

CHAPTER 1

General Audit Issues

Introduction

This is my Annual Report to the House of Assembly for the year 2008. It is issued in accordance with Section 38 (1) of the Financial Management and Audit Act, 2007 - 11 which states:

“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. I wish to take this opportunity to apologise for the late submission of the Report which was caused by inadequate staff levels, and slow responses from ministries/departments to requests for information, amongst other factors.

Mandate of the Auditor General

- 1.3. This Report is a compilation of the results of the audit of accounts of ministries, departments and other Government agencies in accordance with the provisions of the Financial Management and Audit Act, 2007-11 and the Constitution.
- 1.4. Section 113 of the Constitution of Barbados requires the Auditor General, at least once in every year, to audit and report on the accounts of the Supreme Court, the Senate, the House of Assembly and all departments and Offices of the Government. The mandate of the Office is further outlined under Part IV of the Financial Management and Audit Act, hereafter referred to in this Report as the F.M.A Act. The section of this Act which sets out the responsibility of the Audit Office is listed at Appendix 1.
- 1.5. My Office has examined the accounts of the ministries and departments of Government for the year ended 31st March 2008. The Office has also examined the accounts of other public authorities and regional agencies

as prescribed by law or agreement. This Report contains significant observations and recommendations arising from these audits. Where ministries and departments or other agencies of Government have provided responses to matters raised by my Office, they have been included in the Report.

Scope of Audit

- 1.6.** The F.M.A. Act places the onus for the proper discharge of financial management of Government funds on the Accountant General and Accounting Officers. It is the Auditor General's responsibility to form an independent opinion on the accounts and statements examined based on the audits carried out by his Office.
- 1.7.** The audits were conducted in accordance with the Constitution of Barbados, the F.M.A. Act and administrative directives issued by appropriate authorities of the Government, applying Generally Accepted Auditing Standards.
- 1.8.** An audit includes an examination on a test basis of evidence relevant to the amounts and disclosures in the statements as well as a critical assessment thereof. The audits do not draw conclusions upon areas that have not been examined.
- 1.9.** The audits were not designed to disclose every error in the accounts but to ascertain whether the accounts were using acceptable systems, were punctually and properly posted, that checks against irregularities and fraud were adequate and effective, and to give reasonable assurance that the financial statements were free of material misstatements.
- 1.10.** The audits were also designed to evaluate internal controls and, to a limited extent, the efficiency of the use of resources in ministries and departments. Audit findings are discussed with the ministry or department concerned and the entity is requested to provide a written response to any matters conveyed in our management letter.
- 1.11.** The audits conducted do not in anyway relieve Accounting Officers of their responsibility to ensure that there are adequate internal controls and that the Financial Rules and other regulations are adhered to.

- 1.12. My opinion on the Financial Statements of the Government for the year ended 31st March 2008 is issued, together with the statements, in a separate document.

Audit Methodology

- 1.13. A main function of the Audit Office is to assess whether there has been accountability for public funds. This responsibility is discharged through the conduct of financial audits. This work includes obtaining evidence supporting compliance with Government laws and regulations, Public Sector Accounting Standards and procedures, and the evaluation of internal controls. In order to provide an independent and professional audit service, the Barbados Audit Office adheres to the International Organization of Supreme Audit Institutions (INTOSAI) Auditing Standards for guidance.
- 1.14. Senior Officers in the Audit Office are requested to prepare annual audit plans for audits to be undertaken during the calendar year. This includes audits of all ministries and departments and some Statutory Boards. The auditors seek to provide an overall assurance of the general accuracy and propriety of the Government's financial and accounting transactions.

Financial Management and Audit Act

- 1.15. During 2007 the Financial Administration and Audit Act was repealed and replaced with the Financial Management and Audit Act, 2007-11. The main changes introduced through the new Act enabled the transitioning of the accounts of the Government from cash based accounting to accrual based accounting, and provided a greater degree of independence to the Office of the Auditor General.
- 1.16. One change introduced in the Financial Management and Audit Act which directly affects the Office relates to the Estimates of Expenditure for the Office. Section 38 (3) of the Act states that the Estimates of Expenditure of the Office of the Auditor General shall be transmitted to the House of Assembly through the Public Accounts Committee. The Committee can make suggestions for the revision of the estimates. There is some uncertainty over this provision since the Constitution states that the Minister of Finance is responsible for the laying of the estimates of the Government. I have submitted the Estimates to the Public Accounts

Committee as requested and forwarded a copy to the Ministry of Finance for incorporation into the general estimates. It is time however that the Office has greater control over its annual allocations, which should be approved on a lump-sum basis. This would allow the Office more discretion in how its votes are utilized.

1.17. Another change introduced in the Financial Management and Audit Act is that it grants the Public Accounts Committee the right to request the Auditor General to conduct audits of the accounts of any person or organization:-

- (i) who has received moneys by way of grant or loan out of funds voted by Parliament; or
- (ii) in respect of whom financial aid from the Crown is sought.

1.18. At its meeting held on 7th November 2007, the Public Accounts Committee decided that a legal opinion should be sought on this matter so that the Committee does not request audits on entities over which it has no oversight. The Chairman at that meeting indicated that it was important that the Committee not exceed its powers.

Accrual Accounting

1.19. In accordance with the new legislation, the accounts of the Government were reported on an accrual basis from 31st March 2008. These accounts were governed by the International Public Sector Accounting Standards issued by the International Federation of Accountants.

1.20. An essential feature of the Accrual Accounting System is that revenues are reported when due even if no cash has been received, while expenses are recorded when services are provided or goods received even if no cash payments were made. This allows for a matching of income earned and related expenses over a given period. Another important feature in accrual accounting relates to the accounting treatment of large capital purchases such as buildings. In the cash based system all payments made in respect of these capital purchases would have been immediately expensed while under the accrual system such purchases will be amortized over their useful life.

- 1.21.** The shift from cash to accrual accounting has been challenging and, in many critical areas, Public Sector Accounting Standards have not been adhered to. Adequate and timely record keeping is critical, and staff in the ministries and departments must be familiar with the accounting standards so that transactions can be properly recorded, but this has not occurred. It was always highly unlikely that the accounts of Government would comply with the International Public Sector Standards by March 2008, given the large amount of work required to change the existing system to accommodate accrual information.
- 1.22.** The change to accrual accounting, and the expansion of the Office's mandate, also presented some challenges to the Audit Office. Substantial training of existing officers and the recruitment of additional qualified personnel is required if the Office is to adequately fulfill its mandate. In my 2006 Report I had indicated that the Office as then constituted could not adequately fulfill its mandate, and one year later the situation has improved marginally. In December 2007 the Ministry of the Civil Service approved the reorganization of the Office and action now has to be taken on the recruitment of staff approved by that Ministry.

Constitutional Amendment

- 1.23.** In addition to the changes resulting from the introduction of the Financial Management and Audit Act there was also an amendment to the Constitution which impacted on the Role of the Audit Office. The Office now has overall responsibility for the audit of Government controlled entities and can also carry out investigations on the efficiency and effectiveness of their use of resources. These entities currently have their own private auditors. My Office will however continue to report annually to Parliament on the status of the audits of all Government entities.

Recommendations of the Constitution Review Commission

- 1.24.** The 1998 Constitution Review Commission had made a number of recommendations towards strengthening the role and functions of the Auditor General's Office, and a number of these recommendations have since been legislated.
- 1.25.** One recommendation which has not been legislated to date relates to the delegation to the Auditor General of the power to directly recruit staff. The current practice is for the Personnel Administration Division (PAD) to

recruit staff for ministries and departments. However, for the past ten years the Audit Office has been allowed the facility where it interviews persons and then makes recommendations to the Personnel Administration Division. This practice could be improved upon by delegating the recruitment process to the Audit Office.

- 1.26. It is imperative that there be a delegation of this function to the Office since its needs are not being efficiently met by the traditional method. It would also place the Office in line with best practices in many countries where it has been recommended that as far as practical the Audit Office should not be dependent on an entity it audits for any of its resources. I would be willing to meet with the Public Service Commission to discuss this matter at the earliest opportunity as the current practice does not allow for the timely recruitment of staff.

Public Accounts Committee Meetings

- 1.27. During 2008, there was one meeting of the Public Accounts Committee. This meeting was held to examine the draft estimates of the Audit Office. The Committee approved a budget of \$4,812,898 for the 2009-2010 financial year.

General Audit Concerns

Public Private Partnerships/Contract Management

- 1.28. The operations of Government have been expanding and at the same time growing in complexity. One area in which this is particularly evident is the number of Public Private Partnership (PPP) arrangements which have been undertaken.
- 1.29. This type of arrangement is relatively new to Barbados but occurs frequently in countries such as the United Kingdom and Australia. This arrangement was initially seen in some countries as a way of increasing capital assets without increasing the National Budget, since these projects were 'off budget.' However, with the change in Barbados from the cash basis to the accrual basis, PPP projects are considered as capital leases and will be included in the National Debt.

- 1.30.** These projects are not without risk as can be seen with the Newton Business Park Development Project, where there was poor construction of the building and termination of the contract; and the ABC Highway Project, which also encountered difficulties. A great deal of care needs to be taken in determining which projects should be undertaken using a PPP.

Request for Information

- 1.31.** Gaining access to information is also a matter of concern. In a number of instances some Government Officials appeared to be ignorant of the provisions of the Financial Management and Audit Act, which requires the Audit Office to have access to all information. In some cases the work of the Audit Office was held back as a result of a lack of cooperation by Ministry/Department Officials.
- 1.32.** Even now critical information, such as responses to audit queries, has still not been made available to my Office. I would like to advise ministries, departments, statutory boards and all Government controlled entities that I therefore expect full cooperation in any audit investigation. In some instances what transpired during the past year was unacceptable.

Response to Audit Queries

- 1.33.** On a number of occasions, the Audit Office has requested information/clarification on matters arising out of the course of audits. However, in a number of instances responses from audited entities were not forthcoming in a timely manner, if at all. These responses are necessary to provide clarity to issues, and to give the ministry or department an opportunity to express its views on the matter. According to the Constitution of Barbados, the Audit Office is responsible for the audit of all Government entities, and should have any relevant information to carry out its duties. It is therefore in everyone's interest for entities to respond to requests for information from the Office.

Accountability

- 1.34.** Over time I have noted that persons are not being held accountable for actions which result in loss or wastage of Government funds. This is a serious challenge which needs to be addressed by Government.

- 1.35.** Accountability is a relationship based on obligations to take responsibility for performance. Key to accountability in practice is how those responsible are held to account. When accountability is not working well there are neither appropriate organisational changes nor consequences for responsible individuals. I have reported on a number of serious matters over time in which there have been no consequences to those involved, and this needs to change to improve performance and to avoid loss and wastage in the public service. A number of these matters are reported in Chapter 3.

Contracts

- 1.36.** The Financial Rules require contracts to be in place for expenditures in excess of \$20,000. On many occasions, however, ministries and departments have not been complying with this rule which seeks to establish safeguards for the satisfactory completion of work. Often, the ministries and departments have indicated that the draft contracts which have been forwarded to the Office of the Solicitor General for review, remain with that office for long periods of time, thereby preventing the work from commencing in a timely fashion. This situation has been ongoing for some time and needs to be urgently addressed.

Special Audits

- 1.37.** During the year, the Office conducted a number of special investigations and these involved the National Housing Corporation (NHC), the ABC Highway Project and the National Insurance Department. These will be issued separately as Special Reports.

Office Accommodation

- 1.38.** For the past eight years a section of the Audit Office located in the Weymouth Corporate Centre has been affected by a foul odour. This matter has been investigated by the landlords and the Government Environmental Unit in the past, but there appears to be some uncertainty about its origin, and attempts to get rid of the problem have been unsuccessful to date.

- 1.39.** This problem has negatively impacted on the work of the Office, as officers have had to move out of the affected areas until the odour dissipates. During the course of the year a decision was taken to relocate officers from the affected areas to the Office's conference room and other available areas. This is however, only an interim measure. There are several vacant posts the Office is seeking to fill and there is an absence of accommodation to house them.
- 1.40.** The response from the Ministry of Housing and Lands has been extremely disappointing, despite a number of letters outlining the challenges the Office is facing. There has been little action taken to resolve the matter.
- 1.41.** The Ministry should not be making payments for premises that are uninhabitable. It should be actively working towards a solution to the Office's housing needs.

Staffing

- 1.42.** In December 2007, the Ministry of the Civil Service approved a reorganization of the Audit Office including the creation of a number of new posts. The reorganization coincided with the introduction of a new Public Service Act. The action taken by the Personnel Administration Division to have the new posts filled has been tardy, and has worked to the detriment of the Office. At the 31st December 2008, the Office is still seeking to have these posts filled.
- 1.43.** The need to circularise or advertise all posts before they are filled and the renewal of temporary appointments every three months have tested the capacity of the Personnel Administration Division. There is obviously a need for some delegation of the recruitment process. One way in which this can be done is for each ministry and department to have a panel of interviewers who would have responsibility for interviewing all prospective employees. The Personnel Administration Division could supervise the process to ensure compliance with prescribed guidelines. A continuation of the current process will only lead to further delays in the recruitment process for ministries and departments.

Attendance at Conferences/Seminars

- 1.44. During the course of the year, a number of Officers attended workshops and conferences and these included the following:-
- 1.45. The Auditor General, Mr. Leigh Trotman, attended a Strategic Planning meeting of regional audit offices in Trinidad from 4th to 6th March 2008.
- 1.46. The Auditor General also attended the 13th Commonwealth Auditors General Conference in Bermuda during the period 5th to 10th July 2008. The theme for the conference was Accountability for the 21st Century. Auditors General from around the Commonwealth shared their experiences and looked at the challenges confronting the profession in the 21st Century.
- 1.47. Senior Auditor, Mrs. Vincia Thomas and Senior Auditor (Ag), Ms. Pamela Humphrey attended a one week Value-for-Money Workshop in Guyana during the period 13th to 17th October 2008. This regional workshop was funded by the Canadian Comprehensive Audit Foundation (CCAF).

Other Issues

- 1.48. The Reports of the Office for a number of past years can be found on our webpage www.bao.gov.bb. Also available are relevant pieces of legislation relating to the Audit Office, including the Financial Management and Audit Act; the Public Accounts Committee Act; and extracts from the Constitution. It is hoped that members of the public can provide feedback on our reports, and on issues relating to the Public Sector that are of concern to them using this medium.

Acknowledgements

- 1.49. Appreciation is extended to members of staff for their support during the year. The support and co-operation of Accounting Officers, Heads of Department, other state agencies and their staff is also appreciated.