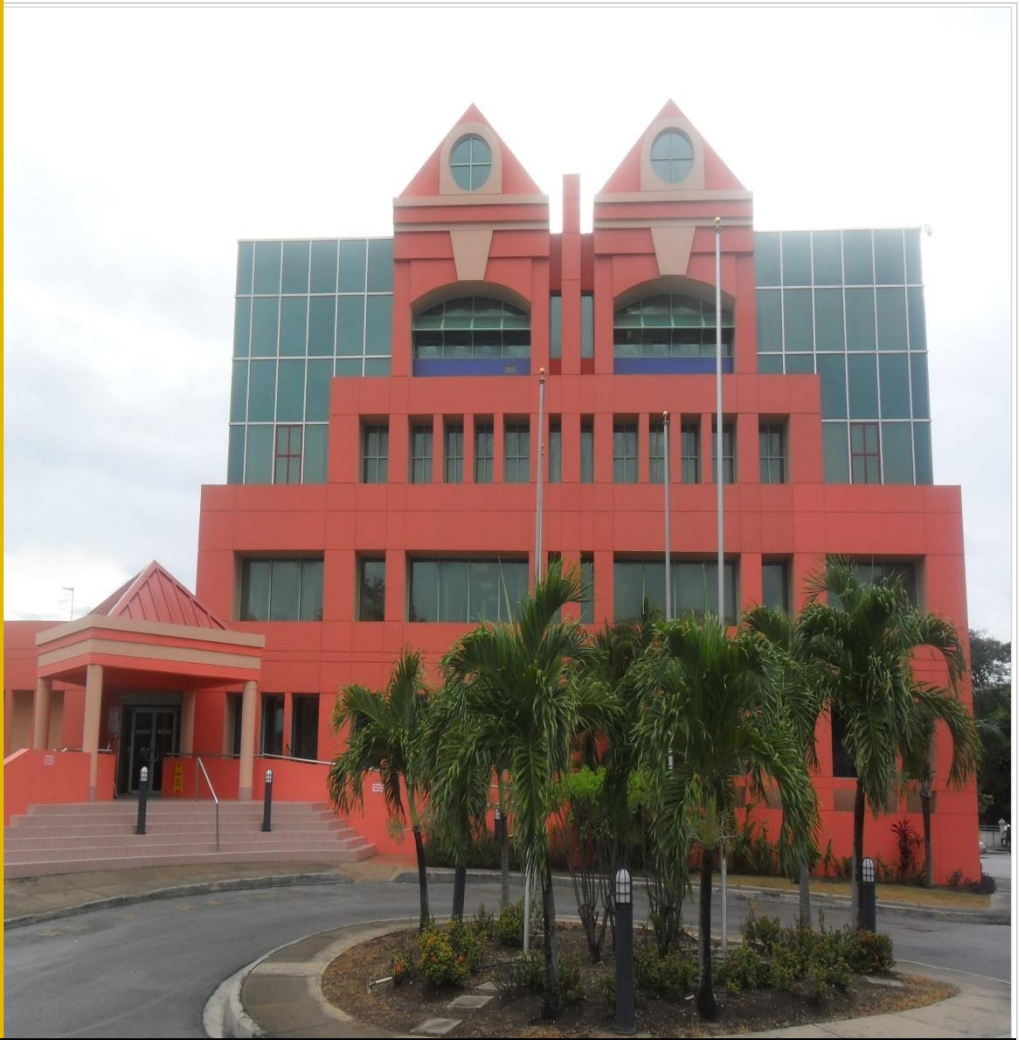




# Barbados Audit Office

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

**2015**



*Strengthening public accountability by providing fair and independent reports*

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



**Report**  
**of the**  
**Auditor General**  
**for the year**  
**2015**

## **MISSION STATEMENT**

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

## **THE GOAL**

The goal of the Audit Office is to promote staff development, achieve a high standard of auditing and contribute to the general efficiency and effectiveness of the Public Service.



## **THE BARBADOS AUDIT OFFICE**

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March 31, 2016

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, 2015.

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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This Annual Report for 2015 consists of a summary of the work conducted by my Office during the course of the year. The Report does not include a special review of the procurement of the National Housing High Rise Apartment projects which will be issued as a special report. It includes audit reports of the newly created Barbados Revenue Authority, and a number of Statutory Boards which are normally audited by private sector auditors, but had requested my Office to conduct the audits of their accounts. My Office is willing to play a greater role in the audit of the accounts of these boards, provided that additional staff is made available to the Office. There are currently 35 vacant positions within the Office and these were advertised during the course of the year. I am hoping that some of these vacancies will be filled in 2016.

2. The Office celebrated its 160<sup>th</sup> Anniversary in December, 2015 with a number of activities, including an awards dinner for staff, which was addressed by the Minister of Finance, the Honourable Christopher Sinckler. The Minister pledged his support for the Office, and indicated that he would use his good office to assist with the provision of resources. I look forward to this assistance. Another aspect of the celebrations was a public lecture/discussion on “The Role and Function of the Audit Office”. This event presented the Office with the opportunity to interact with members of the public and respond to their concerns.

3. In 2015, the audit of the accounts of my Office was for the first time conducted by private sector auditors, and the audited statements are included in this Report. The audit of these accounts was previously conducted by the Ministry of Finance and Economic Affairs. The auditors gave the accounts of the Office an unqualified audit opinion, which essentially means that the auditors were of the view that the Office followed all accounting rules appropriately and that the financial reports are an accurate representation of our financial position.



4. The role of the Office has been constantly evolving. In the past, audits focused mainly on examining relevant records to determine whether there had been compliance with the Financial Rules and other Government regulations. In recent times, however, greater focus has been placed on whether Government resources have been used in an efficient and effective manner and whether the financial statements are fairly stated. The Office has made some strides in this area, but recognizes the need to expand this activity. Some capacity building activities have been scheduled for the Office in 2016, and these, along with the recruitment of additional staff, should enhance the performance of the Office.

5. The timely submission of the Annual Report of the Auditor General hinges on a number of factors, which include a response to the issues raised by my Office prior to any final report being released. I must report that these responses are not always given in a timely manner and this slowed the completion of the Report.

### **Acknowledgements**

6. I would like to thank members of staff for their support, as well as the relevant officers from the audited bodies for their cooperation, as I look forward to a productive 2016.

**Leigh E. Trotman, CPA**

**Auditor General**

**March 31, 2016**





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## CHAPTER 1

### General Issues

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#### Introduction

**T**he 2015 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 (2) 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, it should be noted that the financial statements which are prepared by the Treasury represent the activities of Ministries and Departments. The opinion on these statements is issued in a separate report. The results of the audit of the accounts of other state agencies such as statutory boards and companies are issued in Chapter 4 of this report.
- 1.3** The Auditor General’s 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 can also on his own initiative carry out examinations into the financial management of any ministry, department, statutory authority or Government-controlled entity, including how efficiently and effectively they discharge their functions.

**1.5** Audits performed by the Office can therefore be broken down into three categories.

- One category involves the audit of the financial statements of the Government and other state agencies, where the focus is on verifying whether the accounts presented for audit were fairly presented.
- Another category focuses on whether transactions pertaining to the collection and spending of Government funds were in compliance with applicable rules and regulations.
- The third category involves determining whether there was efficiency and effectiveness in the use of Government resources. This type of audit is essential in an environment in which there are few performance reporting measures to assess how efficiently an organisation has achieved its objectives. The introduction of these measures, and greater reporting on performance by agencies, should be encouraged.



## Audit Process

- 1.6** The Barbados Audit Office conducts audits of Ministries and Departments, and provides objective information and assurance to the House of Assembly, in order to promote accountability in the use of Government resources. The Office examines and certifies annual financial statements of the Government and some statutory bodies where such provisions exist in the legislation. Some selected operations and programmes are examined by way of special review. These reviews are requested by departments or conducted on the initiative of the Office.
- 1.7** To achieve its objectives, the Office plans its work so that the audits can be conducted during a cycle which commences in January and ends in December. The audit of particular Ministries and Departments are selected on a materiality and risk basis.

## Audit Phases

- 1.8** There are three distinct phases in the audit process, and these are planning, implementation and reporting. In the planning phase, audit officers obtain a thorough knowledge of the function, as well as the operational environment, of the organization or programme selected for audit. This knowledge is then used to develop an audit plan which sets out the audit objectives, scope and timing.
- 1.9** 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



evidence pertaining to audit queries is then evaluated and analyzed, and discussed with members of staff of the audited entity.

**1.10** In the reporting stage the auditor prepares a draft report or management letter highlighting significant issues observed, and recommendations to address them. This draft report is transmitted to the management of the audited agency for review and discussion, and a written response is requested, before the report is finalized.

**1.11** 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 in a particular year. These include the level of expenditure of the agency or programme, results of previous reports, issues highlighted by the public and whether the entity has been recently audited.

**1.12** Recommendations are included in reports to management that address the issues identified. It is however up to the audited entity to select the most appropriate course of action to improve its operations.

### **Staffing**

**1.13** For a number of years I have expressed my concern about the large number of vacancies in the Office and the negative impact it has had on our work. During the course of the year a number of vacant posts were advertised, and the Public Service Commission has indicated that efforts will be made to fill some of the vacancies in the first half of 2016. While



such efforts will be appreciated, I am still of the view that the Office would be better served if it had the delegated authority to select its own staff. This would speed up the recruitment process, and would be consistent in providing the level of independence that is necessary for an oversight body such as the Audit Office, which should not be dependent on institutions it has to audit for resources.

### **Estimates of Expenditure**

- 1.14** 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 sought \$4.3 million to fund its operations but was given \$3.6 million. However, the amounts provided were able to fund the expenses of the Office for the year. This was as a result of a number of vacancies, and the lack of progress with the National Insurance audit (being conducted by private auditors) for which funds were budgeted but not paid out.

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

- 1.15** Traditionally the audit of the accounts of the Office has been conducted by the Ministry of Finance. However, this was not in conformity with good practice, since an entity audited by the Office should not be responsible for the audit of our accounts. The relevant amendment to the legislation has been made and the accounts of the Office are now being audited by auditors from the private sector. A copy of the audited financial statements is included in this Report. See Appendix 1.



## Public Accounts Committee

- 1.16** The year 2015 was a fairly active one for the Public Accounts Committee (PAC). The main issues examined relate to the high rise housing projects of the National Housing Corporation. The PAC commenced examination of these projects in 2014.

## Office Activities

- 1.17** The Office facilitated a number of developmental activities during the course of the year, including internal training for auditors and the update of audit manuals. There was also the continuation of a search for audit management software to manage the planning, scheduling and other audit activities of the Office. This activity is currently going through the tendering process and the software should be acquired in 2016.

## Attendance at Conferences and Workshops

- 1.18** During the year audit officers attended a number of local and regional workshops. Attendance at these activities facilitates the ongoing development of staff and benefits the Office. Workshops and other training activities attended included the following:

Auditor General, Mr. Leigh Trotman attended a CReCER conference in Quito, Ecuador during the period May 5 – 6, 2015. This regional conference, sponsored by the Inter-American Development Bank (IDB) and the World Bank, brought together members of the audit and accounting fraternity from the Caribbean and Latin America to discuss change and trends in the auditing and accounting profession.



## Synopsis of the Report

**1.19** In addition to this chapter, this report contains four (4) other chapters as follows:

- Chapter 2 consists of the results of the audit of the accounts of the Treasury. It also contains an analysis of Central Government's financial performance and position, along with the audit opinion given on the financial statements of Government.
- Chapter 3 contains the results of the audit of various Ministries and Departments. This includes the audit of the Barbados Revenue Authority which was being audited for the first time. This latter agency, which collects Government's revenue, was reporting on its operations for the first time.
- Chapter 4 consists of a summary of the results of the audits of various Statutory Boards, many of which have been audited by private sector auditors. The audits of a significant number of these agencies continue to be several years in arrears. I can only reiterate that those who have been given the responsibility for the governance of these agencies need to ensure that (a) those responsible for the preparation of the accounts are held responsible, and (b) there is suitably qualified and experienced accounts staff in place to ensure that the financial statements are audited in a timely manner.



- Chapter 5 consists of the reviews of a number of public private partnership projects (PPP's). These projects mainly related to the construction of various buildings for a number of state agencies. The reviews indicate that there is not enough financial analysis undertaken before agencies commit to these projects; hence there is some uncertainty as to whether value for money has been achieved in a number of these projects.





## CHAPTER 2

### Analysis of Government Financial Statements

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**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, 2015 were submitted shortly 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, an 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, 2015.

**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 existed and were adhered to; and



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

## **Methodology**

- 2.4** The audit was conducted using the auditing standards established by the International Organization of Supreme Audit Institutions (INTOSAI). 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, and evaluating the accounting policies used as well as 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 with regard to the application of accounting policies to the reporting 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 allows 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 INTOSAI auditing standards, by which the audit was conducted, outline the processes and procedures the auditor should follow in ensuring that the audit is carried out appropriately.
- 2.8** Audit procedures are performed to detect material misstatements in the financial statements. Materiality has to do with how significant an omission or misstatement in the financial statements would need to be, in order 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 also 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



assessing risks of material misstatement of the financial statements. The internal controls relevant to the preparation of the consolidated financial statements are considered in order to design suitable 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; these agencies report the results of their operations separately. It should however be noted that in order to be compliant with the accounting standards, there should have been a consolidation of the accounts of Ministries, Departments and all entities which are controlled by Government and receive budget support.

- 2.13** The financial statements presented by the Treasury and examined by my Office 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

**2.14** The figures used in the analysis in this Chapter are those provided by the Treasury at March 31, 2015. The audit opinion which is expressed on these statements indicates that the numbers presented for expenses, liabilities and annual deficit would be different, were my concerns to be addressed. Readers are therefore cautioned that the numbers presented may not give an accurate representation for their purposes.

### Deficit

**2.15** The Financial statements showed a deficit of \$697.67 million. Compared to a deficit of \$982 million for the previous year, this represents an improvement of the finances of the Government. However, this deficit was higher than the \$496 million projected for the financial year. The annual deficits for the past six years are listed in the table below:-

**Annual Deficits**  
**\$ Millions**

Year	2010	2011	2012	2013	2014	2015
Amount	\$480	\$682	\$382	\$826	\$982	\$697

**2.16** Over this period the deficit rose to high levels with the figure for 2014 being in the region of \$1 billion. This is very high considering that revenues have been in the region of \$2.5 billion for the past six (6) years. This trend of large deficits over the past five years is a reflection of the challenges that Government has faced in getting it reduced. The annual



deficits have contributed to an increase in national debt, resulting in large annual interest payments.

## Revenue

**2.17** Revenue was reported at \$2.45 billion, which was \$113 million more than the figure reported for the 2013-2014 financial year. There were two areas, Special Receipts and Grant Income, that showed significant improvement from the previous year.

**2.18** Grant Income increased by \$57 million from \$89,976 in 2013-2014, while Special Receipts increased by \$56 million over the figure of \$486,246 recorded for the previous year. The increases in the latter receipts were primarily the result of the introduction of the Municipal Solid Waste Tax.

## Expenditure

**2.19** The total expenditure for the year was reported as \$3.144 billion, and this was \$176 million less than the \$3.322 billion reported in the previous financial year. This decrease was mainly attributed to a \$125 million reduction in grants, a \$72.5 million drop in payroll related expenses and a \$52 million reduction in goods and services.

## Financial Indicators

**2.20** There are several financial indicators that can be used to assess the relative financial health of the country. These can be applied to the Government's financial statements as follows:-

**a) Interest Cost to Total Revenue**

**2.21** The indicator Interest Cost to Total Revenue illustrates the extent to which debt servicing impacts on the ability of Government to provide a higher level of goods and social programmes to the public. The table below shows that over the past six years interest payments on loans have been steadily rising from 16.8% in 2010 to 26.3% in 2015.

**Interest Expense****Expressed in \$ Millions**

Year	2010	2011	2012	2013	2014	2015
Amount	\$434	\$488	\$527	\$565	\$597	\$644

**Interest Expense****Expressed as a Percentage of Revenue**

Year	2010	2011	2012	2013	2014	2015
Percent	16.8	20	20	23	25.5	26.3

**2.22** The larger the amount of the budget that is used to service debt, the less resources will be available to provide other goods and services.

**b) Net Debt**

**2.23** Net Debt provides another measure of Government's financial position. It measures the difference between a government's liabilities and financial assets. The difference provides a measurement of the future resources required to pay for outstanding liabilities. Government also has non-financial assets, such as land, buildings, furniture etc., which will not create future returns to repay the liabilities, hence they are excluded from the analysis. The following table shows that Net Debt has risen steeply over the past six (6) years.

**Net Debt****\$ Millions**

Year	2010	2011	2012	2013	2014	2015
Amount	\$5,544	\$6,314	\$6,693	\$7,523	\$8,544	\$9,300

**2.24** In order to improve or reduce the Net Debt, operating surplus needs to be generated. This can be achieved by reducing expenditure, increasing revenue or a combination of both.

**General Comments on Financial Indicators**

**2.25** The financial situation facing the Government continues to be very challenging, but there were some improvements in the deficit position, and in the amount of revenue collected during the year. This, however, must be contrasted with increased debt service costs and a high Net Debt position, for which there are no corresponding financial assets to liquidate them. Net debt will be reduced when operating surpluses are generated or assets are sold.





## ***Presentation of Financial Statements***

**2.26** This section highlights comments and issues pertinent to the presentation of the financial statements and accompanying notes. In this regard, there were instances in which there was either insufficient information, or a lack of clarity, in what was presented to users, as shown below:-

### **Joint Ventures**

**2.27** The Government has a joint venture with Leeward Islands Air Transport (LIAT). However, there was no disclosure of the following, as required by International Public Sector Accounting Standards (IPSAS 8):

- (i) Any contingent liabilities/assets that the Government has incurred in relation to its interests in joint ventures, and its share in each of the contingent liabilities that have been incurred jointly with other ventures;
- (ii) Its share of the contingent liabilities/assets of the joint ventures themselves for which it is contingently liable; and
- (iii) The method used to recognize its interests in jointly controlled entities.

**2.28** Government's total investment in this joint venture, according to the Treasury's records, was \$142,733,148 at March 31, 2015. Full disclosure as required by the accounting standards should be provided.



## Reporting on Risk

- 2.29** The notes to the financial statements did not contain enough information on certain financial 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 persons such as investors could be impacted by the absence of such information. The need to include information on risks is imperative, as the cash and bank balance shown within the Financial Statements has been reduced from \$197,012,287 to \$3,951,272 within the financial year, thereby impacting the Government's liquidity position. This is just one indication as to how quickly there could be significant changes to key components of Government's finances.

## Statement of Conformity to Accounting Standards

- 2.30** The notes to the financial statements should include an explicit and unreserved statement regarding the extent of compliance with Public Sector Accounting 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.

## Incorrect Classification of Loan

- 2.31** The amount of \$5,874,929 stated for the Barbados Cricket Association in the notes to the Financial Statements (Note 11) really represented the amount relating to the loan balance and accrued interest for Needham's Point Holdings. This error should be corrected.



### **Inadequate Notes Re: Paymaster Account**

- 2.32** The Paymaster Account is reported as a liability account in the financial statements. The amount reported for this account at March 31, 2015, totalled \$357,978,244. This figure represented the combined value of the payable orders, pension cheques and wire transfers which were outstanding (un-cleared) at March 31, 2015. These instruments are only cleared against the Treasury Bank Account when presented or payments made. They are subsequently adjusted to the bank totals recorded in the general ledger. A note disclosing the details of such a substantial amount should have been included in the financial statements to allow users to fully understand what this amount represents.

### **Transitional Provisions**

- 2.33** Government's financial reporting should comply with the International Public Sector Accounting Standards. These standards allow a period of three years in which to consolidate all of the accounts of the agencies of Government. In the case of Barbados, this would include all of those entities which depend on the Treasury for the funding of their activities or that are controlled by the Government. This consolidation has not occurred, and the Treasury has only been able to consolidate a number of secondary schools into 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 capital assets. This approach to consolidation is not in keeping with International Public Sector Accounting Standards.



- 2.34** The consolidation required by these standards, which would embrace the accounts of Ministries, Departments, and all other state agencies which are in receipt of budget support, would give a fairer presentation of the result of Government's operations.

**Accountant General's Response:**

*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 is also noted that IPSAS offers Governments using the standards a period of three years in which to consolidate all of the accounts of the agencies forming the reporting entity. The ongoing consolidations project is at the stage where the following entities are being included in the pilot for financial statement consolidation with central Government's financial statements for the financial year 2015-2016: Caribbean Broadcasting Corporation, Barbados Investment and Development Corporation and the entities under the Higher Education Unit (Barbados Community College, Erdiston College and the Samuel Jackman Prescod Polytechnic). The major challenge of consolidating all of the other Government owned entities would be to have up to date audited financial statements of those entities.*

**Information Highlighting the Need for Consolidation of Government Financial Statements**

- 2.35** There are approximately 50 state agencies whose accounts are not included in the financial statements of the Government. The majority of these agencies, however, rely on the Treasury for the funding of their activities, and there should have been a consolidation of these accounts.



Many of these agencies have large outstanding commitments such as loans and other payables, which could make a significant difference to the overall picture of Government's financial situation, if the required consolidation were to take place.

**2.36** During 2015 my Office undertook a survey of the level of indebtedness of these agencies, in order to obtain an understanding of their potential impact on the overall picture of Government's finances.

**2.37** Information was obtained on 28 agencies, which revealed combined liabilities (including Pending Legal Obligations) of \$1.4 billion. This is a significant figure, and the absence of information on approximately half of the agencies surveyed indicates that the figure, and therefore the potential impact on the public finances, could be even greater.

**2.38** Among the agencies which did not submit information as requested were a number large entities such as:

- Barbados Investment and Development Corporation (BIDC)
- Barbados Tourism Marketing Inc. (BTMI)
- National Housing Corporation (NHC)
- Sanitation Service Authority (SSA)

**2.39** The information provided does not, by itself, give a complete indication of the financial health of each institution, but it does point to large outstanding liabilities which need to be monitored overtime, and which, in many instances, will ultimately be the responsibility of the state.



- 2.40** It also serves to confirm how the absence of consolidated financial statements could result in the Government, the public and other stakeholders not having a comprehensive view of the situation facing the public finances which, in my view, is vital for decision making purposes.
- 2.41** The results of the survey can be found in the Appendix 2.

### **Contingent Liabilities**

- 2.42** The Financial Management and Audit (Financial) Rules, 2011, Rule 229 (4) requires that the Accountant General report on the outstanding cost of contracts for services or supplies as contingent liabilities. For the year under review, such outstanding payments were not disclosed in the notes to the Financial Statements as required.
- 2.43** There was a disclosure of \$118,177,914 for pending law-suits on the Government. This total did not match the figure of \$116,305,080 derived from the supporting documentation received from the Solicitor General. The resulting variance was \$1,872,834.

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

- 2.44** The Accounting Standards (IPSAS) 1 Sections 118 and 119 require that items recognized directly in the net assets/equity section of the Financial Statements should be listed, along with the total of these items. The notes should include any changes as a result of adjustments having to be made to figures reported in the previous year.



- 2.45** An amount of \$14,394,821 was recorded in the Statement of Changes in the Net Assets/Equity, but the details of this transaction were not provided. In this regard, the accounting standards were not adhered to. The lack of an explanation for such a substantial change reduces the reliance which can be placed on the net Assets/Equity balance.

### **General Comments**

- 2.46** The notes to the Financial Statements provide users with valuable information to make informed decisions. The lack of adequate disclosures can result in poor decision making and can mislead readers. It was indicated that a lack of resources has impacted on the Treasury Department's ability to engage the services of experts who can assist in specialized areas such as the application of the International Accounting Standards (IPSAS). Assistance in this area would be invaluable to the Department's ability to adequately prepare financial information in accordance with the standards.

- 2.47** **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 established policies should also be highlighted, ensuring that this aspect of the accounts is compliant with Accounting Standards and clearly understood by users.**



## ***Issues Pertaining to Assets Reported in the Financial Statements***

**2.48** This section of the report highlights issues and concerns relating to the treatment and recording of assets by the Treasury. In a number of instances there were errors, omissions and the absence of full disclosure of information, which resulted in misstatements as follows:-

### **Sinking Funds**

**2.49** The sinking funds confirmation submitted by the Central Bank of Barbados indicated a balance of \$810,217,290. However, the Treasury's general ledger indicated a balance of \$838,515,779, a variance of \$28,298,489. The relevant supporting documentation from the Central Bank to confirm the difference was not provided; hence the amounts could not be verified.

**2.50** It was indicated at note 15 of the Financial Statements that the market value of these sinking fund assets was \$735,650,051. However, confirmation responses from the Central Bank indicated the total as \$814,605,519, a variance of \$78,955,468.

**2.51** It is necessary for the Treasury to reconcile its sinking funds records with the Central Bank so that the figures would be accurately reflected.

### **Incorrect Classification of Assets**

**2.52** A number of asset accounts were not correctly classified and, as a result, were misstated. They are as follows:





- (a) The paymaster pension account, which should represent all pension cheques not presented to the bank, carries a credit balance. However, for the 2014-2015 financial year, this account reflected a debit balance of \$2,463,170. Errors of this kind in this account should be investigated urgently.
- (b) Accounts Receivable is an asset which carries a debit balance in the accounts; however, a number of sub-ledger receivable accounts carried credit balances which indicate that there were some recording errors which needed to be corrected. The receivable account relating to the Transport Board carried the largest credit balance of \$5,565,418. There were several other accounts which carried credit balances totalling \$6,603,625.

### **Authorization of Advances**

**2.53** 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.

**2.54** There were a number of advances for the financial year for which there was no evidence that they were made from any capital appropriation, hence they were not properly authorized. The cumulative advances outstanding at March 31, 2015 were \$765,749,759. Some of these advances are essentially transfers, since the agencies to which the funds were given do not have the resources to repay the Government. The deficit for the years when these transactions took place was therefore understated in this regard.



## Loans Receivable – Private Entities

### Southern Golf

- 2.55** A loan in the amount of \$2,000,000 was made to Southern Golf by Government on September 25, 2009. No loan agreement was entered into by the parties, and no repayments or interest has been received from the Southern Golf to date, which increases the risk that these funds might not be recovered.

### Durette & Co. Caribbean Limited

- 2.56** During the financial year 2009-2010 amounts totalling \$950,000 were loaned to Durette & Co. (Caribbean) Ltd from the Public Enterprise Investment Fund (PEIF). This loan has not been brought to account to date by the Treasury, and this has resulted in the receivables being understated by \$950,000. 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. Consideration may have to be given to writing off this loan. I have made this recommendation for a number of years but no action has been taken to date.

### Needham's Point Ltd

- 2.57** During the financial year 2004-2005 an amount of \$4,666,781 was advanced to Needham's Point Holdings Limited to facilitate the construction of the Hilton Hotel. These funds were advanced from the Public Enterprise Investment Fund. The relevant agreement was signed by the parties on June 23, 2005, and the attached interest rate was 2.5% on the reducing balance. As at March 31, 2015, a total of \$5,874,928



inclusive of interest due was owed by Needham's Point Holdings. The Company has so far failed to make any payment toward the loan principal. In this regard, no evidence was seen to indicate that efforts had been made to recover the outstanding amount.

### **Loans Receivable - Individuals and Government Agencies**

**2.58** Loans to Individuals and Agencies were recorded as \$397,946,649. This category of receivables consists of loans advanced to various entities, including car loans to Parliamentarians, public officers, Registering Officers and loans to state agencies. Issues relating to these loans were as follows:-

#### Barbados Tourism Investment Inc. (BTII)

**2.59** As at March 31, 2015 a formal contract did not exist between the Government of Barbados and the Barbados Tourism Investment Incorporation (BTII) for loans made to that institution. No repayments were received from the BTII during the year under review. Amounts outstanding 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 in July 2011. The Audit Office cannot verify the accuracy of this amount, since no adequate information was made available pertaining to these transactions. In a previous meeting with the management of the Barbados Tourism Investment Inc. the auditors were informed that this amount pertained to work carried out on the behalf of the Government. This matter needs to be clarified and resolved by the relevant parties.



### Small Hotel Investment Funds

- 2.60** 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, 2015 no payment had been made by the Small Business Investment Fund in settlement of the debt. The amount outstanding on the loan at that date totalled \$35,528,362, inclusive of interest receivable.

### Clearwater Bay Receivable

- 2.61** The Government of Barbados guaranteed a loan for \$120,000,000 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 bankers. As Government had guaranteed the debt, it had to pay an amount of \$124,329,766 which entailed principal plus interest to the lenders. These funds were paid through a Government owned company, Clearwater Bay. This amount was subsequently recorded in the accounts of the Treasury as an account receivable. There was no movement on this receivable account for the financial year ended March 31, 2015. There is no information available on whether there might be a need to write down this receivable, or when or how this amount will be repaid. It is also not clear what assets this advance is linked to.

### **Tax and Other Receivables**

- 2.62** For the financial year 2014-2015 no information was received by the Accountant General's Office regarding the outstanding balances for



several receivable accounts. The basis for the amounts presented in the financial statements for these accounts therefore could not be determined. Examples are as follows:-

SAC	Sub-Item	Receivable Account	Balance as at March 31, 2015 \$
602	ABT501	Telecommunication Licences	2,578,533
602	RPT002	International Transport	19,149,610
621	RFA101	Analytical Services Laboratory	921,344
621	RBR100	Rental Buildings	309,121
621	RCR100	Other Rentals	912,249
621	RLR100	Rental-Land	299,982
621	RRN001	Natural Gas and Crude Oil	819,374

### **Differences between General Ledger Totals and Statement of Receivables Submitted**

- 2.63** There were differences between the General Ledger and the Statement of Receivables submitted by agencies.
- 2.64** In respect of the Barbados Revenue Authority and the Customs and Excise Department, which together were responsible for the bulk of the receivables, the differences totaled \$244,468,167. The information provided could not be verified since there was no detailed information to the schedules provided. This is a material amount, and it has negatively impacted on the type of audit opinion given on the accounts of the Government.



### **General Comment**

- 2.65** The non-submission of the statement of arrears of revenue by some Ministries and Departments, along with the differences noted, have impacted on the Office's ability to verify the accuracy of the Financial Statements prepared by the Accountant General.

### **Adjustment Re: Overdrawn Salaries**

- 2.66** An adjustment was effected in March 2015 to ensure that the subsidiary ledger of the overdrawn salaries was equivalent to the overdrawn salaries receivable account. In this regard the account was increased by \$3,024,366. This amount was first credited to a suspense account, and subsequently transferred to the Consolidated Fund account. In effect, this transaction was treated as a prior year adjustment. However, there was no evidence that the entire overdrawn amount related to prior years. The portion of this transaction that relates to the 2014-2015 financial year should have been adjusted to the payroll expense in this period.

### **Cash and Bank Totals**

- 2.67** Total cash and bank reported in the Financial Statements was \$3,951,272 at the end of the financial year. Included in this figure is the sum of \$1,720,011 which represents moneys advanced to the Post Office to cover money orders and Payment of Government Pensions. However, this amount is also recorded as an advance in the General Ledger. As a result the cash was overstated by \$1,720,011.



- 2.68** Financial Rule 147 requires that a report be completed by the Cash Board of Survey on its examination of the Accountant General's moneys, bank balances, stamps and other valuables. Although a request was made to the Board of Survey for an inspection report, no response was received. No reliance could therefore be placed on the accuracy of the cash balances shown in the financial statements.

### **Demolished and Derelict Buildings**

- 2.69** Some buildings were either demolished or categorized as derelict, and should therefore have been removed from the Fixed Assets Account. The necessary journal entries in the Treasury's accounts to update the status of the assets were not made; hence, the reported total of Fixed Assets is misstated. This issue was noted in the previous audit report. Examples are listed below:

<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

### **Fixed Asset Ledger and Fixed Asset Register in Departments**

- 2.70** Other capital assets shown on the face of the financial statements totalled \$1,619,888,724 net of depreciation. The details of these assets are required to be recorded in the Treasury's asset sub-ledger and the Departments' fixed asset registers.
- 2.71** As required by Financial Rule 79, a list of assets held by a department as at March 31 of each financial year should be submitted to the Accountant



General's Office. These lists were not seen on file, which presented difficulty to this Office in substantiating whether the balances within the fixed assets accounts were accurate.

- 2.72** This is a recurring issue which needs to be rectified, so that the Fixed Assets balance of the Crown can be verified.

### **Depreciation of Assets**

- 2.73** There was a variance between the depreciation period recorded in the sub-ledger and the period stipulated in the Financial Management and Audit Rules 2011. The Rules stipulate that buildings be amortized over 40 years. A comparison of the rates applied in the sub-ledger indicates that buildings are being amortized over 50 years. This would indicate that the depreciation policies are not being adhered to and depreciation expense was not reported in accordance with stated policies.

### **Asset Policy Not Adhered To**

- 2.74** It was also stated that all capital assets including road networks, bridges and traffic management systems would be captured in the financial statement over a five (5) year period ended March 2012. This policy has not been enforced as at March 31, 2015, neither was a disclosure made regarding either the failure to implement, or a timeframe for implementation. The transitional period allowed for bringing these assets to account has expired, therefore the financials are not in compliance with the Accounting Standards in this regard.





## Additions and Disposals of Assets

- 2.75** The sub-ledger relating to Assets did not report any disposals of assets for the financial year ended March 31, 2015. However, documents received from the Ministry of Finance indicated that various assets had been disposed of. In the future such information should be passed on to the Treasury so that any adjustment in the accounts could be made.
- 2.76** In respect of assets the financial statements should disclose the additions, disposals, increases or decreases resulting from revaluations, impairment, losses and depreciation, as required by the International Public Sector Accounting Standards. This action was not taken by the Treasury.

## Assets Under Construction

- 2.77** Assets under Construction, which represents capital projects not yet completed, are recorded separately in the accounts. The balance of these assets increased to \$288,213,644 at March 31, 2015 from \$239,263,246 at March 31, 2014. However, it was observed that the assets related to the completed projects were not transferred to the Asset Management Module. As a result, some assets were not correctly classified or depreciated as required.

### **Accountant General's Response:**

*It is recognized 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.*



## Accommodation Advances

- 2.78** 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 a total balance of \$1,640,080 at the close of the financial year ended March 31, 2015. This balance suggests that all expenses have not been reported by the officers returning from overseas travel. Controls need to be implemented in this system in order to avoid a further build-up of this balance.

## Dishonoured Cheques

- 2.79** Dishonoured cheques which originate from departments which collect small amounts of revenue are brought to account in the Sundry General (Receivable) Account (SAC 621 SRS200). This account in the general ledger carried a balance of \$326,263 at March 31, 2015. 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 that make up the balance in the account.

## General Comments

- 2.80** The total shown for Loans Receivable as indicated within the financial statements was \$397,046,649. There is no evidence that a debt collecting policy exists, or that measures to recover these funds are actively pursued. Some of these loans have been outstanding for a number of years.



**2.81** Disposals, and the resultant gains and/or losses, are not being recognized. These omissions reduce the confidence which can be placed in the 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.

**2.82** **It is recommended that:**

- All Departments should ensure that efforts are taken to pursue outstanding receivables for which they have responsibility.
- Assets should be recorded and reported in compliance with accounting Standards, and therefore with full disclosure of additions and disposals.
- Action be taken to resolve outstanding issues pertaining to the advances listed for the Barbados Tourism Investment Inc.

### ***Report on Government's Liabilities***

**2.83** This part of the report relates to issues or concerns surrounding the reporting of liabilities in the financial statements.

#### **Current and Long-Term Liabilities**

**2.84** The accuracy of the classification of loans as current or non-current could not be verified, since a supporting aged debt schedule was not provided for audit inspection. As a result, the figures of \$3,309,853,570 recorded as



short term debt, and \$7,784,702,413 shown as long term debt, could not be confirmed. It is important for stakeholders to know what portion of Government's debt is short term and what is long term. This information has implications for the Treasury's management of cash during the year.

### **Subsidiary Ledger**

**2.85** The subsidiary ledger (CS-DRMS) for Government Loans was not up-to-date; therefore the balances of the loan accounts could not be verified. Errors and omissions were also noted in this system and they are as follows:-

- (a) A loan of US \$25 million to First Citizens was not recorded in the system.
- (b) The General Ledger and the Subsidiary ledgers (CS-DRMS) for Government loans were not reconciled to verify that the balances were correct. Also, the categorization of items as current or long-term could not be substantiated.
- (c) There was also no evidence provided to show that the subsidiary ledgers, CS-DRMS, were reconciled to the loan agencies' statements.

#### **Accountant General's Response:**

*CS-DRMS, the subsidiary ledger for Government loans, is maintained by the Debt Management Unit of the Ministry of Finance. It is agreed that CS-DRMS should be reconciled to the loan agencies' statements and the general ledger (SmartStream). This recommendation would be brought to the attention of the Debt Management Unit.*



## Commitment Fees

- 2.86** A Commitment Fee of 1% is charged on the undisbursed amount of approved loans. For the period under review, USD \$888,929 was charged as commitment fee on some Caribbean Development Bank (CDB) loans, and US \$266,023 on Inter-American Development Bank loans, due to undisbursed amounts of approved loans. Approved loan funds need to be utilized in a timely manner, in order to curtail this situation in which considerable amounts of essential funds are being expended on Commitment Fees.

## Unrecorded Liabilities

### University of the West Indies

- 2.87** A request for third party information was submitted to the University of the West Indies for confirmation of the total debt owed by the Government to the entity. It was indicated that a total of \$195,641,489 was recorded as owing as at March 31, 2015. However, this liability was not reported within the Financial Statements. This amount represents future fees and other economic costs incurred on behalf of the citizens of Barbados who attend the University. The amount due to the university is quite substantial, and I have been reporting on this omission for some time. It is absolutely essential that the Treasury obtains the relevant information from the responsible Ministry in order to record the liability.

### **Accountant General's Response:**

*There was no information submitted to the Treasury Department in relation to the \$195,641,489.05 liability to University of the West Indies for it to be reported in the financial statements.*



## Treasury Notes and Debentures

- 2.88** The Financial Statements indicated the balance of the Treasury Notes and Debentures as \$5,273,418,673, whereas the confirmation from the Central Bank indicated the balance as \$5,425,803,000, a variance of \$152,384,327. As a result, the balance indicated could not be confirmed without further information.

## Pension Deposit Account

- 2.89** The Pension Deposit Account DOP001 records the pension cheques which have been returned, either due to the death of the pensioners, or because of incorrect banking information. Some of these monies are still to be received by the payees, as indicated by the general ledger balance of \$2,714,753. No subsidiary ledger indicating the persons owed was presented for audit inspection. Over time this situation will create challenges in identifying the persons to whom the outstanding amounts are owed.

## Recording of Liabilities for Employee Benefits

- 2.90** International Public Sector Accounting Standards (IPSAS) 25 relating to employee benefits stipulates that unclaimed employees' benefits should be accrued. This includes both short term and long term benefits, such as vacation and leave passages due but not claimed, and pension retirement benefits, which, according to an actuarial report, exceeded \$4 billion. These types of liabilities were not brought to account in the Accountant General's Report as at March 31, 2015.



## The Government Pensions of Abatement Report

- 2.91** The retiring benefits of those persons who entered the public service after September 1975 are reduced by the amount of pension they receive from the National Insurance Department when they become due. A report should be received by the Treasury, from the National Insurance Department indicating Government pensioners who are being paid from that Department; and the records of these pensioners should be checked to ensure that their Government pensions are adjusted accordingly. At the conclusion of the audit, the report for April 2014 was not received. The absence of this report could result in some pensioners being overpaid.

## Unclaimed and Undistributed Monies

- 2.92** The closing balance of the general ledger account for unclaimed monies was noted as \$7,239,596 as at March 31, 2015, while the subsidiary ledger showed a balance of \$17,653,752, a difference of \$10,414,156. The amount outstanding on this account could therefore not be determined.
- 2.93** The detailed statement of all unclaimed and undistributed moneys paid to the Accountant General during the preceding 12 months was not published in the Official Gazette of January 2015 as required.
- 2.94** No documentation was seen to support \$1.1 million in payments in respect of unclaimed and undistributed monies. Such a situation creates opportunities for fraud or errors to occur.



## Deposit Accounts

- 2.95** When payments are requested by Ministries and Departments from their deposit accounts held at the Treasury, personnel in the Treasury should ensure that the accounts specified contain enough funds to service the requests. However, there were instances where the accounts reflected debit balances, which indicate that payments were made when funds were not available. Debit balances in the amount of \$1,149,158 were recorded for these accounts during the financial year.
- 2.96** In addition, there were some inactive deposit accounts with balances totaling \$12,645,682. These accounts should be investigated and, where no longer needed, they should be closed.

### **Accountant General's Response:**

*When ministries and departments request the Treasury Department to open deposit accounts, they are reminded, that it is their responsibility to monitor the activity in these accounts and to have them reconciled in order to avoid them being overdrawn.*

## Confirmation of Contingent Liabilities

- 2.97** Third party information was requested and received for the purpose of confirming a number of balances reported in respect of Contingent Liabilities. However, the figures provided through this process were at variance with the amounts recorded in the Financial Statements, as follows:-





Entity	Financial Statements \$	Confirmation Letter \$	Variance \$
Barbados Transport Board	-	18,000,000	18,000,000
Caves of Barbados	42,702,780	39,980,688	2,722,092

**2.98** The Treasury should review these amounts to ensure they are accurately recorded.

### General Comments

**2.99** All of Government's liabilities were not reported fairly in the financial statements. In a number of instances, reconciliations were not completed to verify the accuracy of amounts reported.

**2.100** **It is recommended that:**

- The Treasury should investigate general ledger and subsidiary ledger differences and make the necessary adjustments in its records to correctly reflect Government's liabilities.

## Revenue Activities

**2.101** This section of the Report examines issues related to the collection of revenue and its reporting in the financial statements.

### Revenue Recognition

**2.102** All revenue received from the Barbados Revenue Authority was recorded within a Deferred Revenue Account. At the conclusion of the financial



year, the funds earned were transferred to the respective revenue accounts.

- 2.103** The amount transferred from the Deferred Revenue Account was overstated, resulting in a debit balance of \$34,560,243 shown on the account. This account should carry a credit balance. As a result of the above-mentioned error, there was an overstatement of the amount recorded as accounts receivable within the Financial Statements.

***Accountant General's Response:***

*.....no supporting deposits slips were received by the Treasury Department by the time the financial statements were prepared. This matter is being investigated.*

**Tax on Betting**

- 2.104** Monthly reports from the Turf Club should be submitted to the Accountant General's Department to substantiate the payment of taxes arising from its betting activities. It was however 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 on July 11, 2012 requesting that this information be submitted. However, no further follow up action has been taken.
- 2.105** The absence of information on funds due from betting results in the underreporting of revenue, and accounts receivable, in the financial statements. This matter needs to be pursued vigorously by the Treasury.



## Revenue Statements

**2.106** There are twenty (20) heads of ministries who are required to submit revenue statements to the Auditor General's Office in accordance with the Financial Management and Audit Act, Section 22. However, there were only three (3) ministries which submitted revenue statements as at October 30, 2015.

**2.107** *It is recommended that:*

- The Ministries should ensure that revenue which they are responsible for collecting is properly monitored and reported to the Audit Office in accordance with Section 22 of the FMAA.

## Internal Control Issues

**2.108** The following Internal control issues were observed during the course of the audit.

### Local Bank Accounts

**2.109** Bank reconciliation statements were not provided for a number of accounts for which the Treasury Department is responsible; therefore their accuracy could not be verified.

### **Accountant General's Response:**

*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 resulted from the bank statements showing incorrect amounts.*

### **Unpresented Payable Orders**

- 2.110** The Un-presented Payable Orders, Cheques, listing totalled (\$66,462,286) as at March 31, 2015, while the general ledger carried a total of (\$42,245,581). This resulted in a difference of \$24,216,705. No reconciliation of this difference was presented to the Audit Office; therefore the accuracy of the general ledger could not be verified.
- 2.111** The General Ledger account contains unpresented payable orders since 2007. This distorts the Financial Statements as these payable orders are stale dated and should be adjusted in the accounts. These amounts have been outstanding for in excess of six (6) months and should be written back to the account.

### **Unpresented Pension Cheques**

- 2.112** The General ledger account for Un-cashed Pension Cheques showed a debit balance of \$2,463,170 as at March 31, 2015. The submitted Un-cleared Pension Cheques listing had a credit balance totalling \$3,012,407. This difference of \$5,475,577 was not explained; therefore the accuracy of the general ledger balance could not be verified in this regard.



### **Unpresented Wire Transfers**

**2.113** Thee Un-presented Wire Transfers listing totalled (\$628,537,122) as at March 31, 2015, while the general ledger carried a total of (\$318,195,833) a difference of \$310,341,589. No reconciliation statement was presented for this difference; therefore the balance in the general ledger could not be verified in this regard.

### **Submission of Reports**

**2.114** The Financial Management and Audit Act, Section 22 requires that Government entities submit a Statement of Performance, Statement of Commitments and Liabilities and a Schedule of Capital Assets to the Auditor General. From a total of 24 heads of Ministries, the following were received:

- Statement of Performance (0)
- Statement of Commitments and Liabilities (1)
- Schedule of Capital Assets (3)

**2.115** The provision of these reports would assist in the evaluation and risk analysis of Government entities, and provide useful information which could lead to better managerial decisions.

### **Life Certificates**

**2.116** Pensioners are required to submit Life Certificates on an annual basis in order to continue receiving pension. The Life Certificates computerized file was not up-to-date for the financial year ended March 31, 2015, therefore payments were being made without the required information.



## Surprise Cash Inspections

**2.117** No surprise inspections of the cash and securities of the Treasury were conducted for the Financial Year under review. This contravenes Financial Rule 116 which requires that an inspection be conducted at intervals of not more than 6 months a year. A surprise inspection is a control measure to ensure that Government's funds are adequately accounted for. It also minimizes the risk to Government of funds being lost or embezzled.

## Documentation not Presented for Audit Inspection

**2.118** The Financial Management and Audit Act, Section 39 provides that the Auditor General must have access to financial and other information of the audited body and every facility given for carrying out examinations. The following requested information was not submitted for audit inspection:

- (a) Reconciliation statements for accounts held at the Central Bank,
- (b) Bank statements for Crown Agents,
- (c) Internal audit reports for the financial year,
- (d) Inventory reports,
- (e) List of accounts closed off and amounts transferred to the Consolidated Fund for the financial year 2014-2015,
- (f) A Public Debt Aged Analysis report,
- (g) January 2015 Debt Journals.



## General Comments

- 2.119** The inability to reconcile the information on bank recorded in the ledger to the bank statements indicates that there are weaknesses in the cash management process. The auditors have continued to highlight the importance of reconciliation for several years, yet there has been little improvement to the situation.
- 2.120** The absence of evidence of supervisory monitoring also decreases the reliability which can be placed on the validity of accounting records.
- 2.121** **It is recommended that:**
- **The department must ensure that reconciliations are completed in a timely manner and that all documents are retained and properly filed to facilitate audit inspection.**

## *Audit Opinion*

- 2.122** 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.



## CHAPTER 3

### General Audit Concerns and Observations

This chapter highlights general concerns in respect of the non-compliance of some Ministries and Departments 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, 2015 was conducted by the Barbados Audit Office in accordance with the provisions of Section 36 of the Financial Management and Audit Act (FMAA), 2007-11.
- 3.3** As determined by the FMAA, 2007-11, the onus for the proper discharge of financial administration and the preparation of financial statements rests with the Accounting Officers of the various Ministries and Departments. It is the Auditor General's responsibility to form an independent opinion on the accounts, based on the audits carried out.





## 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 highlighted in respect of various Government agencies and these are listed as follows:



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## Barbados Revenue Authority

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- 3.6** The Barbados Revenue Authority (hereafter referred to as “the Authority”) was established by the Barbados Revenue Authority Act, 2014. The Authority represents the merging of four major revenue collectors, namely the Inland Revenue Department, the revenue component of the Barbados Licensing Authority, Land Tax Department and the Value Added Tax Division. The Authority, which started its operations with effect from April 1, 2014, is governed by a Board which has responsibility for the policy, organization and administration of its activities. The Revenue Commissioner is responsible for executing the Board’s policy and managing the affairs of the Authority.

### **Auditor’s Responsibility and Objectives**

- 3.7** Under the Revenue Authority Act, the Auditor General has responsibility to audit its annual accounts and to assess the reasonableness, fairness and reliability of the information submitted to him by the Authority, and to provide the Minister of Finance and the Authority with copies of this report.
- 3.8** The onus for the proper discharge of the financial administration and presentation of the financial statements rests with the Authority. It is the Auditor General’s responsibility to form an independent opinion on the accounts, based on the audit carried out by this Office.
- 3.9** An audit of the accounts of the Barbados Revenue Authority for the financial year April 1, 2014 to March 31, 2015 was conducted in accordance with the provisions of Section 21 (2) of the Barbados Revenue Authority Act, 2014–1, the Financial Management and Audit Act, 2007–11



and the International Public Sector Accounting Standards (IPSAS). The main findings were as follows:

### **Main Audit Findings**

- 3.10** Issues pertaining to the audit of the Operating Fund for the Authority were as follows:-

#### **Opening Statement of Financial Position of Fund**

- 3.11** The Authority submitted a statement of financial position as at April 1, 2014, the date at which it officially commenced operations. There were no notes submitted in support of over \$720 million in assets reported on this statement, nor was any other documentation provided to support the balances on the statement. As a result, the balances in the Statement of Financial Position could not be verified.

#### **Financial Statements Presented as at March 31, 2015**

- 3.12** The financial activities of the Authority can be divided into two main categories, one having to do with the collection of revenue on behalf of the Crown (administered activities), the other having to do with the deployment of human and other resources (operational activities) which enable the Authority to perform its functions on behalf of the Crown. It is therefore incumbent upon the Authority to present two sets of financial statements, in order to reflect these differences.



**3.13** However, financial statements presented by the Authority as at March 31, 2015, combined its operational and administered activities into one, representing the financial position of the Authority at that date. In this context, items such as Receivables, which should have been reported as assets of the Crown, were reported as assets of the Authority.

**3.14** **It is recommended that:**

**The Authority presents its financial statements in a manner which clearly differentiates between its operational and administered activities.**

### **Payment of Salaries**

**3.15** The Minister of the Civil Service approved salary ranges applicable to posts within the Authority. It was however observed that several transferred officers were allocated salaries at the top of the applicable ranges, while others were fixed at the bottom. For example, grade G4 has a range of \$75,518.76 - \$81,575.04, but the Audit Seniors were allotted a fixed salary of \$75,518.76 (the bottom of the range), an arrangement which denied them any increments. In the absence of adequate policy guidelines, the Audit Office was unable to determine the basis for the assignment of salaries at the Authority.

**3.16** The Authority indicated that salary points established were within the ranges authorized by the Ministry of the Civil Service, and management had the authority to set salaries within the particular bands. There was however, no authorization from the Board to substantiate the practice,



which lacked consistency among officers. In the absence of suitable criteria and authority, this matter should be revisited.

### **Fixed Assets Register**

**3.17** There was no fixed assets register as required by Section 76 of the Financial Management and Audit Act (2007-11). The absence of this register makes it difficult for the Authority to keep track of details of its assets as well as control and prevent any misappropriation. It also makes it difficult for the Authority to compute depreciation expense.

**3.18** The absence of a fixed assets register also impacted the Audit's ability to assess the adequacy of the insurance coverage for assets of the Authority.

**3.19** **It is recommended that:**

- **The Authority should adhere to the Financial Rules in relation to the maintenance of asset registers, and ensure that all assets are correctly classified and accounted for.**

### **Accounting for Prepayments**

**3.20** The accounts of the Authority should be kept on an accrual basis, which requires that expenditure and revenue be recorded for the period in which goods are transferred or services rendered, irrespective of the date on which any associated cash is exchanged. This accrual concept was not always applied. For example, during the 2014-2015 financial year, the Authority made advance payments (prepayments) totalling \$250,930 in



respect of software updates for the 2015-2016 financial year. However, this figure was incorrectly recorded as an expense for the 2014-2015 financial year. As a result, expenditure for the 2014-2015 financial year was overstated by \$250,930 in this instance.

## **Bank Reconciliation Statements**

### Operational Account

- 3.21** The balance in the operational bank account as at March 31, 2015 was not reconciled to the balance in the general ledger. A difference of \$745,232 was recorded between the general ledger balance (\$2,766,880) and the balance on the reconciliation statement (\$2,021,648). As a result of this, the audit could not verify the accuracy of the balances in the financial statements. This is a new agency and failure to reconcile any of its bank accounts should not be allowed to become a feature of its accounting practices.

### Refund Account

- 3.22** The bank reconciliation for the account from which refunds are made was not correctly reconciled to the balance in the general ledger. A difference of \$5,705,104 was recorded between the general ledger balance (\$30,456,069) and the balance on the bank reconciliation (\$24,750,965). As a result of this, the balances in the financial statements could not be verified.



### Other Bank Account

- 3.23** The Authority has stated that it has a revenue account at the Republic Bank for online payments. The total on this account was shown in the general ledger as \$1,567.20. This account was not included on the confirmation letter received from the bank. As a result, the audit could not verify the existence and valuation of the account.

### **Accounts Receivable**

- 3.24** The Authority reported a total of \$794 million in receivables at March 31, 2015. However the schedule provided in support of this figure was deficient, in that it lacked details such as the names of debtors, the tax periods and the amounts owed. The absence of details prohibited the testing for completeness and accuracy of the account balances reported in the financial statements. There were also differences between the total on the schedule and the account balances of the Authority, as noted in the table below presented to the auditors.

<b>Financial Statement Account</b>	<b>Financial Statement Balance</b> \$	<b>Balance on Schedule</b> \$	<b>Difference</b> \$
Corporation Tax receivables (net)	12,063,655	364,882,300	352,818,645
PAYE Tax Receivable	13,638,346	282,578,564	268,940,218
Consolidation Tax Receivable (net)	2,068,264	1,916,980	(151,284)
VAT receivable (net)	509,250,467	608,072,313	98,821,846



## Waivers

- 3.25** Waivers were given to specific categories of taxpayers for Municipal Solid Waste Tax. Examination of schedules provided to the Audit Office revealed that waivers totalling \$15,169,438 were granted by the Authority. However, there was no evidence to show that these waivers, which constitute a reduction in revenue, were recorded in the general ledger.

## Interest on Refunds

- 3.26** According to the VAT and Income Tax Acts, interest is paid on refunds that are not issued within six (6) months of the filing date for these taxes.
- 3.27** In this regard, the Authority reported a figure of \$7,040,978 for Interest Payable, in the financial statements. However, there was no corresponding figure for interest expense, which means that expenses were understated in this regard. Additionally, information to support the interest has not been presented to the Audit and, as a result, the figure for interest could not be verified

## Discounts Allowed

- 3.28** Taxpayers who pay land tax within sixty (60) days of the issue date of the invoice are entitled to a discount.
- 3.29** Schedules received from the Authority show that \$8,524,649 was given as land tax discounts. There was no evidence that the discounts allowed were accounted for in the books of the Authority.





## Rebates

- 3.30** Under the Land Tax Act, a rebate of the tax due is given to pensioners, hotels, agricultural properties and villas.
- 3.31** Schedules received from the Authority showed that \$4,891,220 was given as land tax rebates. No evidence was seen in the Authority's records to indicate that this amount, which reduces revenue, was accounted for in the books of the Authority.

## Statement of Revenue Collected

- 3.32** The following issues were observed in respect of the Statement of Revenue Collected: This statement represents a summary of the revenue Collected by the Authority on behalf of the Government.
- In the Statement of Revenue Collected, the Authority reported \$2,028,254,680 as revenue for the year ended March 31, 2015. This balance, which is material to the financial statements of the Government, could not be confirmed by the audit, since no documentation was presented in support of \$1,350,830,084 (67%) of the revenue reported.
  - The Authority reported non-tax revenue as \$10,600,810 in the Statement of Revenue Collected but did not include a note in the financial statements explaining what non-tax revenue consists of.



- The figures for refunds shown in the Statement of Revenue Collected did not agree with the figures shown in the Authority's records. The Authority's records show that \$55,997,381 was paid in refunds, whereas the Statement of Revenue showed that \$48,044,464 was paid. No reconciliation for the two figures was presented to audit and, as a result, the accuracy of the refunds could not be determined. The difference between the refunds recorded in the Statement of Revenue and the records of the Authority are shown below.

Refund Type	Amount Shown In Schedule \$	Amount Shown on Statement of Revenue Collected \$	Difference \$
Consolidation Tax	12,270.29	0	12,270.29
Corporation Tax	6,296,630.63	23,558,290	-17,261,659.37
Income Tax	34,422,783.47	1,563,680	32,859,103.47
Reverse Tax Credit	8,814,650.00	165,750	8,648,900.00
Tax Certificates	441,200.00		441,200.00
VAT	6,009,846.70	22,756,744	-16,746,897.30
<b>Total</b>	<b>55,997,381.09</b>	<b>48,044,464.00</b>	<b>7,952,917.09</b>



## Measurement Basis for Amounts Reported on the Statement of Revenue Collected

- 3.33** It should be noted that, based on the information provided, the Office could not determine that all revenue was reported on the accrual basis as required. The Authority should ensure that consistent and reliable information is made available to the auditors and other stakeholders.

### Dishonoured Cheques

- 3.34** During the year under review a total of \$1,368,327 represented two hundred and ninety-seven (297) cheques presented for payment to the Authority but subsequently dishonoured by the bank. There was no evidence presented to the Barbados Audit Office to show that the Authority made any effort to recover the outstanding amounts as required by the Financial Rules. This will result in the Authority having difficulty in collecting the outstanding funds, since the longer amounts are outstanding, the more difficult it will be to recover them.
- 3.35** Payments by cheques which were subsequently dishonoured were not adjusted in the relevant taxpayers' accounts. The lack of adjustments of these payments will understate the amounts due by tax payers, and result in the loss of penalties and interest which would usually be incurred on amounts due. The overall effect would be an understatement of the accounts receivable.



### General Comments

- 3.36** This is the first year that the Revenue Authority has been in operation and there is a need for adjustments to the statements provided going forward. The Authority needs to separate the financial reporting of its operational activities from the activities that it has been set up to administer. The Authority must take a closer look at its outstanding receivables. The figure reported was in excess of \$750 million and, in order for my Office to verify this amount, it must be given full details. In addition, the Government has adopted an accrual basis of accounting and the revenue statements should reflect this.

### *Division of Energy and Telecommunications – Telecommunications Unit*

- 3.37** The following issues were observed in respect of the audit of the Division of Energy and Telecommunications.

### Revenue Reporting

- 3.38** Revenue reported to the Treasury by the Division was in respect of cash collected, rather than on the accrual basis as required. Cash collected for future periods (prepayments), and for amounts owed (receivables), was also reported as revenue for the year under review. This is in breach of Financial Rule 42 which requires revenue to be recorded on an accrual basis, that is, when it is due, whether or not it has been received. As a result, the revenue figure recorded in Government's Consolidated Financial Statements in respect of the Division was misstated.



**3.39** The Division has not provided approved statements of revenue, receipts, refunds, receivables, waivers and remittances to the Audit Office for verification as required by Section 22 (3) (c) of the Financial Management and Audit Act, 2007-11. This is unacceptable, as these statements are required to assist in the verification of the figures reported by the Division, and by extension, the figures in the Consolidated Financial Statements. The Division needs to comply with the requirements of the Financial Rules as they relate to accrual accounting practices and the submission of information to the Auditor General.

### **Recording of Accounting Information**

**3.40** There was inadequate recording of accounting information by the Division as follows:

- Some receipts were recorded twice in the cash book, which overstated the monies collected for particular periods.
- In most instances there was no continuous balance in the cash books.
- The cash book for Domain Name Licences contained a continuous balance, but the total monies collected in each month were omitted.
- There were also no separations between the financial years, which could result in the incorrect total being used at the end of the period.



### **Audit Comment**

- 3.41** The internal controls of the Telecommunications Unit in respect of revenue collection are extremely inadequate and weak. The Unit's cash books are poorly maintained, and the level of discrepancies is a major concern. There was no evidence that cash books were properly checked and their balances verified on a daily basis by the responsible accounting personnel. Consequently, the cash books did not accurately reflect the amount of monies collected for revenue, receivables, penalties, interest and prepayments. As a result, the revenue figures would be overstated in the Government's Financial Statement. The Division should correct these discrepancies.

### **Accounts Receivable**

- 3.42** No detailed listings of accounts receivable were presented for audit inspection.
- 3.43** The accounts receivable as at March 31, 2015 computed from the registers are listed below.



Type of Licence	Receivable Amount (\$)
Aeronautical	12,400.00
Dish Aerial (Satellite)	16,000.00
Cellular (Mobile)	2,332,270.97
Amateur Radio	29,410.00
Land Mobile	121,040.00
Citizen's Band Radio	15,750.00
Telecommunications	51,000.00
Ship Station	7,260.00
Sellers and Dealers	92,000.00
Point to Point	0.00
Models (Airplanes, Helicopters, cars, etc.)	4,920.00
Spectrum	9,100.00
Video Rental Services	37,200.00
Other	0.00
<b>Total</b>	<b>2,728,350.97</b>

**3.44 It is recommended that:**

The Division should ensure that an up-to-date accounts receivable listing is kept and maintained. The information should be reported to the Ministry of Finance, the Accountant General's Office and the Auditor General's Office monthly, as required by Section 22 (3) of the Financial Management and Audit Act, 2007-11. In addition, action should be taken to recover outstanding amounts in a timely manner.

**Prepayments**

**3.45** Approximately \$1.7 million in prepayments in respect of the financial year 2015-2016 were recorded as revenue for the year 2014-2015. The revenue for financial year 2014-2015 would therefore have been overstated in this instance. The Division should ensure that revenue is recorded for the period in which it is earned, irrespective of when the associated cash is received.



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## CHAPTER 4

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

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**T**he Office of the Auditor General is responsible for reporting to Parliament on the audit of all the accounts of government agencies, including statutory bodies, funds and other controlled entities. It should however be noted that the accounts of some of these entities are audited by private sector auditors. In this regard the Office obtains confirmation from these agencies on the status of the audit of their accounts, and, where necessary, the reasons for any delays. This is a part of the process of providing a comprehensive report on the status of audits for all Government agencies. This chapter reports on the status of the audits of Boards, other state agencies and Funds at December 31, 2015. The chapter is divided into two main sections. The first section reports on those entities audited by the Barbados Audit Office. The second section reports on the entities audited by private sector auditors, and therefore includes a report on Secondary Schools, which fall under this category.

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

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##### *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 financial statements for the financial years ended March 31, 2012 and 2013 were submitted, and will be audited during 2016.

- 4.3 The audit of the financial statements for the financial years ended March 31, 2014 and 2015 is 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 had not submitted any accounts to be audited for the past twenty (20) years, and has in fact advised that no statements will be available for the financial years 1994 to 2004. However, financial statements for the financial years 2005 to 2010 were submitted during 2015 and will shortly be audited. Statements for the financial years 2011 to 2015 are still to be submitted for audit.

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

- 4.5 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. The financial statements for the year ended March 31, 2010 were submitted, and private sector auditors were contracted to audit these statements, on which a report should be issued in the near future. The financial statements for the financial years ended March 31, 2011 and 2012 were submitted, and will be audited in 2016.



- 4.6 The financial statements for the financial years ended March 31, 2013 to 2015 are still to be submitted for audit.

***Barbados Defence Force***

- 4.7 The audit of the accounts of the Barbados Defence Force for the financial year ended March 31, 2014 was conducted during the course of the year. The financial statements for the year ended March 31, 2015 were submitted and will be audited during 2016.

***Barbados Hospitality Institute***

- 4.8 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 audit of the accounts for the financial year ended March 31, 2010 was completed by private sector auditors during 2015. In addition, financial statements for the financial years ended March 31, 2011 and 2012 were submitted, and will be audited during 2016.

- 4.9 The financial statements for the financial years ended March 31, 2013 to 2015 have not been submitted for audit.

***Barbados Liaison Service – Miami***

- 4.10 The Barbados Liaison Service in Miami administers a program relating to workers recruited in Barbados for attachment to hotels in the USA. The accounts for the Service are one year in arrears, and will be audited when an on-the-spot audit of the Consulate in Miami is conducted.



### ***Barbados Liaison Service – Toronto***

- 4.11** 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 up to date. This audit of the accounts for the financial years ended March 31, 2013 to 2015 was conducted when Audit Officers visited Canada to conduct on-the-spot audits of the Missions in Canada.

### ***Caribbean Centre for Development Administration (CARICAD)***

- 4.12** 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 audit of the accounts of CARICAD for the financial years ended March 31, 2012 and 2013 is in progress and is expected to be completed in 2016. The financial statements for the financial year ended March 31, 2014 have been submitted, and will be audited in 2016. The financial statements for the year ended March 31, 2015 have not been submitted for audit.

### ***Catastrophe Fund***

- 4.13** 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.
- 4.14** The audit of the accounts of the Catastrophe Fund for the year ended December 31, 2013 was undertaken during 2015. As a result of a need for certain adjustments to be made, amended financial statements were



requested but are still to be submitted. The accounts of the Fund for the year ended December 31, 2014 have not yet been submitted for audit.

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

- 4.15** 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 to 2015 were submitted and will be audited in 2016.

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

- 4.16** 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. Statements for the financial years ended March 31, 2010 and 2011 were audited. Significant errors were found, and the Financial Statements were to be adjusted, but have not yet been resubmitted. The audit of the accounts for the financial years ended 2012 to 2015 is outstanding.



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

- 4.17** The Erdiston Teachers' Training College is an educational institution established for the training of teachers. The accounts of the College for the financial years ended March 31, 2013 to 2015 have not been submitted for audit. The audit of the financial statements for this period is therefore outstanding.

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

- 4.18** 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.

- 4.19** The accounts of the National Assistance Board for the financial years ended March 31, 2011 to 2013 were audited; however, requested revised financial statements were not submitted to facilitate completion. The audit of statements for the financial years ended March 31, 2014 and 2015 is outstanding.

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

- 4.20** The audit of the accounts of the National Insurance Fund is currently several years in arrears. The accounts for the financial years 2005 to 2009 are being audited by a private sector firm, which has indicated that it was having challenges in obtaining the relevant schedules to complete the audits. The audits of the accounts for these years are at various



stages of completion. The National Insurance Department has given a commitment that the information will be supplied no later than 29<sup>th</sup> February 2016, after which these audits can be completed. The audits for the period 2010 to 2015 will commence after the relevant information is made available.

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

**4.21** 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.

**4.22** The financial statements of the Polytechnic have not been audited for over ten years. It is time for the Board and the Ministry to intervene and end this most unsatisfactory state of affairs.

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

**4.23** The audit of the financial statements of the Sanitation Service Authority for the financial year ended March 31, 2009 was commenced. However, requested revised financial statements have not been submitted to facilitate completion. In 2015 the audit of the financial statements for 2010 was contracted out to a private sector firm, which is awaiting the presentation of working papers to facilitate sign-off. The Board has submitted draft financial statements for the years ended March 2011 to 2013, and these will be audited in 2016. The financial statements for the years ended March 31, 2014 and 2015 have not yet been submitted for audit.



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

- 4.24** The audits of the Severance Payment Fund for the financial years ended December 31, 2010 to 2012 were partially completed. However, the financial statements and additional schedules requested were not submitted to facilitate the completion of the audits. The audits of the financial statements for the financial years ended December 31, 2013 and 2014 are also outstanding, as no financial statements have been submitted to date.

### ***Sugar Factory Smoke Control Board***

- 4.25** 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***

- 4.26** The Receipts and Payments Accounts of the Fund for the financial year ended December 31, 2013 were submitted for audit as is required by Section 15 (2) of the Sugar Industry Act, Cap. 270, and will be audited during 2016. The financial statements for the year ended December 31, 2014 have not been submitted for audit.



### **Sugar Workers' Provident Fund**

- 4.27** The Sugar Workers' Provident Fund provides pensions and funeral grants to persons previously employed in the Sugar Industry, and who were not entitled to a contributory pension under the National Insurance and Social Security Act. The financial statements for financial years ended December 31, 2010 to 2013 were audited and significant errors found. Corrected Financial Statements have been requested, but have not yet been submitted. The audit of accounts for the financial year ended December 31, 2014 is also outstanding.

### **Transport Authority**

- 4.28** The Transport Authority was set up on August 01, 2008 to regulate, monitor and plan for public transportation in Barbados. The Authority has indicated that the audit of the accounts for the financial years ended March 31, 2011 to 2015 is outstanding. The Audit Office has agreed to audit the accounts of the Authority; however, there has been no submission of any accounts or financial statements to date.

### **Unemployment Fund**

- 4.29** 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 accounts for the financial years ended December 31, 2010 to 2012 was partially completed. However, financial statements and additional schedules requested were not submitted to facilitate the completion. The financial statements for the financial years ended December 31, 2010 to 2014 have not been submitted for audit.





## Retraining Fund

- 4.30** 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.
- 4.31** The financial statements for the years ended December 31, 2010 to 2013 were submitted in 2015 and the audit was commenced, but was halted due to lack of information. The audit of accounts for 2014 is outstanding.

## ***Audits of State Agencies Conducted by Private Sector Auditors***

- 4.32** 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:



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

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

- 4.33** 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 years ended June 30, 2014 and 2015 is outstanding.

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

- 4.34** 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 (BADMC). The principal activity of the BADMC under Section 10 of the Act is the management of the production, marketing and processing of produce in Barbados. The BADMC was established by the BADMC 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.
- 4.35** The Corporation informed that it has experienced some challenges with the audit of its accounts for 2012 as a result of the changeover to a new system, and has obtained some assistance to deal with the matter. The audit of the accounts for the 2012 to 2015 years remains outstanding.



### ***Barbados Cane Industry Corporation***

- 4.36** The Barbados Cane Industry Corporation was established under the Companies Act of Barbados to restructure the sugar cane industry. The Corporation indicated that the financial statements for the year 2013 and 2014 are with the auditors. The audit of the accounts for 2015 remains outstanding.

### ***Barbados Conference Services Ltd.***

- 4.37** 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 of BCSL for the financial year ended March 31, 2015 has been completed.

### ***Barbados Investment and Development Corporation***

- 4.38** 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 Corporation has indicated that the audit of the accounts for the financial year ended March 31, 2015 has been completed.

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

**4.39** 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.

**4.40** BNOCL has indicated that the audit of the financial statements for the period ended March 31, 2015 is near completion.

***Barbados Port Inc.***

**4.41** 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 financial statements for the financial year ended March 31, 2015 has been completed.

***Barbados Tourism Authority***

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



- 4.43 It was reported that the audit of the accounts for the financial years ended March 31, 2012 and 2013 were near completion. The audit of the accounts for the years ended March 31, 2014 and 2015 is outstanding.

***Barbados Tourism Investment Inc.***

- 4.44 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.

- 4.45 The Corporation reported that the audit of the accounts for the financial year ended March 31, 2014 was near completion. The audit of the accounts for the financial year ended March 31, 2015 is also outstanding.

***Barbados Vocational Training Board***

- 4.46 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.

- 4.47 The audit of the accounts for the financial years ended March 31, 2007 to 2015 is outstanding. The training Board has indicated that it has identified an accounting firm to audit the accounts and oversee the financials, until a suitably qualified person is appointed to manage this activity. The Board should reconsider this decision, since it would be inappropriate for the



same firm to assist with the preparation of the accounts and conduct the audit of the same accounts.

### ***Barbados Water Authority***

**4.48** 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.

**4.49** The BWA reported that the audit of the accounts for the financial years ended March 31, 2013 is ongoing. The audits for the financial years ended March 31, 2014 and 2015 remain outstanding.

### ***Caribbean Broadcasting Corporation***

**4.50** 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, 2015 has been completed.

### ***Caves of Barbados Ltd***

**4.51** 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 indicated that the audit of the financial statements for the years ended 2012 to 2015 remains outstanding.



### ***Child Care Board***

- 4.52** 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, 2014 has been completed. The Child Care Board has indicated that the audit for the financial year ended March 31, 2015 is in progress.

### ***Enterprise Growth Fund Limited***

- 4.53** 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, 2014 has been completed.

### ***Fair Trading Commission***

- 4.54** 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.
- 4.55** 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, 2015 has been completed.

### ***Financial Services Commission***

**4.56** 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.

**4.57** 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, 2015 has been completed.

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

**4.58** 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, 2003 - 3.

**4.59** The GAIA has reported that the audit of the financial statements for the financial year ended March 31, 2015 has been completed.



***Hotels and Resorts Ltd.***

- 4.60** 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. The Company has indicated that the audits for the financial years 2011 to 2013 have been completed and are to be submitted to the Board. The audits for 2014 and 2015 are outstanding.

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

- 4.61** The principal activity of Islandcrafts Inc. is the sale and marketing of indigenous handcrafts items. It was reported that Islandcrafts Inc. ceased operations during 2015 and that financial statements up to the financial year ended March 31, 2014, have been audited. The audit of the financial statements for 2015 is outstanding.

***National Conservation Commission***

- 4.62** 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.
- 4.63** Audits of the accounts of the Commission have been completed up to 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 audit for the financial year ended March 31, 2013 will commence soon. The audits for the financial years ended March 31, 2014 and 2015 are outstanding.



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

- 4.64** 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.
- 4.65** The accounts of the Council are audited by auditors from the private sector; however, due to budgetary constraints the Barbados Audit Office was requested to conduct the audit of the accounts for the financial year ended March 31, 2011, and this audit was completed in 2015. The audit of the accounts for the financial years ended March 2012 to 2015 is currently in arrears. The Council needs to take appropriate action to bring its accounts up to date so that these audits can be completed.

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

- 4.66** 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.
- 4.67** The audit of the accounts for the financial year ended December 31, 2014 has been completed. The audit of the accounts for the financial year ended March 31, 2015 is outstanding.



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

- 4.68** 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 years ended March 31, 2012 and 2013 are being audited. The audits for the financial years ended March 31, 2014 and 2015 are outstanding.

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

- 4.69** 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 Council indicated that the audit of the accounts for the financial year ended March 31, 2015 has been completed.

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

- 4.70** The National Petroleum Corporation (the Corporation) has as its principal activity the supply of natural gas to industrial, commercial and domestic customers. The Corporation has indicated that the audit of the accounts for the financial year ended March 31, 2014 has been completed. The audit of the accounts for the financial year ended March 31, 2015 is however outstanding.



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

- 4.71** 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 reports are in draft form. The audit of the accounts for the financial year ended March 31, 2015 is outstanding.

### ***Queen Elizabeth Hospital***

- 4.72** 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.
- 4.73** The Hospital has reported that the audit of the accounts for the period 2009 to 2011 is in progress; however, there have been some challenges with the corruption of the accounting software. The Hospital is hoping that these challenges can be overcome, and the audits brought up to date by March 2016. The audit of the accounts for the financial years ended March 31, 2012 to 2015 is also outstanding

### ***Rural Development Commission***

- 4.74** 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.



- 4.75** The audit of the accounts for the financial years ended March 31, 2008 to 2015 is outstanding. The Commission indicated that the two major reasons for the delay in the audit of the accounts are some changes requested by the auditors to schedules which the Commission submitted, and issues relating to an aged server. It has reported that these matters have been resolved. Notwithstanding the reasons given, the audit of the accounts of the Commission is substantially in arrears.

### ***Student Revolving Loan Fund***

- 4.76** 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, 2015 has been delayed because of increased loan activity, requests for information by the auditors, and a shortage of human resources. The Fund is seeking to have the audit of the accounts brought up to date by March 2016.

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

- 4.77** 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.
- 4.78** The audit of the accounts for the financial year ended March 31, 2015 has been completed.



### ***Transport Board***

- 4.79** The Transport Board's principal activity is the provision of transportation to the general public. The Board indicated that the audit of the accounts for the financial year ended March 31, 2011 is in progress. The audit of the accounts for the financial years ended March 31, 2012 to 2015 remains outstanding.

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

- 4.80** 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. It was previously reported that the audit of the accounts for the financial years 2008 to 2014 were outstanding. No information was received from the Commission indicating a change in the status of the audits. This situation needs to be urgently addressed by the Commission.



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

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**4.81** 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, 2015 was as follows:

**4.82** The audits of the accounts of the schools listed below have been completed for the financial year ended March 31, 2015. The accounts of these schools are therefore up-to-date as required by the Education Act.

- ***Alleyne School***
- ***Daryll Jordan Secondary School***
- ***Deighton Griffith Secondary School***
- ***Graydon Sealy Secondary School***
- ***Harrison College***

**4.83** The audits of the accounts of the following schools were not up-to-date as required by the Education Act.

- ***Alexandra School***

**4.84** The School has reported that the audit of the accounts of the Alexandra School for the financial years ended March 31, 2013 and 2014 is outstanding. The school reported that the auditors have expressed some challenges in getting the necessary information to complete the audit of the accounts. The audit of accounts for the year ended March 31, 2015 is also outstanding.



- ***Alma Parris Secondary School***

4.85 The audit of the accounts of the Alma Parris Secondary School for the financial year ended March 31, 2013 is reportedly in progress. The audits for the financial years ended March 31, 2014 and 2015 remain outstanding.

- ***Christ Church Foundation School***

4.86 The audit of the accounts of the Christ Church Foundation School for the financial years ended March 31, 2011 to 2015 is outstanding. The School has reported that the audit fees quoted by the private sector auditor have been prohibitive.

- ***Coleridge and Parry School***

4.87 The School has reported that the audit of the accounts for the financial years ended March 31, 2012 and 2013 is in progress. The audit of the accounts for the financial years ended March 31, 2014 and 2015 is outstanding.

- ***Combermere School***

4.88 The audit of the accounts of the Combermere School for the financial years ended March 31, 2011 to 2015 is outstanding.





- ***Ellerslie Secondary School***

**4.89** The audit of the accounts for the financial years ended March 31, 2012 to 2015 is outstanding.

- ***Frederick Smith Secondary School***

**4.90** A review of the accounts of the Frederick Smith Secondary School for the financial years ended March 31, 2013 to 2015 was conducted by the Barbados Audit Office upon request. However, the related financial statements are still to be submitted and as a result the audit remains incomplete.

- ***Grantley Adams Memorial School***

**4.91** The audit of the accounts of the Grantley Adams Memorial Secondary School for the financial years ended March 31, 2013 to 2015 remains outstanding.

- ***Lester Vaughan School***

**4.92** The Lester Vaughan School has reported that it is in the process of preparing for the audit of the accounts for the financial years ended March 31, 2013 to 2015.



- ***The Lodge School***

4.93 The Lodge School has reported that the audit of the accounts for the financial year ended March 31, 2015 is outstanding, as the School is awaiting a commencement date from the auditor.

- ***Parkinson Memorial School***

4.94 The audit of the accounts of the Parkinson Memorial School for the financial years ended March 31, 2013 to 2015 is outstanding. The School indicated that the private auditor was experiencing problems with the audit, and requested the assistance of the Audit Office.

- ***Princess Margaret Secondary School***

4.95 The audit of the accounts of the Princess Margaret Secondary School for the financial years ended March 31, 2013 to 2014 was conducted by the Audit Office upon request. However, the related financial statements have not been submitted. The audit of the accounts for the financial year ended March 2015 remains outstanding.

- ***Queen's College***

4.96 The audit of the accounts of Queen's College for the financial years ended March 31, 2013 to 2015 is outstanding.



- **Springer Memorial Secondary School**

**4.97** The audit of the accounts of Springer Memorial Secondary School for the financial years ended March 31, 2012 to 2015 is outstanding.

- **St. George Secondary School**

**4.98** The audit of the accounts of the St. George Secondary School for the financial years ended March 31, 2013 to 2015 is outstanding. The school reported that the auditor experienced difficulties which prohibited the auditing of the accounts.

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

**4.99** The audit of the accounts of the St. Leonard's Boys' Secondary School for the financial years ended March 31, 2013 to 2015 is outstanding.

- **St. Michael School**

**4.100** The School has reported that the audit of its accounts the financial year ended March 31, 2013 is in progress. The audits for the financial years ended March 31, 2014 and 2015 are outstanding.

### **General Observations**

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



- 4.102** These agencies, whose audits are in arrears, need to re-examine their accounting systems, processes and staffing to see how they can be improved.
- 4.103** The submission of accounts long after the due period often leads to problems in finalizing the audits and is of little help to decision makers. The late submissions are also contrary to statutory requirements and can create an environment where fraud can thrive and remain undetected.



## Chapter 5

### Special Audit of Public Private Partnership Projects

#### Introduction

A number of Government agencies have been executing some of their projects through the use of the Public Private Partnership (PPP) arrangement. In a PPP arrangement the private sector partner usually has responsibility for the design, financing, construction and maintenance aspects of the project, and recovers its investments through means such as lease payments, user fees or other types of payments. Generally, under these arrangements the agency does not commence payment before the private partner delivers, and is not responsible for design flaws, cost overruns or construction delays as would occur under traditional procurement. The agency transfers these risks to the private sector for an agreed price. This is in contrast to a typical procurement where Government agencies provide the financing, and are responsible for the design, construction and maintenance of the facility.

- 5.2 The use of the PPP arrangement is still relatively new to Barbados, with only a few projects undertaken to date. However, the estimated construction costs for nine (9) of these projects selected for review exceeds \$600 million, and total payments by the Government entities will be in the region of \$1.8 billion. Given the large sums involved and the complexity of the arrangements, it is necessary that Government agencies understand the PPP process before entering this procurement arrangement.



### **Audit Objective**

- 5.3** In this regard, the Audit Office conducted this audit to assess whether procedures that would impact on the achievement of value for money were utilised in the implementation of Government's PPP projects.

### **Audit Scope**

- 5.4** Nine (9) projects were selected for review; some of them were completed while others were works in progress. These projects were as follows:-

- Judicial Centre
- Eric J. Holder Municipal Complex (Formerly Tamarind Hall Complex)
- HMBS Pelican
- Rehabilitation of Roads using Foam Bitumen Technology
- H.M.P. Dodds
- Solid Waste Management Facility
- Barbados Water Authority New Headquarters
- Sanitation Service Authority New Headquarters Building
- Leachate Treatment Plant.

- 5.5** At the time of the review, the first seven (7) of these projects had reached the stage where the project had either been delivered to the Government agencies by the private partner or was operational. The other two (2) projects were in either the construction phase or the pre-construction phase.



- 5.6 The Report contains the findings relating to the use of specific procedures within the projects reviewed. In addition, a detailed analysis of issues observed in two (2) of the projects, the Barbados Water Authority (BWA) New Headquarters project and the Solid Waste Management Facility, is included in the Report.

### **Methodology**

- 5.7 Applicable files, reports, contract agreements and other relevant documents were reviewed. In addition, literature from the United Kingdom, Australia and Canada on PPPs was reviewed in order to ascertain best practices from these jurisdictions.

- 5.8 In addition, interviews were conducted with the:

- Permanent Secretaries of the Ministries of Home Affairs, Defence and Security, Transport and Works, Environment and Drainage, and the Office of the Attorney General;
- Permanent Secretary (Ag) of the Investment Division of the Ministry of Finance and Economic Affairs;
- Acting General Managers of the two (2) Statutory Corporations; and
- Project Managers and other staff involved in the projects.

### **Audit Mandate and Standards**

- 5.9 The audit was conducted in accordance with:

- (i) Section 113 (2A) of the Constitution of Barbados, which empowers the Auditor General to carry out examinations into how Statutory



Authorities and Government controlled entities use their resources in discharging their functions as regards the efficiency and effectiveness of the use of those resources.

- (ii) Section 36 (3) of the Financial management and Audit Act, 2007 - 11 which states that the Auditor General may carry out examinations into the economical, efficient and effective use of resources of any Ministry or Department or any other entity required to be audited by him.
- (iii) The International Organization of Supreme Audit Institutions (INTOSAI) audit standards.

## **Main Findings**

### **Tendering and Number of Bids Received**

**5.10** The current system utilised by Government agencies for the acquisition of goods and services is through public tender. The Financial Rules also allow for restricted tendering in specific circumstances where only selected firms are invited to submit bids. Based on documentation seen, open or restricted invitations to tender were utilised in seven (7) of the projects. However, there was an anomaly in the Eric J. Holder Municipal Complex project, in that the accepted bid was received after the tender period closed. In the two (2) projects where there was no tendering, the contracts were awarded to firms which made unsolicited proposals.

**5.11** Based on documentation seen, only one (1) bid was received in fifty-five percent of the projects reviewed. The projects with one (1) bid are listed below:





- BWA New Headquarters
- Solid Waste Management Facility
- HMBS Pelican
- Eric J. Holder Municipal Complex, and
- Road Rehabilitation using Foam Bitumen.

**5.12** In the case of the HMBS Pelican project there was only one (1) proposal to provide financing and two (2) bids for the construction.

#### **Audit Comment**

**5.13** The absence of tendering in the two cases reduced the opportunity for all qualified firms to be aware of the proposed project and therefore to submit bids.

**5.14** Generally, the level of bids received in these projects was low. This should be a cause for concern since the competition from multiple bids drives savings and innovation. Steps should be taken to determine the reasons for this low level of response, since receiving more than one bid is one way of determining the reasonableness of the cost of the project.

**5.15** There were a number of instances in which one bid was received. When this occurs there is not sufficient data, from a cross section of industry professionals, to determine what a particular project should cost. Where one bid is received, agencies should consider the option of re-tendering or comparing the bid price with a predetermined estimate before the acceptance of any offer.



## Traditional Procurement vs PPP Method

- 5.16** Government agencies have used what is considered as the traditional procurement method in the construction of buildings and other facilities. In this method, Government sources the financing and engages separate private sector contractors to carry out designs and construction respectively. In addition, the maintenance costs and other costs throughout the life of the asset are the responsibility of the Government. Under the PPP, the developer is often responsible for designing, construction and financing the project.
- 5.17** When contemplating using a PPP arrangement, the estimated comparable costs of the traditional procurement method should be matched to the cost using the PPP method, under similar conditions. This comparison is a means of determining which method is the most cost effective.
- 5.18** In only the Barbados Water Authority (BWA) New Headquarters project was there any indication that this cost comparison of procurement methods was prepared. However, this assessment was not provided to the Barbados Audit Office (BAO) for analysis.

### Audit Comment

- 5.19** It is important that Government obtains a high quality project at the most reasonable cost. However, in the absence of the costs of the projects using traditional procurement, Government would not know which method was the most cost effective. A requirement that there be a comparison of costs of the PPP and traditional procurement methods would be good practice.



## Reasons for using PPP

- 5.20** Based on documentation seen for the Judicial Centre, BWA New Headquarters, HMBS Pelican and the Solid Waste Management Facility, the rationale for using PPP was primarily to obtain financing for the projects through this method. In the majority of the projects there was no discussion seen on the advantages of using the PPP methodology.

## Audit Comment

- 5.21** The evidence seen implies that the use of these PPP arrangements was primarily as a source of obtaining financing. However, the cost of financing through this method could have been higher than if Government sought to raise the loan directly. The relevant analysis of the financial arrangements is necessary for decision makers and reviewers of the projects; however, there was lack of evidence that this type of analysis was always carried out.

## Financial Analysis of accepted bids

- 5.22** An analysis of the financing costs is vital in order to determine if they are reasonable. This should include an examination of the proposed interest rates charged on the use of capital for the construction activity. These interest rates should be compared to market interest rates or rates Government could obtain on capital for similar projects. The interest rate on capital is a critical factor in the financing of any project, and has a significant bearing on the amount of the lease payments that will be paid by the state agency.



- 5.23** Comments by the consultants hired by the agencies or personnel from the Ministry of Finance of the financial proposals submitted by the contractors were seen for all of the projects. However, not all commented on the reasonableness of the proposed interest rates. This was observed in the cases of the Leachate Treatment Plant and the SSA New Headquarters Building projects in relation to which the consultants hired by the agency did not express such a comment, but the Ministry of Finance did. No comment on the reasonableness of the interest rates was seen for the BWA New Headquarters project. No documentation of, or references to, a detailed analysis of the interest rates were seen for the Solid Waste Management Facility project.

**Comments of the Project Management Coordination Unit (Ministry of Environment and Drainage)**

"Please note that Finance and Economic Affairs were intimately involved as members of the Project Steering Committee, Evaluation Committee and Negotiations Committee and the Project Unit would assume that all financial and economic parameters were included and contributed to their opinions and comments as per [the various papers]".

**Audit Comment**

- 5.24** Some of the financial analyses were inadequate as all did not comment on the reasonableness of the proposed interest rates. Although interest rates are only a component of the financial proposals, their importance should not be overlooked in determining the reasonableness of project costs.



## Affordability of Projects

**5.25** The issue of affordability (the ability to meet the lease or other payments) is also critical, since these projects commit the Government agencies to large repayments over many years. The Audit Office checked whether affordability was examined for the BWA New Headquarters, the Sanitation Services Authority (SSA) New Headquarters Building and Leachate Treatment Plant projects. The question of affordability for other projects was not reviewed since, unless policies/guidelines are established, it would be difficult for the auditor to determine what is affordable for Central Government. Evidence that aspects of affordability were examined was seen in all three (3) projects mentioned above.

**5.26** It was interesting to note that in the two latter projects the Ministry of Finance indicated that an increase subvention to the agency would have been necessary to meet any lease payments. Therefore, any policies/guidelines developed on affordability would also need to be applied to Statutory Corporations which rely on funding from the Consolidated Fund.

### Audit Comment

**5.27** It is noteworthy that some analysis of affordability was conducted in relation to these three projects. The issue of affordability for agencies which receive funding from the Consolidated Fund is a matter of Government prioritizing projects, given the challenging economic conditions that presently exist. In this regard, the comments of the Ministry of Finance are noted.



## Allocation of Risks

- 5.28** The possibility of transferring risks to the private sector is one of the main factors in using a PPP arrangement. In any infrastructure project there are possibilities that some parts of the process may not go as planned (risks), and this could include design flaws, cost overruns, construction delays and unexpected increase in the maintenance cost. The Government agency therefore seeks to transfer some or all of these risks to the private sector, which is better able to manage them, for a fixed price contract.
- 5.29** In order to achieve this objective the risks in the project should be identified, assessed, allocated, and documented before tendering is carried out. The existence of documented risk analyses was not confirmed in over 50% of these projects. The Project Manager for the BWA New Headquarters project said that a documented risk analysis was prepared for this project, but none was provided to the Audit Office.
- 5.30** One of the projects with a documented risk analysis was the Solid Waste Management Facility. Information seen indicates that the documented analysis for this project was only prepared by the contractor after the need for one was requested by the Public Investment Unit of the Ministry of Finance. The contractor admitted not being familiar with this requirement.
- 5.31** The absence of documented risk analyses in the majority of the projects raises the question as to whether the risks in the projects have been fully identified, assessed and allocated.



### **Comments of the Project Management Coordination Unit (Ministry of Environment and Drainage)**

"Please note that a Risk Allocation Matrix for such a complex project can only be detailed once all parties discuss and consider the risks involved. The Project Unit requested the assistance of the Public Investment Unit in the process. The Matrix proposed by the [contractor] was drawn up after discussions in negotiations and agreed by all parties and included [in a paper]".

### **Audit Comment**

- 5.32** The determination and allocation of risks in PPP projects is very important. The lack of documentation in some of the projects to confirm that the risks were analysed, and a determination made as to which party to allocate the particular risk to, is a shortcoming. As evidenced by the events relating to the provision of the risk analysis in the Solid Waste Management Facility project, this is an area that requires greater focus in any future PPP undertakings.
- 5.33** The absence of documentation of risk analyses in over 50% of the projects suggests that either such analyses were carried out and not documented, or that they were not carried out. This would indicate that the agencies that managed the projects were not fully aware of the importance of risk analysis in the PPP arrangement.



## Review of PPP Methodology

- 5.34** Although a number of PPP projects have been carried out, there was no indication that a review of the implementation of the PPP methodology within Government's projects, to determine its strengths and weaknesses, has been carried out. In addition, there was no evidence that policies/guidelines had been developed for executing PPPs or determining their suitability for particular projects. Such reviews are carried out in other jurisdictions as a means of obtaining information that can help to improve the process and establish guidelines.

### **Comments of the Economic Affairs Division (Ministry of Finance and Economic Affairs)**

“It should be noted that in 1996, the Government of Barbados (GOB) contracted [a company] to develop a policy framework for the implementation of PPPs in Barbados; the basic tenets of which have been utilised in the absence of a formal policy. It is generally accepted that GOB's main objectives for employing PPP arrangements are the sourcing of financing/offsetting initial capital outlay and benefitting from highly specialized technical resources. Cabinet approval is required and there must be appropriate justification and analysis of the proposal; these papers are submitted to the Finance Division and the [Public Investment Unit] PIU for comment, as required, on a case by case basis”.





### **Audit Comment**

- 5.35** It is important that the PPP process, which is new to Barbados, be evaluated to determine what has worked well and what has not. The results of this evaluation, in addition to other research, could form the basis for a policy on how PPPs should be selected and executed in the future. Government entities tasked with executing projects via this procurement method would be greatly assisted if there were such policies/guidelines.
- 5.36** In response to the comments of the Economic Division, our review has shown, through the lack of cost comparisons with the traditional method and the lack of evidence of risk analysis in all projects, that there is the need for specific guidelines for PPP projects.

### **Conclusion**

- 5.37** The processes that would contribute to the achievement of value-for-money in PPP arrangements were not consistently applied. There is a need for decision makers to have knowledge of whether PPP arrangements are more cost effective than under a traditional procurement method and, in this regard, the financial analysis of the proposals needs to be strengthened to achieve this. In addition, the analysis of affordability should be emphasised and there should be available evidence that risks in the projects have been fully analysed and taken into consideration. The lack of evidence of risk analyses for some of the PPP projects raises questions as to whether there was adequate transfer of risk to those best able to handle them.



**5.38** The current situation would be helped by the development of guidelines for utilizing the PPP process. There is definitely a need for greater understanding of the rationale for choosing PPP arrangements and the use of this methodology, if Government is to benefit in a meaningful way from this method of procurement. In addition, some jurisdictions have established public sector bodies that are well versed in the use of PPPs to give assistance to agencies who are implementing PPPs. I have no knowledge of such an entity here with that level of experience.

**5.39** **It is recommended that Government:**

- **Develop guidelines for the selection of projects suitable for execution by the PPP methodology and how these projects should be executed.**
- **Ensure that any guidelines developed incorporate best practices utilised in other jurisdictions.**
- **Ensure that any guidelines developed for PPP projects require adequate financial analysis of the proposals.**
- **Entities ensure that they identify, assess and allocate the risks to the party best able to manage them.**
- **Conducts a review to determine the reasons for the low response to PPP tenders.**



## Barbados Water Authority New Headquarters

### Introduction

- 5.40 The BWA signed an Agreement with a company (Landlord) in March 2013 for the design, finance and construction of its headquarters complex. The Agreement also included the lease of the premises to the BWA. The period of the lease is thirteen (13) years.

### Exclusive Rights Granted Before Substantial Negotiations Carried Out

- 5.41 BWA signed a Memorandum of Understanding (MOU), dated 22<sup>nd</sup> December 2011, which gave the contractor exclusive rights for the Project. This was eight (8) days after it had commenced negotiations on the bid, and approximately fifteen (15) months before the Agreement was signed. The MOU also made provision for the contractor to commence certain works as soon as was practically possible after the execution of the MOU. The BWA in essence was binding itself to an arrangement with the sole bidder before substantial negotiations were completed.

### Commencement of Works

- 5.42 The commencement of works before the conclusion of negotiations placed the BWA at a disadvantage in relation to its decision making. An example of this was observed subsequently, when the BWA received an opinion from its legal representative on the implications of not proceeding with the completion of the building. The opinion indicated that BWA would have



been liable to the contractor, the arranger of finance and all other consultants in damages in the event that it failed to complete the project.

### **Audit Comment**

- 5.43** The opinion of the legal representative highlights the dangers with commencing a project before negotiations have concluded. Without the ability to stop the project, BWA's negotiation strength would have been diminished.

### **Advance Payment and its Recovery**

- 5.44** It was originally envisaged that the BWA would only commence payments for this Project on completion of the building; this is generally what occurs in a PPP. This was reinforced in the Board Paper seeking the selection of the contractor, which stated that BWA would be making no capital payments during the construction period. However, the MOU made provision for the payment of an initial mobilisation fee (Advance Payment) of BDS \$5 million, plus VAT, to the contractor. The MOU did not state how this advance was to be repaid. It should be noted that in this type of PPP, which involves the construction of a building to be leased to the Government agency, the developer would be responsible for providing the financing, and lease payments would start at the completion of the facility.
- 5.45** BWA subsequently agreed on a process for the repayment of the Advance Payment by the contractor. The process included a repayment deadline which was stated as "prior to the expiration or termination of the Lease Plus Agreement". It also included the interest rate to be charged, which was 2.5%, and a provision for the non-repayment of the Advance if BWA was in default of its obligations as tenant, under the Lease Plus Agreement.



- 5.46** This arrangement was disadvantageous to the BWA on two (2) points:
- (i) It allowed the contractor the option of completing the repayment of BDS \$5 million plus VAT in approximately fifteen (15) years, whereas the BWA is scheduled to make lease payments to the Preferred Bidder/Landlord totalling more than \$65 million in approximately thirteen (13) years. This was approximately two (2) years less than the time allotted to the contractor to repay the Advance Payment.
  - (ii) The other point is that the interest rate of 2.5 % was low when compared to the interest rate of 8.25% payable on the bonds used to secure financing for the project. In effect, BWA in its lease payments would be paying an interest rate of at least 8.25%, while providing a loan to the contractor at 2.5%.
- 5.47** Subsequently, BWA signed another document called the “Deed of Mutual Release” which was also signed on behalf of the contractor and the (Landlord) company formed to manage the project and the works. This document released the three signatories from all obligations to each other, prior to the Agreement coming into effect, except for an outstanding amount owed by BWA to the two companies. The “Deed of Mutual Release” also indicated that the contractor incurred unforeseen additional costs of \$6,111,194 which, as agreed, would be applied against the remaining Advance Payment. Overall, the document shows that a sum of \$24,435 remained outstanding by the BWA to the Landlord immediately prior to Financial Close.



**5.48** A request was made to the BWA for evidence that the additional costs claimed by the contractor of \$6,111,194, as mentioned in the “Deed of Mutual Release”, were reviewed and approved by the Barbados Water Authority project personnel or consultants. In addition, BWA was asked to indicate if these additional costs were as a result of requested changes to the project by the Barbados Water Authority. All decisions of the Board of Directors related to this Project from August 1, 2011 to April 30, 2014 were requested. The BWA did not provide any of the requested information noted in this paragraph.

#### **Audit Comment**

**5.49** It is possible in PPPs for the contracting entity to contribute towards the capital cost of the procurement, although this is not the norm for such projects. If this was envisaged, it should have been included in the process from the beginning, and it should have reduced the level of private sector financing required. However, there was no indication that BWA had initially contemplated contributing towards the capital cost of this project.

**5.50** The Advance Payment was virtually a loan to the contractor, which was being obtained at significantly reduced rates. A more balanced approach would have been to treat, from inception, the Advance Payment as capital contribution by BWA, thus reducing the private sector funding required for the project, with a consequential reduction in the annual lease payments. Having not received necessary information from BWA, the Barbados Audit Office could not verify that the additional costs were approved by project personnel.



### Comment of the Barbados Water Authority

In principle we cannot fault the statement or comments contained in the document. We confirm that they are a true and accurate reflection of the records of the project reviewed.

5.51

**It is recommended that BWA ensures that:**

- Where negotiations are being conducted, decisions taken do not bind it to a particular course.
- Its project decisions are based on the achievement of value for money.

## Solid Waste Management Facility

### Introduction

5.52

In 2009, Government entered an Agreement with a company (the contractor) for the operation of a Solid Waste Management Facility (the Facility). This Agreement was for twenty (20) years after the commencement of the Operations Period. The Agreement essentially involved the delivery of Municipal Solid Waste (MSW) and Construction and Demolition Debris (C&D Debris) to the Facility for processing and the production of compost. In essence, the Facility should be diverting a percentage of waste from going to the Mangrove Pond Landfill. Payments to the contractor are facilitated through the Sanitation Service Authority.



## Guaranteed Waste

**5.53** In the Agreement, the Government committed to delivering Municipal Solid Waste (MSW) and Construction and Demolition Debris (C&D Debris) to the Facility in the following quantities:

- Three hundred and sixty thousand (360,000) tonnes annually which would be the Annual Guaranteed Delivery Tonnage (AGDT); and
- Twenty-four thousand (24,000) tonnes each month which would be the Monthly Guaranteed Delivery Tonnage (MGDT).

**5.54** Additionally, the maximum quantity of waste was not to exceed four hundred and sixty-eight thousand (468,000) tonnes annually. Provision was also made for the review of the annual and monthly amounts by the parties after ten (10) years from the first day of the Operations Period.

## Payment for Shortfall in Guaranteed Amount

**5.55** Concomitant with the guaranteeing of the waste was the requirement that Government pay the company for any shortfall in the monthly and annual guaranteed amounts. The main fee charged by the company and paid by the SSA for the operations at the Facility is the Consolidated Tipping Fee (CTF) which is paid in respect of each tonne of acceptable waste entering the Facility. This Fee is also used to calculate the payment for any shortfalls.

**5.56** The consultants hired by Government had suggested that it was not fair for Government to pay the full Consolidated Tipping Fee (CTF) for any shortfalls in waste below the guaranteed tonnages, and suggested the





payment of a percentage of the CTF. However, the proposal from the bidder was accepted instead.

### **Impact of the Agreement**

**5.57** In July 2011 the Ministry of Finance stated that payments to the company for the financial year 2011 – 2012 would be capped at \$15 million. In addition, it was directed that a system be implemented to ensure that all tipping was disengaged immediately when the capped sum was reached, and thereafter all other materials be forwarded directly to the landfill for disposal. However, SSA indicated that it was contractually bound to pay the contractor \$21,862,800 annually at the current CTF rate.

**5.58** There was a subsequent build-up of arrears due to non-payment, and, based on a statement from the contractor, at 24<sup>th</sup> November 2015 the amount over thirty (30) days overdue was \$20.17 million.

### **Audit Comment**

**5.59** The decision to introduce the cap, and the instructions to divert all material after the limit had been met, benefitted the contractor and not the Government. In this arrangement, Government still had to pay for the agreed amount of waste including any shortfall, while the contractor would ultimately receive the agreed amount while performing less work.



## Guaranteed Tonnage Shortfalls

**5.60** The guaranteed tonnes of waste of twenty-four thousand (24,000) per month and three hundred and sixty thousand (360,000) annually were not always met. The shortfalls observed for the period January 2011 to December 2013 are shown in the table below. No shortfalls for 2014 were observed. The information shows that in 2011, 2012 and 2013 the Government of Barbados would have been charged approximately \$5 million (VAT excl.) for shortfalls in waste below the guaranteed amounts. All dollar amounts shown in the table are VAT exclusive. The dollar amounts shown for the monthly shortfalls do not take into account any reductions related to the sharing of revenues derived from the sale of products, such as processed green mulch, scrap metal and soil mix.

### Monthly and Annual Shortfalls for Years 2011 to 2013

Year	Monthly		Annual		Total \$ Amount
	Tonnes	\$ Amount	Tonnes	\$ Amount	
2011	Nil	Nil	11,468.92	696,392	696,392
2012	42,028.87	2,675,137	20,314.55	1,293,021	3,968,158
2013	3,157.98	218,848	5,095.04	134,238	353,086
<b>Total</b>					<b>5,017,637</b>

Source: Prepared by BAO

**5.61** Documentation seen indicated that the diversion of waste by the SSA from the Facility was a major factor in the shortfall in 2012.

**5.62** At October 2015 there were already six (6) monthly shortfalls in the waste delivered to the Facility for that year, spanning the months from May to



October. As shown in the table below, this resulted in the SSA being charged by the contractor approximately \$5.46 million (VAT excl.) for waste not delivered. This amount does not take into account any reductions related to the sharing of revenues derived from the sale of products. It should also be noted that the shortfalls commenced around the time that the SSA introduced a charge (tipping fee) for waste to be delivered to the Facility by private waste haulers. These shortfalls also mean that there was less garbage to be sorted at the Facility.

#### Monthly Shortfall for January to October 2015

	Shortfall (Tonnes)	Amount shown on invoice (VAT excl.) \$
May	12,927.11	903,863
June	12,982.11	898,362
July	13,400.19	927,293
August	13,007.06	900,088
September	13,553.47	937,900
October	12,968.80	897,441
<b>Total</b>	<b>78,838.74</b>	<b>5,464,947</b>

Source: Prepared by BAO

#### 5.63

In January 2013 the SSA informed the contractor that the following should be considered in relation to the contractual minimum monthly guaranteed waste:

- (i) “The Authority does not have control over the private haulers who make up more than 70% of the tonnages entering the transfer station.



- (ii) The current economic climate has resulted in a decrease in tonnage.
- (iii) There are a number of recycling and land reclamation initiatives being carried out across the island by the private sector which will impact tonnages entering the transfer station. Consequently, these activities will contribute to a loss or reduction in tonnages in the future.”

**5.64** The letter suggested that there be an adjustment of the minimum monthly guaranteed tonnage in future to reflect the reduction of waste entering the landfill. The contractor responded that the minimum monthly guaranteed tonnage was a vital component to its relationship with its lenders.

#### **Audit Comment**

**5.65** It is understandable that a company would request a guarantee in terms of the supply of inputs, especially when its revenue is based on those inputs. However, the full impact of this seemed not to have been taken into account by the Government side, especially the financial impact. Ten [10] years seems a long time for the guaranteeing of three hundred and sixty thousand (360,000) tonnes of waste annually, considering what might result when further waste reduction policies are implemented. This issue highlights the need for thorough analysis of these PPP projects before going to the market for bids, since factors, such as guaranteed revenue, would be important to the investment decisions of the private sector and the payments by state agencies.



- 5.66 The Barbados Audit Office is of the view that the same CTF should not have been used for shortfall in waste since there should be a reduction in processing costs for waste not delivered.
- 5.67 With new projects coming on stream, especially the Waste to Energy Plant, these tonnages might be difficult to guarantee. Furthermore, the guarantee of these tonnages on a consistent basis is contradictory in terms of efforts to reduce waste.
- 5.68 The persistent shortfall in the monthly guaranteed waste since the introduction of the charge (tipping fee) by the SSA implies that waste is being diverted away from the Facility. The payment for waste not delivered under such circumstances is not an efficient use of resources. In addition, the SSA would be receiving less in tipping fees than anticipated as a result of the reduction in waste entering the Facility.

**Comments of the Project Management Coordination Unit (Ministry of Environment and Drainage)**

"All indications under the 2005 Waste Characterization Study were that waste volumes were likely to continue to increase. The expansion in recycling has allowed us to hold the generation rates of waste not recycled at source constant at approximately 1,000 tonnes per day. This is supported by the figures related to Round 1 of the 2015/2016 Waste Characterization Study".

"Please note that prior to the introduction of the Tipping Fee there was no shortage of waste arriving at the [Facility]. Any shortfalls detailed between 2011 and 2015 prior to the introduction of the Tipping Fee were related to diversion of wastes by the Sanitation Service Authority directly to the landfill and not to [the Facility]"



## Production of Compost

- 5.69** The Agreement required that the minimum quantities of Finished Compost produced annually should be thirty-one thousand and twenty-five (31,025) tonnes, except in the “Digester Overhaul Year”, when the minimum quantity should be twenty-five thousand, nine hundred and twenty-five (25,925) tonnes. It should be noted that the “Digester Overhaul Year” is the year in which the composting digester, the equipment used in the composting process, undergoes major maintenance.
- 5.70** In the event that the contractor failed to produce these minimum quantities, the Agreement at clause 37 stipulated that the contractor should compensate the Government in the amount of twenty percent (20%) of the CTF for each tonne of shortfall. The Agreement provided three (3) situations that had to be met in order for the minimum quantities to be valid.
- 5.71** No evidence was seen that the Solid Waste Management Facility has produced the tonnage of compost required, since the commencement of the Agreement. However, it could not be ascertained that Government had any plans to invoke clause 37 in order to obtain compensation in the event of any shortfall.
- 5.72** The Agreement provides for the net revenue from the sale of Finished Compost or any other material recovered from waste to be distributed equally between the Employer and the contractor. Government has been obtaining some benefit from this arrangement from the sale of the products by the contractor.



### **In-Vessel Composting Facility**

- 5.73** Linked to the production of compost was the In-Vessel Composting facility, which was never constructed. A legal opinion on this matter was obtained. It stated, “If it is indeed the case that the contractor never acquired the In-Vessel Composter, this would seem to be a fundamental breach of the Agreement, for the possession of this piece of machinery is a prerequisite to the contractor’s ability to perform an important part of the contract.”
- 5.74** The Agreement stated that the contractor should be ready to load Municipal Solid Waste into digesters located at the facility within fourteen months from when the later of the following events occurs: (a) Issuance of all required Town and Country Development Planning Office permits and approvals; (b) Issuance of all required Environmental Protection Department permits and approvals.
- 5.75** The Agreement provided that in the event that the contractor did not comply with the above deadline, the contractor should have a cure period of thirty (30) days in which to commence performance. It also provided that after such cure period and the contractor had not commenced performance, the contractor should compensate the Employer in the amount of \$1,000 per day from the expiration of the relevant cure period, until the date that performance commenced. No evidence that the contractor complied with this section of the Agreement and that Government has been compensated as a result was seen.
- 5.76** At a meeting between representatives of the Government and the contractor on 17<sup>th</sup> April 2012, it was agreed to use an addendum to the contract to explain the rationale for deviating from in-vessel composting to other alternatives. In this regard, the contractor submitted a document referred to as a “Letter Addendum” dated 24<sup>th</sup> April 2012. In this “Letter



Addendum” it was indicated that, instead of the in-vessel composting system envisioned in the contract, the contractor had invested in other equipment and processes that would permit the production of the tonnage of compost required. However, the “Letter Addendum” seen was signed on behalf of the contractor but not on behalf of the Government. It is not clear if this proposed addendum has been finalized.

- 5.77** In addition to the compensation of the contractor through the CTF, the Agreement contained an arrangement for the eventual transfer price to be paid by Government. Although the Audit Office has not seen the details of the financial model, it would be reasonable to expect that the In-Vessel Composting facility would have been a factor in arriving at the CTF and transfer prices. However, no financial analysis by Government of the impact of not having this facility was seen.

**Comments of the Project Management Coordination Unit (Ministry of Environment and Drainage)**

“The matter of the non-production of compost was raised by the Project Unit on a number of occasions. Please note however that the SSA took over responsibility for [the contract] after the first year of operations and the Project Unit has not been privy to any discussions on the operations, including the production of compost, inclusive of the meeting of 2012-04-17 referenced in the Report”.





## Audit Comment

- 5.78** Apart from any associated legal implications, the impact of not having the In-Vessel Composting facility on the CTF and the eventual transfer price should have been analysed. If the proposed capital outlay in respect of equipment for this facility was factored into these costs, then Government would be paying excess fees to the contractor. The contractor benefitted from partial performance of the Agreement by failing to construct the In-Vessel Composting facility. This matter needs to be reviewed and a determination made on any compensation due as a result.
- 5.79** The Government of Barbados has been unable to capitalise on revenue that could have been generated through the operation of the In-Vessel Composting facility.

## Conclusion

- 5.80** It is clear that aspects of this Agreement between the Government and the contractor are in need of serious review, especially with regard to the non-performance of a requirement of the Agreement by the contractor. The impact of this should be determined, and any adjustments which are necessary should be made.
- 5.81** **It is recommended that:**
- The effects of the In-Vessel Composting facility not being constructed on contract performance by both parties should be examined. This examination should determine if the fees charged by the contractor are reasonable, since, there was no investment in the facility by the contractor.



- The Government of Barbados should enforce the Agreement against the Contractor by ensuring that it is compensated for any shortfall in compost in accordance with the Agreement.
- Where possible, the guaranteed amounts should be reviewed.

**OFFICE OF THE  
AUDITOR GENERAL**

Financial Statements

**March 31, 2015**

(expressed in Barbados dollars)

# OFFICE OF THE AUDITOR GENERAL

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## INDEPENDENT AUDITOR'S REPORT

To the Public Accounts Committee

We have audited the accompanying financial statements of the Office of the Auditor General, which comprise the statement of financial position as of March 31, 2015, the statement of financial performance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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 judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Partners:

Irving Burrowes


Karol Ashby

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as of March 31, 2015, and its financial performance and its cash flows for the year then ended in accordance with International Public Sector Accounting Standards (IPSAS).

*Other Matters*

The financial statements of the Office of the Auditor General for the year ended March 31, 2014 are unaudited and accordingly we do not express an opinion on them.

A handwritten signature in black ink that reads 'Burrowes' with a long horizontal flourish extending to the right.

Chartered Accountants  
Bridgetown, Barbados  
January 12, 2016

# OFFICE OF THE AUDITOR GENERAL

## Statement of Financial Position

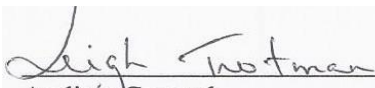
As of March 31, 2015

(expressed in Barbados dollars)

	2015 \$	Unaudited 2014 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	50	50
	<u>50</u>	<u>50</u>
<b>Non-current assets</b>		
Plant, furniture and equipment (note 4)	34,885	38,499
	<u>34,885</u>	<u>38,499</u>
<b>Total assets</b>	<u>34,935</u>	<u>38,549</u>
<b>Liabilities and general fund</b>		
<b>Current liabilities</b>		
Cash due to Treasury	50	50
	<u>50</u>	<u>50</u>
<b>Non-current liabilities</b>		
Capital contribution (note 6)	34,885	38,499
	<u>34,885</u>	<u>38,499</u>
<b>Total liabilities</b>	<u>34,935</u>	<u>38,549</u>
<b>Net assets</b>	<u>—</u>	<u>—</u>
<b>General fund</b>	<u>—</u>	<u>—</u>

The accompanying notes are an integral part of these financial statements.

Approved by:

  
\_\_\_\_\_  
Auditor General

# OFFICE OF THE AUDITOR GENERAL

## Statement of Financial Performance For the year ended March 31, 2015

(expressed in Barbados Dollars)

	Approved budget 2015	2015 \$	Unaudited 2014 \$
Income			
Government contribution (Head 18)	3,487,318	3,019,370	2,965,126
Total income	3,487,318	3,019,370	2,965,126
Operating expenses			
Statutory personal emoluments	2,134,992	2,135,894	2,248,200
Other personal emoluments	414,379	362,567	186,290
Employers contributions	235,721	185,349	179,016
Travel	34,500	22,830	21,044
Utilities	44,500	44,042	42,334
Library books & publications	2,800	1,856	2,226
Supplies and materials	33,800	28,210	26,246
Maintenance of property	49,600	19,450	19,241
Operating expenses	103,726	59,601	40,783
Contingencies	5,000	3,577	4,538
Subscriptions	3,300	2,721	2,636
Professional services – general	25,000	1,898	2,166
Professional services – statutory	400,000	151,375	190,406
Total operating expenses	3,487,318	3,019,370	2,965,126
Operating surplus (deficit) before the following items:	–	–	–
Depreciation (note 4)	–	(19,874)	(30,053)
Capital contribution – amortisation (note 6)	–	19,874	30,053
Surplus (deficit) for the year	–	–	–

The accompanying notes are an integral part of these financial statements.



# OFFICE OF THE AUDITOR GENERAL

## Statement of Cash Flows

For the Year ended March 31, 2015

(expressed in Barbados dollars)

	2015	Unaudited 2014
	\$	\$
Cash flows from operating activities		
Surplus (deficit) for the year	–	–
Adjustments for:		
Depreciation	(19,874)	(30,053)
Amortisation of capital contribution	19,874	30,053
	<hr/>	<hr/>
Operating surplus (deficit) before changes in working capital	–	–
	<hr/>	<hr/>
Net cash flows from operating activities	–	–
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of plant, furniture and equipment	(16,260)	–
	<hr/>	<hr/>
Net cash used in investing activities	(16,260)	–
	<hr/>	<hr/>
Cash flows from financing activities		
Increase in capital contribution	16,260	–
	<hr/>	<hr/>
Net cash from financing activities	16,260	–
	<hr/>	<hr/>
Increase in cash during the year	–	–
Cash at the beginning of year	50	50
	<hr/>	<hr/>
Cash at end of year	50	50
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

# OFFICE OF THE AUDITOR GENERAL

## Notes to Financial Statements

March 31, 2015

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(expressed in Barbados dollars)

### 1. General information

The Office of the Auditor General (the “Audit Office”) was established by Section 113 of the Constitution of Barbados to audit the accounts of the Supreme Court, the Senate, the House of Assembly and all departments and offices of the Government (including the offices of the Cabinet, the Privy Council, the Judicial and Legal Service Commission, the Public Service Commission and government-controlled entities and statutory authorities) and at least once in every year report to the Speaker of the House to be laid before the House of Assembly. The Constitution also allows the Auditor General on his own initiative 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 as regards the efficiency and effectiveness of the use of those resources.

The Audit Office is located in the Weymouth Corporate Centre, Roebuck Street, St. Michael.

### 2. Basis of presentation

#### a) Basis of measurement

The financial statements are prepared in accordance with the requirements of the Financial Management and Audit Act, 2007-11, the International Public Sector Accounting Standards (IPSAS) promulgated by the International Public Sector Accounting Standards Board and on the historic cost basis.

The financial statements were approved by the Auditor General on January 12, 2016.

#### Presentation Currency

The financial statements are presented in Barbados Dollars, rounded to the nearest dollar.

#### Period of reporting

The reporting and budgeting period represented is the financial year April 1, 2014 to March 31, 2015.

#### Measurement Uncertainty

The preparation of financial statements in accordance with IPSAS requires management to make estimates and assumptions that would affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amount of revenue and expenses during the period. Actual results may differ from estimates reported.

#### Significant accounting policies

##### Revenue recognition

##### Government Contribution

Funds released from the Crown to finance recurrent expenditure are recognised as income in the Statement of Financial Performance when the expenditures to which they relate are incurred.

##### Crown Revenue

Crown revenue due in respect of auditing activities is paid directly to the Crown.

#### Expenses

# OFFICE OF THE AUDITOR GENERAL

## Notes to Financial Statements

March 31, 2015

---

(expressed in Barbados dollars)

Expenses are charged in full to Head 18 100 0100: Auditing Services, when incurred. Amounts not paid are treated as Crown payables and paid from the Crown's Paymaster (Bank) Account.

Expenses are recognised when incurred and in the year to which they relate.

### Capital Contributions

Provisions are made for the purchase of capital assets under Head 19 109 0100 Auditing Services. Capital contribution is recognised to the extent of the cost incurred in the purchase of the assets.

Capital contributions are amortised over the life of the assets purchased with the funds granted.

### Plant, furniture and equipment

Plant, furniture and equipment are recorded at cost less depreciation and impairment losses. Depreciation is calculated on straight-line basis applying the half year rule. Cost is depreciated at the rates shown in the following Extract of Sixth Schedule of the Financial Management and Audit (Financial) Rules.

#### Extract of Sixth Schedule Financial Rules 18 (4) and 47 (1)

#### Depreciation of Property, plant and equipment

	Useful Life (Years)
Machinery and equipment	5-15
Furniture and fittings	5-10
Motor vehicles	3-10
Computer hardware	3-5
Computer software	1-5

### Plant, furniture and equipment

	Property & Plant \$	Machinery & Equipment \$	Furniture & Fittings \$	Computer Software \$	Vehicles \$	Total \$
Cost						
At April 1, 2013	4,314	213,634	11,817	–	42,000	271,765
Additions	–					
At April 1, 2014	4,314	213,634	11,817	–	42,000	271,765
Additions	–	6,649	3,400	6,211	–	16,260
As at March 31, 2015	4,314	220,283	15,217	6,211	42,000	288,025

### Accumulated depreciation

# OFFICE OF THE AUDITOR GENERAL

## Notes to Financial Statements

March 31, 2015

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(expressed in Barbados dollars)

At April 1, 2013	3,595	162,150	4,468	–	33,000	203,213
Charge for the year	719	20,971	2,363	–	6,000	30,053
At April 1, 2014	4,314	183,121	6,831	–	39,000	233,266
Charge for the year	–	13,394	2,704	776	3,000	19,874
As at March 31, 2015	4,314	196,515	9,535	776	42,000	253,140
Net book value						
As at March 31, 2014	–	30,513	4,986	–	3,000	38,499
As at March 31, 2015	–	23,768	5,682	5,435	–	34,885

# OFFICE OF THE AUDITOR GENERAL

## Notes to Financial Statements

March 31, 2015

(expressed in Barbados dollars)

### Crown Payables

Crown payables as at March 31, 2015 were \$160,852 (2014 – \$194,150).

### Capital Contribution

Capital contribution at March 31 is as follows:

	2015	Unaudited 2014
	\$	\$
Total capital contributions	271,765	271,765
Amount amortised	(233,266)	(203,213)
Amount unamortised at beginning of year	38,499	68,552
Contribution for the year	16,260	–
Amortisation for the year	(19,874)	(30,053)
Amount unamortised at end of year	34,885	38,499
Total capital contributions	288,025	271,765
Amount amortised	(253,140)	(233,266)
Amount unamortised at end of year	34,885	38,499

Budgeted and actual capital contribution for the year 2014-2015:

	Approved Budget 2015	Actual 2015
751 Property and plant	–	–
752 Machinery & equipment	35,000	6,649
753 Furniture & fittings	3,000	3,400
755 Computer software	10,000	6,211
756 Vehicles	–	–
Total capital contribution	48,000	16,260

## Appendix 2

### Results of Survey on Indebtedness of State Agencies

Agencies	Loans	Overdraft	Payables	Pension Liabilities	Pending Legal Obligations	Total
	\$	\$	\$	\$	\$	\$
BACTL	909,796	-	1,110,214	-	-	2,020,010
BADMC	-	677,459	7,199,608	12,176,296	-	20,053,364
BAMC	225,355,053	-	19,062,120	-	-	244,417,173
BCC - 1	-	-	322,985	-	-	322,985
BCC - 2	-	-	22,165	-	-	22,165
BCSL	49,623,969	-	755,742	78,759	-	50,458,469
BDF	-	-	353,103	-	-	353,103
BNOCL	42,420,444	-	132,869,763	1,424,794	-	176,715,001
BNTCL	88,823,482	-	1,304,920	-	-	90,128,402
BPI	97,618,905	11,947,638	10,525,358	13,181,113	-	133,273,014
BWA	162,554,559	-	46,935,169	57,219,028	-	266,708,756
CBC	29,300,003	4,911,234	44,463,297	15,384,892	-	94,258,660
CLSC	-	-	17,267	-	-	17,267
FTC	-	-	51,437	-	-	51,437
FSC	-	-	185,086	518,425	-	703,511
GL	-	-	922,085	-	-	922,085
NAB/BAC	-	-	12,070	-	-	12,070
NAB	-	-	228,933	64,389	42,300	335,622
NCC	-	-	5,482,091	209,140	1,021,861	6,713,092
NCF	-	-	2,363,801	-	-	2,363,801
NPC	7,256,487	-	12,249,613	1,015,641	175,00	20,696,740
NSC	-	-	867,339	35,590	-	9,02,929
QEH	54,238,276	7,881,219	91,778,740	-	43,000,000	196,898,235
RDC	-	-	1,027,543	363,345	1,517,810	2,908,698
SRLF	-	-	776,119	-	53,286	829,404
TVETC	-	-	634,870	20,423	10,000	665,293
TB	89,580,552	10,000,000	72,492,176	-	304,695	172,377,424
<b>TOTALS</b>	<b>847,681,526</b>	<b>35,417,550</b>	<b>454,013,612</b>	<b>101,691,834</b>	<b>46,124,953</b>	<b>1,484,929,475</b>

## List of Abbreviations

BACTL	- Barbados Agricultural Credit Trust Ltd.
BADMC	- Barbados Agricultural Development and Marketing Corporation
BAMC	- Barbados Agricultural Management Company
BCC - 1	- Barbados Community College - Eyrie Campus
BCC - 2	- Barbados Community College - Hospitality Institute
BCSL	- Barbados Conference Services Ltd.
BDF	- Barbados Defence Force
BNOCL	- Barbados National Oil Company Ltd.
BNTCL	- Barbados National Terminal Company Ltd.
BPI	- Barbados Port Inc.
BWA	- Barbados Water Authority
CBC	- Caribbean Broadcasting Corporation
CLSC	- Community Legal Services Commission
FTC	- Fair Trading Commission
FSC	- Financial Services Commission
GL	- Gymnasium Ltd.
NAB/BAC	- National Accreditation Board/Barbados Accreditation Council
NAB	- National Assistance Board
NCC	- National Conservation Commission
NCF	- National Cultural Foundation
NPC	- National Petroleum Corporation
NSC	- National Sports Council
QEH	- Queen Elizabeth Hospital
RDC	- Rural Development Commission
SRLF	- Student Revolving Loan Fund
TVET	- Technical and Vocational Education and Training (TVET) Council
TB	- Transport Board