic

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

5.27 The Barbados Audit Office has, for the past seven years, reported that the Polytechnic has not been submitting financial statements for audit inspection. The management of this institution is either unable or unwilling to rectify this situation.

5.28 It had been recommended that the Ministry of Education become involved and take the necessary steps to rectify this situation. However, no action appears to have been taken so far.

Sanitation Service Authority

5.29 The accounts of the Sanitation Service Authority for the financial year ended March 31st 2002 have been audited. The following observations were made with respect to the audit:

Bank Overdraft

5.30 Interest charges were incurred during the year as a direct result of the use of overdraft facilities on the current account by the S.S.A. The overdraft was \$1,604,049.09 at 3rd April 2001.

5.31 Prudent financial management is required in order to avoid bank accounts going into overdraft thereby incurring interest charges. There was no evidence that permission was granted by the Board for the use of such facilities.

Vehicle Management

5.32 There is no evidence of a system of preventative checks and maintenance for the vehicles stationed at the Mangrove Pond Landfill. Instituting such a maintenance program may well reduce the high incidence of breakdowns and mechanical problems being experienced.

5.33 During the financial year under review three tractors at the Mangrove landfill were inoperative for a combined total of over 300 calendar days. These breakdowns contribute to the high level of heavy equipment rental at the landfill. During the financial year in excess of \$900,000 was spent on this activity.

5.34 The Authority should analyze and evaluate the effectiveness of spending such large sums of money on rental and repairs of tractors as opposed to investing in the purchase of replacement machines. The Authority should ensure that there is adequate value for money relative to this type of expenditure.

Contract for the Removal of Aggregate

5.35 There were a number of irregularities relating to the tendering process with respect to a contract awarded for the removal of 27,000 tons of aggregate from the Flour Mill site to Mangrove Pond Landfill. The following details are relevant:-

- Quotations were invited from nine business entities for the removal of 27,000 tons of aggregate. The company eventually awarded the contract submitted a quotation dated 10th September 2001 for \$198,450.00. Two other companies submitted lower quotations.
- On 13th September 2001 the successful company had submitted a revised quotation to S.S.A for \$180,090.00. This quotation matched that of the lowest quotation previously submitted by other bidders.
- A letter dated September 13th 2001 indicated that the revised quotation was in response to a conversation with the former General Manager of the S.S.A. This conversation took place on the date the tenders were considered by the Committee. The other contractors were not requested to submit revised quotations.
- On the same day the revised quotation was received, the Tenders Committee of the S.S.A. recommended to the Board the award of the contract to that bidder. The contract

between the S.S.A and the successful company was then signed and witnessed.

- The minutes of the Board meeting held on 25th September 2001 indicates that, at that meeting, the Board unanimously accepted the recommendations of the Tenders Committee.
- An amount of \$49,303.38, in addition to the contract price, was paid to the company. This was determined to be compensation for rental of equipment to stockpile the aggregate, which was transported to Mangrove Pond and for equipment, which was idle on September 17th.

5.36 There are several issues relating to the award of this contract which appear highly irregular and these are as follows:-

- The company awarded the contract was the only company to submit a revised quotation and this was following communication with the then General Manager.
- The minutes of the Board Meeting of September 25th 2001 stated that the Board unanimously accepted the recommendations of the Tender Committee and awarded the contract accordingly.
- The contract was signed on September 13th and work on the contract commenced on September 17th. The company had

therefore commenced working before the Board had accepted the recommendations of the Tenders Committee.

- The contract stated that the contractor was obligated to remove the aggregate. No reference was made to stockpiling of aggregate for which payment of \$49,303.38 was made. It is unclear why it was necessary therefore to effect payment for this activity outside of the agreed contract price.
- If stockpiling was indeed considered vital to the removal of the aggregate it should have been part of the tender process.

5.37 *These matters should be fully examined and explained. All persons not adhering to the established guidelines for awarding contracts should be held accountable for their actions.*

Absence of Sureties for Contract

5.38 No sureties were provided by firms that were awarded contracts. The provision of a surety protects the Authority against firms failing to fulfil the terms of their contracts and, a surety is particularly relevant when a mobilization fee is involved. The surety minimizes the risk of loss of funds by the Authority if the contractor is unable to proceed with the delivery of service or defaults on the contract.

Registration of Sanitation Service Authority Vehicles

5.39 Several Sanitation Service Authority vehicles were operated without the relevant registration fees being paid to the Barbados Licensing Authority. In a number of instances registration fees were paid months after the due date. This practice should be avoided and all vehicles operated by the Authority should be properly licensed.

Irregularities on the Financial Statement

5.40 The Sanitation Service Authority currently prepares its financial statements on a “Receipt and Payment” basis. This requires receipts to be recorded in the period they were received. These statements contained a number of errors and omissions, which are the subject of an ongoing review.

Statement of Arrears

5.41 An analysis of the debtor’s ledger shows that arrears at March 31st 2002 are in excess of \$238,000.00. The Authority should take appropriate action to ensure that these arrears do not continue to rise and that outstanding amounts are collected.

Social Investment Fund

5.42 The accounts of the Social Investment Fund for the financial year ended March 31st 2003 have been submitted as required by Section 9 of the Social Investment Fund Act. No material errors were discovered during the course of the audit.

Sugar Factory Smoke Control Board

5.43 The Revenue and Expenditure Account and the Accumulated Surplus Statement 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 remains outstanding.

Sugar Industry Research and Development Fund

5.44 The Receipts and Payments Account for the financial year ended March 31st 2003 were submitted for audit as required by Section 15 (2) of the Sugar Industry Act, Cap. 270. No material errors were discovered during the course of the audit.

Training Funds

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

5.46 The Training Loan Fund was established under Sections 4 (1) of the above-mentioned Act for the purpose of making loans to assist persons in pursuing courses of study or for training courses as approved by the Minister.

5.47 Section 5 of the Training Act, Cap. 35 states that four (4) months after the end of each financial year separate reports on the Training Fund and the Training Loan Fund should be laid

before Parliament. The last report submitted to Parliament was for the financial year ended March 31st 1992.

5.48 In keeping with a commitment to address the outstanding issues, the Division has submitted draft financial statements for the years ended March 31st 1993 to March 31st 2002. This initiative should assist in bringing the accounts up-to-date.

Unemployment Fund

5.49 The accounts of the Unemployment Fund for the years ended December 31st 2000, 2001 and 2002 have been audited. No material errors were discovered during the course of the audit.

General Observations

5.50 Some Government entities are still not submitting their accounts for audit on a timely basis and as a consequence the audit of accounts continue to be in arrears by several years. It is of great concern to this Office that organizations utilizing public funds fall years behind with their financial reporting. A greater effort is required by the management of all Government agencies to bring their accounts up-to-date.

Hallam E. Phillips
Auditor General

Weymouth Corporate Centre
Roebuck Street
St. Michael
BARBADOS
December 31st 2003

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, 2003 is as follows:-

<u>Department</u>	<u>Tax</u>	<u>Amount</u>
		\$
Land Tax	Interest	113,286.46
	Relief Granted	1,170,522.45
Inland Revenue	Interest	2,215.07
	Penalty	46.88
Land Registry	Property Transfer Tax	1,838,960.85
Customs	Import Duty	5,278,540.89
	Environment Levy	1,701,055.18
	Excise Tax	47,310,204.90
	VAT	30,719.65
Registrar of Corporate Affairs	Property Transfer Tax	79,243,473.56
	Stamp Duty	7,928,870.00
Tax Remitted Re: -		
	Agriculture	5,797,396.97
	Manufacturing	42,788,546.62
	Hotels	8,534,871.73
	Vehicles for Diplomats	<u>11,177,242.50</u>
Total Tax Remitted		<u>212,915,953.71</u>