



# *B*arbados *A*udit *O*ffice

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

**2014**



*Strengthening public accountability by providing fair and independent reports*

# **Barbados Audit Office**



**Report**  
**of the**  
**Auditor General**  
**for the year**  
**2014**



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February 26, 2015

His Honour The Speaker  
The House of Assembly  
Parliament Building  
BRIDGETOWN

Sir,

In accordance with Section 113 (3) of the Constitution of Barbados and Section 38 (5) of the Financial Management and Audit Act, 2007 - 11, I forward for laying before the House of Assembly my Report of the examination of the accounts of the Ministries and Departments of Government, and of other financial statements and accounts required to be audited by me in respect of the financial year ended March 31, 2014.

A copy of the Report is transmitted to the Senate for information, in accordance with Section 38 (6) of the above mentioned Act.

Yours faithfully,

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

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## **Introductory Comments**

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I am pleased to submit this Annual Report for 2014 to the Parliament of Barbados. This Report is a summary of the work conducted by my Office during 2014 and is provided to Parliament for its information and consideration. The Report includes a follow up on a number of issues that have been commented on in previous reports. The agencies reported on would have had considerable time to rectify the issues highlighted. Their responses are highlighted in Chapter 5 of this Report.

**2.** The Report also consists of performance reports on the management of hundreds of millions in receivables due to the Inland Revenue Department and the Value Added Tax (VAT) Division of the Customs and Excise Department; with effect from 1<sup>st</sup> April 2014 these agencies have been incorporated into the Barbados Revenue Authority (BRA). It is hoped that the review would offer independent insight to the management of the Revenue Authority on the issues and challenges which have prevented a timely collection of these outstanding amounts. These audits were part of a regional initiative between members of the Caribbean Organization of Supreme Audit Institutions (CAROSAI), whereby the audit offices of six countries shared plans and ideas and adopted a joint approach to the conduct of audits in their respective countries.

**3.** In this regard I want to thank the INTOSAI Development Initiative for their sponsorship in bringing the subject area experts and auditors of the region together, where they could work together and develop a common approach to the audit. It is being proposed that there be general collaboration between the member countries of CAROSAI when auditing similar agencies in the future. This should result in a greater sharing of knowledge between audit officers in the region.



4. During the course of the year a number of longstanding staff members retired, further depleting the quantity of staff at my disposal. It is hoped that in 2015 some of the vacancies in the Office can be filled. The Ministry of the Civil Service and the Personnel Administration Division have already taken the initial steps to fill a number of vacancies in the Office. In spite of the constraints, the Audit Office is being asked to take on additional responsibility in the audit of state enterprises which were normally audited by private sector auditors. The filling of the vacancies in the Office is necessary if the Office is to take on this additional responsibility.

5. I must draw to Parliament's attention a glaring shortcoming in the accountability process in Government. For many years the Office has been highlighting a number of issues of lack of compliance with statutory requirements by state agencies in its annual reports and through other correspondence. However in a number of cases there is little evidence that relevant corrective action has been taken. In short, personnel in these agencies are not being held to account for their actions or lack thereof. This can only lead to a further deterioration in standards of good governance in the public service

6. The year 2015 should be an interesting one for the Office as it prepares to celebrate its 160<sup>th</sup> anniversary. The Office has made a significant contribution to the accountability process of Government over the years and looks forward to a continuation in the years ahead.



## Acknowledgements

7. I would like to thank members of staff for their support during the year. I would also like to thank the accounting officers and ministry personnel for their cooperation and I look forward to their continued cooperation in 2015.

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

**February 26, 2015**







## CHAPTER 1

### General Issues

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#### Introduction

**T**he 2013 Annual Report of the Auditor General to the House of Assembly is issued in accordance with Section 38 (1) of the Financial Management and Audit Act, 2007-11 which states that:

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

- 1.2** Section 36 (1) C of the Act requires the Auditor General to prepare and deliver an audit opinion on the financial statements that have been audited. In this regard these financial statements represent the activities of Ministries and Departments. The activities of other state agencies such as statutory boards and companies are reported separately.
- 1.3** The Auditor General has a broad mandate for conducting audits of Government agencies. This mandate is derived from the Constitution, and the Financial Management and Audit Act. Section 113 (2) of the Constitution requires the Audit Office to audit the accounts of the Supreme



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

- 1.4** The Auditor General in accordance with Section 113 (2A) may on his own initiative carry out examinations into the financial management of ministries, departments, statutory authorities and Government-controlled entities, including the efficiency and effectiveness of the use of their resources in discharging their functions.
- 1.5** The Audit Office is therefore involved in two types of audits. One type involves the audit of the financial statements of agencies, where the focus is on verifying the accuracy of the accounts presented and whether transactions were in compliance with applicable rules and regulations. The other type of audit focuses on whether there was efficiency and effectiveness in the use of resources. The second type assesses the broader management issues affecting an organization or its programs.
- 1.6** The results of the audit of the Government's financial statements are presented in chapter 2 of the report and issues pertaining to compliance with the Financial Rules and administrative directives are highlighted in Chapter 3. This year the Office was unable to audit all of the accounts as required; however, some of these audits will be conducted in 2015.

### **Audit Process**

- 1.7** There are three distinct phases in the audit process, and these are the planning, implementation and reporting phases. In the planning stage, audit officers obtain a thorough knowledge of the function, organization or



programme selected for audit as well as the operational environment. This knowledge is then used to develop an audit plan which sets out the audit objectives, scope and timing.

- 1.8** In the implementation stage the auditor gathers sufficient appropriate audit evidence through procedures such as reviewing files, performing tests and interviewing personnel in the agency being audited. The audit evidence is then evaluated and analyzed and discussed with members of staff of the audit entity.
- 1.9** In the reporting stage a draft report or management letter is developed which highlights significant issues observed and also includes recommendations to address the issues. This draft report is transmitted to the management of the audited agency for review and discussion and a written response is requested.
- 1.10** Due to the limited number of staff currently at my disposal, the Office is unable to audit all government agencies annually. As a result a number of factors are considered in determining which agencies or programmes are to be audited, and these include the financial magnitude of the agency or programme, results from previous reports, issues highlighted by the public, or whether the entity has not been recently audited.
- 1.11** Recommendations are included in my report to management in respect of the issues identified; it is however up to the audit entity to select the most appropriate course of action to improve its operations.



## **Staffing**

- 1.12** The Office continues to experience shortages in its staff complement. The Office was able to obtain the services of five audit assistants during the last quarter of the year 2014 but this was offset somewhat by the retirement of three longstanding officers. I am hopeful for a solution to this situation, as the Personnel Administration Division is currently reviewing the matter. I have however noted in previous reports that the Audit Office should be responsible for the recruitment of its staff. This is one of the few recommendations of the Constitutional Review Commission of 1998 that is still outstanding. An audit office should not be relying on an entity it audits for the supply of resources. If the office had direct responsibility for the recruitment of staff the process would be considerably shortened.

## **Estimates of Expenditure**

- 1.13** The Office's estimates of expenditure for the 2015-2016 financial year were submitted to the Public Accounts Committee for annual transmission to Parliament in accordance with Section 38 of the Financial Management and Audit Act. The Office is seeking \$4.3 million to fund its operations for the 2015-2016 financial year. The Office has traditionally been provided with adequate resources to carry out its activities. It should however, have greater control of its finances once approved by Parliament.



## **Audit of the Accounts of the Audit Office**

- 1.14** The audit of the accounts of the Office was previously performed by the Ministry of Finance but this situation is not in compliance with best practice. An entity which is audited by the Audit Office should not then be responsible for auditing the Office's accounts. However, with effect from 2015 the audit of the accounts of the Office will be audited by a firm from the Private Sector. The results of this audit will be published in the next annual report.

## **Public Accounts Committee**

- 1.15** The year 2014 was a fairly active one for the Public Accounts Committee. The Committee examined a number of officers from the National Housing Corporation in connection with the finances and housing programmes of the Corporation. The inability to form a quorum on occasions impacted negatively on the work of the Committee. In addition to the review of activities of the National Housing Corporation, there are several annual reports and special reports produced by the Audit Office which should have been examined by the Committee, but this activity was not undertaken.

## **Office Activities**

- 1.16** In addition to the audit of Ministries and Departments, the Office was involved in several developmental activities during the course of the year. One such activity was an assessment of the performance of the Office by consultants including representatives of the Inter-American Development Bank (IDB), the Audit Office of Norway and the INTOSAI Development



Initiative (IDI). The review involved an assessment of the strengths and weaknesses of the Office's audit process and capabilities in order to identify opportunities to strengthen its institutional capacities. The report indicated that the work of the Office could be considered as good; however, its impact was viewed as limited with respect to public debate on audit findings and recommendations which emanate from audit reports.

### **Attendance at Conferences and Workshops**

**1.17** A number of officers attended local and regional workshops and conferences during the year. The attendance of staff at these events facilitates the sharing of knowledge and experiences with practitioners and other experts in auditing, and enhances the capabilities of staff and the operations of the Office. Workshops and other training activities attended by officers included the following:-

- (a)** Professional Auditors, Mrs. Linda Carter and Mrs. Vincia Thomas along with Senior Auditor Ms. Pamela Humphrey, attended an international standards of auditing certification workshop in St. John's, Antigua during the period July 13 - 18, 2014. These officers have been accredited as audit standards trainers by the INTOSAI Professional Standards Committee. INTOSAI is the umbrella organization for all Public Sector Government auditing offices worldwide.



- (b) Senior Auditors, Mrs. Crasandra Harewood and Miss. Alicia Holder, attended a regional capacity building workshop on cooperative audits for revenue departments. This workshop took place in St. Georges, Grenada during the period November 3 – 7, 2014. The cooperative audit involved six countries of the region pooling their resources to determine a common strategy and approval for auditing revenue agencies in their respective countries. It is intended that this pilot project will be a precursor to great collaboration between audit offices in the region in future audit activities.
- (c) Auditor General, Mr. Leigh Trotman along with Professional Auditor, Mrs. Vincia Thomas and Senior Programmer from the Data Processing Department, Mr. Shawn Collymore, were included in a delegation from the Caribbean which undertook a tour of the Audit Office of Chile during the period October 27 - 31, 2014. The purpose of the visit was to view the operations of that Office's audit management software. This software assists auditors with planning and general management of audit activities. The Audit Office of Chile has indicated that it is willing to make the audit management software available to countries in the Caribbean and also assist with the provision of training for its implementation.
- (d) Professional Auditor, Mrs. Linda Carter, attended a Public Sector Accrual Basis Workshop in Nassau, Bahamas during the period November 24 - 28, 2014. This workshop was sponsored by the Caribbean Regional Technical Assistance Centre (CARTAC) and targeted those countries which had changed their basis of





accounting from the cash to accrual basis. The countries transitioning to the accrual basis of accounting were experiencing some challenges in its implementation and the workshop was designed to assist in finding solutions.

## Contents of the Report

**1.18** In addition to this chapter, this report contains five (5) other chapters as follows:

- I. Chapter 2 contains an analysis of the Government's financial statements provided by the Treasury. This chapter highlights a number of omissions of significant liabilities from the Financial Statements. It also highlights challenges the Audit Office faces in verifying revenue and capital assets. These are not being recorded in conformity with International Public Sector Accounting Standards. The chapter also contains the audit opinion on the Government's Financial Statements.
- II. Chapter 3 contains the results of the assessment of Ministries' and Departments' compliance with the Financial Rules and other Government regulations. Generally there has been compliance by the majority of state agencies audited. There were however some exceptions and these are highlighted.
- III. Chapter 4 consists of information on the audit of statutory boards and other state agencies. Some of these agencies are audited by



the Audit Office and others are audited by private sector auditors. The audits for a significant number of these agencies are in arrears; therefore these Boards and their respective Ministries need to provide greater oversight to ensure that statutory requirements of timely audit reports are adhered to. The audit of Financial Statements several years after the accounting period is of little help to stakeholders especially when there is a need to take action based on the results of the audits.

- IV. Chapter 5 highlights the follow up activity taken by Ministries, Departments and other state agencies on issues that were raised in previous audit reports. Some progress has been made in tackling some of the issues, but there were a few agencies which have taken no action and some that did not respond to our request for updates.
- V. Chapter 6 consists of special audits on revenue and receivables management by the Inland Revenue Department and the Value Added Tax Division. These entities have now been incorporated into the Barbados Revenue Authority, but the results of these reviews should be of assistance to the Authority in charting the way forward for the effective management of its receivables. This Chapter also contains a report on staffing in a number of state agencies.



## CHAPTER 2

### Analysis of Government's Financial Statements

**T**he financial statements of Government prepared by the Accountant General were submitted to the Barbados Audit Office in accordance with Section 22 (2) of the Financial Management and Audit Act (FMAA), 2007-11. This Act requires the Accountant General to prepare, sign and submit financial statements to the Auditor General within four (4) months after the close of the financial year. The financial statements for the financial year ended March 31, 2014 were submitted a few days after the stipulated period.

#### Audit Mandate and Objective

**2.2** In accordance with the provisions of Part IV, Section 36, of the Financial Management and Audit Act (FMAA), 2007-11, the audit was conducted by the Barbados Audit Office on the accounts of the Government of Barbados prepared by the Accountant General for the financial year ended March 31, 2014.

**2.3** The objective of the audit was to express an opinion as to whether:

- the financial statements presented by the Accountant General gave a true and fair view, in all material respects, of the financial position of the Government of Barbados;
- the appropriate internal control systems exist and were adhered to; and



- the financial statements were in accordance with International Public Sector Accounting Standards (IPSAS).

## Methodology

- 2.4** The audit was conducted using auditing standards established by the International Organization of Supreme Audit Institutions (INTOSAI) as a guide. These standards require the auditor to plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. Audit procedures include examining, on a test basis, evidence supporting the amounts and other disclosures in the financial statements, as well as evaluating the accounting policies used, and the overall financial statement presentation.

## Responsibilities of the Accountant General

- 2.5** The Accountant General is responsible for providing Parliament with financial statements prepared in accordance with the International Public Sector Accounting Standards (IPSAS). These include related notes and schedules. To prepare financial statements in accordance with IPSAS, the Accountant General is required to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses.
- 2.6** Ministries and Departments are responsible for maintaining a system of internal controls in order to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained. This should allow for the preparation of summary financial statements by the Accountant General that are free from material misstatements whether due to fraud or error.



## Auditor Responsibility

- 2.7** The responsibility of the Audit Office is to audit the Government's financial statements and form an opinion based on the audit work conducted. The auditor also examines the extent to which the Financial Rules and other regulations and directives are adhered to. The audit was conducted following INTOSAI auditing standards. These standards outline the process and procedures the auditor should follow in ensuring the audit is carried out appropriately.
- 2.8** Audit procedures are performed to detect material misstatements in the financial statements. Materiality means how significantly a financial statement omission or misstatement would need to be in order for such omission or misstatement to be expected to influence or change the decisions of reasonably knowledgeable users relying on the financial statements.
- 2.9** An audit is not designed to ensure that the financial statements are 100% accurate since it is not possible to verify all transactions. The audit is designed to gain reasonable but not absolute assurance that the financial statements are true from material misstatements. The auditor accumulates errors discovered and makes an assessment of whether they would in aggregate cause the financial balances to be materially misstated.
- 2.10** An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, which includes taking into account the risk of material misstatement of the financial statements. Internal controls relevant to the preparation of the consolidated financial statements are considered in order to design audit procedures.



- 2.11 The audit also includes evaluating the appropriate application of accounting estimates in the preparation of the financial statements.

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

- 2.12 Government's financial statements compiled by the Accountant General's Department (the Treasury) do not represent all entities owned and controlled by Government. They encompass all Ministries and Departments and exclude statutory boards and Government owned companies which report the results of their operations separately. It should however be noted that in order to be compliant with the accounting standards there should be a consolidation of the accounts of Ministries and Departments and all entities which are controlled by Government and receive budget support.

- 2.13 The financial statements examined were as follows:

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



## Analysis of Financial Statements

### Deficit

- 2.14** Based on the information provided in the Financial Statements of the operations of Central Government, a deficit of \$982.86 million was recorded for the financial year ended March 31, 2014. The deficit for the previous year was \$826 million.

### Revenue

- 2.15** Revenue was reported at \$2.340 billion and this compares to \$2.449 billion for the 2012-2013 financial year, a decrease of \$109 million. The main contributing factor to the decline in revenue was a fall in the collection of taxes from income and profits. This component fell from \$746.2 million to \$634.2 million, a reduction of \$112 million. The fall in revenue was indicative of the state of the economy which showed some decline during the financial year.

### Expenditure

- 2.16** Total expenditure was reported as \$3.322 billion in comparison to \$3.275 billion for the previous year, an increase of \$47 million. The major reason was a \$40 million increase in Grants, a \$42 million increase in Debt Service and a \$24 million increase in Capital Transfers. This was offset somewhat by a reduction of goods and services by \$33 million, subsidies by \$16 million and personal emoluments by \$9 million.



## Financial Indicators

- 2.17** There are a number of financial indicators which can be used to assess the health of the country's finances. No single measure best represents the country's debt; instead several measures are examined when looked at as a whole. These measures can give users an understanding of the country's financial position and the use of borrowing. These can be applied to the Government financial statements as follows:-

### (a) Interest Cost to Total Revenue

- 2.18** The interest cost as a percentage of total revenue illustrates the extent for which debt servicing impacts on Government's ability to provide goods and social programmes to the public. The larger the interest component the less funds are available for other activities. Interest costs as a percentage of Government's revenue has been growing steadily over the years. In 2009 interest cost was \$395 million compared with \$611 million in 2014. These interest payments totalled 14.9% of Government's revenue in 2009 while in 2014 this figure rose to 26%. It should be noted that while revenue has fallen by \$337 million over the period, interest on debt has risen by \$216 million. Essentially, the decline in revenue and the increase in interest expense have severely impacted on Government's fiscal position, which has resulted in an ever increasing reliance on borrowing to finance its operations.

### (b) Budget Deficit

- 2.19** Government has been running significant budget deficits for a number of years and this has been financed primarily by an increase in borrowing. The deficit for the financial year ended March 31, 2014 was \$983 million





and this was financed mainly from local borrowing. With the exception of 2012 the deficit has shown a steady upward trend from 2008 when it was reported as \$197 million. The majority of the financing was raised through Treasury Bills (\$558 million) and Special Loans (\$448 million). Interest rates are currently low. At March 31, 2014, the average Treasury bill rate was 3.35%. However, any increase in this rate will add significantly to Government's interest cost.

### (c) Net Debt

**2.20** The Net debt is another measure by which the financial performance of Government can be assessed. The Net debt equals all of Government's liabilities less its financial assets. The non-financial assets of Government will not create any future returns that can repay liabilities so they are excluded from the analysis. These include assets such as highways and buildings which cannot be used directly to pay liabilities. The Net Debt was reported as \$8.5 billion at March 31, 2014 and this was \$1 billion more than the previous year. The maintenance of high Net Debt results in significant funds being required for debt servicing, thereby reducing Government's ability to provide services, and limiting its options in adjusting to the financial challenges facing the country.

**Table 1**

#### **Net Debt for 5 year period 2010-2014**

2010	2011	2012	2013	2014
\$5.544 billion	\$6.315 billion	\$6.994 billion	\$7.523 billion	\$8.544 billion



### **(d) Actual Financial Performance compared to the Budget**

- 2.21** The deficit projected by the Government was \$439 million while the actual deficit was \$982 million. This is some \$543 million more than what was projected. This was, in part, a result of actual revenue being \$312 million less than projected. The main short-fall in revenue came from goods and services (\$119 million), income and profits (\$142 million) and investment income (\$27 million) whereas a number of items of expenditure were higher than projected. These include retiring benefits (\$25 million), grants (\$144 million) and subsidies (\$50 million). The shortfall in revenues and the higher than budgeted expenditure resulted in the large deficit.

### **General Comment on Financial Indicators**

- 2.22** The financial indicators reflected a very challenging financial position for Government with increased budget deficits, interest costs, and declining revenues. The Government is aware of the situation and has taken efforts to improve its financial position, but these efforts have not met the targets set to-date.

### **Presentation of Financial Statements**

#### **Notes to Financial Statements**

- 2.23** The notes to the financial statements provide details that are necessary for a better understanding of Government's accounts.



- 2.24** The notes however, did not contain enough information on certain risks facing the Government and how these risks were being managed, e.g., interest rate risk as a result of increased short term borrowing. The level of reliance which can be placed on the financial information by investors could be impacted by the absence of such information.
- 2.25** The notes to the financial statements should also include an explicit and unreserved statement of compliance with public sector accounting standards and if indeed there was compliance with the standards. Such disclosures allow users to have a better understanding of the financial statements. There were significant deviations from the standards; therefore the notes should not have stated that the statements were in compliance.
- 2.26** The notes to the financial statements should also disclose if any of the Government's budgetary allocations have been exceeded or expenses incurred without appropriation or other forms of authority. However, no disclosures were presented as required by the International Public Sector Accounting Standards (IPSAS). The lack of this disclosure inhibits the user of the financial statements from understanding whether all expenditure was authorised.
- 2.27** The provision for bad debt in relation to Hotels and Resorts Ltd increased by \$23,378,838 to \$36,331,667 but there was no explanation for this increase. The reason for this substantial increase should have been disclosed in the notes to the financial statements as required by the Accounting Standards (IPSAS).



- 2.28** An amount of \$5,730,036.26 which represents the loan balance and accrued interest reported in the General Ledger for Needham's Point Holdings (a Government owned company) was not listed in the financial statements as at March 31, 2014. This amount was instead erroneously attributed in Note 11 to the Barbados Cricket Association. A similar issue was highlighted in the previous year's report but no action has been taken to correct it.
- 2.29** The un-presented payable orders, pension cheques and un-cleared wire transfers totalled **\$320,339,557** as at March 31, 2014. This total is substantial and an explanation in the notes should have been provided for users of the financial statements to better understand what this total represents.

### **Transitional Provisions**

- 2.30** The International Public Sector Accounting Standards offers governments who have adopted the standards a period of three (3) years in which to consolidate all of the accounts of its agencies which form the reporting entity. In the case of Barbados, this would include all of those entities which are controlled by Government. The financial operations of these entities should be reported in the consolidated accounts of the Government. This has not occurred and the Treasury has only been able to include a number of secondary schools in its accounts. It should be noted that these schools keep their accounts on a cash basis and, as such, the totals added to the financial statements did not reflect their capital assets. This approach to consolidating Government's accounts is not in keeping with International Public Sector Accounting Standards.



- 2.31** In addition to the above, the Treasury did not disclose requirements such as a list of significant controlled entities of the Government. The lack of disclosures in relation to the consolidation of Government's entities resulted in the statements not giving a true picture of Government's financial position.

### **Contingent Liabilities**

- 2.32** Financial Rule 229 (4) of the Financial Management and Audit (Financial) Rules, 2011 requires that the Government report on the outstanding cost of contracts for services or supplies as contingent liabilities. During the year under review, such outstanding payments were not disclosed in the notes to the financial statements as required.
- 2.33** There was also no disclosure of any pending law-suits of the Government and their possible implications. Contingencies arising from litigation should be disclosed in the notes to the financial statements. Contingent liabilities can impact Government's ability to meet its other financial obligations.

### **Contingent Assets**

- 2.34** Contingent assets relate to some activity that is likely to see increases in the assets of the Crown in a future period. These assets should be disclosed when it is probable that they can be reasonably estimated. The Terminal Dues owed to the Post Office for postal transactions involving other Governments, but which have not been determined at the end of the financial year, meets this criterion. However, contingent assets were not disclosed in the financial statements as required by the accounting standards.



### Statement of Changes in the Net Assets/Equity

- 2.35** The Accounting Standards require that items recognized directly in the net assets/equity section of the Financial Statements should be itemized. The Net Assets/Equity section of the financial statements represents the cumulative balance of the Consolidated Fund. A prior year adjustment of \$4,751,368 was recorded in the Statement of Changes in the Net Assets/Equity, but the details of this transaction were not provided. Hence, the accounting standards were not adhered to in this regard. The lack of an explanation for such a change reduces the reliance which can be placed on the Net Assets/Equity balance.
- 2.36** A similar issue was highlighted in previous audit reports yet no corrective action has been taken to date.

### General Comments on the Notes to the Financial Statements

- 2.37** In some instances, the notes to the Financial Statements did not disclose pertinent information. The lack of disclosures such as deviations from the standards and unrecorded contingent liabilities reduces the ability of users to accurately interpret the financial position of Government.
- 2.38** **It is recommended that:**
- Significant amounts listed in the financial statements and accounting policies should be adequately disclosed and explained in the Notes. Departures from policies should be highlighted ensuring that this aspect of the accounts is compliant with the Accounting Standards and clearly understood by users.



- The Government's contingent liabilities and assets should be disclosed as outlined in the Financial Rules 2011 and International Accounting Standards. These disclosures would give users a better understanding of the financial risks and possible commitments facing the Government.

### **Authorization of Advances**

**2.39** The Financial Management and Audit Act, 2007-11, Section 35 requires that any loans made by Government shall be approved from a capital contribution by Parliament for that purpose. The Act also requires that these advances be secured by way of debenture mortgages, the terms of which should be determined by the Cabinet.

**2.40** There were a number of advances for the financial year for which there was no evidence that they were made from any capital appropriation. Examples are as follows:

- A sum of \$11.8 million was advanced to BTII under the Urban Development Project.
- An advance of \$1.2 million was made to the Barbados Agricultural Management Company.

**2.41** There was no evidence that these advances were voted by Parliament. It should also be noted that these entities are wholly owned by the Crown and have little or no means of generating income to repay these advances. Cumulative advances as at March 31, 2014 are as follows:

**Table 2****Advances as at March 31, 2014**

<b>Name of Entity</b>	<b>2013/2014 \$</b>
BTII - Urban Development Project	18,757,808.46
Barbados Agricultural Management Co.	58,635,015.70
National Housing Corporation	87,945,336.13
Queen Elizabeth Hospital	26,754,113.97
BAMC Loan	7,500,000.00
Advances to Rural Development Com.	6,400,000.00
Advances Urban Development Com.	1,600,000.00

**Loans to Private Entities****2.42**      Southern Golf

A loan receivable in the amount of \$2,000,000.00 was made to Southern Golf on September 25, 2009. No loan agreement was entered into by the parties and no repayments or interest were received from Southern Golf to date. Therefore, there is an increased risk of the funds not being recovered. This matter has been reported on for a number of years but no action has been taken to regularise the situation.

**2.43**      Durette & Co. Caribbean Limited

During the financial year 2009-2010 amounts totalling \$950,000.00 were loaned to Durette & Co. (Caribbean) Ltd from the now defunct Public Enterprise Investment Fund. This loan has not been brought to account to





date by the Treasury. This has resulted in the receivables being understated by \$950,000.00 in this regard. It should also be noted that this loan is not being serviced and it is my understanding that the company is no longer in business. Investigations should be undertaken to see if this loan is recoverable or has to be written off.

#### **2.44**      Needham's Point Ltd

During the financial year 2004-2005 two amounts representing \$4,666,781.00 were advanced from the Public Enterprise Investment Fund to Needham's Point Ltd. The agreement for the loans was signed by the parties on June 23, 2005. Both loans carried an interest rate of 2.5% on the reducing balance.

**2.45**      Upon review of the documentation relating to the above-mentioned loans, it was noted that Needham Point Holdings Limited had breached the terms of the contracts. The Company has so far failed to make any payments toward the loan principal. The only payments made were to cover a portion of the interest due. In this regard, there is no available evidence to indicate that efforts had been made to recover the outstanding amounts.

### **Loans to Individuals and Government Agencies**

**2.46**      Loans to individuals and Government Agencies were recorded as \$409,565,427 (*Note 11*). This category of receivables consists of loans advanced to various entities including car loans to Parliamentarians and Registering Officers who are not public servants. Issues relating to these loans were as follows:



(a) Barbados Tourism Investment Inc.(BTII)

As at March 31, 2014, a formal contract did not exist between the Government of Barbados and the Barbados Tourism Investment Incorporation (BTII) for sums advanced. No repayments were received from the BTII during the year under review. Accounts receivable for BTII were reported in the Accountant General's Financial Statements (Note 11) as \$141,500,000 with accrued interest as \$19,351,206. No further information was produced to verify the status of the BTII receivables which had been reduced by \$97,885,949.83 in July 2011. The Audit Office was therefore unable to verify the accuracy of this account since no adequate explanation was provided for this reduction.

(b) Small Hotel Investment Funds

In April 2007 an agreement was signed between Government and the Small Business Investment Fund for a loan of \$28,000,000 with annual interest at a rate of 2.5% to be used for the Small Hotel Group Refurbishing Scheme. The terms of the agreement required that the repayment of the loan commence December 31, 2010. At March 31, 2014 no repayment was made by the Small Business Investment Fund in settlement of the loan. The interest receivable needs to be quantified and the relevant bad debt provision established for any portion of the loan that is deemed uncollectible.



(c) Loan to Clearwater Bay

The Government of Barbados guaranteed a loan for \$120,000,000.00 in respect of the Four Seasons Development project during the financial year 2011-2012. This guaranteed debt was called during the financial year 2013-2014 by the lenders. As Government had guaranteed the debt, an amount of \$124,329,766.00 which entailed principal plus interest was paid through its company Clearwater Bay. This amount was subsequently recorded in the accounts of the Treasury as an account receivable. There is however no information available that any monies have been repaid to date.

(d) Pension Reimbursements

Pensions were paid by the Treasury on behalf of certain state agencies. However, no agreement was on file which indicated the arrangements for the repayments. Also, there is no evidence that the recovery of these funds was being rigorously pursued. Action should be taken to recover these amounts and this could be through an adjustment to any subventions due by Government.

## **Classification of Accounts**

### **2.47**

Accounts receivable is an asset and carries a debit balance in the financial statements. The following receivable accounts however carried credit balances which indicate that there were some recording errors which need to be corrected.



- (i) The account pertaining to the Fair Trading Commission carried a credit balance of \$1,083,113.
- (ii) The account pertaining to the Licensing Department reported a credit balance of \$112,500.88.

### Third Party Confirmation

#### 2.48

A request for third party information was submitted to debtors reported in the General ledger. The confirmations provided were at variances with the amounts recorded in the Ledger. The Treasury should review these amounts to ensure they are accurately recorded. Examples of these differences are as follows:-

**Table 3**  
**Year ended March 31, 2014**

Name of Account No:	General Ledger \$	Confirmation Letter \$	Variance \$
Enterprise Growth Funds	28,000,0000	34,653,860.63	6,653,860.34
Barbados Agency for Micro Enterprise Development	1,880,611.71	1,562,500.00	(318,111.71)
Fair Trading Commission	1,083,113	161,250.00	(921,863)
<i>Interest Accrued:</i>			
Needhams	1,063,245.24	1,021,314.68	(41,930.56)



## Overdrawn Salaries

- 2.49** According to Financial Management and Audit (Financial) Rules, 2011, Rule 180 (1), “Where the Crown advances moneys of the Crown to an officer, the officer shall repay the moneys in such periods as specified in the Seventh Schedule.” In some instances the employees’ information on the overdrawn salaries listing carried balances which showed that no repayments have been made, and therefore Government funds were not being recovered as required.
- 2.50** There were also instances where the period of repayment for overdrawn salaries was not in compliance with the requirement of the Financial Rules. This omission increases the risk that the overpayments will not be recovered in a timely fashion.
- 2.51** During the financial year 2013-2014, the balance on the overdrawn salaries account was shown as a credit balance. Since the Overdrawn account represents an asset to the Crown, the account should reflect a debit balance. This indicates that there are errors in this account which should be investigated and the necessary corrective action taken.
- 2.52** The information presented in the subsidiary ledger includes a number of amounts outstanding which are duplicated. Therefore, overdrawn salaries which were reported as \$2,728,835.29 were not accurately reported in the financial statements.



## Tax and Other Receivables

- 2.53** For the financial year 2013-2014 no information was received by the Accountant General's Office from the Inland Revenue Department, Government Printery, Licensing Authority and the Ministries of Agriculture and Housing, regarding the balance of the accounts receivables outstanding to these agencies. The basis for the balances of the outstanding receivables presented in the financial statements for these agencies could therefore not be determined. The following information was reported by the Treasury:

**Table 4**  
**Year ended March 31, 2014**

Account	Balance Amount \$
<b>Inland Revenue</b>	
Income and Profits	60,207,923.24
Individual	184,396,782.32
<b>Licensing</b>	
Motor Vehicles Registration	100,830.82
Public Service Vehicles –	143,557.54
<b>Housing and Land</b>	
Rental Buildings	240,439.87
<b>Housing and Land</b>	
Rental Buildings	240,439.87
Rental of Land	281,969.18
Rental-Residence (Leasing)	789,718.13
Government Printery	48,850.81
Veterinary Services	31,774
Market Facilities	749,322.50

- 2.54** Information was received from the VAT Division and the Ministry of International Transport which confirmed the balances of the accounts



shown in the table below. These balances however differed from those which were reported in the financial statements.

**Table 5**  
**Year ended March 31, 2014**

	<b>General Ledger Balances</b> \$	<b>Departmental Balance</b> \$	<b>Variance</b> \$
VAT	465,276,422	463,901,526	1,374,896
Min of International Transport	19,445,022	299,986	19,145,034

### **Government's Cash Position**

- 2.55** Total cash and bank reported in the Financial Statements at March 31, 2014 was \$197,012,287. This amount included sums of \$6,863,650 representing cash in hand for various Departments and \$1,720,011 representing moneys advanced to the Post Office for the Payment of money orders and Government Pensions respectively. However, the sum of \$1,720,011 is also recorded as an advance in the General Ledger resulting in an overstatement of the cash position.

### **Special Deposit Account on Support for Sustainable Energy**

- 2.56** Based on the Central Bank's Statement, the Support for Sustainable Energy Framework Special Deposit Account had a balance of \$208,183.20 as at March 31, 2014. However, the corresponding General Ledger reflected a balance of zero. This was as a result of transactions in the bank not being recorded in the Treasury's general ledger.



- 2.57** This situation resulted in the cash position in the general ledger being understated by \$208,183.20.

### **Capital Assets (other than Land)**

- 2.58** The accounting policies of the Government require assets to be revalued after three (3) years. However, property and buildings owned by the Government abroad were not revalued as required. Therefore, the valuation of assets was inaccurately stated.
- 2.59** It should also be noted that the values of assets such as household furnishing and appliances owned by the Crown and utilized by Foreign Service officers at the Barbados Overseas Missions are not included in the financial statements. This has resulted in an understatement of capital assets in this regard.

### **Demolished and Derelict Buildings**

- 2.60** Some buildings were either demolished or categorized as derelict and, as a result, should have been removed from the Fixed Assets Account. However, the Treasury has not prepared the necessary journal entries to update the status of the assets in this account. Hence, the reported total of Fixed Assets is misstated in this regard. This issue was noted in the previous audit report but no action has been taken to correct the omission. Examples are listed below:



**Table 6****Year ended March 31<sup>st</sup> 2014**

<b>Derelict Buildings</b>	<b>Demolished Buildings</b>
Enmore Complex	Christ Church District Hospital
Haggatts Agricultural Station, St. Andrew	Nurses Association Building, St. Michael
	Public Bath, Watkins Alley, Suttle Street

**Sub-Ledger Re: Assets**

**2.61** Other capital assets shown on the face of the financial statements totalled \$1,583,663,314 net of depreciation. These assets are recorded in the Assets Management Module sub-ledger of the Treasury. The information in the Assets Management Module should be reconciled with the General Ledger and hence the figures in the Financial statements. However, as at March 31, 2014, the sub-ledger indicated a balance of \$1,121,557,735, a difference of \$462,105,579. No reconciliation was provided for this difference. Therefore, the Fixed Assets balance within the financial statements could not be verified.

**Fixed Asset Registers in Departments**

**2.62** As required by Financial Rule 79, a list of assets held by a Department as at March 31 each financial year should be submitted to the Accountant General's Office. These lists were not provided for audit inspection. Therefore, it increased the difficulty in substantiating whether the balances within the fixed assets accounts were accurate.

**2.63** In addition, audit inspections of Government Departments revealed that the Fixed Assets Registers were not reconciled with the Fixed Assets Account of the Treasury. Examples are as follows:



- (i) The Ministry of Agriculture, Food, Fisheries and Water Resources Management;
- (i) Licensing Department;
- (ii) Ministry of Transport and Works; and
- (iii) Police Department.

**2.64** This is a recurring issue and needs to be rectified so that the Fixed Assets' balance of the Crown can be verified.

### **Depreciation of Assets**

**2.65** There was a variance between the depreciation period recorded in the sub-ledger and the period stipulated in the Financial Management and Audit (Financial) Rules 2011. The Rules stipulate that buildings be amortized over 40 years and computer networks over a period of 3 to 5 years. A comparison of the rates applied in the sub-ledger indicates that buildings are being amortized over 50 years and computer networks over a period of 10 years. Depreciation expense was therefore inaccurately reported.

### **Asset Policy not Adhered to**

**2.66** It was also stated that all capital assets including road networks, bridges and traffic management systems would be captured in the financial statements over a five (5) year period ended March 2012. This policy has not been enforced as at March 31, 2014, neither was a disclosure made as to the failure to implement nor a timeframe as to when the policy will be



met. The Transitional period allowed for bringing these assets to account has expired. Therefore, the financial statements are not in compliance with the accounting standards in this regard.

### **Incorrect Postings**

- 2.67** It was observed that some amounts posted in the fixed asset account do not relate to assets. For example, \$500,000 paid as a subsidy to Transport Board was recorded as an asset, as well as an amount of \$16,500 paid to a company for cleaning services. These postings resulted in the Fixed Assets Account balance being misstated.
- 2.68** Also, it was observed that funds expensed should have been capitalised instead. For example, for the Ministry of Transport and Works, \$75,512.19 was paid as a part payment for a generator, a capital asset; however the amount was expensed. As a result of such errors, expenses were overstated and Fixed Assets understated.

### **Additions and Disposal of Assets**

- 2.69** Information on assets in the Treasury accounts indicated that no assets were disposed of during the financial year ended March 31, 2014. However documents received from the Ministry of Finance indicated that various assets had been disposed of. As required by the accounting standards, these disposals should be disclosed. The balance of the Fixed Assets Account was therefore misstated in this regard.



- 2.70** It should also be noted that the financial statements did not disclose a reconciliation of the carrying amounts for the fixed assets at the beginning and end of the period showing the additions, disposals, increases or decreases resulting from revaluations, impairment losses and depreciation as required. Therefore, the users of the financial statements were not provided with essential information to assess the related figures in the accounts.

### **Assets under Construction**

- 2.71** 'Assets under Construction' which represents capital assets not completed, increased to \$239 million at year end from a total of \$167 million in the previous year. These 'Assets under Construction' i.e. buildings, were not added to the 'Asset Management Module' when projects were completed. This prevents the correct classification of assets and prohibits depreciation expenses from being charged for those assets which have already been completed.

### **General Comments - Assets**

- 2.72** The accounting standards require that the financial statements reflect the accurate balance for Assets. The lack of confirmation of fixed assets balances, accounts receivable balances and cash balances which are material to the financial statements resulted in the Audit Office not being able to verify the amounts representing these items.
- 2.73** When assets have been disposed of, the resultant gains and losses are not being recognized. These omissions reduce the confidence which can be placed in the accuracy of these reported balances. The issues



highlighted here have been drawn to the attention of the Accountant General on several occasions, yet no corrective action has been taken to ensure accuracy in the reporting of Government's financial information.

### Barbados Saving Bonds

**2.74** Barbados Saving Bonds are issued by Commercial Banks to the Public on behalf of the Government. They have a life of five (5) years but can be redeemed before their maturity. These bonds which are offered at a discount are administered by the Central Bank of Barbados. Schedule 9 of the Accountant General's Annual Report as at March 31, 2014 stated that the Barbados Saving Bonds were outstanding for \$98,533,202. However, the Central Bank of Barbados confirmation report indicated that the amount of Bonds outstanding was \$98,867,700, a difference of \$334,498. There was no reconciliation statement to account for this difference. Therefore the reported liabilities related to Savings Bonds could not be verified. These balances should be reconciled by the Treasury. See the table below:

**Table 7**

No. Issued.	Schedule 9 Accountant General's 2013/2014 Annual Report \$	Confirmations from Central Bank of Barbados \$	Differences \$
BSB S71	5,463,150	5,468,650	5,500
BSB S30	5,283,902	5,612,900	328,998



### **Treasury Bills**

- 2.75** The balance representing outstanding Treasury Bills was recorded as \$2,282,880,008.21 in the General Ledger as at March 31, 2014. The balance which was reported in the Financial Statements however was \$2,280,523,189.37, a difference of \$2,356,818.84. No reconciliation was provided for the months of February and March 2014. Therefore, the accuracy of the balance as at March 31 2014 could not be substantiated.

### **Caribbean Development Bank Commitment Fees**

- 2.76** A commitment fee of 1% is charged to the undisbursed amount of approved loans. USD \$1,045,575 was charged as commitment fees on some CDB loans for the period under review. The commitment fees are charges on unused funds which are set aside for projects which are experiencing delays.

### **China & Barbados Economic and Technical Co-op Loan**

- 2.77** A payment was made to the *China & Barbados Economic and Technical Co-op Loan* on June 29, 2012 bringing the outstanding balance to zero. However, the General Ledger carried a debit balance of BDS \$368,883 as at March 31, 2014 which indicates an overpayment of the loan.

### **Subsidiary Ledger for Government Loans (CS-DRMS)**

- 2.78** The General Ledger and the Subsidiary ledgers (CS-DRMS) for Government loans were not reconciled. Therefore, the correctness of the balance of the loan accounts in the Financial Statements could not be verified.



## Employee Benefits

- 2.79** International Public Sector Accounting Standards (IPSAS) 25 Employee Benefit stipulates that unclaimed employees' benefits should be reported as a liability in the financial statements. This includes both short term benefits and long term benefits. For example, vacation and leave passages due but not claimed, and retirement benefits not paid. These types of liabilities were not brought to account in the Accountant General's Report as at March 31, 2014.

## Pension Liability

- 2.80** It has been observed that no provision has been made for Government's long term Pension Liability. The Barbados Government currently has a defined benefit pension plan for its employees. In this regard, employees receive fixed (or defined) pension benefits when they retire, based on a formula that uses the number of years worked and salary earned. The Government currently pays pension benefits as they become due, but there is a large unfunded pension liability. In 2014 an actuarial review was conducted on the Public Service and it was estimated that the pension liability of the Government was \$4.3 billion. This liability was not included in the financial statements.

## Returned Pension Cheques

- 2.81** The pension deposit account records the payments of monies returned/refunded on behalf of deceased pensioners or returned due to incorrect banking information. Some of these monies are still due to the persons as indicated by the general ledger balance of \$2,644,573.26.



However there was no subsidiary ledger kept for persons owed. This practice will create challenges in verifying who the outstanding amounts belong to.

### **Abatement Information**

- 2.82** Persons who entered the Public Service after September 1, 1975 have their government pensions reduced by the amount of the National Insurance pension payable. The National Insurance Department provides a report of those pensioners who are being paid by them, so that the relevant portion of their Government pension could be reduced. At the conclusion of the audit, the reports for May, June, August, September, November 2013 and March 2014 were not received. This information is necessary since there are persons opting for early National Insurance pensions, and, unless the Treasury has up to date information, their pensions are likely to be overpaid since the National Insurance component would not have been reduced.

### **Interest Expense**

- 2.83** The Central Bank automatically deducts loan interest payments due to that institution from the Government's bank account held at that Institution. In this regard, the general ledger account maintained by the Treasury Department was not updated with the interest transactions which amounted to \$1,523,171.14. Therefore the bank account and accrued interest accounts were overstated in this regard.





## Accounts Payable

- 2.84** There were a number of outstanding amounts due by Government to institutions which were omitted from the financial statements and these included the following:
- (a) \$45 million was due to the National Insurance Department for National Insurance contributions and rental of properties.
  - (b) \$131 million due to the University of the West Indies.
  - (c) \$35 million was due to the Sustainable Barbados Recycling Centre (SBRC).
  - (d) \$2 million owed by the Ministry of Transport and Works to various suppliers/contractors.
- 2.85** These amounts that have been excluded from the financial statements would indicate that the Government liabilities are substantially understated.
- 2.86** As at March 31, 2014 a journal was generated to clear an accounts' payables balance of \$18,893,367.31 outstanding since the 2012-2013 financial year. This sum was charged to a suspense account and subsequently transferred to sundry revenue. This amount should not have been credited to revenue; instead it should have been treated as a prior year adjustment. Consequently, sundry revenue was overstated by \$18,893,367.31.
- 2.87** There was an amount of \$57,121,872 recorded for accounts payable, which represent amounts expensed but not yet paid. This total included a



debit balance of \$1,788,948 captured as ‘unprinted payroll cheques’. Since accounts payable carries a credit balance, this amount indicates that there are errors in the accounts which should be investigated and corrected.

- 2.88** There were also no detailed listings for this amount presented for audit verification.

### **Litigation Payments**

- 2.89** The liabilities from Judgments made against the Crown should be brought to account once the judgment has been given by the Courts. However, these amounts were omitted from the financial statements.

### **General Comments - Liabilities**

- 2.90** All of Government’s liabilities were not reported fairly in the financial statements. In a number of instances, reconciliations between sub-ledgers accounts and amounts in the Financial Statements were not completed to verify the accuracy of amounts reported.

### **Tax on Betting**

- 2.91** Monthly reports from the Barbados Turf Club should be submitted to the Accountant General’s Department to substantiate the taxes arising from its betting activities. However, it was observed that no monthly reports have been submitted nor have payments been received from the Turf Club in relation to taxes due from betting since May 2010. A reminder letter was



forwarded to the Turf Club asking that this information be submitted on July 11, 2012. However no further follow up action has been taken.

- 2.92** The absence of information on receivables due from betting results in the underreporting of revenue and also the accounts receivable in the financial statements. It also prevents the Government from taking action to recover amounts outstanding that are currently not known.

### **Arrears – Re. Licences and Lotteries**

- 2.93** The Treasury collects revenue for Franchise Licences from Commercial Banks, Offshore Banks, Storage and Selling Licenses, Petroleum Licenses and Lotteries. No statement of arrears was submitted to the Auditor General's Office as required by Financial Rule 167. Therefore, it could not be determined what receivables were outstanding from this source of revenue.

### **Debt Collecting Policy**

- 2.94** The Department does not have a formal debt collecting policy which is in breach of the Financial Rules. The absence of this policy increases the risk of funds not being collected.

### **Revenue Statement**

- 2.95** There was no revenue statement Submitted to the Audit Office for revenue collected directly by the Treasury. This was contrary to the FMAA Section 22.



2.96

**It is recommended that:**

- The Department should ensure that revenue for which it is responsible for collecting is properly monitored, collected and reported in accordance with the Financial Management and Audit Act (FMAA).

**Accommodation Advances**

2.97

Public officers are granted advances to pay for accommodation when travelling on overseas business, and these amounts are brought to account as expenses when expenditure statements are provided by officers on their return. The accommodation advance account reported credits of \$379,547 which indicates that there are transactions in the account that need to be investigated and corrective action taken. This account should carry a debit balance.

**Dishonoured Cheques**

2.98

Dishonoured cheques which originated from small revenue departments are brought to account in the Sundry General (Receivable) Account. This account in the general ledger carried a balance of \$320,447 at the March 31, 2014. There was, however, no sub-ledger identifying the entities to which these amounts could be traced. The absence of a sub-ledger makes it difficult to determine which departments are responsible for the dishonoured cheques in the account.



## Internal Controls

### Overview

**2.99** Internal Controls are the various measures put in place by the Treasury to ensure Government's revenues and assets are adequately protected. The Audit Office has made numerous recommendations for internal control improvements in our annual audits. Unfortunately some of these recommendations are not acted upon and lapsed controls are reported on again this year. One control that needs to be adhered to is the reconciliation of Government bank accounts. There is considerable risk to Government finances if these accounts are not properly reconciled. The possibilities for loss or misappropriation of funds in these Departments can be considered high.

### Overseas Missions Accounts (Embassies)

**2.100** There was no information provided which indicate that the following mission accounts were reconciled as at March 31, 2014.

**Table 8**

**Year ended March 31, 2014**

General Ledger Account No	General Ledger Balance \$
BOE 012 – China	100,423.26
BOE 013 – Cuba	145,312.79
BOE 014 – Brazil	458,393.00
BOE 015 – China	445,845.39



- 2.101** In addition, there were no bank statements provided to support bank balances for the Embassy of Brazil and Venezuela. The closing balances could therefore not be verified.

### **Unpresented Payable Order**

- 2.102** The unpresented payable orders listing totalled \$34,147,983 as at March 31, 2014, while the General Ledger carried a total of \$30,472,564. The difference of \$3,675,419 was not explained and no reconciliation was presented for audit examination. Therefore, the accuracy of this figure in the General Ledger could not be verified.

### **Unpresented Pension Cheques**

- 2.103** The un-cashed pension cheques General Ledger account balance was \$2,416,632 as at March 31, 2014. The submitted un-cleared pension cheques listing totalled \$4,884,652. This difference of \$2,468,020 was not explained and no reconciliation statement was provided for examination. Therefore, the accuracy of the General Ledger balance could not be verified in this regard.

### **Public Enterprise Investment Fund (PEIF)**

- 2.104** As reported in previous audit reports in November 2010, the Public Enterprise Investment Fund (PEIF) Act was repealed as per the Financial Administration (Public Enterprise Investment Fund) (Repeal) Act 2010-19. All the resources of the PEIF should have been transferred to the Consolidated Fund; however, to date this has not occurred resulting in a substantial understatement in Government's assets.



- 2.105** In addition to the above the Public Enterprise Investment Fund's Financial Statements as at March 31, 2010 and the final statement as at November 9, 2010 have to date not been presented for audit examination.

### **Stock and Issue Records – Cheques**

- 2.106** An inspection of the cheques stored in the vault at the Treasury revealed that a significant number of blank cheques are retained but these cheques are no longer used by the Department. However, record of these cheques are not kept and this omission should be rectified. These cheques should be disposed of if no longer required.

### **Storage of Cheques**

- 2.107** During the inspection of the cheques held in the safe located in the Control Section, it was revealed that the safe remains unlocked during working hours. Hence cheques held in the safe were not adequately safeguarded. This increases the risk of cheques being stolen. This is also an issue that was drawn to the attention of the Treasury in a previous year.

### **Surprise Inspections**

- 2.108** A review of the surprise inspection file revealed that only one inspection was done on those officers responsible for Government monies at the Treasury. This contravenes Financial Rule 116 which requires that an inspection be conducted at least at intervals of not more than 6 months a year. The surprise inspections are control measures to ensure that



Government funds are adequately accounted for and helps minimises the risk to Government of loss or embezzlement of funds.

### **Unclaimed Monies**

- 2.109** The closing balance of the General Ledger account for unclaimed monies was noted as \$12,015,758 as at March 31, 2014 while the subsidiary ledger shows a balance of \$19,865,307, a difference of \$7,849,549.
- 2.110** According to the Unclaimed and Undistributed Monies Act, Cap. 93, Sections 14 and 15, where any moneys are not claimed for 6 years after the same have been paid to the Accountant General by an officer under this Act, the same and all accumulations (if any) of interest thereon shall no longer be capable of being claimed.
- 2.111** A comprehensive age analysis of the account was not provided to ensure that this rule is correctly adhered to.

### **Audit Opinion**

- 2.112** In my opinion, based on the findings highlighted, the financial statements presented for audit did not in all material respects fairly represent the financial position of the Government of Barbados.



**Treasury's Response:**

*Your recommendations have been acknowledged in relation to the observations arising out of the audit and appropriate action is being taken to address the matters raised.*

*The financial statements did not comprise all entities owned and controlled by Government. It is noted that under International Public Sector Accounting Standards (IPSAS) there should be a consolidation of the accounts of Ministries and Departments and all entities controlled by Government which are in receipt of budget support. It should also be noted that there is a consolidations project which is being undertaken to address this issue. The project is into its second phase which would consolidate the accounts of statutory boards and Government owned entities with the accounts of Ministries and Departments which are currently included in the financial statements. It is anticipated that the consolidation project would be implemented on April 1, 2015, with four entities being included in the pilot of the second phase of the consolidation project Caribbean Broadcasting Corporation, Barbados Investment and Development Corporation, Barbados Port Inc. and the entities under the Higher Education Unit (Barbados Community College, Erdiston College and the Samuel Jackman Prescod Polytechnic).*

*It is recognised that overdrawn salaries, fixed assets and bank reconciliations have been outstanding issues which will take a while to resolve. With reference to overdrawn salaries and fixed assets, the quality of information submitted by ministries and departments is critical in addressing the issue of reconciliation of these accounts. One of the issues relating to bank reconciliations is inadequate information shown on the*



bank statements. Some of the narratives on the bank statements have made it difficult to match some transactions recorded in the Treasury Department's ledger with those recorded on the bank statements. Another factor contributing to the unreconciled differences is errors made during the process of manually checking off ledger entries against the bank statements. Other errors result from the bank statements showing incorrect amounts.

It has been noted that a number of franchise licence holders have not paid their franchise licences but are still in operation. This matter has been brought to the attention of the Revenue Section of the Ministry of Finance which is responsible for maintaining the register of franchise holders. Franchise licence receipts issued by the Treasury Department are used to update the franchise holders register when the franchise holders bring their receipts to the Revenue Section of the Ministry of Finance to complete the registration process.



## CHAPTER 3

### General Audit Concerns and Observations

**T**his chapter highlights general concerns in respect of some Ministries and Departments non-compliance with statutes or administrative directives. It also includes their responses, when provided, to the concerns raised by this Office. It should be noted that audits were not completed for all Ministries and Departments as required because of a shortage of auditors. The Ministries/Departments audited were chosen based on their level of revenues and expenditures, complexity of operations and concerns from previous audits.

#### Audit Mandate

- 3.2** The audit of the accounts of the Ministries and Departments of Government for the Financial Year ended March 31, 2014 was conducted by the Barbados Audit Office in accordance with the provisions of Section 36 of the Financial Management and Audit Act, 2007-11.
- 3.3** As determined by the Financial Management and Audit Act, 2007-11, the onus for the proper discharge of financial administration and the preparation of financial reports rests with the Accounting Officer. It is the Auditor General's responsibility to assess whether the Ministries/Departments were in compliance with the Financial Rules and other administrative directives.



## **Audit Purpose and Scope**

**3.4** The Barbados Audit Office is empowered to carry out audits so as to provide assurance that:

- Adequate safeguards exist for the collection of public moneys, and that the laws, directions or instructions relating to them have been duly observed;
- Expenditure is properly controlled, has been properly authorized and made for the purposes for which the funds have been appropriated by the Parliament;
- Immovable and movable property is properly procured, recorded, controlled and appropriately disposed of;
- Public monies are expended economically and efficiently;
- The figures contained in the financial reports are correctly and properly stated.

## **General Issues**

**3.5** There are a number of general audit concerns in various Ministries and Departments and these are listed as follows:

## **Classification of Revenue**

**3.6** The main revenue agencies continue to report revenue on the cash rather than the accrual basis as adopted by the Government. This practice results in the revenue not being accurately classified or in compliance with the



accounting standards. Under the accrual basis, revenue should be recorded in the period when it is due regardless to whether cash was received. However, under the cash basis, funds are only recorded as when cash is received. It has been seven (7) years since Government changed to the accrual basis of accounting and Ministries and Departments should classify revenue correctly.

### **Fixed Assets**

- 3.7** Ministries and Departments are required to keep Fixed Assets Registers which contain information on their assets. These registers serve a number of purposes which include ensuring that the assets are all accounted for and book values are current. These values should form the basis for the assets which are reported in the Government Financial Statements. These registers however, are not properly maintained and information such as the value of the assets and the depreciation cost were missing. This resulted in the Audit Office not being able to verify the accuracy of \$1.5 billion in capital assets reported in the Financial Statements of the Government.

### **Bank/Ledger Reconciliations**

- 3.8** In order for the auditors to attest to the accuracy of the financial records, an examination is made of the subsidiary ledgers which contain detailed listings of transactions. The total of these ledgers should be equal to the relevant totals provided in the financial statements. In many instances the sub-ledger totals and those reported in the financial statements differed, and there were no reconciliation statements provided. This resulted in the auditors not being able to verify the accuracy of these records provided.



## Inadequate Quotations for Goods and Services

- 3.9** Ministries and Departments are required to obtain a number of quotations from suppliers of goods and services. In many instances the service or good was purchased after the receipt of only one quotation. These quotations should be obtained, since they ensure that the price is competitive and that there is a level of transparency in the process.

## Police Department

### No Authorization Provided for Daily Home to Office Travel

- 3.10** Payments in excess of \$800,000 were made to Assistant Commissioners, Senior Superintendents, Superintendents, Assistant Superintendents and Inspectors for claims in respect of daily travel from home to office and return during 2013-2014. No written authorization has been provided to support these monthly payments which range from \$760.00 to \$1,780.00. This practice should be discontinued as there is no justifiable reason why officers should be routinely paid for travelling to and from work without authorization from the Ministry of the Civil Service.
- 3.11** **It is recommended that:**
- Management could consider proposing commuted allowances for officers holding the ranks involved.



### Register of Fixed Assets not Prepared

**3.12** An up to date register of fixed assets was not in place at the time of the audit inquiry. A list of fixed assets should be prepared, and the net book value reconciled with the total of \$6 million shown as the value of the Department's fixed assets in the Financial Statements.

**3.13** **It is recommended that:**

- Management should ensure that all Government property for which it is responsible is properly recorded and can be easily identified.

### Overdrawn Salaries

**3.14** Overdrawn salaries at March 31, 2014 totalled \$442,679 which was \$33,027 more than the corresponding balance of \$409,652 at March 31, 2013. Some of the individual balances were substantial and had accumulated over a considerable period. According to information received, the contributing factors include delays caused by the of issuing letters authorising salary adjustments, as well as tardiness by the Human Resources Section of the Force in submitting the relevant information to the Accounts Section. This matter needs urgent remedial action.

### Firearms Licences not Renewed

**3.15** There were seven hundred and fifty-five (755) firearm licences at March 31, 2014 which were not renewed by the due date. Some of these have been outstanding for as many as nine (9) years, and the status of the firearms for which these licences were issued was unknown at the time of the audit.

**3.16 It is recommended that:**

- The unpaid fees for firearm licences issued should be recorded in a receivable account as required under Government's accrual system of accounting.
- The unknown status of such a large number of firearms is a cause for concern which needs to be investigated urgently.

## **Ministry of Agriculture, Food, Fisheries and Water Resource Management**

### **Revenue Management**

**3.17** The management of receivables in the marketing facilities was poorly managed in terms of record keeping and revenue collections as follows:

(a) 0175 - Marketing Facilities

The arrears for rent at Markets was recorded as \$197,098.47 as at March 31, 2014. However during a review by the auditors it was noted that this figure did not include the balances brought forward as at the April 1, 2013 for Bridgetown, Cheapside and Six Roads Markets. As a result the amount receivable was understated.

(b) Collection of Rent Receivable - High Street Mall

A check of the records at the High Street Mall revealed that the rent receivable included an amount of \$37,800.00 owed by a tenant. The last payment by that tenant was on November 23, 2013 relating to month of May 2009. An agreement had been entered





into in respect of repayments but this was not adhered to. This situation is due to the failure of the management of the markets to take early remedial action against this tenant.

**3.18**      **It is recommended that:**

- The Ministry should ensure that the outstanding balances of the accounts receivable are accurately brought forward. This would ensure that the correct figure is recorded and transmitted to the Treasury for inclusion in the Financial Statement and that all receivables are accounted for.
- Action should be taken to prevent lengthy build-up of arrears by individual tenants.

Rental Revenue

**3.19**      The Audit Office requested documentation to enable a recalculation of rental revenue for the year ended March 31, 2014 but this information was not provided. In the absence of documentation such as the number of tenants and rental rates, the rental revenue could not be verified.

**3.20**      **It is recommended that:**

- The Ministry needs to provide the Audit Office with the documentation required to facilitate the verification of revenue recorded. The absence of this information has affected the ability of the auditors in verifying the rental revenue, and in determining whether all revenue has been accounted for.



### Fixed Asset Register

**3.21** The fixed asset register was not updated for the period ended March 31, 2014 with the assets purchased and disposed of during the period under review. This made it difficult to verify the accuracy of the information presented.

**3.22** **It is recommended that:**

- The Ministry should ensure that all assets purchased and disposed of are recorded and categorised correctly in the Asset Register.

### Insurance Coverage and Revaluations

**3.23** No evidence was provided to substantiate that assets of the Ministry other than vehicles were insured for the period April 1, 2013 to March 31, 2014. This is a breach of the Financial Management and Audit Rules 78 (5).

**3.24** The Ministry holds several high valued pieces of equipment and the absence of insurance coverage has exposed the Ministry to the risk of not being able to recover compensation for assets lost or damaged during the period.

**3.25** **It is recommended that:**

- The Ministry should ensure that all its assets are insured and safeguarded.



## Contracts

**3.26** The internal controls relating to the administration of contracts revealed a number of deficiencies as follows:

- (a) Contracts with suppliers for a number of goods and services were not made available for audit inspection.
- (b) Written quotations for the supply of goods and services between \$50,000 and \$200,000 were not obtained as required by the Financial Rules.

**3.27** **It is recommended that:**

- The Ministry should ensure that all contracts for goods and services are available for inspection and that it receives the necessary quotations prior to initiating purchases. This should ensure that it receives the best available price under the circumstances as is required by Financial Rule 221(2) (a).

## Preparation of Financial Reports

**3.28** The Ministry failed to submit to the Auditor General's Office the statement of performance, a schedule of capital assets at the balance date, a statement of commitments and other liabilities, and such other statements as necessary to fairly reflect the financial operations of the Ministry in accordance with the Financial Management and Audit Act, Section 22 (3b).

**3.29 It is recommended that:**

- The Ministry should ensure that all reports are submitted as required by the Financial Management and Audit Act.

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## Drug Service

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**Stock of Drugs not Properly Accounted for**

**3.30** There were several deficiencies in respect of the annual stock count of drugs carried out in March 2014 by the Drug Service. Numerous differences between the balances in the stock records and the corresponding stock were observed. These were some substantial differences for which no satisfactory explanation has been provided. It is noted that similar occurrences have been reported over the past ten years.

**3.31** There was no documented evidence of occasional surprise checks being carried out. Such checks would indicate in timely manner whether accurate records are being maintained and the stock properly accounted for.

**3.32 It is recommended that:**

- Management should reassess the performance of its computerized stock management system (PHARMS) which has been in use for many years, and determine if it could be upgraded or if an alternative system is required to meet the needs of the Department. There should be training provided for those persons who operate the system.



- Management should institute appropriate investigations when significant differences between stock records and stock on hand occurs.

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## Geriatric Hospital

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### Overpayments

**3.33** Three (3) former officers of the Geriatric Hospital retired from the public service and according to the Hospital's records were indebted to the Crown by a total of \$178,619.94. It is quite alarming that the Hospital would allow a build-up of such large amounts by the officers.

**3.34** **It is recommended that:**

- The Hospital should inform the Accountant General of this situation so that measures could be put in place to recover the overpayments from their retiring benefits. The controls in the accounts section should be strengthened to avoid any repetition.

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## Licensing Authority

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### Preparation of Financial Reports

**3.35** The Licensing Authority failed to submit to the Auditor General's Office the requisite financial report as requested by the Financial Management and Audit Act Section 22 (3) b. These reports include a schedule of capital assets at the balance date, a statement of commitments and other liabilities, and such other statements as necessary to fairly reflect the



financial operations of the Authority. These reports are required to verify the amounts reported in the Government's Financial Statement on behalf of the Authority.

#### Insurance Coverage

**3.36** No evidence was provided to substantiate that assets of the Authority other than vehicles, were insured for the period April 1, 2013 to March 31, 2014. The Authority has in its possession, high valued equipment and therefore this matter should be promptly addressed. This lack of insurance coverage has exposed the Authority to the risk of not being adequately compensated for assets lost or damaged during the period.

**3.37** **It is recommended that:**

- The Authority should ensure that all assets of the Crown are insured and safeguarded.

#### Utilities – Telephone Charges

**3.38** In a prior year's audit, it was revealed that billings were received for telephone numbers which did not reconcile with the telephone numbers recorded within the Authority's Ledgers. This situation resulted in the Authority paying \$7,028.85 for services which it did not receive. This matter is still outstanding.

**3.39** **It is recommended that:**

- The Authority should carry out an audit of all its telephone numbers to ensure that it is only paying for service it receives.



## Accrual Accounting

**3.40** During the financial year 2013-2014 the Authority collected revenue totaling \$66 million. The Authority reported this revenue on a cash basis i.e only when cash was received but this is contrary, to the accrual system of accounting. The Government of Barbados adopted the accrual basis of accounting from financial year 2007-2008. This means that all revenue earned must be accounted for whenever a transaction occurs and not when money is received. Reporting on the cash basis inferred that the Authority did not report the accurate amount of revenue for the period under review.

**3.41** **It is recommended that:**

- It is recommended that the Authority should account for its revenue using the accrual basis.

## Documents Requested not Presented

**3.42** Section 39 of the Financial Management and Audit Act, 2007-11 stipulates the Auditor General should at all times have access to all books, records and data held or stored electronically for examination purposes. Information required for the execution of the audit was requested, however it was not provided. The absence of such information impeded the performance of an effective audit. As a result, the auditor was unable to verify whether all monies due were adequately accounted for. The failure to provide the Auditor General with requested information is a breach of Section 39 of the Financial Management and Audit Act, 2007-11 and should not be tolerated by management of the Authority.



3.43

**It is recommended that:**

- The Authority should adhere to Section 39 of the Financial Management and Audit Act, 2007-11. All documents should be safely secured and presented for audit inspection.

## National Library Service

### Uninsured Assets

3.44

There was no insurance policy in place for furniture and fittings at the following branch libraries; Eagle Hall, Gall Hill, Holetown, Oistins, Six Cross Roads, Tamarind Hall and The Valley. The absence of insurance coverage leaves the Department at risk of having to pay the full cost of replacing equipment in the event of fire or theft.

3.45

**It is recommendation that:**

- The Department should ensure that all assets are adequately insured.





## Ministry of Education, Science, Technology and Innovation

### Overdrawn Salaries

**3.46** Outstanding balances totalling \$498,031.52 were reflected in the Ministry's schedule of overdrawn salaries as at March 31, 2014. This total comprised approximately one hundred and ninety-six (196) accounts, some of which were substantial, including one for \$80,715. There were approximately eighty (80) new persons added to the list between September 2013 and March 2014, an indication that this issue has become more widespread. Some of the balances had accumulated over long periods without detection, and in many instances no repayments have been made. Enquiries have revealed that authorizations for the accounting personnel to make salary adjustments are often delayed at the Personnel Administration Department and the Ministry's Personnel Section for various reasons.

**3.47** **It is recommended that:**

- Management needs to carry out a thorough investigation to determine why relevant authorizations are not communicated to the Accounts Section in a timely manner, and why some outstanding balances are not being repaid and take the necessary action to rectify the situation.

### Indebtedness to the University of the West Indies

**3.48** Correspondence from the University of the West Indies indicates that a balance of \$131,974,893 was due by the Government of Barbados at July 31, 2014 in respect of contributions, tuition fees and other obligations to that institution. The balance outstanding as at March 31, 2014 was not



provided to the Audit Office by personnel from the Ministry of Education as requested.

**3.49** It should be noted that the liability to the University was not reported in Government's financial statements. This Ministry needs to put systems in place to verify amounts billed and due to the University. This outstanding balance should be forwarded to the Treasury for inclusion in the accounts of the Government. As a result of the omission Government liabilities are substantially understated in the Financial Statements.

**3.50** **It is recommended that:**

- The Ministry needs to ensure that it receives all relevant details which are needed for verification of the amounts owing to the University of the West Indies. This information should be provided for audit verification and submitted to the Treasury for inclusion in the Government's accounts.

***Ministry of Education, Science, Technology and Innovation  
Response:***

***Overdrawn Salaries***

*"In cases where persons are owed arrears of salaries any overdrawn salary is deducted from the amount due to the employee in accordance with the Financial Management and Audit (Financial) Rules, 2011 Section 180(2). The Ministry will implement a system which accelerates the provision of information concerning teachers' absences or leave to the accounts section. A written reminder will be sent to Principals to report the absence of teachers in a timely manner."*



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## Inland Revenue Department

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### Revenue

- 3.51** The audit of the accounts of the Inland Revenue Department for the period April 1 to March 31, 2014 was conducted and the following observations made:

### Revenue Reporting

- 3.52** There were no statements of revenue, receipts, refunds, waivers and remittances provided to the Audit Office for verification as required by Section 22 (3) (c) of the Financial Management and Audit Act, 2007-11, in respect of the Inland Revenue Department. Such statements were not presented to the Audit Office for the last four (4) years. This is unacceptable as these statements are required to assist in the verification of the figures reported by the Department and, by extension, the figures in the Government's Financial Statements.
- 3.53** The revenue reported to the Treasury by the Department was in respect of cash collections rather than revenue on an accrual basis as required by International Public Sector Accounting Standards (IPSAS). Therefore, the figures in the consolidated financial statements at March 31, 2014 were misstated.

**3.54 It is recommended that:**

The Department should have:

- Complied with Section 22 (3) (c) of the Financial Management and Audit Act, 2007-11 and submit approved statements of receipts, revenue, receivables, refunds, waivers and remittances to the Auditor General for audit verification; and
- Ensure that revenue was recorded on the accrual basis.

**Accounts Receivable**

**3.55** No accounts receivable statements were presented to the audit for the financial year ended March 31, 2014 as is required by the Financial Management and Audit Act. Personnel from the Department indicated that the information in the electronic tax system was unreliable. Therefore the Department's accounts receivable reported as \$244 million in Government's Financial Statements could not be verified.

**3.56** These figures are required for inclusion in the opening balance sheet of the Barbados Revenue Authority which has taken over the responsibility of collecting income and corporation taxes. This Authority will therefore have to undertake a review of the receivables with a view to having them more accurately stated.

**3.57 It is recommended that:**

- The Department should have ensured that accurate and reliable figures are made available for inclusion in the consolidated financial statements of the Crown.



### **Bank Reconciliations**

- 3.58** The bank balance as at March 31, 2014 was \$17,948,071.93. No bank reconciliation statements were presented for audit inspection. This is a continuing problem which was not addressed by the Department. The lack of bank reconciliations can lead to fraud or errors going undetected.

### **Total Refunds Issued**

- 3.59** The Department recorded \$144 million as total refunds issued for the period under review. However, the consolidated financial statements showed that \$136,177,629 was disbursed for the same period. This has resulted in an unexplained difference of \$8,711,874. The absence of explanations for unreconciled differences in disbursements by the Treasury and refunds issued has been a recurrent problem within this Department that needs to be properly explained.

### **Return of Overpaid Refunds by Taxpayers**

- 3.60** Taxpayers returned a total of \$747,908.98 in refunds that were overpaid during the financial year 2013-2014.
- 3.61** These instances in which persons voluntarily returned overpaid refunds to the Department reveal serious deficiencies in internal controls. It is unlikely that all overpayments will be returned, therefore, a significant loss could have occurred from this lapse in controls. This has been an on-going problem for the Department which needs to be urgently addressed.

**3.62 It is recommended that:**

- The Department ensures that controls are in place to prevent the overpayment of refunds to taxpayers.

**Request for Information**

**3.63** Requests were made for reports and other documentation needed to perform the audit. The first request was made in February 2014. Follow up requests were made over a period of seven (7) months before the information was provided.

**3.64** The Audit Office was therefore unable to complete a thorough audit, especially relating to some of the major issues recorded in past audit reports. The absence of documentation in a timely manner impedes the audit and is in breach of Section 39 of the Financial Management and Audit Act, 2007-11 and those responsible should be required to provide an adequate explanation.

**3.65 It is recommended that:**

- The Department provides all documents requested by the Barbados Audit Office in a timely manner.



## Ministry of Transport and Works

### 3.66 Overpayment to a Supplier

#### 0517 - General Maintenance

A supplier was paid twice for work related to Electrical Renovations at the Country Road Branch of the School Meals Department resulting in an overpayment of \$65,671.92. At the time of the audit the monies had not been recovered.

### 3.67 **It is recommended that:**

- The Ministry's approving and certifying officers should review all supporting documentation to avoid overpayment. Appropriate action should be taken to recover the outstanding amount.

### 3.68 **Absence of Supporting Documentation**

Supporting documentation relevant to a number of payments was not provided for audit inspection by the Ministry. This is in breach of Section 39 (1) of the Financial Management and Audit Act. These documents were requested on several occasions.

### 3.69 **It is recommended that:**

- The Ministry needs to ensure that all information and documentation is available for its own internal checks and for audit verification.



## Asset Management

**3.70** During the audit the following deficiencies were noted in respect of fixed assets records.

### Incorrect Classification of Expenditures

- (i) Amounts totalling \$500,000 and representing a subsidy paid to the Transport Board for capital expenditure was incorrectly recorded as an asset. This resulted in an overstatement of Fixed Assets and an understatement of expenses.
- (i) An amount of \$16,500 was paid to a firm for cleaning services provided. This amount was recorded as an asset during the period under review, but should have been charged to Item 211 - Maintenance of Property.
- (ii) An amount of \$75,512.19 was paid to a company as a part payment for a generator. This amount was incorrectly charged to Item 211 - Maintenance of Property but should have been added to the cost of the existing asset. This resulted in maintenance expense being overstated and the asset account being understated.

To date the Ministry has not provided documentation to verify that the required adjustments were made.

**3.71** **It is recommended that:**

- The Ministry's accounting personnel should ensure that all amounts are correctly classified so that the correct figures can be recorded in the financial statement.





## UNRESOLVED AUDIT ISSUE FROM PRIOR YEAR

### Overpayments to Suppliers

- 3.72** In the previous financial year overpayments totalling \$1.3 million were made to suppliers. To date the Ministry has not provided the Audit Office with any evidence indicating that the overpaid amounts are being pursued, or if any have been recovered. Such occurrences are in breach of Rule 178 (3) (c) of the Financial Management and Audit (Financial) Rule, 2011 and must be addressed with urgency by the Ministry.

#### ***Ministry of Transport and Works Response:***

##### ***Overpayment to Suppliers***

*“The Ministry will investigate this overpayment and will seek to recover the funds that were overpaid. Certifying/approving officers have been reminded that they must review all documentation carefully.”*

##### ***Asset Management***

*“The Ministry will comply with the Financial Rules and ensure that all fixed assets for which it is responsible are accounted for. The process of compiling a fixed asset register commenced during 2014.”*

##### ***Preparation of Financial Statements***

*“Due to personnel changes in the accounts section at the end of the financial year the statement of financial performance and schedule of capital assets as well as other statements necessary to fairly reflect the financial operations of the Ministry were not submitted. The Ministry apologises for the non-submission of these reports and will ensure that*



*they are submitted as required by the Financial Management and Audit Act”*

## Customs Department

### Unpaid Declarations

**3.73** The Customs Department implemented a new computerised Automated System, Automated System for Customs Data, (ASYCUDA++) during the month of May 2005. Imports are recorded within the ASYCUDA system by declarants, and other persons or businesses purchasing items from overseas. Taxes are charged on these declarations. A report was extracted from this system for the period May 1, 2005 to March 31, 2014 indicating there were 1,951 unpaid declarations in the system for the port of entries, Bridgetown Port and Grantley Adams Airport. These unpaid declarations represent \$18,572,131 in unpaid taxes.

**3.74** The age analysis of these amounts is as follows:

Year of Assessment (not financial year)	Bridgetown Port \$	GAIA \$	Total \$
2005	1,086,320.71	9,872.50	1,098,198.21
2006	5,817,090.06	130,275.41	5,949,371.47
2007	3,956,236.03	95,418.74	4,053,661.77
2008	3,194,428.05	48,300.59	3,244,736.64
2009	703,956.40	65,642.35	771,607.75
2010	527,088.56	60,608.49	589,707.05
2011	271,613.76	581,320.00	854,944.76
2012	456,480.46	292,373.18	750,865.64



Year of Assessment (not financial year)	Bridgetown Port \$	GAIA \$	Total \$
2013	552,846.02	177,727.13	732,586.15
2014	537,376.32	7,156.80	546,547.12
			<b>18,592,226.56</b>

- 3.75** Action should be taken by the Department to verify the validity of these outstanding transactions, and where necessary, items held for prolonged periods should be auctioned.

### **Pool Betting and Gaming**

- 3.76** No funds were collected for Pool Betting revenue. It was stated by the enforcement officer that the matter is undergoing investigation.
- 3.77** Revenue collected from these licences for the financial year totalled \$1,020,000. As at December 31, 2013, there were 840 registered gaming machines which should result in an approximate receipt of \$12,600,000 when the applicable rates as set out in S.I 2008 No. 88 are applied. However, revenue has not been collected from some companies since March 31 2011. It was indicated that certain companies were granted a moratorium by the Ministry of Finance. To date, this authority has not been provided for audit inspection.

### **Variances in the Accounts Receivable Recorded**

- 3.78** A subsidiary listing in support of the accounts receivable balance of \$1,355,124.14 shown for the Customs Department in the Treasury's General Ledger as at March 31, 2014 was requested. No listing was



provided for this period. As a result the accounts receivable balance could not be verified. It should be noted that the figure submitted to the Audit Office was \$1,888,502, which was \$533,377.86 greater than the figure reported in the Government's Financial Statements.

### **Tourism Sector Waivers**

- 3.79** A number of companies received exemptions due to the construction of tourism projects. There was no evidence provided to show that these projects were adequately monitored or to ensure that the imports were utilized for the intended purpose. These exemptions are in excess of \$20 million dollars.

### **Industrial/Manufacturing Concessions**

- 3.80** The Approved Undertakings Division of the Department is responsible for monitoring companies which receive industrial/manufacturing concessions. This Division conducts inspections of these entities. The companies are required to submit documentation such as a list of raw materials utilized, list of products manufactured, their manufacturing process and presumptive yield. Of the sixty (60) files reviewed it was noted that thirty-four (34) of the companies did not submit the requested information, but continued to receive the concessions. The Department needs to carry out the relevant inspections to ensure that waivers are used as intended.



### **Dates for Cessation of Concessions Not Recorded**

- 3.81** Some of the waivers granted by the Ministry of Finance are for specific periods. However, within the computerised system ASYCUDA, the concluding dates were not recorded for some concessions. As a result this increases the risk of importers continuing to receive waivers that are not authorised.



## CHAPTER 4

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

**T**he Constitution of Barbados requires that the Office of the Auditor General conduct audits of all statutory authorities and Government controlled entities and submit a report to Parliament. It should however be noted that the accounts of some of these entities are audited by private sector auditors. The Audit Office provides a status report on the audits of all Government agencies, whether conducted by this Office or by private sector auditors. The status report on the audit of these agencies as at December 31, 2014, is presented in this Chapter.

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

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

- 4.2** The Arts and Sports Promotion Fund was established under the Arts and Sports Promotion Fund Act 2003. The purpose of the Fund is to provide financial assistance to activities and programmes conducted by arts and sporting organizations for the development and practice of arts and sports. The Fund was set up in 2004 but financial statements were prepared by the Treasury Department with effect from 2007.
- 4.3** The Financial Statements for the years ended March 31, 2007 to 2011 were audited. The statements for financial years March 31, 2012 to 2014 are outstanding.



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

- 4.4** The Barbados Boxing Board of Control oversees the promotion and regulation of boxing in Barbados. The Board receives an annual grant from the Barbados Government and is required to have its accounts audited by the Barbados Audit Office. The Boxing Board has however not submitted any accounts to be audited for the past twenty (20) years. The Ministry responsible for sports needs to take action to rectify this situation.
- 4.5** I again reiterate that the Ministry responsible for Sports needs to take the necessary action to have the Board provide the necessary statements to be audited.

### ***Barbados Community College***

- 4.6** The audit of the accounts of the Barbados Community College (BCC) is conducted in accordance with Section 10 (1) of the Barbados Community College Act, Cap. 36. There has not been an audit of the accounts of the Barbados Community College for five (5) years; the last completed audit was for the financial year ended March 31, 2009.
- 4.7** The financial statements for the financial year ended March 31, 2010 was submitted and private sector auditors were contracted by my Office to audit these statements. It is my intention to engage such services since the Office does not have the resources to audit such a large backlog of statements and at the same time carry out its other statutory responsibility. The College reported that the statements for the financial years ended March 31, 2011 and 2012 were completed and awaiting approval from the Board before submission to be audited.

***Barbados Defence Force***

- 4.8 The audit of the accounts of the Barbados Defence Force for the financial year ended March 31, 2013 was conducted during the course of the year. The financial statements were produced on a cash basis rather than the accrual basis adopted by Government.
- 4.9 The financial statements for the year ended March 31, 2014 have been submitted to the Audit Office for auditing.

***Barbados Hospitality Institute***

- 4.10 The Barbados Hospitality Institute falls under the aegis of the Barbados Community College. This Institute conducts training for persons pursuing careers in the hospitality industry. The Accounts of the Hospitality Institute has not been audited for six (6) years and this condition is unacceptable. The relevant action should have been taken by the Board of Management and the Ministry to rectify this situation. The College reported that the statements for the financial years ended March 31, 2011 and 2012 were completed and awaiting approval from the Board before submission to be audited.

***Barbados Liaison Service – Miami***

- 4.11 The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. The accounts for the Service for the financial years ended March 31, 2013 and 2014 have been completed.





- 4.12** During the last four (4) years no Barbadian workers have been selected to work on this programme. The programme had provided seasonal employment in the hotel Industry for Barbadian workers in the Southern United States for several years. The annual budget for maintaining this Office is US \$308,855.00 and this is a significant sum being spent without any obvious returns. The Ministry of Labour should conduct an assessment of this program to see how it can be improved or alternatively whether it should be discontinued.

***Barbados Liaison Service – Toronto***

- 4.13** The Barbados Liaison Service in Toronto administers a programme relating to farm and hotel workers recruited from Barbados. The audit of the Accounts of the Liaison Service is currently two (2) years in arrears. This audit will be conducted when the Audit Office visits Canada to conduct the on the spot audits of the Missions in Canada.

***Caribbean Centre for Development Administration***

- 4.14** The Caribbean Centre for Development Administration (CARICAD) provides assistance to the countries of the Caribbean region for the purpose of improving their administrative capability. The accounts of CARICAD for the financial years ended March 31, 2012 and 2013 were submitted and are currently being audited. The audit of the accounts for the year ended March 31, 2014 is outstanding.



### ***Catastrophe Fund***

- 4.15** The Catastrophe Fund was established in 2006 and is administered by the National Insurance Fund. This Fund provides financial aid to persons with homes valued at no more than \$125,000 which are damaged by a catastrophe.
- 4.16** The Catastrophe Fund Act requires Government to make annual contributions of \$2.5 million for a period of five (5) years commencing 2007. An amount of \$600,000 remained outstanding and receivable as at December 31, 2012.
- 4.17** The audits of the accounts of the Catastrophe Fund for the years ended December 31, 2010 to 2012 were completed. There were a number of adjustments to be made to the accounts however, the amended financial statements for this period were not resubmitted by the Department as requested.

### ***Central Emergency Relief Scheme***

- 4.18** The Auditor General is required under Section 14 of the Central Emergency Relief Scheme to audit the accounts of the Central Emergency Relief Fund, the precursor to the Catastrophe Fund. The Financial Statements for the financial years ended December 31, 2006 to 2012 were submitted and are currently being audited. The audit of the accounts for the financial year ended December 31, 2013 remains outstanding.



### ***Central Liaison Service***

- 4.19** The Central Liaison Service (Regional Security System) is a regional security organization headquartered in Barbados and supported by a number of Caribbean countries. Its functions include assisting with the fight against illegal narcotics and combating threats to national security in member states. The accounts of the Central Liaison Service for the financial years ended March 31, 2012 and 2013 have been submitted for audit and will be completed during 2015.

### ***Community Legal Services Commission***

- 4.20** The Community Legal Services Commission provides legal aid to persons in the country who need assistance and meet the established criteria. As I indicated in my previous report, the audit of the Accounts of the Commission has fallen into arrears primarily as a result of the lack of preparation of the Financial Statements. Financial statements for the financial years ended March 31, 2010 to 2014 have not been submitted for audit.
- 4.21** The Board of Directors of the Commission needs to take the necessary action to ensure that the statements are prepared for audit. The audited financial statements give stakeholders the confidence that the financial affairs of the Commission are being conducted in accordance with Government regulations and relevant accounting standards, and should therefore be completed in a timely fashion.



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

- 4.22** The Erdiston Teachers' Training College is an educational institution established for the training of teachers. The audit of the College for the financial years ending March 31, 2010 to 2012 have been audited. There are some amendments to these statements that are required before the audit reports can be issued. The College should move with greater urgency in finalizing these accounts and submit financial statements for the 2013 and 2014 financial years.

### ***National Assistance Board***

- 4.23** The National Assistance Board provides assistance to poor and needy persons in the country in a variety of ways, and this includes providing a Home Help Service. In accordance with Section 6 (2) of the National Assistance Act, Cap. 48, the National Assistance Board is required to submit its annual accounts, within three (3) months of the end of each financial year, to the Auditor General for audit.
- 4.24** The Financial Statements for the financial years ended March 31, 2011 to 2014 have not been submitted for audit. The Board should take the necessary steps to bring the accounts up to date.

### ***National Insurance Fund***

- 4.25** The current approach to the audit of the National Insurance Fund has not produced the results as intended. It has been four (4) years since my Office contracted this audit to private sector auditors, but the audit for only one (1) year has been completed, and that is for 2003. During 2015, there needs to be some concerted efforts by all parties to resolve this matter.



The National Insurance Fund is too important to the country for the audit of its accounts to be in such a state. Some tough decisions on the way forward for this matter need to be made during 2015. I have indicated to the Department and the private auditors that where the financial information requested by the auditors is not available by a specified time, the requisite audit opinion should be given based on the information provided. Taking such a course of action along with the provision of adequate audit resources by the auditors is the only way that progress will be made on this audit.

### ***Samuel Jackman Prescod Polytechnic***

- 4.26** The Samuel Jackman Prescod Polytechnic is an educational institution which offers technical and vocational training in a number of disciplines. Section 6 (1) of the Samuel Jackman Prescod Polytechnic Board of Management Order, 1983 (S.I. 1983 No. 78) requires the Board to submit to the Minister on or before October 1, in respect of the preceding financial year, Statements of Accounts audited by the Auditor General.
- 4.27** As reported on numerous occasions the financial statements of the Polytechnic have been in arrears for several years, from 1998 to be precise. During 2011, the Polytechnic submitted to the Office financial statements for the financial years ended March 31, 2009, 2010 and 2011. However, these statements were not prepared in accordance with the accounting standards and there was no adequate supporting documentation in support of the statements resulting in the audit process being suspended.



- 4.28** It is up to the Board of Management and Ministry of Education to ensure that the Polytechnic prepares the necessary financial statements for audit. The current situation is unacceptable.

### ***Sanitation Service Authority***

- 4.29** The audit of the accounts of the Sanitation Service Authority for the financial years ended March 31, 2011 to 2014 is currently outstanding. In December 2014 financial statements for the 2010 and 2011 financial years were submitted for audit and these statements will be audited in 2015. Private sector auditors have been contracted to assist this Office in reducing the backlog of audits.
- 4.30** Financial statements submitted long after the period in which the activity occurred is of little benefit to management or other stakeholders and represent a breakdown in the process by which the Board and its officers are held accountable by Government.

### ***Severance Payment Fund***

- 4.31** The audit of the Severance Payment Fund for the financial years ended December 31, 2010, 2011 and 2012 was partially completed. However, the financial statements and additional schedules requested were not submitted to facilitate the completion of the audits. The audit of the financial statements for the financial year ended December 31, 2013 is also outstanding, as no financial statements have been submitted to date.

***Sugar Factory Smoke Control Board***

- 4.32** The Revenue and Expenditure Accounts of the Sugar Factory Smoke Control Board for the years ended December 31, 2001 to 2014 have not been submitted for audit in accordance with Section 3 (11) of the Registered Sugar Factories Smoke Control Act, Cap. 355. The audit of the accounts of the Board for these years is therefore outstanding.

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

- 4.33** The Receipts and Payments Accounts for the financial year ended December 31, 2012 were audited as required by Section 15 (2) of the Sugar Industry Act, Cap. 270. No material errors were discovered in the financial statements during the course of the audit. The financial statements for the financial year ended March 31, 2013 have been submitted. The financial statements for March 31, 2014 are outstanding.

***Sugar Workers' Provident Fund***

- 4.34** The Sugar Workers' Provident Fund provides pensions and funeral grants to persons previously employed in the Sugar Industry, and who were not entitled to a contributory pension under the National Insurance and Social Security Act. The audit of the financial statements of the Fund for the financial years ended December 31, 2010, 2011 and 2012 was conducted during the year. Revised financial statements to facilitate completion of these audits were not submitted. In addition, no financial statements were submitted for the financial year ended December 31, 2013.



### ***Transport Authority***

- 4.35** The Transport Authority was set up in August 01, 2008 to regulate, monitor and plan for public transportation in Barbados. The Authority indicated that the audits of the accounts for the financial years ended March 31, 2011, 2012, 2013 and 2014 are outstanding. The reason reported for the delay is the absence of an accountant at the Authority, compounded by serious budget cuts curtailing efforts to seek external accounting assistance. The Secretariat reported that steps are being taken to rectify this situation.

### ***Unemployment Fund***

- 4.36** The Unemployment Fund, which is administered by the National Insurance Department, pays benefits to those qualifying persons who were laid off from work. The audit of the financial statements for the financial years ended December 31, 2010, 2011 and 2012 was partially completed during the year. However, financial statements and additional schedules requested were not submitted to facilitate the completion. The audit of the financial statements for the financial year ended December 31, 2013 is outstanding.

### ***Retraining Fund***

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





- 4.38 The financial statements for the financial years ended December 31, 2012 and 2013 have not been submitted to the Office for audit and therefore remain outstanding.

### **Audits Conducted by Private Sector Auditors**

- 4.39 Section 113 of the Constitution requires the Auditor General to be the auditor of Ministries/Departments and Government controlled entities. However, private sector auditors conduct a number of these audits. A report on the status of these audits is as follows:

### **Statutory Boards and Government Companies**

#### ***Barbados Agricultural Credit Trust Ltd.***

- 4.40 The principal activity of the Barbados Agricultural Credit Trust Ltd (BACTL) is the management of the debt of the Barbados Sugar Industry Ltd. (BSIL) and the Heavily Indebted Plantations (HIPs), a responsibility which was assumed from the Barbados National Bank in the form of a portfolio transfer. The audit of the accounts for the financial year ended June 30, 2013 has been completed. The audit for the financial year ended June 30, 2014 is outstanding.

#### ***Barbados Agricultural Development and Marketing Corporation***

- 4.41 The Barbados Agricultural Development and Marketing Corporation (BADMC) consists of two (2) merged entities: the Barbados Marketing Corporation (BMC) and Barbados Agricultural Development and



Management Corporation (BADMIC). The principal activity of the BADMIC under Section 10 of the Act is the management of the production, marketing and processing of produce in Barbados. The BADMIC was established by the BADMIC Act, 1965 - 21 to stimulate, facilitate and undertake the development of agriculture and to develop and manage, on a commercial basis, Government plantations along the line of Government policies.

- 4.42** The Corporation informed that audits of the accounts of the BADMIC for the financial years ended March 31, 2011 has been completed. The Corporation also reported that it is in the process of completing the 2012 audit and are projecting that the BADMIC audits should be up to date by the end of 2015.

***Barbados Conference Services Ltd.***

- 4.43** The Barbados Conference Services Ltd (BCSL) is responsible for the operations of the Lloyd Erskine Sandiford Centre and provides destination management and transport services under the brand names, "Horizon Events' Planners" and "Horizon Coaches and Tours" respectively. The audit of the accounts for the financial year ended March 31, 2014 has been completed.

***Barbados Investment and Development Corporation***

- 4.44** The Barbados Investment and Development Corporation (BIDC) was established under the Barbados Investment and Development Corporation Act, 1992 – 30 for the purpose of developing Barbados' industrial, off-shore financial, export and other related activities. The audit of accounts for the financial year ended March 31, 2013 has been completed. The



Corporation has indicated that the accounts for the financial year ended March 31, 2014 are in draft and should be finalized by January 31, 2015.

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

- 4.45** The Barbados National Oil Company Ltd. (BNOCL), through its wholly owned subsidiary, is involved in the exploration and production of crude oil, natural gas and liquefied petroleum gas (LPG). The BNOCL is also engaged in the processing of crude oil and the sale of petroleum products to the Barbados market.
- 4.46** BNOCL has indicated that the audit of the financial statements for the period ended March 31, 2014 is near completion.

***Barbados Port Inc.***

- 4.47** The principal activity of the Barbados Port Incorporated is to manage the Port of Bridgetown, for the main purpose of enabling the Port to operate as a commercial entity. It was reported that the audit of the accounts for the year ended March 31, 2014 has been completed.

***Barbados Tourism Authority***

- 4.48** The principal activities of the Barbados Tourism Authority (BTA) were to promote, assist and facilitate the efficient development of tourism, and to design and implement suitable marketing strategies for the effective promotion of the tourism industry. This entity has been replaced by the Barbados Tourism Marketing Inc. and the Barbados Tourism Product Authority.



- 4.49** The audit of the accounts of the BTA for the financial years ended March 31, 2012 and 2013 was reported to be in progress, and the audit of the accounts for the year ended March 2014 remains outstanding.

***Barbados Tourism Investment Inc.***

- 4.50** The principal activities of the Barbados Tourism Investment Corporation are the facilitation of tourism investment in Barbados, and the development of its vested properties in private and public partnerships.
- 4.51** The Corporation has reported that the audit of the accounts for the financial year ended March 31, 2013 has been completed. The audit of the accounts for the financial year March 31, 2014 is therefore outstanding.

***Barbados Vocational Training Board***

- 4.52** The National Training Board was set up under the Occupational Training Act, 1979, Cap. 42 to ensure an adequate supply of trained manpower through occupational training for apprentices and trainees. The name of the Board was subsequently changed to the Barbados Vocational Training Board (The Board) under Section (2) of the Technical and Vocational Educational Training Act, 1994 - 11. The Mission of the Board, however, has remained unchanged.
- 4.53** The Training Board reported that the final auditor's report is being awaited with respect to the accounts for the financial year ended March 31, 2006. The audit of the accounts for the financial years ended March 31, 2007 to 2014 remains outstanding.

***Barbados Water Authority***

- 4.54** The Barbados Water Authority (BWA) was established by the Barbados Water Authority Act 1980 - 42 to take over the functions, rights and liabilities of the Waterworks Department on the “appointed day”, which is regarded as April 1, 1981.
- 4.55** The BWA reported that the audit of the accounts for the financial years ended March 31, 2009, 2010, 2011 and 2012 was ongoing. The audits for the financial years ended March 31, 2013 and 2014 also remain outstanding.

***Caribbean Broadcasting Corporation***

- 4.56** The principal activity of the Caribbean Broadcasting Corporation (CBC) is the provision of broadcasting services through radio and television. The audit of the accounts for the financial year ended December 31, 2013 has been completed. The audit of accounts for January to March 2014 is in progress.

***Caves of Barbados Ltd***

- 4.57** Caves of Barbados Ltd (CBL) is mandated under the Caves Act 2000 - 12 to manage and develop Harrison’s Cave and any other caves in Barbados. The CBL has reported that the audit of accounts for the financial year ended 2010 is awaiting Board approval, and 2011 is near completion. The audits of accounts for financial years 2012 to 2014 are also outstanding.

***Child Care Board***

- 4.58** The principal activities of the Child Care Board are to provide and maintain child care institutions for the safe keeping of children in need of care and protection; and to make grants to voluntary organizations or bodies operating child care institutions. The audit of the accounts for the financial year ended March 31, 2013 has been completed. The Child Care Board has indicated that the audit for the financial year ended March 31, 2014 is in progress.

***Enterprise Growth Fund Limited***

- 4.59** The principal activity of the Enterprise Growth Fund Limited (EGFL) is the provision of loan financing and venture capital to dynamic, small and medium sized Barbadian companies in the productive sectors. EGFL also provides business advisory services and technical assistance to its client companies. The audit of the accounts for the financial year ended December 31, 2013 has been completed.

***Fair Trading Commission***

- 4.60** The principal activity of the Fair Trading Commission (FTC) is to enforce the Utilities Regulation Act, Cap. 282, the Telecommunications Act, Cap. 282B, the Fair Trading Competition Act, Cap. 326C and the Consumer Protections Act, Cap. 326D.
- 4.61** The Commission is required to promote efficiency and competitiveness, and improve standards of service and quality of goods and services supplied by service providers and business enterprises over which it has jurisdiction. The audit of the accounts for the financial year ended March 31, 2014 has been completed.



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***Financial Services Commission***

- 4.62** The Financial Services Commission (FSC) commenced operations on April 1, 2011 under the Financial Services Commission Act, 2010. The Commission represents an amalgamation of the former Registrar of Co-operatives, the Securities Commission and the Supervisor of Insurance and Pensions.
- 4.63** The functions of the Financial Services Commission (FSC) include the supervision and regulation of the operations of financial institutions, the establishment of standards for institutional strengthening, for the control and management of risk in the financial services sector and for the protection of customers of financial institutions as well as creditors and the public, and the promotion of stability, public awareness and public confidence in the operations of financial institutions. The audit of the accounts for the financial year ended March 31, 2014 has been completed.

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

- 4.64** The Grantley Adams International Airport Inc. (GAIA) is responsible for the commercial operations and management of the airport in accordance with the Grantley Adams International Airport (Transfer of Management and Vesting of Assets) Act (Act 2003 - 3).
- 4.65** The GAIA has revised its financial year to correspond with central Government. As a result the audit of the accounts covered a nine (9) months period (July 1<sup>st</sup>, 2013 to March 31<sup>st</sup> 2014). The audit of these accounts has been completed.

***Hotels and Resorts Ltd.***

- 4.66** Hotels and Resorts Ltd. was incorporated under the Laws of Barbados on December 27, 1995. The principal activity of Hotels and Resorts Ltd. is the investment in, and development of, hotel premises.
- 4.67** The Company has reported that the audit of the accounts for the financial years ended December 31, 2011 and 2012 is in progress. The audit for 2013 and 2014 also remains outstanding.

***Islandcrafts (Barbados) Inc.***

- 4.68** The principal activity of Islandcrafts (Barbados) Inc. is the sale and marketing of indigenous handicraft items. The BIDC's Director – Finance reported that due to the absence of a Board of Directors for Island Crafts (B'dos) Inc., the engagement letters for the audit of the financial statements for the financial years ended March 31, 2007 to 2010 remained unsigned for an extended period of time. As a result, the auditors have not produced the financial statements. This situation is reportedly being resolved and steps are being put in place to address the audits of financial years 2011 to 2014, given the appointment of a Board of Directors in February 2014.

***National Conservation Commission***

- 4.69** The principal activity of the National Conservation Commission (the Commission) is the management, maintenance and development of the public parks, beaches and open areas of Barbados.
- 4.70** Audit of the accounts of the Commission has been completed for the financial year ended March 31, 2011. The Commission has reported that the audit of the accounts for the financial year ended March 31, 2012 is in





progress and the audits for the financial years ended March 31, 2013 and 2014 are outstanding.

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

- 4.71** The principal activity of the National Council on Substance Abuse (NCSA) is to advise the Ministry of Home Affairs on measures for the eradication or control of substance abuse.
- 4.72** The Council reported that the audit for the financial year ended March 31, 2010 was completed. The audits for the years ended March 31, 2011 to 2014 remained outstanding.

### ***National Cultural Foundation***

- 4.73** The principal activities of the National Cultural Foundation (the Foundation) are to stimulate and facilitate the development of culture, organize and assist in cultural activities, and develop, maintain and manage theatres and other cultural facilities and equipment provided by the Government of Barbados.
- 4.74** The Foundation has reported that the audits of the accounts for the financial years ended December 31, 2010, 2011 and 2012 are completed. The audit for the financial year ended December 31, 2013 is outstanding.

### ***National Housing Corporation***

- 4.75** The National Housing Corporation is a state agency which has responsibility for the development of land and the construction of housing units for sale or rent to low and middle-income persons. The Corporation has reported that the accounts for the financial year ended March 31,



2012 are with the auditors. The audits for the financial years ended March 31, 2013 and 2014 are also outstanding.

### ***National Productivity Council***

- 4.76** The principal activities of the Barbados National Productivity Council (BNPC) are: to create and develop methodologies for measurement, management and improvement in the public service and private sector, and to provide technical advice and assistance for devising productivity related payment schedules. The audit of the accounts for the financial year ended March 31, 2014 has been completed.

### ***National Petroleum Corporation***

- 4.77** The National Petroleum Corporation (the Corporation) has as its principal activity the supply of natural gas to industrial, commercial and domestic customers. The audit of the accounts for the financial year ended March 31, 2013 has been completed and the Corporation has indicated that the draft audited financial statements is awaiting approval by the Board. The Corporation reported that the audit of the accounts for the financial year ended March 31, 2014 is in progress.

### ***National Sports Council***

- 4.78** The principal activities of the National Sports Council (NSC) are to maintain and develop sporting facilities provided for public use, and to stimulate the development of sports in Barbados. The Council has reported that the audit of the accounts for the financial years ended March 31, 2013 and 2014 has been completed and the Council is awaiting the reports from the auditors.

***Queen Elizabeth Hospital***

- 4.79** The Queen Elizabeth Hospital (QEH) has as its principal activities the provision of medical care for patients, facilitating the provision of medical education and research, and providing facilities and technical support for education and training in nursing and other health related professions.
- 4.80** The audits of the accounts for the financial years ended March 31, 2009 and 2010 were reported to be in progress. The audits of the accounts for 2011 to 2014 also remain outstanding.

***Rural Development Commission***

- 4.81** The Rural Development Commission (the Commission) was incorporated on August 21, 1995 under the Rural Development Commission Act, 1995-12. Its principal activity is to improve the quality of life of persons living in rural communities in Barbados.
- 4.82** The audits of the accounts for the financial year ended March 31, 2008 to 2014 are outstanding. The Commission indicated that no auditors were appointed since 2008 and this was the major reason for the delay of the completion of all the Financial Statements. The Commission reported that auditors have been appointed and are currently working on the financial year ended March 31, 2008.

***Student Revolving Loan Fund***

- 4.83** The principal activity of the Student Revolving Loan Fund (SRLF) is to assist in the educational process through the provision of loans. SRLF has reported that the audit of the accounts for the financial year ended March 31, 2014 is in progress.



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

- 4.84** The principal activities of the Technical and Vocational Education and Training (TVET) Council are to provide advice on policy, and to prepare plans and establish standards for technical and vocational education at the tertiary level, in accordance with national policies and economic needs.
- 4.85** The audit of the accounts for the financial year ended March 31, 2014 has been completed.

### ***Transport Board***

- 4.86** The Transport Board's principal activity is the provision of transportation to the general public. The audit of the accounts for the year ended March 31, 2010 is currently being finalised. The Board indicated that the audit of the accounts for the financial year ended March 31, 2011 is expected to be completed by June 2015 and the audit for the financial year ended March 31, 2012 by December 2015. The audit of the accounts for the financial years ended March 31, 2013 and 2014 also remain outstanding.

### ***Urban Development Commission***

- 4.87** The principal activities of the Urban Development Commission (UDC) are to undertake slum clearance and improve social amenities in urban areas. The UDC also provides loans to individuals with small enterprises, and for assistance in house acquisition, repairs and improvements.
- 4.88** The audit of the accounts for the financial years ended March 31, 2008 to 2014 is outstanding.



## ***Audits of Secondary Schools***

- 4.89** Section 20 (1) (b) of the Education Act requires that the audited accounts of secondary schools be submitted to the Minister not later than six (6) months after the close of the financial year which ends on December 31. The status of the accounts of these schools at December 31, 2014 was as follows:
- 4.90** The audits of the accounts of the schools listed below have been completed for the financial year ended March 31, 2014. The accounts of these schools are therefore up-to-date as required by the Education Act.
- ***Daryll Jordan Secondary School***
  - ***Deighton Griffith Secondary School***
- 4.91** The audits of the accounts of the following schools were not up-to-date as required by the Education Act.
- ***Alexandra School***
- 4.92** The School has reported that the audits of the accounts of the Alexandra School for the financial years ended March 31, 2013 and 2014 are outstanding.
- ***Alma Parris Secondary School***
- 4.93** The audit of the accounts of the Alma Parris Secondary School for the financial year ended March 31, 2013 is reportedly in progress. The audit for the financial year ended March 31, 2014 remains outstanding.



- ***Christ Church Foundation School***

**4.94** The audits of the accounts of the Christ Church Foundation School for the financial years ended March 31, 2011, to 2014 are outstanding.

- ***Coleridge and Parry School***

**4.95** The School has reported that audits of the accounts for the financial years ended March 31, 2012 and 2013 are in progress. The audit of the accounts for the financial year ended March 31, 2014 is outstanding.

- ***Combermere School***

**4.96** The audits of the accounts of the Combermere School for the financial years ended March 31, 2011 to 2014 are outstanding.

- ***Ellerslie Secondary School***

**4.97** The school has reported that it is awaiting results of the audits of the accounts of the Ellerslie Secondary School for the financial years ended March 31, 2010 and 2011. The audits of the accounts for the financial years ended March 31, 2012 to 2014 are also outstanding.

- ***Frederick Smith Secondary School***

**4.98** The audit of the accounts of the Frederick Smith Secondary School for the financial years ended March 31, 2013 and 2014 are outstanding. The school reported that the auditor experienced difficulties which prohibited the execution of the audit.



- ***Graydon Sealy Secondary School***

**4.99** The audit of the accounts of the Graydon Sealy Secondary School for the financial year ended March 31, 2013 has been completed. The audit for the year ended March 31, 2014 is outstanding.

- ***Grantley Adams Memorial School***

**4.100** The audit of the accounts of the Grantley Adams Memorial Secondary School for the financial year ended March 31, 2013 remains outstanding. The school reported that the auditor is unable to audit the school's financial statements for the year ended March 31, 2013.

- ***Harrison College***

**4.101** The audit of the accounts of Harrison College for the financial years ended March 31, 2011, 2012 and 2013 is completed. The audit of the accounts for the financial year ended March 31, 2014 is outstanding.

- ***Lester Vaughan School***

**4.102** The Lester Vaughan School has reported that the audits of the accounts for the financial years ended March 31, 2013 and 2014 are outstanding.

- ***The Lodge School***

**4.103** The Lodge School has reported that the audit of the accounts for financial year ended March 31, 2014 will commence shortly.



- **Parkinson Memorial School**

**4.104** The audits of the accounts of the Parkinson Memorial School for the financial years ended March 31, 2013 and 2014 are outstanding. The school indicated that the auditor was experiencing problems with the audits.

- **Princess Margaret Secondary School**

**4.105** The audit of the accounts of the Princess Margaret Secondary School for the financial year ended March 31, 2012 has been completed. The audits for the years ended March 31, 2013 and 2014 are outstanding. The Board of management has requested the Audit Office to audit the accounts and this process will commence shortly.

- **Queen's College**

**4.106** The audit of the accounts of Queen's College for the financial years ended March 31, 2013 and 2014 are outstanding.

- **Springer Memorial Secondary School**

**4.107** The audits of the accounts of Springer Memorial Secondary School for the financial years ended March 31, 2012, 2013 and 2014 are outstanding.





- ***St. George Secondary School***

**4.108** The audits of the accounts of the St. George Secondary School for the financial years ended March 31, 2013 and 2014 are outstanding. The school reported that the auditor experienced difficulties which prohibited the execution of the audit.

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

**4.109** The audits of the accounts of the St. Leonard's Boys' Secondary School for the financial years ended March 31, 2013 and 2014 are outstanding.

- ***St. Michael School***

**4.110** The St. Michael School has reported that the audit of its accounts for the financial year ended March 31, 2013 is in progress. The audit for the financial year ended March 31, 2014 remains outstanding.

### **General Observations**

**4.111** The audits of a number of Government agencies are in arrears, and this must be of concern for Government. These agencies have received hundreds of millions of dollars and should have had their accounts audited annually as required by law.

**4.112** The main reason for this state of affairs is the poor state of their accounts which prevents the submission of statements for audit in a timely manner. These agencies, whose audits are in arrears, need to re-examine their accounting systems, processes and staffing to see how they can be improved.



- 4.113** The submission of accounts long after the due period often leads to problems in finalizing the audits. This is contrary to statutory requirements and can create an environment where fraud can thrive and remain undetected.
- 4.114** The Audit of the accounts of the secondary schools have proven to be challenging for the private sector auditors since they have been integrated with the accounts of Central Government and a number of schools have requested the assistance of my Office in conducting the audits. I will provide the necessary assistance wherever possible.



## CHAPTER 5

### Follow-up Reports

#### Introduction

**T**his chapter highlights the status of issues and recommendations made in previous audit reports of the Barbados Audit Office. It is important for the Office to determine whether action has been taken on the issues raised. This is carried out through the follow-up process which involves Ministries, Departments and Statutory Corporations providing updates on the following information:

1. The action taken to address the issues;
2. The status and impact of any action taken;
3. Reasons for any failure to take action.

**5.2** Eighteen (18) entities were requested to provide this information, but only twelve (12) had responded as at December 12, 2014. The entities surveyed and the statuses of the responses are shown in the table below.



Ministry/Department/Statutory Corporation	Response Received
Barbados Coalition of Service Industries	Yes
Barbados Investment Development Corporation	No
Barbados Vocational Training Board	Yes
Barbados Water Authority	Yes
Office of Attorney General	Yes
Department of Corporate Affairs and Intellectual Property	No
Customs Department	No
Invest Barbados	Yes
Immigration Department	No
Barbados Revenue Authority – re. Inland Revenue Department	No
National Library Service	Yes
Ministry of Agriculture, Food, Fisheries and Water Resource Management	Yes
Ministry of Transport and Works – Barbados Road Network Infrastructural Improvement Project	Yes
National Housing Corporation	Yes
Rural Development Commission	Yes
Registration Department	Yes
Samuel Jackman Prescod Polytechnic	Yes
Urban Development Commission	No

Prepared by the Barbados Audit Office



- 5.3 The next section of the Chapter presents the issues and the responses provided by the entities. Unless denoted the responses of the entities have been reproduced verbatim.

## Ministry of Transport and Works

### Barbados Road Network Infrastructural Improvement Project

#### *Issue*

- 5.4 The commencement of the **Barbados Road Network Infrastructural Improvement** Project without complete designs and agreed costs contributed to disputes between the Ministry and the contracted firm about the total cost of the Project. The Ministry claimed that at a meeting held with the firm, an amount of \$117 million for Section 1 of the project was agreed on, while the firm claimed that this figure did not include design stage costs and other costs of approximately \$9 million. This matter remains unresolved at the time of writing.

#### ***Ministry's Response:***

*Please be advised that this matter is currently under judicial consideration in Supreme Court Suit 919 of 2009 between 3S Structural Steel Solutions LLC and the Attorney General.*



## Barbados Coalition of Service Industries

### *Issue*

- 5.5 The Report highlighted a number of governance issues relating to the operations of the board, including a lack of evidence that the Board approved the annual budget, trade missions and the employment by the agency of members of the board of directors. It was recommended that there should be specific Board approval for large expenditures such as trade missions and financial transactions involving Board members.

### **BCSI's Response**

#### General Context and Trade Missions

*In 2011, the BCSI [Barbados Coalition of Services Industries] undertook to review its mandate and the tools being used to deliver on that mandate. As a result, many of the policy positions and resulting governance issues have now been updated. As part of that process it was agreed by the Board of Directors in 2011, that the BCSI would attempt to work alongside agencies who were better equipped to deal with export promotion 'beyond the border' including trade missions and that the organization would not undertake trade missions at this time until substantial work had been done to bring the domestic market for services up to world class standards.*

*As a result of the foregoing, the issue of trade missions, the policy direction behind them and the budgetary allocation assigned to them no longer features in BCSI's budget or programming activities.*

*Employment of Board members in the BCSI*

*In June 2011 an Executive Director was appointed to head the BCSI and the management of the organization now falls under the direction of that office. Clear lines of demarcation have been established between the Board of Directors and the Management of the Organisation. There have been no Board members employed by the BCSI since this Report. Annual external audits have also been conducted by the Auditor.*

*Specific Board Approval for large transactions*

*The BCSI now has an administrative system in place where programs and projects, including budgets, are submitted to the Board for approval.*

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## **Barbados Water Authority**

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### ***Issue***

- 5.6** Approval was granted for BWA personnel to participate in a Utilities Best Practice United Kingdom Study Tour from July 10 - 17, 2010. A company was paid a total of \$31,500 for coordinating and facilitating the Tour. Tickets valued at \$10,708.03 were also purchased from a travel agency. At the time of the review there was no evidence provided to show that the tour took place or that these funds were ever recovered.

**Authority's Response:**

Board approval was given at the meeting of Thursday, May 13, 2010 for [three individuals] to attend a training attachment and study tour in the United Kingdom from July 10<sup>th</sup> – 17<sup>th</sup>, 2010. [The company] which was facilitating the tour [was paid] \$31,500.00. Airfare totaling \$10,708 was paid to the [travel agency]. Allowances of USD\$440.00 and USD\$605.00 were paid to [an individual].

The tour was eventually cancelled. The records show that [one individual] has not refunded the allowances paid to him. There is no evidence to suggest that the [company which facilitated the tour] has refunded the fees of \$31,500.00 and efforts to contact them proved futile since their phone contact information went out of service.

The Airline has made it clear that it is not their policy to give refunds but might have given consideration to using the money for future bookings within a year but this was never utilized.

**Issue**

- 5.7 Goods ordered from a firm totalling Bds. \$462,786.26 were paid for but not delivered. No due diligence was conducted on this firm which is based in the USA.

**Authority's Response:**

Suppliers that are engaged by the BWA through the tender process are required to submit a certificate of incorporation and a list of directors. All other suppliers will receive a document detailing BWA's requirements





*called Supplier Guidelines. They are to be submitted to the Audit and Finance Committee for Approval and then to the Board for authorization.*

***Issue***

- 5.8** On quotation 1027916 dated June 11, 2010 the amount quoted for the supply of goods was BDS\$61,200. However, the payment was made for US\$61,200.

***Authority's Response:***

*The BWA has written and emailed the supplier requesting a refund of the overpayment. Secondly, the BWA is pursuing legal action against the supplier on this matter and others.*

***Issue***

- 5.9** The majority of goods ordered from another firm which totaled BDS\$351,086.59 were paid for but not delivered.

***Authority's Response:***

*The BWA is pursuing legal action against the supplier on this matter which has been referred to the Director of Public Prosecution.*

**Issue**

- 5.10** Potable water pipes are sourced and stored at the Belle without protective end cap plugs or wrappings in the open environment. When these pipes are exposed to the elements, they lose their colour and the interior becomes brittle and disintegrates.

**Authority's Response:**

*The BWA has purchased filter fabric which protects the PVC pipe from UV rays.*

**Issue**

- 5.11** Adequate levels of materials were not always kept in stock for the daily functioning of work crews.

**Authority's Response:**

*The BWA has engaged a supplier to provide one year's supply of pipes and fittings which is to be shipped quarterly. Hence, a continuous supply of materials should ensure adequate stock levels. Secondly, the BWA has established an inventory management protocol that is being implemented.*

*The BWA has established minimum stock levels that crews are to carry to minimize the practice of stockpiling. Thirdly, the BWA has established procedures to replenish stock based on items used on the job card up to the maximum level. This will help to manage usage and minimize excessive drawdowns on stock levels. Fourthly, BWA has put in place cycle counting for critical stock items.*

**Issue**

- 5.12** BWA was unable to replace all of the mains listed for replacement in the budgets for the years 2007 to 2010. BWA's personnel identified three (3) factors as constraints to the execution of its mains replacement programme. These were finances, late arrival of material and the methods of excavation. It was recommended that BWA should seek to remove the constraints that prevent it from replacing mains in a timely manner.

**Authority's Response:**

*None was provided.*

**Issue**

- 5.13** BWA personnel indicated that leak detection activity is only conducted when there are problems such as low water levels and complaints by the public of low water pressure. The reason given for this is the lack of equipment and manpower. Personnel are of the view that the equipment should be permanently attached to the mains. However, because BWA is not in possession of sufficient quantities of this specialized equipment, it has to be moved to various locations when necessary.
- 5.14** BWA relies mainly on the public to alert it of leaks when the evidence of the leak comes to the surface. This method is not the most effective means of detecting leaks, since some leaks may not surface in a timely manner and others may not surface at all. It was recommended that BWA should improve its leak detection capabilities.

**Authority's Response:**

None was provided.

**Issue**

- 5.15** A major impact of the leaks is unaccounted-for (non-revenue) water. This is water that is pumped by the BWA but which cannot be accounted for as being used by customers. There is a cost for this water that is lost, such as the pumping costs for which no revenue is obtained. In addition, for an Island that is deemed water scarce, the loss of water after extraction by the BWA should be reduced to a minimum. There are also material and labour costs for repairing the leaks and flushing the mains in the case of water discolouration. It is important, therefore, for BWA to reduce the level of unaccounted-for water. It was recommended that the quantity of unaccounted-for water be reduced to acceptable levels.

**Authority's Response:**

*The Barbados Water Authority is addressing the reduction in non-revenue water (NRW) by engaging in the following programmes:*

- (a) *The BWA, in keeping with industry practice, has divided the distribution areas of the island into twenty-five District Metered Areas (DMA) with the view of measuring the volume of water delivered to each DMA and comparing that figure with the summed readings taken from the meters of all of the customers in each of the DMAs. This will allow for an improvement in the method of calculating the NRW which is now done on an island wide basis and not at the District or sub-District level.*



- (b) *The BWA has geo-referenced all of its services so that an accurate picture of those services which are in each DMA can be ascertained and from this an accurate picture of the volume delivered through service meters to the customers can be calculated. This computation will be computerised when the Customer Information System (CIS) is upgraded.*
- (c) *The BWA has also conducted the change-out of a number of bulk meters at the pumping stations and will be continuing this process under one of the procurements of the IDB-funded programme. This programme is intended to bring about the accurate measurement of the volumes of water leaving the stations and re-pumping stations and will therefore lead to greater accuracy in the determination of the levels of NRW.*
- (d) *The BWA has also started the replacement of its service meters since the level of accuracy of the old meters had fallen and this along with a substantial number of stopped meters, served to mask leaks on the customers' properties and levels of real consumption.*
- (e) *The BWA is scheduled to replace (through the IDB-funded Water and Sanitation Upgrade Project) approximately 49 Km of water mains ranging from 4" to 16" in size. The mains included in the programme are some of the mains which are prone to the greatest number of breaks, and therefore leakage, as well as those that give rise to the issue of discoloured water.*
- (f) *The BWA is also in the process of engaging the Government of the People's Republic of China through the China EXIM Bank for a*



*significant loan which will see the large scale replacement of mains which are known to break frequently and/or contribute significantly to the incidence of discoloured water.*

### **Issue**

- 5.16** BWA did not quantify the work carried out to locate the leaks and effect repairs to a west coast main laid by a private contractor. It was recommended that cost of the works be quantified and that BWA seek to recover the costs incurred in fixing the main.

### **Authority's Response:**

*Hydrostatic pressure testing was conducted on sections of the main at least forty-six (46) times. As a result of the testing nine (9) faults were identified and corrected. The labour costs for the testing and repairs approximates to \$59,422.54, whereas the material costs incurred in fixing the main approximates to \$17,071.50. Cumulatively the labour and material costs approximates to \$76,494.04. The BWA has approached the contractor to discuss the deduction of these sums from the retention money.*

### **Issue**

- 5.17** As an employer of approximately eight hundred (800) persons, which is a significant amount, BWA should have a documented recruitment process that guides its hiring practices. This process would detail the various activities necessary for recruiting employees. When asked about a documented recruitment process, personnel in HRD stated that the



process was not documented but followed customs developed over time. It was recommended that the BWA should document its recruitment policies.

**Authority's Response:**

*The Barbados Water Authority has developed a Draft Recruitment, Selection and Promotion Policy document. Included therein is a "Recruitment and Employment Code".*

*This Draft Recruitment and Selection Policy was discussed and approved at the level of Management. Following Board approval, it will be discussed with the Workers' Representative with a view to seeking their agreement for its implementation.*

## Office of the Attorney General

### Issue

**5.18** The actual construction process was plagued with problems which resulted in major delays in the completion of the Police Station at Crab Hill, St Lucy, leading to considerable increase in its costs. The contract for the project was originally \$1.4 million but the final cost was \$4 million. The problems with the project included:

1. Incorrect setting out of the building and faulty construction work, with the resulting need for remedial work;
2. Poorly constructed foundation covering 30% of the floor space;



3. Late contractual payments;
4. Backfill material not meeting specification.

**5.19** The project was brought to an end by the original contractor on two occasions and eventually had to be turned over to a new contractor for completion. The Consulting Engineers who investigated the project reported that the degree of faulty work was extensive, and their reports suggested in part that there was a poorly constructed foundation. They also reported that regular on-site supervision was not carried out during the course of the work.

***Office of the Attorney General's Response:***

*The matter related to the Crab Hill Police Station has been referred for the advice of the Solicitor General.*

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## Invest Barbados

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***Issue***

**5.20** Invest Barbados was not able to assess the effectiveness of its work since there were deficiencies with the performance measures used. For example “New Investment” could not be measured; the necessary information was not available to assess “Corporation Tax Revenues from International Business” and “Jobs Created”; and “Financial Services Registrations” could not be directly attributable to the agency’s efforts. It was recommended that IB should:





- review its performance measures for relevancy and direct linkage to its efforts;
- establish systems to collect data relevant to all of its performance measures such as new companies' registrations and jobs created as a result of IB's efforts;
- ensure that data is readily available for the performance measures that it chooses.

**Entity's Response:****New Investment**

*IB continues to have difficulty in determining new investments by companies as the companies are unwilling to reveal this information and IB has no legal authority to demand it. IB has however been encouraging the regulatory agencies International Business Unit and BRA, the former Inland Revenue Department, etc. with the legal authority to collect this information to include this request on their licence application / corporation tax assessment forms. This has not been done to date. IB has therefore removed this from its performance measures in the interim.*

**Jobs Created**

*IB can now report on an annual basis on approximate number of jobs in the international business sector as a result of our annual study on the performance of the international business sector. The more detailed analysis which IB was hoping to commission did not materialised because of budgetary constraints.*



### Financial Services Registrations

IB continues to collect information from the regulatory agencies on new registrations. However, given the companies' process for set up it is very difficult to determine which companies are specifically from IB's efforts. It is recognised that since the major marketing efforts are carried out by IB, this organisation can take most of the credit for the new companies setting up. This performance measure therefore remains as is in IB's strategic plan.

### New Performance Measures

Since 2012, IB instituted the following new performance criteria for measuring its performance:

	Achieved 2011/12	Achieved 2012/13	Target 2012/13	Achieved 2013/14	Target 2013/14
New non-financial business companies	8	4	3	6	3
New international business companies registered	530	513	500	569	500
Corporate tax and other fee revenues from IBFS sector	\$806 mill	\$874 mill		Data presently being collected	
Corporate tax from IFBS sector	\$161.2 mill	\$180.2 mill		Data presently being collected	



	Achieved 2011/12	Achieved 2012/13	Target 2012/13	Achieved 2013/14	Target 2013/14
Employment in International Business Sector	4122	4519		Data presently being collected	
New Markets	4	3	1	1	1
New Client Visits	41	53	40	43	40
Follow-up Visits	18	28	10	14	10
Imminent Starts	5	5	4	3	4
Client Care Programme	250	193	300	172	300

## National Housing Corporation

### *Issue*

- 5.21** The Audit Office sought to ascertain the method used by the Corporation in allocating house lots under its control. This is in light of the fact that the Corporation has an applicant wait-list that stretches back to 1990. The Audit sampled applications from a number of areas where persons were allocated lots and properties.
- 5.22** Overall, there did not seem to be any consistent manner in the allocation of lots since the rationale for their distribution could not be determined. The length of time an application was made did not appear to significantly impact on one's chances of obtaining a housing solution. On some occasions it was on the recommendations of parliamentary representatives of the areas, while on other occasions it was based on allocations of the marketing department or the Board. The Corporation



needs to have a system in place which properly allocates property/lots to applicants, and this system should be communicated to the members of the public.

**5.23** The availability of an accurate assessment of current and future housing needs is important for strategic decision-making by the Corporation. Presently the wait-list is the principal indicator used to determine the extent of the demand for housing assistance.

**5.24** **It was recommended that:**

- The Corporation needed to have a more accurate list of applicants and those successful in receiving housing solutions.
- Its database needed to be updated on a regular basis so that informed decisions could be taken in housing allocations.
- The Corporation needed to have a policy which clearly outlined to staff and the public, the selection criteria used to allocate housing units to applicants.

***Corporation's Response:***

*The Customer Service Department of the Corporation provides a listing of applicants who qualify for the Corporation's various projects. This listing is subject to legal searches to verify that the applicants are first time property owners and capable of purchasing property from National Housing Corporation.*

*Subsequently, the information is submitted to the Board of Directors for consideration and approval.*



*The Corporation commenced a clean-up of its database and this is ongoing.*

*The Corporation recently completed an Institutional Strengthening Consultancy, which addressed the issue and provided recommendation.*

### ***Issue***

**5.25** During the last five years the Corporation has offered for sale many lots/properties. However, it has been unable to convey these properties because of vesting issues, namely the transfer of legal title to lands from the Crown to the Corporation. The Corporation built 10 houses at Six Roads, St. Philip, on lands for which it had no legal title. Subsequently, the properties were offered for sale in 2005, to applicants who accepted the offer. The occupants signed agreements with the Corporation to pay rent, until they could obtain mortgages to pay for their property, at which time the Corporation would issue a conveyance vesting the property to them. However, these properties were not conveyed because the Corporation did not have legal title.

**5.26** The Corporation found itself in this position partly because it underestimated the time and issues involved in the vesting process. Until these lands are conveyed to the Corporation, it will not be able to sell these properties.

**Entity's Response:**

*All matters at Six Roads, St. Philip have been resolved.*

*Additionally, various areas where the Corporation was unable to convey title, Certificates of Compliance have been issued by Town and Country Development Planning Office (TCDPO).*

**Issue**

- 5.27** Housing constructed under the Condominium Act must conform to certain conditions, and is subject to the approval of the Chief Town Planner. In order to sell housing units constructed under this Act, one of the criteria required is the establishment of a management company.
- 5.28** In 2001, the Corporation built a number of condominiums at Flat Rock, St. George, and Brighton, Black Rock. When the Corporation offered these units for sale, it was not in a position to sell them since they had not established a management company as required. These units were built at an average cost of \$95,000 each. They were offered for sale to successful applicants who were to occupy them and pay occupancy rent until they acquired a mortgage.
- 5.29** **It was recommended that:**
- The Corporation should ensure a management company was required by the Condominium Act, CAP. 224A.

**Entity's Response:**

*The matters at Brighton, St. Michael and Flat Rock, St. George are being resolved by the Corporation's Technical Department.*

*The Certificates of Compliance will be requested once these submissions are approved by Town and Country Development Planning Office (TCDPO).*

*Thereafter, the Corporation's Legal Department will take the matter forward.*

## **Rural Development Commission**

**Issue**

- 5.30** In 2006, the Commission had indicated that it would conduct an impact assessment on the first ten (10) years of the Scheme's operations to determine how successful it was in achieving its objectives.
- 5.31** The management of the Commission again indicated that a social impact assessment was to be conducted. The Commission also indicated that it was proposed that the study be conducted by the Social Sciences Faculty of the UWI Cave Hill Campus.

**Entity's Response:**

*The Commission regrets to inform you that the study has not been conducted. It appears as though due to the change in administration the matter was lost track of.*

*Since your correspondence, contact has been made with the University of the West Indies who had expressed an interest in conducting the study and an appointment was set up to meet with the relevant authority at the University to discuss some details.*

*The Deputy Director attended the meeting but no one showed up after waiting for an hour and no apologies were tendered.*

*In 2006, the Commission did not have the capacity it has now in terms of human resources. We are therefore confident that we can undertake this task and we believe that the cost will be considerably less. The process will start as soon as possible and we shall submit the information as promised once it becomes available.*

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## **Samuel Jackman Prescod Polytechnic**

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**Issue****5.32**

It was noted in the 2011 report that the valuation of \$5,126,996 used for the insurance of the Polytechnic's equipment was based on the cost of the equipment held by the Institution when it initially moved to its present location in 1982. This valuation is therefore outdated, as equipment would have been purchased and disposed of since then.





- 5.33** It should be noted that a request was made for a list of equipment insured for the financial years 2008/2009 and 2009/2010, but Samuel Jackman Prescod Polytechnic (SJPP) personnel indicated that no such list was kept.
- 5.34** The buildings insured by the SJPP were located at Wildey, St Michael and Lot C, The Pine, St. Michael. These buildings were insured for \$28 million and \$1.85 million, respectively. It was queried how the sum insured of \$28 million was derived and whether valuations were done on the buildings in the last four (4) years. Personnel of the SJPP could not determine when the last valuation was done or how the sum insured was derived.
- 5.35** **It was recommended that:**
- SJPP should conduct an assessment of the values used to insure its property and equipment and where appropriate take relevant steps to ensure that properties were adequately insured.

**Entity's Response:**

*Please note that in response to issues in your report, the management of the Samuel Jackman Prescod Polytechnic has instructed relevant officers to build an Asset Register and they have started the process. This has been met by setbacks since some of the equipment is more than forty (40) years old and no records exist to indicate their purchase price and hence current value. However this process is ongoing and should be completed in this financial year.*



*Added to the above a number of obsolete equipment has been removed from the workshops and a list submitted to the Ministry of Finance with a request for their critical involvement in the writing-off process. They visited the institution on one occasion but have not returned, resulting in the process being far from completed.*

*The impact of this action resulted in workshops being overcrowded with obsolete equipment and some corridors are blocked with rotting machines.*

*Our records show that a valuation review was suggested in 2001 by Lynch Insurance Brokers but this was not implemented.*

*Given the financial environment in which the institution now exists, we have been unable to solicit funds for the services of a valuer to assess the value of our buildings.*

## **Barbados Vocational Training Board**

### ***Issue***

- 5.36** According to the Occupational Training Act one of the functions of the Board is 'to protect and promote the welfare of apprentices'. Hence, as part of its duties, the Inspectorate is required, with respect to each apprenticeship, to visit the employer's site every three (3) months as well as to monitor the progress of the apprentice, the performance of the employer, assess any challenges faced, and make any needed recommendations.



- 5.37** The Inspectorate is required to complete a form for each visit conducted. This form is signed and dated by the Inspector, and placed on the apprentice's file.
- 5.38** Of the ninety-five (95) files examined, fifty-seven (57) did not contain the forms indicating that visits were conducted. In cases where there were visits, these were conducted on an ad hoc basis rather than every three (3) months as required.
- 5.39** It should also be noted that of the above sample, twelve (12) apprentices were certified but no evidence was on file to indicate that visits were carried out.

***Entity's Response:***

*The Director of Training has held several structured meetings with the Inspectorate where he read and reviewed with them the specifics of the Auditor General's Report. These meetings also discussed and developed strategies for enhancing related procedures, including accountability measures.*

*Meetings are ongoing with the Inspectorate, who have been making progress in bringing the forms up to date.*

***Issue***

- 5.40** In ensuring that the Apprenticeship Programme complies with the Act and its Regulations, the Board requires the Inspectorate to maintain a file for each apprenticeship. This file enables the Inspectorate to assess whether



the apprentice has acquired the vocational skill and has passed the relevant courses for certification to be awarded. When this information is not available, the apprentice cannot be appropriately assessed and hence the process for certification is impeded.

- 5.41** This was evident with forty-eight (48) apprentices who were not certified because there was insufficient evidence (training records) on file to determine whether they could be certified.
- 5.42** As part of their duties, the Inspectorate is required to maintain and update the apprentice files with the appropriate training records. Based on the audit findings, the Inspectorate had failed in this regard. According to an internal review “this failing on the part of the Inspectors to keep records up to date was noted from as far back as 1990”.
- 5.43** It should also be noted that the lack of supervision over the work of the Inspectorate was also a contributing factor. No evidence was seen to indicate that action was taken by management to address the issue.

***Entity’s Response:***

*The Officers now ensure that every form for each apprentice is on file, and that data required from the SJPP for each Apprentice is obtained and filed.*



## Registration Department

### *Issue*

5.44 It was noted that at various courts, fines were imposed but the relevant warrants were not issued to the Defendants. A review of the warrants from various years showed that fines totaling \$2,458,400 from sixty-one (61) cases, remained outstanding.

5.45 **It was recommended that:**

- The system of the issuance and follow-up of outstanding warrants should be addressed.

### **Entity's Response:**

#### **Action taken to address the issue:**

*The department is cognisant of the delay in the issuance of warrants as it relates to Hometown Magistrates Courts. In an effort to comply the following action was taken.*

- *A Clerical Officer was assigned in 2012 to update the order book.*
- *Order Books from Hometown Magistrates Courts are currently being facilitated at District A Magistrate Court to assist in the updating of records. Officers are currently working to ensure that warrants to be issued for 2014 are processed in a timely manner in addition to giving priority to the backlog.*

**Status and impact of action taken:**

*District E Magistrates Courts, Holetown, are each staffed by a Legal Assistant and one Clerical Officer, with one Clerical Officer assigned to court duties. The exigencies of the daily operations of the courts are such that staff is frequently unable to update the order book in a timely manner. Staff is deployed to areas that require immediate attention such as the payment of maintenance and the collection of fees and fines.*

*Further, recent retrenchment of officers in the public service has placed a greater burden on the courts and negates any previous efforts made to bring the orders books up to date.*

*Operations at Magistrates Courts are largely manual and the department is working assiduously to computerize some aspects of the operations thereby promoting greater efficiency in the court system.*

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

**Issue**

- 5.46** A construction company was hired by the Ministry in November 2005 to remodel thirteen (13) stalls near the Speightstown Bus Terminal for an agreed sum of \$72,804.90. By July 2006 this firm had been paid \$91,610.64 which included a variation of \$18,805.74. It should be noted that towards the end of December 2007 the contractor had commenced work on only six of the thirteen stalls. There was therefore no basis for the entire contract price being paid.

**Synopsis of Entity's Response:**

*The Ministry indicated that the status of this issue remained the same as indicated in the Auditor General's Report for 2011. In that Report, the Ministry indicated that the Solicitor General had requested further information but that the Ministry had not responded since it was facing challenges in determining the percentage of work left unfinished, due to deterioration in the work previously undertaken.*

**Issue**

- 5.47** The Ministry awarded a contract to a construction company to repair the roof of the building housing the Veterinary Laboratory and the Animal Nutrition Unit for the sum of \$98,679.78 VAT inclusive. This contract was due to commence on the 12<sup>th</sup> August 2004 and the date of completion should have been 30<sup>th</sup> March 2005. Clause 2 of the agreement stated that there should be no variation of the price unless agreed to by both parties in writing and signed on their behalf.
- 5.48** However, at the start of the project the contractor submitted a variation for \$89,867.14 for the removal and carting away of the existing roof, resulting in a project cost of \$188,546.

**Synopsis of Entity's Response:**

*The Ministry indicated that the status of this issue remained the same as indicated in the Auditor General's Report for 2009.*

**Issue**

- 5.49** The renovation to the roof of the Oistins' Fish Market was originally contracted to cost \$883,888.16 VAT inclusive. This project had cost overruns of nearly 100%, bringing the total cost of construction to \$1,687,112.44. The variations originated with the contractor and did not have the approval or agreement of the Ministry.
- 5.50** The Ministry paid a consultant \$84,355.62 to oversee this project but there was no evidence that the consultant approved any claims for the roof. In a project of this magnitude the claims from the contractor should be first evaluated by the project consultant, who would determine the value of the work submitted and certify for payment. It is however not clear on what basis the excess payment was approved.

**Synopsis of Entity's Response:**

*The Ministry indicated that the status of this issue remained the same as indicated in the Auditor General's Report for 2011. In that Report, it was stated that the Ministry was unable to source any additional information to pursue the matter any further.*

**Issue**

- 5.51** On the 28th February 2005, a construction company was hired to carry out renovations and extensions to the old Griffith's Reliance Pharmacy Building, Palmetto Square, Bridgetown, for the sum of \$2,504,012.80 VAT inclusive. As part of this arrangement the contractor was required to secure a performance bond. The performance bond is generally obtained by way of security with a bank or an insurance company, and it provides





the Government with recourse to recover damages if there is poor workmanship or breach of contract. This performance bond is obtained at the contractor's expense, and should be in place at the start of the project. There was never an executed performance bond. In a most unusual occurrence, it was observed that the contractor claimed expenses pertaining to the performance bond and funds were actually paid by the Ministry in this regard. The contractor also claimed additional expenses for insurance of the building site, although this was the contractor's responsibility. This contractor received \$12,500 for performance bond expenses and \$20,000 for insurance, to which he was not entitled.

***Synopsis of Entity's Response:***

*The Ministry indicated that the status of this issue remained the same as indicated in the Auditor General's Report for 2009.*

***Entity's general response to the four issues:***

*Due to the lapse of time, the Solicitor General's prior involvement and past Ministry responses, it is unclear what future steps the Ministry can undertake.*



## Agencies for which no Follow-up Responses Were Obtained

- 5.52** There were a number of state agencies that did not respond to our request for information on the status of past audit issues. These entities and the issues which were highlighted in previous reports are as follows:-

### Barbados Investment and Development Corporation

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#### *Issue*

- 5.53** A subsidiary of the Barbados Investment and Development Corporation had contracted a firm to construct two buildings at the Newton Business Park complex for \$18.5 million. The contract was brought to an end in March 2007 after poor quality work had been discovered.
- 5.54** It should also be noted that the full contracted price was paid to the contractor although the work on the buildings was not completed. The BIDC commissioned an independent consultant who determined that there were defects in the work and indicated that the cost to correct and complete the work was in excess of \$7 million.



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## Inland Revenue Department

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### *Issue*

- 5.55** Some taxpayers who were overpaid returned the monies to the Inland Revenue Department where it was collected and deposited into the bank. The monies deposited were \$73,066.86 less than what had been received.
- 5.56** Monies received from taxpayers are redeposited into the Department's refund bank account. This money should be returned to the Treasury since it was not used for the purpose intended, i.e refunds.

### **Recommendation**

- 5.57** It was recommended that the Department investigate the shortfall of \$73,066.86 between monies received and deposited and take corrective action to prevent a recurrence, and that the monies collected from taxpayers for overpayment be paid into the Consolidated Fund.

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## Corporate Affairs and Intellectual Property Office

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### *Issue*

- 5.58** An application for adjudication was made in July 2004 by a company which was desirous of transferring 25,000,000 shares in a commercial bank to another bank. In this regard an advance payment of \$3,806,250 in respect of Property Transfer Tax was made in July 2004.



- 5.59** The valuation of the shares was carried out in August 2006, when they were valued at \$2.10 each. This valuation resulted in additional Property Transfer Tax and Stamp Duty payable to the Government. This matter remains unresolved.

## Immigration Department

### *Issue*

- 5.60** Although arrival and departure information may entered into a computerized database at the Department, a common identifier for tracking each person entering and exiting the country was not assigned. This was one of the factors which made it challenging to provide relevant statistics on persons in the island without relevant permission.
- 5.61** The Data Processing Officer stated that some persons travelled on multiple passports and different names, and could therefore enter the country using one passport, but exit using another. In such cases, the system would not match the departure information to the arrival information.
- 5.62** This situation regarding the absence of up-to-date information on persons staying in the Island illegally had developed over time, and showed a major deficiency in the operations of the Department. Management of the migration process requires timely and accurate information for decision making. There was an urgent need for corrective action to address this information deficiency.

**Issue**

- 5.63** There were no facilities in place at the Bridgetown Port or Port St. Charles Marina for monitoring the arrival and departure of yachts. The onus was solely on the yacht's captain to bring the documentation for Immigration Officers to check, and then return to Carlisle Bay or Port St. Charles Marina, from whence the yacht departs. Thus, the checking on entry and departure of yachts was dependent on the captain's integrity to report the vessel's arrival and departure.

**Issue**

- 5.64** A sample of 250 applications was examined to ensure compliance with the Department's policies in respect of the issuing of work permits. Overall, 30% of the population sampled was granted work permits without requirements such as:
- The application being signed by the employer;
  - Cover letter being signed;
  - Police certificate from the applicant's homeland;
  - Application being approved by the Minister;
  - Complete documentation (in case of a permit for one year).
- 5.65** The system of granting work permits needed to be reviewed to ensure that permits were issued in accordance with the established criteria backed by data showing the shortage of local labour in the particular area.

**Issue**

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

**Recommendation**

- 5.67** It was recommended that enforcement procedures should be integrated with the application process, and the information on newly failed applicants should be promptly passed to Investigation Section for necessary action.

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## Urban Development Commission

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**Issue**

- 5.68** In my 2004 Report, I had indicated that 82% of the loans under the Housing Loan Programme were in arrears. At that time \$2.2 million in loans had been disbursed.
- 5.69** The Commission reported that the Housing Loan Programme which involved loans to individuals for house construction had been put on hold indefinitely.
- 5.70** Management of the Commission also reported that there continued to be a high loan delinquency with this programme. As a result two officers had been assigned to work directly in the collection of loan payments.

**Issue**

- 5.71** In 2004 over \$4.2 million was disbursed to individuals to assist with the establishment or maintenance of businesses. Many of those persons granted loans made no repayment or provided security for the loans. Letters were sent and calls were made to delinquent clients, but responses were minimal.
- 5.72** The Commission indicated that this programme which involved the granting of loans to individuals for business related activity had also been placed on hold and was very unlikely to restart. Some loans had been transferred to debt collectors for necessary recovery.

**Issue**

- 5.73** Under the Transfer of Title Program, UDC assists qualified tenants in urban Barbados to acquire lots under the Tenancies Freehold Purchase Act of 1980. These tenancies consist of over four thousand (4,000) lots. A number of factors such as the slow preparation of Conveyances, delays in having lots surveyed, and slow decision making by the Small Holdings Committee, which is responsible for settling disputes between landlords and the UDC, delayed the process.
- 5.74** Management of the Commission indicated that it was unaware of what progress had been made in the transfer of titles. However, the Small Holdings Committee had set the price for a number of lots and surveying had started in a number of areas.



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## Customs and Excise Department

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### *Issue*

- 5.75** The audit tests revealed that for the financial years 2007-2009 in a sample of sixty-seven vehicles, forty-one (41) consigned to individuals, with a customs value of \$485,233.39, were seen in the Customs computerized system ASYCUDA ++ as released without the payment of customs duty.
- 5.76** This action would have resulted in a revenue loss of approximately \$447,699 in taxes, and would have shown a weakness in the controls established by the Department to prevent such activity from occurring.

### **Recommendation**

- 5.77** This matter needed to be thoroughly investigated by the Department and appropriate steps taken to avoid a recurrence. Appropriate disciplinary action should have been taken against any officers complicit with this activity.

### *Issue*

- 5.78** The practice of removing apertures from gaming machines allowed the owners to deploy the [gaming machines/video lottery terminals] around Barbados at areas other than hotels and arcades. Normally these video lottery terminals were required to pay an annual licence fee of \$15,000.
- 5.79** The effect of removing apertures from these video lottery terminals was unclear in terms of how they were being classified and what annual licence fees should have been paid for them. At the time no licence fees were paid on these machines.





## Chapter 6

### Special Audits

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This chapter consists of a number of special audits conducted by the Audit Office. This includes audits of the Value Added Tax (VAT) Division, Inland Revenue Department, and Staffing in State Agencies.

#### Management of the Accounts Receivable of the Value Added Tax (VAT) Division

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##### Introduction

- 6.2** On 1 April 2014, the Value Added Tax (VAT) Division was amalgamated with the Land Tax Department, the Inland Revenue Department and the Licensing Authority to form the Barbados Revenue Authority (BRA). Before this date, the VAT Division was responsible for the collection and administration of the value added tax under the Value Added Tax Act, Cap. 87.
- 6.3** For the last five (5) years, this Division experienced increases in accounts receivable. From 2009-2010 to 2013-2014, accounts receivable have been increasing at an average rate of 13% or \$48 million annually. In this regard, the Barbados Audit Office decided to conduct a special audit on the management of the accounts receivable in the VAT Division. The objective of the audit was to assess the effectiveness of the management of the accounts receivable of the Value Added Tax (VAT) Division in Barbados.



- 6.4** At the close of the financial year 2013-2014, the outstanding receivables at the Division were \$475 million. This amount is made up of taxes, interest and penalties. Of this amount, \$207 million or 43% was interest and penalties. Eighty three percent (83%) of the accounts receivable is owed by corporations, thirteen percent (13%) is owed by individuals and the remaining four percent (4%) is owed by Government departments and statutory boards.
- 6.5** Accounts receivable is an asset, but if not managed well it can become uncollectible, resulting in the reduction of expected benefit. Government agencies have a duty to manage their accounts receivable effectively as part of good financial management, as this will optimise value for the taxpayer.

### Main Findings

- 6.6** The main findings are as follows:
- **The Division did not have an effective accounts receivable management strategy.** The Division's collection efforts have not been effective since the level of accounts receivable has been increasing by an average of \$48 million per year for the last five (5) years.
  - **There is a large component of receivables aged five (5) years and over.** Fifty-seven percent (57%) of the accounts receivable are aged five (5) years and over therefore it is, likely that a significant portion will be uncollectible. The Division needs to recommend to the Cabinet that those debts which are deemed to be uncollectible should be written off. The more aged a receivable is, the less likely it would be



collectible. The Division also needs to reassess its position on the provision for bad debts. It is not clear on what basis the provision for bad debts was arrived at.

- **No follow-up of installment agreements or garnishments.** From a number of accounts sampled, a high percentage of the taxpayers were in default of their agreements to repay. In addition, out of a sample of fifty (50) garnished accounts examined, no payments were received from third parties for one year or more. In the above instances, no further action was taken to collect the outstanding amounts.
- **Non enforcement of unpaid tax certificates.** The VAT Act gives the Division the power to seek legal remedies in the collection of outstanding amounts. One such method is the lodgement of an unpaid tax certificate in the law courts. An unpaid tax certificate when filed and registered has the same effect as a judgement of the court, registered in favour of the Crown against the tax debtor for the amount specified on the certificate. The Audit found that the Division sought the assistance of the Solicitor General's Office in the enforcement of these judgements. However, none of the unpaid tax certificates sent to the Solicitor General's Office were enforced.
- **No monitoring and review of the accounts receivable process was done by the management of the Division.** There was no evidence that the unit charged with the management of the accounts receivable function, was monitored or evaluated periodically. This information would assist management in improving its collection strategies.



## Conclusion

- 6.7** Establishing an effective accounts receivable operation is necessary to maximize revenue collection. The lack of an effective operation has impacted negatively on the receivables collection process of the Division.

## Recommendations

- 6.8** It is recommend that the Barbados Revenue Authority should:-
- (i) document its accounts receivable management strategy;
  - (ii) write off uncollectible receivables;
  - (iii) create and use risk profiles of registrants for determining strategies in pursuing the collection of receivables;
  - (iv) maintain and update operating guidelines and ensure they are consistently followed;
  - (v) ensure that performance indicators are established to assist in evaluating the performance of the unit responsible for receivables management;
  - (vi) put systems in place to ensure that collection is timely and that the enforcement tools available are fully utilised; and
  - (vii) ensure that the accounts receivable listing presented to the Audit Office reconciles with a controlled totals and the accounts receivable recorded in Government's financial statements.



## Background

**6.9** The Value Added Tax Division (VAT/the Division) was primarily responsible for administering the Value Added Tax Act, Cap. 87. This includes the registering of taxable persons, collection of tax due, enforcement of the VAT legislation, carrying out compliance visits to taxpayers, investigating cases of tax evasion, and the formulation of policy on various related issues. Additionally, the Division receives and handles tax returns and processes refunds.

**6.10** Value Added Tax (VAT) is imposed on the supply of goods and services by a taxable person (registrant) in Barbados and on the importation of goods. The registration requirement is imposed on any person who makes taxable supplies in Barbados, other than a person whose turnover is less than BDS\$80,000 annually. Three (3) rates of VAT are charged. These are:-

- Standard rate of 17.5% charged on all taxable supplies.
- Reduced rate of 7.5% charged on the supply of accommodation in hotels, guest houses and similar accommodation.
- Zero rate which is charged on supplies outlined in Schedule 1 of the VAT Act.

## Reason for the Audit

**6.11** The audit was conducted as part of the Caribbean Association of Supreme Audit Institutions' (CAROSAI's) capacity building programme. This programme was set up to conduct cooperative revenue audits of the Inland Revenue and Value Added Tax (VAT) Departments of each



participating country. The participating countries were Bahamas, Barbados, Grenada, Guyana, Jamaica and St. Lucia.

**6.12** Management of the accounts receivable of the VAT Division was selected as an audit topic because of similar challenges faced across the region in respect of receivables. This included its fast growing rate and the challenges Departments were encountering in its management.

**6.13** Accounts receivable make up a significant proportion of the Government's financial assets, with the VAT receivables accounting for 38%<sup>1</sup> of the government's total accounts receivable. At 31 March 2014, the accounts receivables recorded by the Division was \$475 million<sup>2</sup>. Receivables not promptly collected can have a direct impact on the Government's cash flow and financial position. Unpaid receivables can also lead to a shortage of available funds and result in Government's inability to meet some of its commitments from the revenue received from its operations.

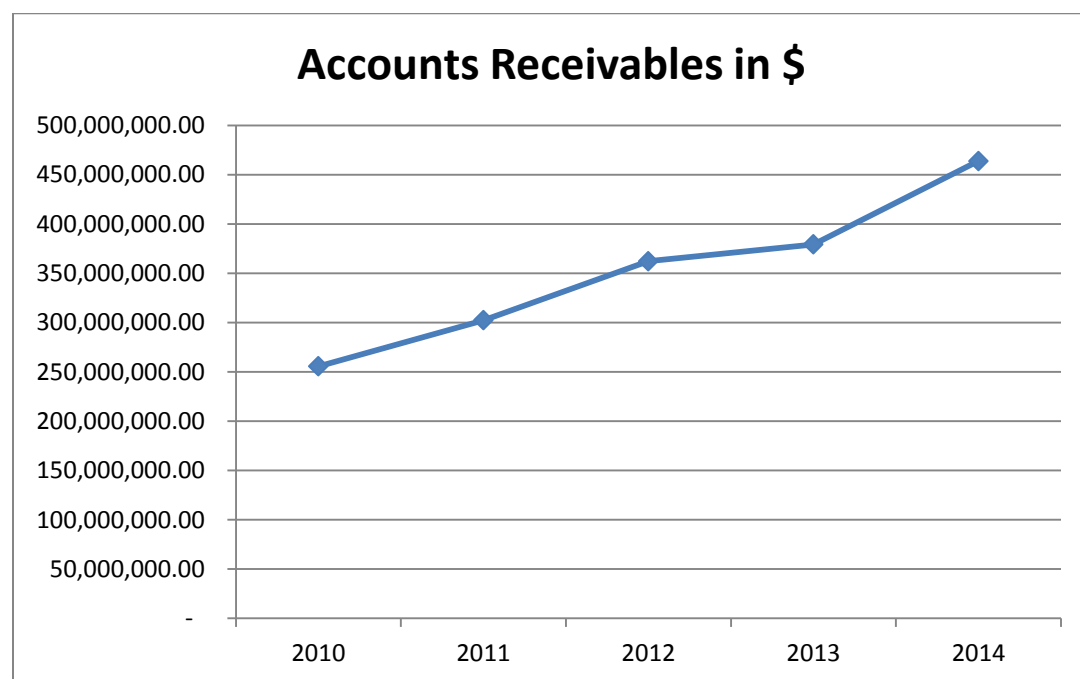
**6.14** Over the last five (5) years, receivables of the VAT Division have increased significantly, averaging 13% or \$48 million annually during the period 2009-2010 to 2013-2014. Increases for this five (5) year period can be seen in Chart 1 below. The figures used in the chart were those reported in the Government's consolidated financial statements, since a control total of outstanding amounts were not presented by the Division.

<sup>1</sup> Calculated from the financial assets on Government consolidated financial statements

<sup>2</sup> Taken from the accounts receivables listing prepared by the VAT Division



Chart 1 Increase in Accounts Receivable for the years 2010-2014



Source: Government's Consolidated Financial Statements for years 2010-2014

- 6.15** Accounts receivable are not recognized unless the tax has been assessed, or the taxpayer has reported the amount in a return filed under the Act. Different collection techniques are employed to recover the receivables, including letters of demand, garnishments, letters of intent and unpaid tax certificates. The VAT Act also makes provision for security to be held against payment of the receivables, and for set-off or deduction of amounts due from debtor to the Division against amounts owed by Government to the debtor. This report reviews the implementation and effectiveness of these collection techniques.



### **Audit Objective**

**6.16** The objective of the audit was to determine whether the Division was effective and efficient in managing its receivables. It examined:-

- whether the Division has strategies in place to curtail the growth in accounts receivable;
- whether the enforcement of the receivables collection process is efficient and effective; and
- whether the Division monitors and reports on its performance activities by management.

### **Audit Scope**

**6.17** This audit focused on the management of receivables by the Value Added Tax Division for the period 1 April 2013 to 31 March 2014.

### **Audit Methodology**

**6.18** The approach used for this audit included the review of the Value Added Tax Act 87, and internal documents relating to accounts receivable. Interviews were conducted with the Director of VAT and the Principal Inspector in the Compliance section of the Division. Good practices in the management of accounts receivable by other government jurisdictions were examined. These included Australia, Canada and the UK.





## Increase in Accounts Receivable

- 6.19** Over the past five (5) years increases have been recorded in the accounts receivable for the Division in the consolidated financial statements. These have increased by \$208 million during the period 2009-2010 to 2013-2014. A breakdown of these receivables is shown in Table 1 below.

**Table 1 Accounts Receivable for the VAT Division for the five year period**

Year	Amount \$
2010	255,499,621.76
2011	302,262,481.30
2012	362,133,942.40
2013	379,284.782.38
2014	463,748,651.32

Source: Government's Consolidated Financial Statements for the five year period

- 6.20** Accounts receivable is an asset, but if it is not managed well it can become uncollectable and not generate the income expected. This section examines and assesses the strategies the Division has used in the management of its receivables.

## Accounts Receivable Management Strategy

- 6.21** The Strategy used by the Division was found to be deficient, as it had little impact on reducing receivables and the overall levels of accounts receivable have been growing significantly. Governments such as United Kingdom, Australia and New Zealand have implemented accounts receivable management strategy based on the taxpayer's circumstances



and behaviours. Collection processes are then tailored to the circumstances of the tax payer. In this regard the following methods should be considered.

### **Risk Profiling**

- 6.22** The Division has a significant amount of information available on its computer system that would support the development of risk profiles on registrants. The Division has not taken full advantage of available data to develop risk profiles of accounts receivable. For example, the Division has information on the taxable incomes, industries, return form data and filing history of the taxpayers. This data should enable the development of risk profiles and facilitate the segmentation of the outstanding debtor population for different collection strategies.
- 6.23** Risk profiling allows for the segmenting of debtors with similar characteristics into groups. Groups can be segmented according to payment history or current balances. The groups are then profiled according to their level of risk of non-payment. Risk profiling can be used to direct stronger collection efforts to those taxpayers who pose a higher risk for non-collection.
- 6.24** Currently, the Division allocates accounts receivable cases based on values. The higher valued cases are assigned to the most senior officers in the compliance section and the lower valued cases are assigned to the most junior officers in the section. Cases are then subject to a similar collection process regardless of the values. This strategy should be reconsidered.



- 6.25** The segmentation of the debtor population based on the risk profiles would not only conform to best practice in the management of accounts receivable, but would also assist in better allocation of cases for individual case management.

### **Operating Guidelines**

- 6.26** Operating guidelines are an effective method for ensuring that collection practices are consistently applied according to policy and standards. They assist staff through the collection process, outlining the key steps required for effective recovery of the accounts receivable. Operating guidelines are developed to ensure that all debtors are treated fairly.
- 6.27** The Division used an internal document entitled “Compliance Procedures Re: Debtors” as its operating guidelines for managing accounts receivable. However, these guidelines were not updated since 2009. Additionally, the operating guidelines did not establish performance objectives and targets for the management of the receivables.

### **Effectiveness of Collection Methods**

- 6.28** The Division did not collect information on its tax collection methods and so cannot reliably determine the effectiveness of the different collection methods. The following was observed in respect of the collection process:-
- All taxpayers with outstanding amounts did not receive demand letters. i.e request for payment. For example, taxpayers who were in default for three (3) months or less did not receive demand letters.



- Some debtors received multiple demand letters but no further follow-up collection action was taken. Of the four hundred and sixty (460) demand letters issued for the year 2013-2014, seventy-seven (77) of the debtors were issued multiple demand letters, but no further collection action was taken on these accounts even though the taxpayers did not clear the outstanding receivable.
- The techniques used by the Division to collect receivables were not applied in a timely manner. For example, garnishments to third parties were sent six (6) months or more after the demand letters were issued to the debtor. Demand letters call for immediate payment, and therefore the next stage of collection should be performed soon after the demand notice is issued when payment has not been received.
- Taxpayers who have instalment agreements have not always been monitored to ensure that they are complying with the terms of the instalment agreement. The system does not automatically alert the officer that the taxpayer is in default of their instalment agreement. In addition instalment agreements are not always recorded on the taxpayer's account in the VETAS system. This factor has implications for timely follow up action being taken.
- A number of registrants defaulted on their instalment agreements but there was no evidence of any followed-up action being taken. These registrants should have been issued with letters of intent. This letter of intent is similar to the demand letter, but gives the tax payer fourteen (14) days to visit the VAT Division to have the account rectified before further action is taken.



- Where taxpayers could not be located, there was no indication that an effort was made to obtain information on their whereabouts through third party information obtained from other government departments.

### **Performance Indicators**

**6.29** Performance Indicators are quantitative and qualitative measures used to review an organisation's progress against its goals. These are broken down and set as targets for achievements by departments and individuals. The achievement of these targets should be reviewed at regular intervals. The Division had identified performance indicators for refunds process but did not identify performance indicators for the accounts receivable process.

**6.30** The Lack of Performance indicators limited the Division's ability in determining the effectiveness of the receivables collection approach and performance. It also limited the Division in comparing its performance against its historical trends.

### **Training**

**6.31** It was observed that the Division does not have a training policy and has not conducted any formal training programmes for staff involved in the management of accounts receivable. Staff obtained training knowledge through reading the operating guidelines (Compliance Procedures Re: Debtors), on the job training and information passed on by other officers in the section.



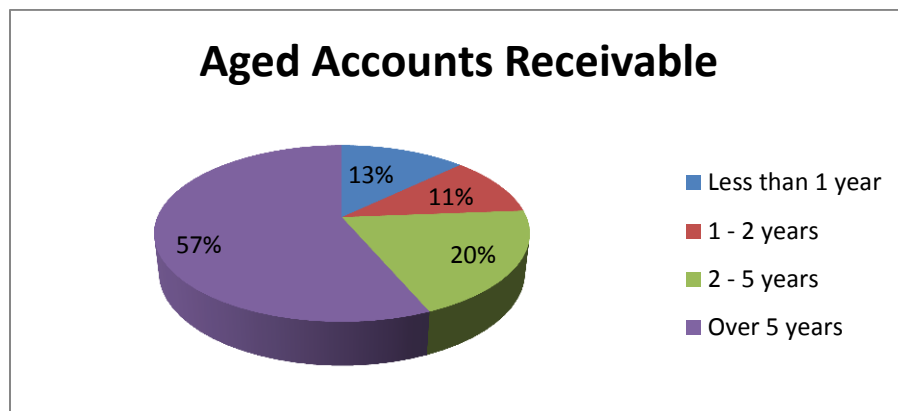
- 6.32** A training policy ensures that employees are properly trained in the skills they need to carry out their jobs. Accounts receivable activities require a broad range of knowledge and skills and therefore training of staff is critical for management to maximize its collections efforts.

### **Bad Debt Policy and Procedures**

- 6.33** While the Division seeks to reduce accounts receivable by collecting revenue that is due, there is also a need to write off certain debts that cannot be collected. This would allow for them to be fairly and accurately presented. Large amounts of delinquent debt reported as receivables are misleading because the more aged a receivables is, the less likely it would be collectible.
- 6.34** The Division has a significant amount of accounts receivable that are aged. The aging schedule shows that approximately \$265 million (57%) of the \$475 million in accounts receivable as at 31 March 2014 have been delinquent for five (5) years or more (Chart 2). The older debt can be more difficult to collect because of the difficulties in locating the debtor and their lower propensity to pay. Other governments in adopting best practices of managing accounts receivable have not only developed bad debt policies but have written off bad debts. According to the OECD, governments have written off accounts receivable that were deemed to be uncollectible, accounts receivable that are irrecoverable by law (bankruptcy or wind up) and accounts receivable that were uneconomical to pursue.<sup>3</sup> Similar criteria could have also been used in writing off bad debt by the Division.

<sup>3</sup> OECD Forum on Tax Administration, Scoping Document: Working Smarter in Tax Debt Management

Chart 2 Age of accounts receivable for the VAT Division as at 31 March 2013



Source: Value Added Tax Division

**6.35** In addition, the receivables include taxpayers who have not filed for five (5) years or more, and taxpayers who have filed for bankruptcy or have ceased operations. These are indicators that the funds owed by these taxpayers may be uncollectible and should be considered for write off.

### Recommendations

**6.36** The Barbados Revenue Authority should create and document an accounts receivable strategy or policy in accordance with industry best practices and performance metrics. This strategy should establish:-

- policies or guidance on uncollectible debts;
- risk profiles for the management of accounts receivable;
- updated operating guidelines which should be consistently followed;
- performance indicators relevant to debt recovery; and



- training programmes for staff involved in the management of receivables.

### Enforcement Methods

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**6.37** Enforcement involves taking the appropriate action to collect accounts receivable and ensuring prompt collection of payments. For enforcement to be effective this requires:-

- adequate staff to meet the requirements of the accounts receivable management activities; and
- required skills and experience to enforce the accounts receivable management policy

**6.38** The Division did not have adequate staff to perform the accounts receivable activities. The staff complement of ten (10) persons was inadequate to pursue six thousand, five hundred and thirteen (6,513) registrants who are delinquent, especially where the staff is involved in other activities not related to receivables collection. The Division indicated that it has experienced staff shortages throughout the years and as a result was unable to adequately pursue the collection of the accounts receivables.

**6.39** Audit inquiries revealed that cases relating to accounts receivable were frequently reassigned, resulting in a number of incomplete or untouched cases. The Division indicated that this was due to staff shortages and staff being reassigned within other sections of the Division or to other government departments. Such action hinders the collection process.





## Operating Guidelines and the Value Added Tax Act

- 6.40** The range of options that can be taken for the collection of accounts receivable are stated in the VAT Act and include the following:-
- (i) Issuing of unpaid tax certificates - the unpaid tax certificate is a document filed in the High Court or the Magistrate's Court for District A. When filed and registered, it has the same effect as a judgement of the court in favour of the Crown against the tax debtor or the amount specified in the certificate.
  - (ii) Set-off or deduction - where the Division can deduct the tax owed by the debtor from any amount that is payable to the debtor by the Crown.
  - (iii) Garnishments - demand for payment from a third party to pay the Division monies owed by a registrant.
  - (iv) A notice for immediate payment where the Comptroller suspects that the debtor is about to leave the island or in any other circumstances considers it appropriate for the protection of the revenue to do so.
- 6.41** The Act also allows the Comptroller to accept security in any amount or form that is satisfactory for payment of any amount that is due by the debtor. The security that can be accepted is at the discretion of the Comptroller as it is not specified in the Act.
- 6.42** The Division's operating guidelines also known as the "Compliance Procedures Re: Debtors" includes the unpaid tax certificates and garnishments in its operating procedures. It does not incorporate set-off



or include the holding of security that can be held for payment of accounts receivable.

### **Enforcement of the Collection Procedures**

- 6.43** The Division uses demand notices, letters of intent and unpaid tax certificates to enforce the collection of accounts receivable. The demand letter states that failure to pay the outstanding amounts immediately would lead to legal action being taken against the debtor. However, no evidence was found indicating that legal action was taken against the debtors for immediate non-payment. Fifty (50) accounts were reviewed and eighty percent (80%) of the accounts showed that no collection action was pursued after the demand letter was sent.
- 6.44** The Letter of Intent also calls for immediate payment of the debt but it gives the taxpayer fourteen (14) days to make a proposal for settling the outstanding amounts. It also states that failure to comply with the notice will result in legal proceedings being brought against the taxpayer to recover the outstanding amounts. Of the accounts sampled there were no cases found where legal proceedings were brought against any taxpayer for failure to comply with the letter of intent.
- 6.45** The operating guidelines require that when there is no positive response from the taxpayer to settle the outstanding amounts after the Letter of intent has been issued, an unpaid tax certificate is to be issued. Of the fifteen (15) letters of intent that were issued for the review period, one third of the taxpayers were issued with an unpaid tax certificate. No further collection action was taken in respect of the other two-thirds after the issuance of the letter of intent.



- 6.46** The Comptroller of Customs was given the power under the VAT Act, Cap. 87 to enforce the unpaid tax certificates as though it was a judgment of the court. However, investigations revealed that the Division had sent the relevant files to the Solicitor General's Chambers for enforcement. None of these unpaid tax certificates issued by the Division was enforced.
- 6.47** There was no evidence that the unit charged with the management of the accounts receivable function, was monitored or evaluated periodically. This information would assist management in improving its collection strategies.

### **Recommendations**

- 6.48** The Barbados Revenue Authority should:-
- (i) set up a separate unit mandated for carry out the various accounts receivable activities;
  - (ii) ensure that the policies and processes for collecting the accounts receivable are enforced;
  - (iii) include in their activity reports the following -
    - (a) Information about the number and aging of the receivables the Authority has to manage.
    - (b) Information on any cases resolved.
    - (c) Information on all collection processes and the total amounts collected for each process.



- (d) The number of new cases of accounts receivable.
- (e) Put systems in place to monitor and review the accounts receivable process on a regular basis.



## Special Audit

### Management of the Accounts Receivable of the Inland Revenue Department

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#### Executive Summary

- 6.49** Effective April 1, 2014, the Inland Revenue Department (the Department) has been absorbed into the Barbados Revenue Authority (the Authority/BRA), a statutory entity responsible for the collection of all major types of Government revenue. Although the Department was dissolved on April 1, 2014, the findings and related recommendations included in this report will be helpful to the new entity tasked with the collection of Government's revenue.
- 6.50** Inland Revenue Department's core purpose was to administer the collection of taxes in a way that encourages voluntary compliance, while at the same time enforcing compliance to maintain equity and public confidence in the fairness of the tax system. The Department had a self-assessment tax system whereby resident, individuals and companies were required to calculate their taxable income, tax liability and pay any tax due at specified times. The Department was the sole agency responsible for collecting taxes from individuals and corporations under the Income Tax Act, Cap. 73 (hereinafter referred to as the "Income Tax Act").
- 6.51** Taxes are the largest source of Government's income and the Inland Revenue Department was responsible for collecting BDS \$2.1 billion in cash between financial years 2011-2012 and 2013-2014. However, not all revenue due to the Department has been collected and, according to the



Department's records, accounts receivables exceed \$250 million during the period under review.

**6.52** The objective of the audit was to assess the effectiveness of the management of the accounts receivable of the Inland Revenue Department in Barbados. This included determining whether the Department had policies, procedures and systems in place to collect the taxes owed and reliably measure and report on the effectiveness of the collection efforts.

**6.53** The review covered the financial years 2011-2012 and 2012-2013 with emphasis on the procedures in place with respect to the collection of receivables.

### **Major Findings**

**6.54** There was no documented management strategy for collecting outstanding monies and minimizing the growth in accounts receivable. Such a strategy should include operational guidelines, performance indicators to assess the work of staff of the Compliance Unit, and the profiling of the risk associated with the receivables to determine effort, timing and collection methods to be used for individual taxpayers. These elements were missing. In addition, the strategy should include policies on training, but the audit revealed that there was minimal training of staff in collection procedures over the audited period.

**6.55** The Department indicated that letters were sent to taxpayers with outstanding balances indicating that "failure to comply with the request to settle arrears would result in the Department taking legal action or initiating other compulsory action as required by Section 72 of the Income



Tax Act, Cap. 73.” However, there was no evidence that any such action was taken during the period under review. Hence, there would be no urgency by the tax payer in the settlement of accounts since the Department did not take action to enforce the measures outlined in the letters.

**6.56** No evidence was provided to indicate that Unpaid Tax Certificates<sup>4</sup> were filed in the Courts against those tax payers who refused to pay or reneged on any payment plans agreed with the Department. Neither was information provided on the number of garnishments enforced by the Department. Furthermore, there was no assessment of the amount of receivables collected, the cost incurred for specific interventions, or how long an action took. Having such information could have assisted in better targeting of taxpayers who were delinquent and generally a better utilization of resources.

**6.57** The value of the accounts receivable reported in the Government’s Consolidated Financial Statements did not reconcile with the figures in the database of the Inland Revenue Department’s electronic tax system (see table 2). Therefore, the figures in these accounts could not be relied upon. This inconsistency will hinder Government from making proper decisions about the collection and reporting of receivables.

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<sup>4</sup> These are certificates lodged in the High Court or in the Magistrate’s Court of District “A” which has the same force and effect as a judgement of the court.



Table 2: Accounts Receivables for Financial years 2010-2011 to 2012-2013

Type of Taxes	2012-2013 (\$)		2011-2012 (\$)		2010-2011 (\$)	
	Consolidated Financial Statements (\$)	IRD Electronic Tax System (\$)	Consolidated Financial Statements (\$)	IRD Electronic Tax System (\$)	Consolidated Financial Statements (\$)	IRD Electronic Tax System (\$)
Income Tax	183,174,525	937,856,365	176,545,470	420,079,526	176,515,539	184,743,497
Corporation Tax	65,750,837	374,400,911	67,603,856	132,087,957	67,603,856	67,603,856
	248,925,362	1,312,257,276	244,149,326	552,167,483	244,119,395	252,347,353

- 6.58** The Department in March, 2011 had indicated that the amounts outstanding totalled \$252.35 million. There is some uncertainty as to the accuracy of this figure. Personnel indicated that reliance could not be placed on the accounts receivable figures from the computer system. However, the information provided suggests that the accounts receivable balance had risen substantially every year for the period under review.
- 6.59** It should be noted that the inability of the Audit Office in verifying these balances has impacted on the opinion given on the Government Consolidated Financial statements for financial years 2010-2011 to 2012-2013.
- 6.60** There was also no evidence to show that reports on receivable management had been submitted by the Compliance Unit for review by management. Neither was there any evidence to indicate that there were any reviews of the performance of the Unit by management or an independent person. Such reviews could result in weaknesses and errors in the process being identified and corrected in a timely manner. The high





level of receivables outstanding necessitated a comprehensive plan of action for recovery which should have had the approval of management.

## Conclusion

- 6.61** Accounts receivable are a significant part of Government's financial assets. They are normally highly liquid assets which directly impact on Government's cash flow. To this end, the non-collection of the accounts receivable significantly affected the financial position of the Government.
- 6.62** The overall process for collecting the accounts receivable was ineffective and inefficient, evidenced by the significant rise in the receivables and the age of the outstanding balances. With the establishment of the Barbados Revenue Authority (the Authority/BRA), it is hoped that these issues will be addressed and the accounts receivable management process greatly enhanced.

## Recommendations

- 6.63** It is recommended that the Barbados Revenue Authority ensures that:-
- (i) An accounts receivable management strategy is developed and implemented for these taxes. This strategy should align with the key aspects of the relevant legislation and include the following:
- Performance indicators for the Debt Collection Unit;
  - An aging analysis policy on receivables;
  - A risk profiling strategy for pursuing debtors;



- Operational guidelines for the staff of the Debt Collection Unit;
  - Setting of targets and objectives for the Debt Collection Unit;
  - Operational plans for the year;
  - A training policy and manuals; and
  - A communication strategy which ensures that all stakeholders are kept abreast of the accounts receivable management strategy.
- (ii) Reconciliations are carried out on the accounts receivable balances between the consolidated financial statements and the records of the electronic tax system on a regular basis and in a timely manner;
- (iii) The accounts receivable collection methods are followed as per the Income Tax Act, Cap. 73;
- (iv) Action should be taken to have uncollectible amounts written off; and
- (v) Policies and procedures should be implemented to monitor and evaluate the work of the receivables collection unit especially the effectiveness and efficiency of the collection process.



## Introduction

- 6.64** The Inland Revenue Department, the Value Added Tax Division, the Land Tax Department, the Revenue Section of the Barbados Licensing Authority, and the Excise Section of the Customs and Excise Department have been merged to form the Barbados Revenue Authority (the Authority). This merger became effective on April 1, 2014, resulting in the dissolution of the Inland Revenue Department. Notwithstanding this development, the findings and recommendations of this audit would assist the Authority in establishing a strong Debt Collection Unit.
- 6.65** The Inland Revenue Department (the Department/IRD) was under the purview of the Ministry of Finance. The Department was the sole agency responsible for collecting corporation taxes, withholding taxes and insurance remittances (monies withheld/deducted from the premium income), Pay as You Earn (PAYE), and tax on bank assets.
- 6.66** The objective of the Department was the administration of and collection of revenue under the Income Tax Act, Cap. 73. The Department has stated that its core purpose was to ensure that everyone understands and receives what they are entitled to and pays what they owe, so that all are contributing to the needs of Barbados. The Department had a self-assessment tax system whereby resident individuals and companies were required to calculate their taxable income and tax liability as well as pay the tax due at specified times.



- 6.67** The Department was managed by a Commissioner who oversaw its daily operations. The Compliance Unit (the Unit) was dedicated to collecting all accounts receivable. It comprised of seventeen (17) persons and was divided into four (4) sections. The sections were responsible for Corporation Tax Returns, Pay as You Earn (PAYE) Employers Account, Individual Income Tax, and Tax Roll respectively.

### **Reason for the Audit**

- 6.68** It was also observed that substantial amounts were owed to the Inland Revenue Department for a prolonged period of time, hence the review was conducted to determine how effective the Department was in managing its debt. Also, the Government's Consolidated Financial Statement was given a qualified opinion because of the inability of the Audit Office to verify the accounts receivable<sup>5</sup> due to the lack of supporting documentation.
- 6.69** At the IX Congress of the Caribbean Association of Supreme Audit Institutions (CAROSAI) held from March 18 to 21, 2013 in Trinidad and Tobago, members agreed to conduct cooperative audits of the major revenue collecting agencies in the Caribbean. This is part of CAROSAI's capacity building programme where auditors meet to share strategies and approaches on a common topic. Six (6) countries are participating namely, Bahamas, Barbados, Grenada, Guyana, Jamaica, and St. Lucia.

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<sup>5</sup> These receivables include VAT, Income and Corporation Taxes, and Highway Revenue



## Large Amounts Outstanding

- 6.70** Accounts receivable, in relation to the Inland Revenue Department, is an accounting term used to describe taxes owed to the Government by taxpayers. They account for a major proportion of the Government's financial assets at any point in time, with the receivables of the Department accounting for 18%<sup>6</sup> of the Government's total financial assets. They are broken down into taxes, penalties and interest.
- 6.71** Accounts receivable have a direct impact on the Government's cash flow and financial position. This means that unpaid accounts receivable can lead to cash shortages, resulting in Government's inability to meet commitments from the revenue received from operations.
- 6.72** In financial year 2013-2014, Government collected tax revenue of \$634.4 million from the Inland Revenue Department representing 27% of the total Government revenue<sup>7</sup>. It should be noted that the Government has recorded declining revenues from taxes collected by the Inland Revenue Department over the last three (3) years as shown in Table 3 below. Whilst revenues are declining, accounts receivable are increasing.

<sup>6</sup> Calculated as follows: Income and Corporation Tax receivables as a percentage of the total financial assets on Government consolidated financial statements as at 31 March 2013

<sup>7</sup> Total Government revenue for 2013/2014 is BDS\$2,313,095,770



**Table 3: Breakdown of revenue collected in three (3) financial years 2011-2012 to 2013-2014**

Type of Taxes	2013-2014 (\$)	2012-2013 (\$)	2011-2012 (\$)
Corporation Tax	174,692,376	268,651,199	285,934,227
Income Tax	364,791,903	397,394,497	420,102,429
Withholding Tax	80,526,283	80,195,453	66,158,772
Consolidation Tax	14,366,384	0	0
	634,376,946	746,241,149	772,195,428

**6.73** The Financial Management and Audit Act requires collectors of revenue to forward the outstanding balance of receivables to the Audit office at the end of each financial year for verification, this information was however not provided.

### **Audit Objective**

**6.74** The objective of the audit was to assess the effectiveness of the management of the accounts receivable of the Inland Revenue Department in Barbados, specifically whether the Department had adequate systems, policies and procedures in place to collect the taxes owed to the Department and reliably measure and report on the effectiveness of the collection efforts.

### **Audit Scope**

**6.75** The audit focused on the management of the accounts receivable process for the Inland Revenue Department over the period April 1, 2011 to March 31, 2013. It should be noted that most of the information was gathered



through the interview process, since most of the physical documentation requested was not provided.

### **Audit Methodology**

- 6.76** The review included examination of the Income Tax Act, Cap. 73, internal reports for financial years ended March 31, 2012 and 2013, and interviews with Senior Personnel in the Department. Reviews of taxpayer accounts, administrative policies, and systems descriptions for the Compliance Unit were also undertaken.
- 6.77** Research was also conducted on accounts receivable management practices in Australia, Canada, United States of America, and United Kingdom for best practice. These were compared with the practices of the Inland Revenue Department.

### **Mandate**

- 6.78** The audit was conducted under the provisions of Section 113 (2A) of the Barbados Constitution, which allows the Auditor General to “carry out examinations into the financial management of Ministries, Departments, Statutory Authorities and Government-controlled entities, including the manner in which those Ministries, Departments, Statutory Authorities and Government-controlled entities use their resources in discharging their functions in regard to the efficiency and effectiveness of the use of those resources”.



## Strategy for Managing Accounts Receivable

- 6.79** Effective management of accounts receivable allows entities to achieve a strategic advantage through improvements in customer service, cash management and reductions in costs. The primary objective of such receivable management is to collect monies due, which will assist in meeting cash flow requirements.
- 6.80** Personnel from the Compliance Unit of the Inland Revenue Department indicated that there was no documented strategy for accounts receivable management. An effective management strategy for receivables was essential to the Department. It would have ensured that all receivables are managed fairly, efficiently, effectively and minimise the risk of loss due to the Department's inaction or tardiness.
- 6.81** In the absence of such a documented management strategy, the audit examined whether elements of the best practices outlined below were found in the work carried out by the Compliance Unit of the Department.
- 6.82** The features of an accounts receivable management strategy should incorporate the following<sup>8</sup>:
- A strategy for communicating information to the stakeholders;
  - Performance indicators;

<sup>8</sup> Each feature of the accounts receivables management strategy is explained in Appendix 1.





- An aging analysis policy;
- A risk profiling policy;
- Operational guidelines which include targets and objectives for each process, a procedures manual for all processes, and a measuring tool for receivables collected through the various collection methods;
- A training policy including training manuals and methods for identifying the skills required; and
- Procedures for monitoring, evaluating and reporting on accounts receivables to the various stakeholders.

**6.83** The results of the assessment are noted in the following paragraphs.

### **Communication of the Accounts Receivable Management Strategy**

**6.84** The Department indicated that information was accessible to taxpayers through the following methods via the Government Information Service (GIS), discussions and/or advertisements on television as well as through the printed and electronic media. This information highlighted the consequences of not filing and not paying taxes. Information was also posted on the Department's website.



### Performance Indicators

- 6.85** There were no performance indicators relating to the management of the accounts receivable. No evidence was provided to show that mechanisms were in place to measure the performance of the collection of outstanding taxes.

### Aging Analysis

- 6.86** Personnel from the Compliance Unit indicated that no aging analysis of the receivables was conducted. They further indicated that no requests were made to write off any of the balances which can be deemed uncollectible. Not having an aging analysis schedule indicates another weakness in the collection process. The aging analysis schedule could have been used to determine specific interventions based on the age of the taxes outstanding.
- 6.87** It would be expected that the Department would have analysed the nature and structure of the accounts receivable with a view to taking specific action on the aging debt. This could have been facilitated by conducting the aging analysis of the outstanding receivables.

### Risk Profiling of Accounts Receivable

- 6.88** In determining which accounts to pursue, personnel from the Unit indicated that there was no written risk profiling policy for accounts receivable. Instead, the practice exists whereby historical data derived



from past experiences with known taxpayers, including repeat offenders, was used to determine which tax payers will be pursued by the Unit.

### **Operational Guidelines on Accounts Receivable Management**

- 6.89** There were no written operating guidelines in place. However, the methods for collecting the accounts receivable as outlined in the legislation were utilised. It was observed that “demand to settle arrears” letters, garnishments, and Unpaid Tax Certificates<sup>9</sup> were used when collecting receivables. Furthermore, no evidence was provided to indicate that there was monitoring or evaluation by Management to determine if the collection process was effective.

### **Training in Accounts Receivable Management Operations**

- 6.90** Personnel from the Compliance Unit indicated that there was no training policy in place. However, ad hoc training was carried out by the Principal Inspector and the Senior Inspector (Ag). Training was also conducted by the training officer in the event of changes to the Income Tax Act. In addition, there was no training manual.
- 6.91** It would have been advantageous to have training programs in place for the Unit to ensure that personnel involved in the collection process were properly trained. The training of staff allows them to be aware of their responsibilities and how to perform their duties effectively. Having no

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<sup>9</sup> These are certificates lodged in the High Court or in the Magistrate’s Court of District “A” which has the same force and effect as a judgement of the Court.



training policy or manual may lead to new staff not being aware of all operating procedures, resulting in inefficient performance of tasks.

### **Audit Comments**

**6.92** The lack of any management plan to manage the accounts receivable process was a weakness in the Department. Without a clear direction as to the policies and procedures to be used in collecting outstanding monies, there was a high risk that these outstanding sums would increase. An inadequate collection process will result in reduce cash collected and this will impact the Government's ability to fund its operations.

**6.93** Furthermore, without the necessary processes and procedures in place, the ability of the Compliance Unit to effectively and efficiently collect the receivables would have been negatively impacted.

### **Recommendations**

**6.94** It is recommended that:-

- (i) The Barbados Revenue Authority develops and implements an accounts receivable management strategy<sup>10</sup>. It should align with the key aspects of the relevant legislation and include the following:-
- Performance indicators for the Debt Collection Unit;
  - An aging analysis policy;

<sup>10</sup> Explanation of the features of the accounts management strategy can be found in Appendix 1.



- A risk profiling policy for pursuing the accounts receivable;
  - Operational guidelines for the staff of the Debt Collection Unit;
  - The setting of targets and objectives for the Debt Collection Unit;
  - A measuring tool for the receivables collected through the various collection methods;
  - Operational plans for the year;
  - Training policy and manuals; and
  - A communication strategy for ensuring that all stakeholders are kept abreast of the receivables management strategy.
- (ii) Action should be taken to have amounts deemed uncollectible amounts written off.

### **Enforcement, Monitoring and Reporting**

**6.95** The effectiveness and efficiency of the process of collecting receivables is determined by the organisational arrangements and compliance with the relevant legislation. If such arrangements are in place and management's strategy is functioning as intended, the collection process should be effective and efficient.



### Compliance with the Relevant Legislation

- 6.96** Methods of collection include “Request to Settle Arrears” letters, “Demand to Settle Arrears” letters, garnishments and unpaid tax certificates as outlined in the Income Tax Act, Cap. 73. However, due to the inaccuracies in the information received from the computer system, officers of the Unit reported they had to investigate and reconcile taxpayers’ accounts to verify the accounts receivable before taking action. The collection process began with “Request to Settle Arrears” letters being sent to the tax payers.
- 6.97** The “Demand to Settle Arrears” letter indicated that “failure to comply with the request to settle arrears would result in the Department taking legal action or initiating other compulsory action as required by the Income Tax Act, Cap. 73”. It should be noted that Section 72 of the Income Tax Act states that unpaid tax certificates should have been issued if the amount payable remained unpaid for a period of thirty (30) days.
- 6.98** There was no indication that this threat of legal action was carried out. No information was provided to indicate the number of unpaid tax certificates issued over the three (3) year period. Neither was information provided for the amount of monies collected from garnishments. No documentation was provided on the results of the collection methods being used and there was no follow up to determine the effectiveness of each collection method.



## Monitoring and Reporting

- 6.99** Evaluation and monitoring of the operations of the accounts receivable management strategy allows management to identify weaknesses in the system and correct them immediately. It also ensures that any changes or updates to the operations are recorded and communicated to staff in a timely manner.
- 6.100** There were no written reports received from the Compliance Unit on whether the operations were reviewed, findings documented, recommendations made and action taken to improve operations.
- 6.101** Investigations also revealed that there was no evaluation of the effectiveness of methods used to collect receivables. The Compliance Unit was not aware of the amount of monies collected through each method utilised. No information was provided to indicate that there was evaluation and monitoring of the activities of the Compliance Unit by Management.

## Audit Comment

- 6.102** Failure to review and report on the operations of the Compliance Unit was a major weakness in the governance of the Department. Accounts receivable are an integral part of Government's assets and more attention should be given to their collection.
- 6.103** Even though methods outlined in the Income Tax Act were used to pursue tax payers, the lack of analysis of these methods and their effectiveness is a weakness. The performance of the Compliance Unit was not monitored



or evaluate and as a result weaknesses in the process were not identified and corrected in a timely manner.

**6.104** Best practice requires that Executive Management be responsible for ensuring that an accounts receivable management strategy is enforced. The rise in the accounts receivable balances indicates that the enforcement of the various processes by Management was not effective.

### **Recommendations**

**6.105** It is recommended that the Barbados Revenue Authority should:-

- Implement procedures and policies to ensure that the Debt Collection Unit is monitored and evaluated for efficiency and effectiveness;
- Ensure that operations are monitored and reviewed on a regular basis by an independent person;
- Ensure that findings of reviews are documented and reported to Executive Management on a regular basis; and
- Ensure that recommendations made on review of the operations are actioned in a timely manner.





## Special Audit

### Staffing in State Agencies

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#### Introduction

- 6.106** This special Audit is in respect of staffing arrangements at a select group of state Agencies. **It should be noted that this review was in respect of the period prior to the recent layoffs in Government's departments and agencies.** These Agencies are funded almost exclusively by the Consolidated Fund and the Cabinet of Barbados has directed that such Agencies must have their staff complement approved by the Ministry of the Civil Service. This is a prudent strategy which should ensure that the staffing levels of these agencies are kept in line with Government's ability to finance their employment, alongside a careful scrutiny from the Ministry of the Civil Service on the needs of the agency for any additional manpower.
- 6.107** In addition to the Ministry of the Civil Service, the Ministry of Finance should play an active role in the control of the process, by ensuring that the funds are only provided where the relevant authorities have been obtained for any staff increases. It would therefore be expected that the State Agencies would fall in line with the directives of Cabinet and that the Ministries of the Civil Service and Finance would determine the limits and put into effect measures in support of the policy of the Cabinet.



### **Audit Objective**

- 6.108** The overall objective of this audit was to determine the extent to which various Government agencies were in compliance with the employment policy set by the Cabinet and, if there were breaches, determine who authorized the breach, and how the it was financed.

### **Audit Scope**

- 6.109** The Agencies examined were the National Conservation Commission (NCC), the National Housing Corporation (NHC), the National Assistance Board (NAB) and eleven (11) Secondary Schools where the focus was on the teaching staff. The audit focused on the practice of the agencies after the establishment of the policy of the Cabinet in 2000.

### **Methodology**

- 6.110** Audit Officers conducted interviews with senior staff of the selected agencies, and these included the General Managers of the National Conservation Commission and National Housing Corporation; Director, National Assistance Board; Permanent Secretary, Principal Personnel Officer, and Senior Personnel officer of the Ministry of Education, Science, Technology and Innovation, and the Principals of eleven (11) Secondary Schools. In addition there was a review of the relevant documents, files and budgets.



## Findings

- 6.111** The National Assistance Board (NAB) did not follow the guidelines for creating new posts or Cabinet's decision in matters relating to the reassignment of posts for the Housing Programme which was closed by a Cabinet decision in 2001. There has also been a number of persons employed on contract and assigned to posts that have not been created by the Ministry of the Civil Service. Overall the NAB exceeded its staff allotment by fifty-three (53) persons.
- 6.112** The National Conservation Commission (NCC) did not in all instances follow the Ministry of the Civil Service's guidelines for creating new posts. The Board did not exceed the overall allotment, but the number of staff working in various categories was altered without permission. For example, posts of lifeguard, clerical officer and watchman were created which increased the number, while the number of posts of general worker and stenographer typist was decreased.
- 6.113** The National Housing Corporation employed one hundred and sixty-two (162) persons without the approval of the Ministry of the Civil Service. This occurred after the policy directive by the Cabinet on 1<sup>st</sup> June, 2000 had been established.
- 6.114** During the period under review, the Ministry of Education allocated one hundred and forty-one (141) posts of temporary teacher to the Government's twenty-two Secondary Schools. The Audit took a sample of eleven (11) from the twenty-two Government Secondary Schools and found seventy-nine (79) posts of temporary teacher. Evidence was found



for the creation of only eight (8) of these posts by the Ministry of the Civil Service.

**6.115** There were examples in which one (1) temporary post was replaced with two (2) part-time positions. However, no evidence was found to indicate that the Ministry of the Civil Service had sanctioned this practice which effectively increased the compliment of teaching staff in the schools.

**6.116** In addition to increasing staff levels without the authority of the Ministry of the Civil Service, these agencies would have been provided with funding from the Ministry of Finance for their increased staff through various budgetary requests.

### **Conclusion**

**6.117** In summary, a number of state agencies have disregarded the directives of the Cabinet by increasing their staff limits without first obtaining permission from the Ministry of the Civil Service. These agencies were also able to obtain funding through the Ministry of Finance in support of this increased employment.

### **Recommendations**

**6.118** It is recommended that:-

- (i) The agencies involved should comply with the directive of the Cabinet and seek the permission of the Ministry of the Civil Service prior to the creation of any post.



- (ii) The Ministry of Finance should only provide funding for those posts which have been approved by the Ministry of the Civil Service.

## **National Assistance Board**

### **Background**

- 6.119** The National Assistance Board (NAB) has responsibility for administering the Senior Citizens Homes as well as Help and Day Care Programmes for the elderly. These programmes are fully funded from the Consolidated Fund.

### **Findings**

- 6.120** According to correspondence issued by the Ministry of the Civil Service (MCS), the Cabinet placed a ceiling on the number of workers at the National Assistance Board. This ceiling was set at two hundred and thirty-nine (239) established posts and twelve (12) temporary posts. The Board, however employed a number of persons in violation of this directive as follows:-



### Technical and Welfare Officers

- 6.121** In 2001, the Cabinet of Barbados (the Cabinet) made a decision to close the Housing Programme operated by the National Assistance Board<sup>11</sup>. The posts attached to this programme were to be transferred to other state agencies. However, the majority of the posts were transferred, but NAB kept the posts of Technical Officer and Welfare Officer which was in breach of Cabinet's directive.

### Home Helpers

- 6.122** The NAB has one hundred and forty-four (144) established posts of Home Helper. During the financial years ending 31<sup>st</sup> March 2011, 2012 and 2013 funding of \$1.015 million was provided for the payment of seventy (70) substitutes. An analysis performed on this amount showed that these funds not only allowed the NAB to pay the seventy (70) substitutes when the regular home helpers went on leave, but also allowed pay the wages of an additional fifty (50) Home Helpers for at least three (3) days of each week of the year.
- 6.123** Based on an assessment of the staff complement of the NAB, these fifty (50) additional posts of Home Helper have been created without the permission of the Ministry of Civil Service. The National Assistance Board was able to finance these positions by requesting, through its parent Ministry, increased funding for substitutes in the estimates of expenditure and this funding was provided by the Ministry of Finance.

<sup>11</sup> Ref. Note 01 1004/M.S.T.34 September 13<sup>th</sup> 2001, see Appendix 2



## Conclusion

- 6.124** Cabinet decisions set the policy direction of the Government on matters, and state agencies are expected to carry out those decisions. The National Assistance Board employed more persons than it was authorized to, by retaining persons in posts that should have been transferred at the closure of its Housing Programme as directed by the Cabinet. It also did not follow the Ministry of the Civil Service's guidelines for creating new posts but unilaterally increased its staff complement. Consequently, the Board exceeded its allotted staff complement by fifty-three (53) posts.

## Recommendation

- 6.125** It is recommended that:

The National Assistance Board should fully comply with all Cabinet decisions.

### ***National Assistance Board's Response***

#### **Technical and Welfare Officers**

*The records of the National Assistance Board and a list of established posts generated by the Ministry of Civil Service indicate that all relevant posts attached to the Housing Programme operated by the National Assistance Board were transferred to the relevant state agencies as indicated by the Cabinet's directive in 2001.*

*What transpired during that time was that although the posts were transferred to other state agencies, the persons in those two posts*



*continued to be employed at the National Assistance Board as temporary workers.*

*On March 1, 2012, the Welfare Officer was promoted to Senior Welfare Officer and was permanently appointed to the post of Senior Welfare Officer on September 1, 2012.*

*The Technical Officer is still employed with the National Assistance Board.*

### **Home Helpers**

*As currently instituted, the Home Help Programme ensures that older persons have their needs met in the environs of their homes and are able to interact directly with their care provider and maintain community contact. The Home Care Service has resulted in tremendous socio economic benefits/costs savings to the government which has not had to bear the high costs of institutionalizing the thousands of elderly persons who would have been cared for within their own homes over the past thirty five years of the Programme's existence.*

*The National Assistance Board provides services for one thousand and sixty (1060) home care recipients on a monthly basis with the same number (144) of established posts of full time Home Helpers that serviced six hundred and (650) persons from its inception thirty five (35) years ago. As the programme began to serve more home care recipients, it was unfortunate that the National Assistance Board had increased its Home Helper complement without the requisite permissions; however the current*





*staffs complement is greatly needed to execute the services in the Home Care Programme.*

*Currently, there are twenty five (25) vacant established Home Helper posts in the Home Care Programme. The National Assistance Board supports the promotion and appointment of twenty five (25) Relief Home Helpers to the established post of Home Helper and will shortly be submitting a document to the Ministry of Civil Service through the Ministry of Social Care, Constituency Empowerment and Community Development recommending the permanent appointment of these twenty five (25) Relief Home Helpers.*

*In addition, the National Assistance Board supports the creation of the additional Home Helper posts for the currently employed Relief Home Helpers, most of whom have been working at the NAB for more than eight (8) years, and some for as long as thirteen (13) years. it is the Board's strong belief that these Relief Home Helpers have worked diligently and consistently over the years and the creation of posts for them will be the first step in affording these Home Helpers permanency and benefits that are afforded to their permanently appointed counterparts.*

*In 2013, the National Assistance Board submitted a document to the Ministry of Civil Service through the Ministry of Social Care, Constituency Empowerment and Community Development supporting the need for the creation additional Home Helper posts for the Home Care programme.*



## National Conservation Commission

### Background

- 6.126** The National Conservation Commission (NCC/the Commission) has a mandate to keep the beaches and parks of Barbados clean, as well as beautify other designated areas and maintain them in pristine condition for the enjoyment of all.
- 6.127** According to correspondence issued by the Ministry of Housing, Lands and Energy in 2001, the Cabinet placed a ceiling on the number of workers at the National Conservation Commission. The number of weekly paid workers should be seven hundred and sixty-six (766) and the number of monthly paid workers should be two hundred and eleven (211).

### Findings

- 6.128** According to information reviewed, the National Conservation Commission has some temporary posts for which permission was sought from the Ministry of the Civil Service. However other posts were created without the permission of the Ministry of the Civil Service. These included the posts of lifeguard and watchman.
- 6.129** In 2007, fifteen (15) positions of lifeguard were created specifically to assist with the securing of the beaches during the World Cup Cricket Tournament in Barbados. These positions were retained after the tournament ended in spite of their short term nature. In this regard, the



staff complement of general workers was reduced by twelve (12) positions.

- 6.130** According to the records of the NCC, the number of general workers should have been four hundred and sixty-five (465) at all times. During the period under review the number of persons employed as general worker did not exceed this figure. Nevertheless, the number of posts of general worker was reduced and other posts such as watchman and lifeguard were increased proportionally. No request was seen from the NCC to the Ministry of the Civil Service to reduce the number of posts for general worker and no authority from the Ministry of the Civil Service was seen giving permission to act in this manner.

### **Conclusion**

- 6.131** The National Conservation Commission did not always follow the Ministry of the Civil Service's guidelines for creating new posts. Although the NCC did not exceed its overall staff complement, it increased the number of staff working in various categories without the authority of the Ministry of the Civil Service. The NCC should have made the necessary recommendation to the Ministry of the Civil Service for such changes. The decision to increase the number of posts in any category rests with the Ministry of the Civil Service.



## Recommendation

6.132 It is recommended that:-

The NCC should have its staff complement set by the Ministry of the Civil Service as directed by the Cabinet.

### ***National Conservation Commission's Response***

*The positions of Clerical Officer and Watchman were **NOT** created by the Commission without the permission of the Ministry of the Civil Service.*

*The Commission utilised vacant positions of General Workers to accommodate excess numbers in the categories of Lifeguard and Watchman.*

*The Commission has always followed the Ministry of the Civil Service guidelines for creating new posts. The numbers within a specific category may have been increased or reduced but the position already existed.*

*The Commission's staff complement has already been set by Cabinet with a specific number of persons allocated to each category resulting in a total of two hundred and ten (210) monthly employees and seven hundred and sixty-six (766) weekly employees.*



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## National Housing Corporation

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### Background

- 6.133** The National Housing Corporation (NHC/the Corporation) was established to provide housing solutions for Barbadians. These housing solutions include houses for sale, the provision of mortgages, rental units and the sale of land. To achieve this objective, the Corporation recruits staff at all levels - administrative, technical, skilled, and unskilled persons to carry out its varied tasks.
- 6.134** The National Housing Corporation is a statutory agency and it is managed by a Board of Directors who has responsibility for the appointment and discipline of the staff. The Cabinet has mandated that Government agencies which receive budgetary support through the Consolidated Fund, for the creation of posts approval from the Ministry of the Civil Service must be obtained.
- 6.135** The NHC however employed persons without the approval of the Ministry of the Civil Service. Some of these posts were subsequently approved but others were not. In some instances persons were permanently appointed prior to approval being granted as shown below:-



## Findings

### Posts created and filled before approval was granted

- 6.136** During the period 26<sup>th</sup> April 2001 to 31<sup>st</sup> March 2013, the number of employees at the NHC increased from five hundred and ten (510) to six hundred and seventy-two (672). The number of weekly (Bi-weekly) positions increased from three hundred and nineteen (319) to four hundred and forty-four (444) and the number of monthly paid workers rose from one hundred and ninety-one (191) to two hundred and twenty-eight (228). Overall, during the ten (10) year period to 31<sup>st</sup> March 2013, the NHC increased its staff complement by one hundred and sixty-two (162) positions without the prior approval of the Ministry of Civil Service. Subsequently sixty-one (61) of these posts were approved by the Ministry of the Civil Service.

### Posts not created by the Ministry of the Civil Service

- 6.137** As at 31st March 2013, the Ministry of the Civil Service had not given prior approval to the NHC through the Ministry of Housing for the creation of one hundred and one (101) posts for which persons had been hired. More than 50% percent of these posts created were labourers who were deployed under the various maintenance units of the NHC.



### **Persons appointed to posts before their Establishment**

- 6.138** Approximately seventeen (17) temporary employees of the National Housing Corporation were given permanent appointments prior to those posts being established by the Ministry of the Civil Service.
- 6.139** Persons employed in posts that were not created by the Ministry of the Civil Service could retire from such posts and then experience lengthy delays in receiving retirement benefits until these posts are placed on the Pensions Order by the Ministry of the Civil Service.

### **Conclusion**

- 6.140** Since the Cabinet decision of 1<sup>st</sup> June 2000 posts created in state agencies receiving funding through the Consolidated Fund must receive the prior approval of the Ministry of the Civil Service, Successive Boards of the National Housing Corporation did not follow this directive. In a number of instances, the National Housing Corporation filled posts and then sought the approval of the Ministry of the Civil Service. This represents a total disregard for the Cabinet decision and the policy direction of the Government.



## Recommendations

6.141 It is recommended that:-

The National Housing Corporation should follow the Cabinet decision for the creation of all posts and make all requests for the creation of posts through its parent Ministry.

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

#### ***Special Audit on Staffing in State Agencies***

*Please be informed that Management of the National Housing Corporation examined the report in relation to the abovementioned special audit and offers the following comments:*

*The Corporation agrees with the contents of your report in relation to the fact that appointments were made to posts which were not established by the Ministry of the Civil Service. Our actions in this regard, were done in attempt to fulfil the mandate of the Corporation which required additional staff for which we sought the approval of the Ministry of Housing and Lands.*

*However, please be informed the Corporation subsequently sought and was granted approval from the Ministry of Housing & Lands for most of the posts referred to in your report and to which persons were appointed when an amendment was made to Housing Offices Pension Act of October 24, 2013.*





*Some posts were inadvertently omitted and the Corporation made a request through the Ministry of Housing & Lands for a further amendment to be done and we have been informed by correspondence from the Ministry of the Civil Service dated September 30, 2014 that approval has been granted to include these posts in the Housing (Pensionable Offices) Order,*

*When this process is completed persons who were offered permanent appointment prior to the establishment of posts, will be able to receive their pension benefits upon their retirement.*

## **Ministry of Education, Science, Technology and Innovation**

### **Background**

- 6.142** The Ministry of the Civil Service (MCS) is responsible for the creation of all temporary posts in the public service including that of part-time teacher at the Ministry of Education, Science, Technology and Innovation (Ministry of Education/the Ministry). Once these temporary posts have been created, the Ministry of Education allocates them to various schools. The Boards of Management at the Secondary Schools make recommendations for temporary appointments to the Chief Education Officer, who has the legal authority to approve the appointment of temporary teachers under the Delegations of Functions (Public and Police Services) (Miscellaneous Provisions) Order, 1974.



- 6.143** There are two thousand, five hundred and sixty-four (2,564) established teacher posts in the system, with one thousand, one hundred and seventy-two (1,172) allocated to the twenty-two (22) secondary schools. There are also one hundred and forty-one (141) temporary posts of teacher and forty-seven (47) part-time teachers employed who are also temporary.
- 6.144** The majority of the forty-seven (47) part-time teacher positions found at the Secondary Schools were not created by the Ministry of the Civil Service. The Ministry of Education provided evidence that accounted for only five (5) of these part-time teacher posts being created by the Ministry of the Civil Service. Some of the Secondary Schools employed part-time teachers by replacing one temporary position with two part-time posts. Examples are as follows:-
- (i) At the Foundation School, three (3) part-time teachers were employed by replacing one temporary post with two (2) part-time posts. The other part-time post was created by the Ministry of the Civil Service.
  - (ii) At the St. George Secondary School, persons were employed in five (5) part-time posts, but no evidence was produced to show who authorized their creation.
  - (iii) At the Frederick Smith Secondary School, there was a staff complement of sixty-seven (67) which included seven (7) temporary posts. Two (2) of these temporary posts were replaced with four (4) part-time teacher posts.



- (iv) At the Queens College Secondary School, there were four (4) part-time posts in which persons were employed. However, no evidence that these posts had been created by the Ministry of the Civil Service was provided. In addition, the School produced a letter from the Chief Education Officer approving the process of replacing one temporary post with two part time positions.
- (v) At the Alexandra Secondary School, there was the employment of up to six (6) part-time teachers. However, during the last eight (8) years, the Ministry of Education had allocated only one (1) post of part-time teacher to the Alexandra School.
- (vi) At the St. Michael's School, there are eight (8) part-time teacher posts however evidence was seen which indicated that only four (4) temporary posts of part-time teacher had been authorized by the Ministry of the Civil Service.

**6.145** Nine (9) of the eleven (11) secondary schools where staffing levels were reviewed employed part-time teachers in posts by replacing one (1) temporary post with two part time posts. This was facilitated by weak surveillance controls by the Ministry of Education, Science, Technology and Innovation.

**6.146** During the period under review, twenty-two (22) Government Secondary Schools had a total of one hundred and forty-one (141) temporary posts of teacher allocated among them by the Ministry of Education. The Audit took a sample of eleven (11) from the twenty-two (22) Government Secondary Schools and found seventy-nine (79) posts of temporary



teacher. Evidence was found for the creation of only eight (8) of these posts by the Ministry of the Civil Service<sup>12</sup>.

## Conclusion

- 6.147** The Ministry of the Civil Service is responsible for the creation of all temporary posts in the public service including part-time posts, and where part-time teachers are employed those posts should have been created by that Ministry. Inadequate internal controls over the hiring practices at secondary schools have resulted in some of these schools being able to employ additional part-time teachers without the temporary posts being created by the Ministry of the Civil Service

## Recommendations

- 6.148** The practice of approving temporary appointments without the approval of the Ministry of the Civil Service should be discontinued. The Ministry should seek to regularize its total staff complement.

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<sup>12</sup> REF. NO: M.P. 6211 Vol.11 dated October 15,2014



## **Ministry of Education, Science, Technology and Innovation's Response**

### **Special Audit on Staffing in State Agencies**

*I am directed to inform you that our records show that there is no documentation in respect of the grant of approval from the Ministry of the Civil Service regarding all of the temporary teaching posts or part-time posts.*

*However, please note that, historically, teaching posts were allocated to schools on the basis of an increase in the school's needs as a result of:*

- The addition of a new subject area on the curriculum;*
- A higher allocation of students at the particular school after the Secondary School Entry-Level Exam;*
- The development/expansion of a Ministry programme (i.e. assignment of Year Heads/HODs and Information Technology Coordinators);*
- Release of Union Executive members.*

*In addition, there were times/cases where a post was split and two part-time teachers were recruited to facilitate the delivery of the curriculum. This practice of 'splitting' posts continued over the years due to the difficulty in recruiting a candidate who had the qualifications in wide, and sometimes vastly different, subject areas. For example, a school may have an opening for a teacher to teach Spanish and Geography. However,*



*recruiting one person may prove to be a challenge. Hence, the school may recruit two (2) part-time teachers in order to resolve this matter.*

*At present, this scenario is prevalent in all our schools where part-time teachers are utilized to facilitate the delivery of the timetable.*

*The practice of the splitting of posts was discussed with the Ministry of the Civil Service in 2014 and a directive was given that the splitting of posts was not permitted.*

*The Ministry held meetings with the Board of Managements (Chairmen and Secretaries/Treasurer) and Principals and has communicated that the splitting of posts was prohibited.*

*The Secretaries/Treasurer have since then been asked to treat part-time teachers as part-time or 'sessional' workers. Thus, part-time teachers must not be given a full teaching load and an established post cannot be split to accommodate two (2) part-time teachers.*

*This Ministry plans to continuously review the operations of the schools to ensure compliance to the existing legislation and policy.*