
CHAPTER 2

Analysis of the Financial Statements of The Accountant General

The financial statements of the Accountant General were submitted to the Barbados Audit Office in accordance with Section 22 (2) of the Financial Management and Audit (FMA) Act, 2007-11. The Accountant General is required to prepare, sign and submit financial statements to the Auditor General within four months after the close of the financial year. The financial statements for the year ended 31st March 2008 were received in July 2008 and this was within the stipulated time frame.

Audit Mandate and Objective

- 2.2** In accordance with the provisions of Part IV, Section 36, of the FMA Act, 2007-11, an audit was conducted by the Barbados Audit Office on the accounts of the Treasury Department for the financial year ended 31st March 2008.
- 2.3** The objective of the audit was to express an opinion as to whether:
- (a) The financial statements presented by the Accountant General gave a true and fair view, in all material aspects, of the financial position of the Government of Barbados;
 - (b) Appropriate internal control systems exist and were adhered to; and
 - (c) The financial statements were in accordance with International Public Sector Accounting Standards (IPSAS).

Methodology

- 2.4** Audit procedures consisted mainly of the analytical review of documentary evidence supporting the financial statements, and interviews with the Accountant General and officers from her Department, in addition to personnel from the Ministry of Finance.

General

- 2.5** The Government of Barbados made a decision to change its accounting process from the cash to the accrual basis with effect from 1st April 2007. It was determined that the accounts would follow the International Public Sector Accounting Standards set out by the International Federation of Accountants (IFAC). The philosophy underlying international accounting standards is that they set a series of principles against which the decisions about the recording and reporting of particular transactions could be judged.
- 2.6** The accrual system is much more complex than the traditional cash system. However, it was anticipated that the information available from the accrual based accounts would facilitate a better quality of management and decision making, including decisions on the allocation of resources. It also facilitates the cost of capital assets being spread over the useful life of these assets, and allows for a more effective and reliable assessment of the health of Government's finances. One of the key features of accrual accounting is the allocation of revenues and expenses to the period to which they relate.
- 2.7** There were a number of conceptual issues which needed to be resolved prior to the implementation of the accrual system, and these included the determination of assets to be included in the financial statements, and the valuation method to be employed.
- 2.8** In addition, there was a need for clarity over the recognition points for taxes, and the treatment of Government's pension liability. Some of these issues have not been properly addressed. In this regard, the notes to the financial statements were not explanatory enough to provide users with adequate information on these aspects of the operations of Government.

Transitional Provisions

- 2.9** The International Public Sector Accounting Standards (IPSAS) offer Governments who are changing from the cash to accrual basis certain transitional provisions, which allow reporting entities additional time to meet the full requirements of certain standards. There is however, the stipulation that the entities disclose the extent to which such provisions have been applied. The Government could therefore have chosen these provisions and, in accordance with the standards, disclosed this fact in the notes to the financial statements. There was no record in the financial

statements that any of these provisions were adopted by Government. As a result the financial statements were assessed as fully complying with all aspects of the Public Sector Accounting Standards. Matters arising from the audit of these financial statements are as follows:-

Presentation of Financial Statements

2.10 There were instances in which disclosures were not made on the face of the financial statements as required by International Public Sector Accounting Standards (IPSAS), and these included the following:

(a) Exchange Transactions

2.11 Under Presentation of Financial Statements, paragraph 88, a reporting entity is required to record its receivables and payables from exchange transactions on the face of the financial statement. It was however observed that this requirement was not adhered to.

(b) Transitional Provisions

2.12 Under IPSAS 1 paragraph 132, a reporting entity is required to indicate the extent to which it has applied any transitional provision in any of the International Public Sector Accounting Standards. The extent to which any provision was accepted or applied was not stated. In my view this was a significant omission by the Treasury. Based on the findings of the audit, significant aspects of the recording and reporting of assets and liabilities could have benefited from the reprieve offered by the transitional provisions.

(c) Other Issues

2.13 IPSAS 1 also requires that the rounding level used in presenting amounts in the financial statement be indicated. This requirement is stated under Presentation of Financial Statements, paragraph 63 (e); however, this was not followed.

(d) Disclosure on Risk

- 2.14** IPSAS 1, Presentation of Financial Statements, paragraph 129 (d) requires that a reporting entity states the financial risk facing it, but this factor was not disclosed as required. Examples which could be cited are the many cases in which the Crown is being sued by individuals or companies, or where the value of its assets could be impacted upon by external factors.

(e) Disclosure of Interest-Rate Risk

- 2.15** IPSAS requires the disclosure of interest-rate risk on financial instruments. This includes exposure to the effects of failure, changes in the prevailing rate of interest (since these changes can have an impact on cash flow), and information on whether rates are fixed. These disclosures would provide information to users evaluating the interest-rate risks to which the Government is exposed. Such information was however not provided in the notes to the financial statements as required.

(f) Estimating Uncertainty

- 2.16** Under Presentation of Financial Statements, paragraph 140, a reporting entity is required to disclose, in the notes, information about the key assumptions, concerning key sources of uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, and this should have been stated for items such as Accounts Receivable and the carrying value of Government's equity in Leeward Islands Air Transport (LIAT).

(g) Other Disclosures

- 2.17** The following disclosure requirements were not adhered to as required by IPSAS 1 paragraph 150, Presentation of Financial Statements:
- The domicile and legal form of the entity;
 - A description of the nature of the entity's operations and principal activity.

(h) Notes to the Financial Statements

- 2.18** The notes to the financial statements were limited in respect of Other Capital Assets and Investment, and the relevant schedules were not attached. These schedules were requested for audit verification; however,

they were not submitted for most of the Other Capital Assets at the time of writing.

- 2.19** Based on the foregoing, there are issues of inadequate presentation and disclosure in the financial statements submitted for audit examination. These are fundamental issues that impact on users' understanding of the financial statements.

2.20 ***Treasury's Response***

Exchange transactions relate to sales of goods and services by public sector entities. Most of the departments which engage in these types of activities do not have the necessary staff or systems to effectively manage the receivables relating to these activities on a daily/monthly basis. As a result information relating to the receivables for such activities has not been communicated to the Treasury Department for reporting.

The report which the audit requested is not a delivered report that is, there is no one report available from the system which incorporates all this information. We are in the process of designing such a report and this will be available for the financial year ended March 2009.

Statement of Financial Position (IPSAS 1 – Appendix 1)

- 2.21** For the Statement of Financial Position, IPSAS paragraph 88 requires, **at a minimum**, the Net Assets/Equity approach, which is the sum of all assets less liabilities. However, the Treasury prepared the statement using a 'Net Debt' approach, in which financial assets were deducted from Current and Long-Term Liabilities to arrive at what was termed the 'Net Debt Position'. The 'Net Assets/Equity' Section was therefore not reflected on the Statement of Financial Position, as required by IPSAS 1.
- 2.22** Assets were not recorded in order of liquidity as required by IPSAS. Whereas Current Assets were recorded before Liabilities, Non-Financial Assets were recorded after Liabilities. Categories of assets should be listed together in accordance with IPSAS paragraphs 76 – 87.

2.23 **Treasury's Response**

It is our opinion that the Net Debt position is more informative for the presentation of the statement of financial position for the Government of Barbados. This is the figure that is of interest to financial institutions and other stakeholders given the size of public sector debt.

This method was therefore used based on our interpretation of paragraph 76 – 91 of the referenced Standard. All items have been presented in order of liquidity but being a public sector entity we felt it more appropriate to use headings of financial and non-financial assets and liabilities rather than current and long-term assets. This presentation is also acceptable.

Auditor's Comment

- 2.24 IPSAS requires that the net assets/equity be listed on the face of the financial statements. The Treasury is free to include appropriate schedules for clarity but must adhere to the required standard.

Conclusion

- 2.25 When viewed in the light of IPSAS requirements, there are issues of inadequate presentation and disclosure in the financial statements submitted for audit examination. These deficiencies could result in users of the financial statements not having adequate information to carry out informed assessment of the matters contained therein.

Revenue

- 2.26 The change from the cash to accrual basis of accounting requires revenue collection departments to change the way monies collected are recorded. Previously, cash received was treated as revenue for the period in which it was collected. The change in the basis of accounting requires that relevant systems be in place to allocate collections to the relevant accounts, i.e. Revenue, Accounts Receivable or Prepayments.
- 2.27 Revenue was reported as \$2.5 billion, and this was \$3 million more than what was budgeted. The major components of this revenue were Goods

and Services (\$1 billion) and Taxes on Income & Profits (\$928 million). Other significant contributions came from Taxes on International Trade (\$216 million) and Property Taxes (\$144 million).

- 2.28** The Notes to the Financial Statements indicated that Revenues are recognised in the fiscal year to which they relate and that amounts received prior to the year to which they relate will be treated as liabilities. This policy was however not embraced, and revenues were accounted for on a cash basis. A major issue was the lack of preparedness of ministries and departments to account for revenue on the accrual basis.

Collection of Revenue

- 2.29** Accrual accounting also requires adequate estimates for Revenue and Accounts Receivable, where revenue is earned but not collected. A review of a number of revenue departments revealed that there were inadequate systems in place to account for revenue on an accrual basis as follows:

Inland Revenue

- 2.30** The change from the cash to the accrual basis of accounting required that revenues from Inland Revenue be recorded on an accrual basis and estimates made of revenue collectible at 31st March 2008. In addition, the policies for estimating revenue should have been clearly stated. It was however noted that revenues were recorded on a cash basis, and significant policies in respect of revenue estimations were not disclosed.

Revenue - Value Added Tax

- 2.31** The Value Added Tax (VAT) Division recorded its revenues on a cash basis, and this was not in conformity with IPSAS. Given the material nature of this revenue item, this action constitutes a significant departure from the accrual basis of accounting.

Treasury

- 2.32** Revenues collected directly by the Treasury include Banking, Franchise, Petroleum Storage Licences, as well as Inspection Fees for the storage of petroleum. An audit investigation was conducted to determine whether all revenues were accounted for, and the existence of any receivables.
- 2.33** A schedule of rates was not available, neither was the Department able to provide a listing of entities/persons required to purchase licenses. Funds were collected for all licence categories except Franchise. However, subsidiary information was not kept; therefore any unrecorded receivables remained unknown as at the time of writing.
- 2.34** Audit research revealed that information on the various licences could be obtained from (a) the Central Bank of Barbados re: Banking Licences, (b) the National Petroleum Corporation re: Selling and Storage Licences, and (c) the Ministry of Finance re: Franchise Licences. These licence fees form part of the Treasury's revenue; therefore the Treasury should liaise with the entities to ensure that reports are received to allow for the collection of revenue and recording of receivables. It would also allow the issuing of timely reminders for payment if necessary.

Other Revenue Collecting Agencies

- 2.35** The issue, as it relates to the collection of revenue on a cash rather than accrual basis was also applicable to other revenue collecting agencies. Greater effort is required for all agencies of Government to establish accrual systems that accurately account for revenue and the relevant accounts receivable.

2.36 ***Treasury's Response***

I must agree with this comment. During the financial year we noted that the revenue collecting agencies continued to report on the cash basis. During the third quarter correspondence was sent out requesting an up-dated position of their receivables. This in many instances was received too late to be included in the financial statements prepared at March 31, 2008.

We have also observed that in many situations where we are provided with information by entities, when the Auditor General seeks confirmation of the same information more up-to-date/corrected

figures are presented to the Audit Department resulting in the Accountant General receiving an audit query for differing balances being shown in the financial statement.

Expenditure

- 2.37** The total expenditure was reported as \$2.7 billion. The major component of this expenditure was Personal Emoluments (\$753 million), Grants to Public Institutions (\$740 million), Interest Expense (\$388 million), Goods and Services (\$357 million) and Retiring Benefits (\$206 million). Overall there was a deficit of \$197 million recorded for the year on the Consolidated Fund.

Smart Stream Security

- 2.38** As part of its internal controls the Treasury requires that transactions in the Smartstream computer system receive the approval of two officers before payments are made. It was however observed that invoice No. 490556-004 dated 01-31-2008 in the amount of \$4.0m, was paid from the Ministry of Energy – Capital Grant to Public Institution (49 650 0556 416 62416100 CGP100) to Caves of Barbados Limited without any approval. This was a major breach of system security, which should be investigated to determine the reason for its occurrence. Corrective action should be taken to ensure such practices do not recur.

2.39 Treasury's Response

This security feature was removed during the migration from one version of Smartstream to another. This has now been rectified in the computer system.

Database Agreement

- 2.40** Expenditure is recorded in two data bases: Funds Control and Ledger. These databases should carry the same totals at the end of the year. It was however observed that differences existed between the expenditure totals of the two, as at 31st March 2008. A reconciliation was not prepared by the Treasury. Investigation should be carried out to determine why

such differences occurred, and action should be taken to rectify the situation. Differences in these databases could cause doubt about the integrity of the data from the system.

2.41 Treasury's Response

The funds control module in Smartstream represents the Government's Vote Book. The General Ledger has always been managed by the Treasury Department and departments have always been required to reconcile their Vote Book to the Treasury's accounts. This has not changed with computerisation.

The problem we have however noticed is that departments do not reconcile to the Treasury on a monthly basis and therefore differences exist between Funds Control and the Ledger.

The reconciliation of the two systems would be more efficient and timely if accounting officers took responsibility for their Votes and ensured that they are reconciled to the Treasury on a monthly basis.

Assets

NON FINANCIAL ASSETS

Inventories

- 2.42** Inventories include materials or supplies for sale, or awaiting use in some process, and these would include postage stamps, supplies at the Printing Department, and vehicle spares at the Ministries of Public Works and Agriculture. IPSAS requires inventories to be measured at lower of cost and net realizable value, except when acquired through a non-exchange transaction.
- 2.43** Inventories reported as \$1,845,418 at March 2008 related to stock held at the Central Purchasing Department (CPD). Stock quantities were confirmed. However, when the cost was applied to the quantities, it summed to \$1,003,603.86, instead of \$1,845,418.00 as recorded in the General Ledger. Therefore, the inventory held at CPD was overstated by \$841,814.14.

2.44 It should also be noted that inventories held at other ministries/ departments were not included in the annual report, for example, the Drug Service, and the Ministries of Agriculture and Public Works and Transport. As a consequence the amounts shown as Inventories in the financial statements were short-stated.

2.45 ***Treasury's Response***

The only department which "officially" carries inventory in Government is the Central Purchasing Department. This is shown as assets in the financial statements. All other departments' stock is expensed on purchase and is therefore not reflected on the face of the financial statements.

Auditor's Comment

2.46 The system currently being used by Government is an accrual one, therefore inventories of substantial value held by other departments should also be included in the financial statements.

Land

2.47 Crown lands were placed on the Financial Statements for the first time, with an opening balance at 1st April 2007 of \$1,001,490,373.

2.48 Confirmation of land values at 1st April 2007, according to the extract from the 2007-2008 Land Tax Roll submitted, totalled \$1,177,050,475. Overall, the value of lands in the Balance Sheet was therefore understated by \$175.5 million.

Land Improvements

2.49 In respect of recordings under Land Improvements, expenditure totalling \$394,546.21 on items such as gabions, boulders, and PVC pipe was capitalized to the land account.

2.50 These types of expenditure should not be capitalized to the land account. Only expenditure relating to the purchase or disposal of land should be recorded in this account.

Buildings

2.51 The figure reported in the financial statements, as at 31st March 2008, was \$1,111,955,294 (\$1,226,842,902 less accumulated depreciation of \$114,887,608). Confirmation of Crown buildings requested from the Ministry of Housing and Lands has not been received as at the time of writing. It should however be noted that the values given were derived for insurance purposes, and the basis for these valuations is unknown.

2.52 Given the material nature of this item, due care should have been taken to ensure that the buildings were adequately valued. Without information on values from a competent valuation authority, the Audit Office was unable to verify these amounts.

2.53 Treasury's Response

The information presented in the financial statements was obtained from the Commissioner of Land Tax. I cannot account therefore for any information provided to the Audit that differs from what was provided to the Treasury.

We depend on the Commissioner of Land Tax for all valuations of land and on the Ministry of Housing for valuations of Government's property since we do not have the staff in-house to provide such valuations.

Auditor's Comment

2.54 The listing provided by the Treasury did not include a number of properties owned by the Government.

Assets under Construction

2.55 Assets Under Construction were reported at a total of \$45.7 million in the Financial statements. However, this total includes some amounts for activities which should be classified as expenses, and should therefore not be included in Assets Under Construction.

Other Capital Assets

2.56 A list of other assets entered into the system at 1st April, 2007, was requested on a departmental basis, to confirm opening balances. It should be noted that these other assets were in excess of \$1.2 billion. The

Treasury has reported that assets recorded since 1998 were depreciated to derive the opening balances in the financial statements.

2.57 A copy of the Asset Register, containing cost, location, purchases, disposal, depreciation and net book value of all assets, was requested, to facilitate the existence and completeness checks of assets included in the financial statements. At the time of writing this has not been presented for audit examination.

2.58 The records kept by the ministries and departments currently cannot be compared to those presented by the Treasury. These entities do not have asset registers with relevant information on cost of items, depreciation expenses and current values. Without such information it is not possible to verify amounts shown in the financial statements. This matter should be rectified to ensure that the amounts in the statements are verifiable.

2.59 ***Treasury's Response***

We have noted that across all the asset accounts departments have been reporting certain expenditures as assets which should be reported either as 'Maintenance of Property' or 'Goods and Services'.

The Estimates process is however such that it is impossible for us at the Treasury Department to review each Vote in the departments' budgets for correct allocation prior to the Estimates being presented to Parliament to ensure funds are allocated appropriately.

The Budget Section needs to assist with this verification.

Therefore, when the departments spend the funds, and the message to add the item to the Asset Register goes to the Asset Manager at the Treasury, who then notes the error, it is impossible to correct the transaction since no funds have been voted under the correct item of expenditure. The result is that the expenditure is recorded in the General Ledger as an asset but is not included in the Asset Management system.

There are also some departments which are blatantly disregarding the accounting policies and Financial Act and knowingly continue to use their Votes inappropriately. Accounting officers are also not

paying sufficient attention to how the Votes are used.

The computerization of Government's system was not intended to transfer responsibilities of the accounting officers to the Treasury, only to ensure that there was standardisation of processing and reporting of transactions; reduction in redundancy of functions and easier access to information across the public service.

Capital Lease

- 2.60** The Barbados Prison Facility was officially handed over to the Government of Barbados on 15th October 2007. The facility lease of US \$144, 301,325 (Bds \$288, 602,650) met the criteria of a capital lease. Hence the lease obligation was recorded as a liability in February 2008.
- 2.61** The facility was also brought to account as an asset in January 2008 at a dollar value of Bds \$294,374,703. This differed from the leased obligation of Bds \$288, 602,650 by \$5,772,053, and resulted from the fact that exchange rates of \$2.04 and \$2.00 were used to convert the asset and lease obligations respectively. The exchange rate of \$2.00 should have been used for both, with the higher rate used when foreign exchange was being purchased. The asset was therefore overstated by \$5,772,053.00.

FINANCIAL ASSETS

Cash and Bank

- 2.62** Total Cash and Bank reported was \$81,978,769. Of this amount \$2,252,812 represented cash held by ministries and departments. Actual cash held in the Treasury, as verified by the Board of Survey, was \$555,409.80. The difference of \$1,597,402.20 included cash in hand at the Post Office (\$1,590,482.44) and the VAT Department (\$91,762.01). There was however no independent verification of cash held at the other ministries and departments.
- 2.63** It is recommended that all entities with cash in hand of a significant amount be checked at the end of business on the last day of the financial year, or the beginning of business at the start of the following financial year, and a cash report prepared. This physical count should occur to ensure existence, and reveal any cash shortage that might exist.

2.64 It should be noted that funds held in banks by other ministries and departments at the close of the financial year were quite substantial, with bank balances at the Inland Revenue and Customs Departments exceeding \$35 million. These amounts should have been included in the financial statements.

2.65 ***Treasury's Response***

Balances held at the bank relating to the Inland Revenue Department and VAT represent un-presented tax refund cheques. These do not belong to the Crown but to individuals and business entities. They cannot therefore be shown on the financial statements since revenue has already been reduced by the amount and the liability discharged.

These entities should reconcile the accounts on a monthly basis to monitor their un-presented cheques.

The balance at the General Post Office is a revolving fund used to meet obligations of Government pension and money orders. These funds should still exist since we are not aware of a change in policy regarding the system used.

Bank Reconciliation Statements

2.66 Bank Reconciliation Statements were prepared on a monthly basis. However, each month the Reconciliation Statements carried large unreconciled differences.

2.67 Other difficulties encountered with the reconciliation pertained to deposits, which were listed on the reconciliation as being in the Treasury Ledger but not on the bank statement. However, in several instances, transactions listed on the reconciliation were not seen in the Ledger.

2.68 ***Treasury's Response***

The reconciliation process of the Treasury is complex and time consuming because of the large number of transactions which go through the bank accounts on any one day. There is currently no computerised reconciliation process for these banks.

Regarding the Central Bank of Barbados reconciliation, we were able to bring this unreconciled difference to what was considered acceptable in the past, that is less than \$100,000. However with the implementation of accrual accounting and the multi-currency ledger the unreconciled difference increased significantly, mainly due to a lack of understanding of how to handle foreign exchange differences.

Work was done to investigate the differences and at February 2008 the unreconciled difference stood at \$485, 177.78. However at March 31st, this jumped to \$1.7 million and at September 2008, the last date of the reconciliation, the unreconciled difference was \$2.1 million.

The reconciliation statements are currently being addressed by myself and the Financial Controller (Ag.).

Crown Agents General Account

- 2.69** The Crown Agents General Account reconciliation statements carried amounts labelled 'Gains & Loss' (difference in exchange). On investigation it was revealed that these figures, which appeared in January 2008 (\$15,915.25), February 2008 (\$16,663.66) and March 2008 (\$711.67), were in fact balancing amounts. This account was therefore not reconciled as reported.

Conclusion

- 2.70** Reconciliation of the Ledger to the bank account ensures that the process of cash management is effective and could assist in the detection of errors. Hence it is an important control measure that should be performed in a timely manner, with all differences thoroughly researched and resolved. This action would ensure that all the Crown's cash and bank transactions are properly brought to account.

Investment Fund Accounts

Public Enterprise Investment Fund (PEIF)

- 2.71** The PEIF financial statements as at 31st March 2008 reported investments in excess of **\$300 million**. However, according to a legal opinion of the Solicitor General, the PEIF cannot hold securities or other financial instruments in its own right. Therefore, financial assets listed with this Fund should be recorded as assets of the Treasury. Investments listed on the financial statements were therefore understated by \$300 million in this instance.

Recommendations

- 2.72** The opinion of the Solicitor General should be upheld. All loan issues and equity investments should be brought to account as assets of the Crown. However revenue from sale of Government assets and disbursements should continue to be captured in the PEIF financial statements.

2.73 *Treasury's Response*

This issue is being dealt with by the Ministry of Finance.

The Public Enterprise Investment Fund is considered to be a separate entity to the Consolidated Fund and though we are on an accrual basis we are not yet consolidating. It is therefore our opinion that the assets, liabilities, revenue and expenditure should be kept separate. The financial statements reflect this position.

We await the response from the Solicitor General on this matter.

Tax Receivables

- 2.74** There were a number of tax errors and omissions reported in the financial statements in respect of tax receivables. Differences exist between the balances provided by the ministries and departments, and those reported in the Accountant General's report as follows:-
- (a) The balance reported in the Accountant General's Report for the Land Tax Department was \$106,863,631. However, the balance as shown in the Ledger of the Department was

\$105,931,837.70. The balance in the financial statements was overstated by \$931,793.30.

- (b) The balance reported in the Accountant General's Report for the Licensing Authority was \$3,331,762. However, the balance as shown in the ledger of the Department was \$4,089,935. The balance in the financial statements was understated by \$758,173.

- 2.75** The Accounts Receivables were short-stated by \$267,834.30 in this instance. Receivables from the Inland Revenue Department were not received by the Audit Office as at the time of writing. It was unclear what the basis was for the increase in Income Tax Receivable shown in the financial statements, since the Inland Revenue Department had not provided any information to substantiate these amounts.

Unrecorded Receivables

- 2.76** All receivables due to the Crown were not recorded in the accounts of the Accountant General as at 31st March, 2008. Examples are as follows:-

Amounts Not Reported in the Financial Statements

Department/Agency	\$
Telecommunications Unit	1,310,357.00
Printing Department	130,876.74
International Transport	5,990,235.47
Analytical Services	402,437.13
Markets	<u>321,857.00</u>
Total	<u>8,155,763.34</u>

- 2.77** There needs to be a more comprehensive recording of receivables from all Government ministries and departments. Indeed all revenue collecting agencies are required to submit information in respect of Accounts Receivable, and this information should be captured in the financial statements.

Provision for Bad Debts

- 2.78** Provision for Bad Debts was recorded in the amount of \$200,842,747.34 as listed in the table below. Official documentation outlining the basis for the provision was requested but not provided.

Provision for Bad Debts

	\$
Corporation Tax	55,040,000.00
Import Duties	4,000,000.00
Value Added Tax	25,145,613.34
HRM (Hotel & Resorts)	116,181,730.00
Motor Vehicles	421,484.00
PSVs Registration	30,510.00
Driver's Licenses	23,410.00
	<u>200,842,747.34</u>

In the absence of the information requested, the reasonableness of the provisions could not be attested to.

Advances to Statutory CorporationsBarbados Tourism Investment Inc.

- 2.79** The financial statements of the Accountant General have reported the receivables from Barbados Tourism Investment Inc. (BTII) as \$235,300,000 plus accumulated interest of \$12,756,263.02. Therefore total receivables of \$248,056,263.02 were recorded as outstanding as at 31st March, 2008 as detailed below:-

Loans Disbursed

	\$
World Cup Cricket	96,000,000.00
Kensington Oval	74,300,000.00
BTI I	<u>65,000,000.00</u>
Total Disbursed between 2006 to 2008	235,300,000.00
Accumulated Interest	<u>12,756,263.02</u>
Total as per AG records	<u>248,056,263.02</u>

- 2.80** The Treasury advanced the BTII \$235.30 million to carry out various development projects including Kensington Oval. As at 31st March 2008 Letters of Intent between the BTII and the Government of Barbados totalling **\$235.30 million** (\$93.8 and \$141.5M) remained unsigned.
- 2.81** The Financial Management and Audit Act, Section D (31 - 35) sets out the rules applicable to advances to Government agencies, one of which states that a loan agreement or debenture mortgage shall secure the loan. There was no loan agreement in place at the close of the financial year as required. The expenditure carried out by the BTII was done on Government's behalf. The relevant expenditure should have been reported in the accounts of the Treasury.

2.82 ***Treasury's Response***

This is an administrative issue for the Ministry of Finance. We are awaiting a directive as to the treatment of the amounts disbursed to the BTII and the relevant Letters of Intent or Agreements.

Caribbean Broadcasting Corporation (CBC)

- 2.83** The opening balance for the financial year 2007/2008 included an amount of \$25,410,949 in respect of Accounts Receivable from CBC. This amount consisted of loan amounts of \$8,799,720 and \$11,809,726, plus accumulated interest of \$ 4,801,583.
- 2.84** The Ministry of Finance, by correspondence reference 5148/1 dated 15th November 2006 to the General Manager, CBC, had stated that confirmation had been given at a Cabinet meeting held on 28th March 2002 to convert the loan amount of \$8,799,720 to equity. However, this action was not taken.
- 2.85** A Provision For Doubtful Debt in respect of this loan was shown in the opening balance for 2007/2008. Subsequently Journal Voucher No. 382 of March 2008 was prepared in the amount of \$8,799,720, which reduced both the CBC Receivable account and the CBC Provision for Doubtful Debts account, thereby eliminating the loan of \$8,799,720 from the records. The manner in which the accounts were adjusted was inappropriate.
- 2.86** An agreement between CBC and the Government has allowed CBC to submit billings for services offered to the Government Information Service

(GIS). These amounts have been applied to the loan amount of \$11,809,726, plus accumulated interest. The total amount carried as outstanding by CBC as at 31st March 2008 was \$10,732,272.68. Confirmation requested by the Barbados Audit Office (BAO) from the CBC indicated that its indebtedness to the Government of Barbados as at 31st March 2008 was \$9,878,695.11. Therefore the records of the two entities differ by \$853,577.57.

2.87 **Treasury's Response**

The Caribbean Broadcasting Corporation does not often agree with the amounts the Government Information Service accepts and approves. Our figures are however based on the Government Information Service approvals.

General

2.88 There will always be challenges in partly recording equity in an entity which is fully owned by the Government. In situations where none of the previous equity has been recorded, to record only a fraction of the entity's injection would be incomplete. I would suggest that these injections be treated as Capital Contribution until a decision is taken on the full consolidation of all Government accounts.

Restricted Cash and Cash Equivalents

Sinking Fund Assets

2.89 The Central Bank of Barbados (CBB) manages the investment of Sinking Funds on behalf of the Government. Contributions to the Sinking Fund investments are made by the Central Bank on a six month basis. This investment is used in deferring the cost of redemption of both domestic and foreign bonds issued.

2.90 The Statement of Financial Position as at 31st March 2008 carried Sinking Funds as \$548,903,513, which included amounts relating to BTA and BTII Sinking Funds, while the notes which should support the Financial Statements indicated that the Sinking Funds were \$565,863,198.

2.91 Audit confirmation of Sinking Funds from the Central Bank of Barbados revealed a market value of \$578,447,501.44 as at 31st March 2008. Hence Sinking funds were understated by \$29.5 million. It should also be

noted that Sinking Fund amounts relating to BTA and BTII should not be included in these financial statements.

Receivables - Public Officers, Parliamentarians and Registering Officers

Vehicle Loans

- 2.92** The opening balances shown in the POLTA receivable account on behalf of a number of officers differed from the actual amounts disbursed. The opening balance agreed with the letters of approval in each instance. However, the receivable accounts should have been opened with the amounts actually disbursed. This action resulted in the Ledger being understated by \$8,079.10.
- 2.93** It was noted that a receivable account for \$46,310 was opened for a Foreign Service Officer I, but no funds were disbursed on his behalf. In this instance Accounts Receivable was overstated by \$46,310.
- 2.94** Schedule 7 of the Accountant General's report carries Car Loans balances of \$108,876.38 for Parliamentarians, while the Ledger balance was stated as \$128,869.46. Hence the annual report was understated by \$19,993.08 in this instance.
- 2.95** Schedule 7 of the Accountant General's report carries car loans balances of \$510,536.65 for Registering Officers, while the ledger balance was stated as \$471,716.14. Hence the annual report was overstated by \$38,820.51 in this instance.
- 2.96** Car loans are maintained on a subsidiary ledger. Reconciliation of this ledger with the control receivables account revealed:
- The POLTA subsidiary ledger carried a total of \$18,631,326.61, while the control account in the ledger carried \$16,306,702.03. Therefore it appears that the POLTA Accounts Receivable was short-stated by \$2,259,070.40.
 - The reconciliation of the subsidiary ledger also contains an unreconciled difference of \$31,490.22 as at 31st March 2008. Differences existed for all months within the financial year.

Recommendations

- 2.97** Reconciliation of the POLTA and its subsidiary ledger should be completed in a more timely manner, so as to be effective and to ensure that accurate figures are placed in the annual financial statements.

2.98 ***Treasury's Response***

This reconciliation was started during the 2007/2008 year by the Financial Controller at the Treasury but was not completed once again due to staff changes.

An officer will be assigned to complete this task as soon as possible.

Overdrawn Salaries

- 2.99** Overdrawn salaries occurred when, for various reasons, officers received salaries to which they were not entitled. This receivable was recorded as \$1, 182,236.06. However, there were approximately 246 persons repaying overdrawn salaries whose indebtedness to the Crown had not been captured in the records. In addition, other individuals exist whose indebtedness was neither recorded nor serviced. As a result, the amount recorded for overdrawn salaries was understated.

- 2.100** While it was indicated that accounting for overdrawn salaries should be handled similarly to POLTA, the required sub-ledger to record these receivables had not been brought into use.

Recommendations

- 2.101** The Treasury should obtain the relevant information from ministries and departments on amounts outstanding, which should in turn be part of the figure recorded as Accounts Receivable in the financial statements.

2.102 Treasury's Response

The Treasury staff has been trying to the best of their ability to manage this situation. However since we are dependent on departments providing this information to us it has not met with much success. The balance shown in the financial statement was determined by totaling the amount being repaid by individuals through the computerized paysheet based on the indicated start and end dates.

Investments**Investments in CDB and IMF**

- 2.103** An amount totalling \$3,024,198.03, which represented contributions to the Caribbean Development Bank (CDB) and International Monetary Fund (IMF), along with other promissory notes, was shown as an asset under Investments. These payments are yearly contributions to these institutions that should be expensed in the year to which they relate. It therefore appears that Investments were overstated by the above amount in this instance.

Investments in Leeward Islands Air Transport (LIAT)

- 2.104** The Ministry of Finance in correspondence dated 26th April 2006, indicated that loans to Leeward Islands Air Transport (LIAT) should be converted to equity. The financial statements showed equity in LIAT as BDS \$61,086,114.72. This consists of a loan amount of BDS \$40,283,251.54 drawn down from the Caribbean Development Bank, and a further \$20.7 million which includes receivables from the International Transport Division, and amounts previously advanced as bridging finance from the Consolidated Fund.
- 2.105** The conversion of bridging loans and accounts receivables to equity contravenes the requirements of the FMAA 2007-11 which stipulate that all capital contributions be appropriated.

2.106 Treasury's Response

The Treasury is aware that all monies transferred to LIAT were to be converted to equity. However, we at the time, did not have in our possession the relevant share certificates nor were we aware of

the total value of the investment. A decision was therefore taken that the disclosure on the face of the financial statements would be based on the verifiable information which we had; this was represented by the amount of draw - down on the Caribbean Development Bank loan, the amounts transferred from the Consolidated Fund and the amount owed to the Ministry of International Transport.

A meeting was held in November 2008 with the Ministry of International Transport to reconcile the investment account. This is almost completed and the total investment will be brought to account in the 2008/2009 financial statements.

Equity in Caves of Barbados

- 2.107** According to the Ministry of Finance Memorandum Reference 5514 T2, dated 29th June 2007, funds advanced from the PEIF/Special Deposit amounting to \$13.9m, should be converted to equity, along with \$4.0m advanced from the 2007/2008 Estimates of Revenue and Expenditure. However, as at March 31, 2008 the equity in Caves of Barbados was not brought to account.

Liabilities

CURRENT LIABILITIES

Temporary Advances

- 2.108** The FMA Act 2007-11 Section 13 (1) states that temporary advances from any bank or banks should not exceed 10 per centum of the net receipts of the estimated revenue of the Government for that financial year. Total estimated revenue for the period under review was stated as \$2,380,049,197.70; therefore advances should not exceed approximately \$238,049,197.70 (ten percent) at any given time. However, as at September 2007, advances were recorded as \$245,300,000, thus exceeding the stipulated level by \$7,250,802.30.

2.109 Treasury's Response

The temporary excess of \$7.2m was due to a misunderstanding by the Central Bank of Barbados which was using projected revenue rather than projected receipts to establish the overdraft limit.

To prevent this situation arising again correspondence is sent by the Ministry of Finance to the Central Bank of Barbados at the beginning of the financial year stating the projected receipts and overdraft limit for the year.

Accounts Payable

2.110 Accounts Payable as reflected in the financial statements totalled \$8,856,904. This included Accrued Utilities, unpaid invoices (PAL Account), Paymaster Account and other payables from the financial years 2007/2008 (of \$3,875,720.41) and 2006/2007 (of \$661,021.74). Subsidiary ledgers were not maintained for Accounts Payable. Detailed listings to support the amount from 2006/2007 of \$661,021.74 were not presented for audit inspection.

2.111 There were material omissions in respect of amounts due by the Crown to various private sector entities. These omissions included \$55.7 million in refunds due by the Value Added Tax Division, along with amounts due by other agencies such as the Inland Revenue Department and the Drug Service.

2.112 These omissions resulted in a substantial short statement of accounts payable in the financial statements.

2.113 Treasury's Response

In order for the Treasury to have complete information on Government's outstanding current liabilities, including tax refunds payable, this information must be fed to us by the relevant department. We have been unable to get the necessary cooperation from the ministries and departments to carry out this function efficiently. We will continue working on this during the current and subsequent years.

Government's Bank Accounts - Paymaster and Pensions

- 2.114** The Paymaster Account reflects all payable orders that have not been cashed. The detailed listing to support the Paymaster Account recorded payable orders issued and not presented from April 2007 to March 2008. However audit investigation revealed that this list was incomplete as payable orders not listed were presented for payment during the 2007/2008 financial year, for example payable orders totalling \$34,650 and \$25,640.40 which related to previous financial years.
- 2.115** Unpresented pension cheques and payable orders stood at \$236,797,323 as at 31st March 2008. However the Paymaster and pension bank information carried a balance of \$234,149,614.84 (\$229,182,734.73 and 4,966,880.11). Hence, an unreconciled difference of \$2,647,708.16 exists. The payable orders and pension cheques outstanding could not be verified in the absence of up-to-date reconciliations.
- 2.116** Unreconciled differences should be investigated and corrective action taken to bring the reconciliation up to date.

2.117 ***Treasury's Response***

This is being investigated for corrective action.

Current Portion of Long Term Debt

- 2.118** The current portion of Long-Term Debt was stated as \$417,863,035. This was short stated as it excluded \$3,000,000 owed to the contractor for the 'Road Rehab Project'.

2.119 ***Treasury's Response***

This was an oversight. The \$3m represents the amount to be paid in 2008/2009 which should have been transferred from Long Term to Current Portion of Long Term Debt.

LONG TERM LIABILITIES**Debt**

- 2.120** The amount quoted in the Statement of Financial Position for debt under the heading Long-Term Liabilities was \$4,652,235,672 (with reference to

Note Ten of the financial statements). However, the Note Ten total differed, as it stated Total Public Debt outstanding as \$5,762,120,000. This is misleading to users of the financial statements, as the notes should explain and reflect the amount stated on the face of the statements.

2.121 The Special Loans Act Cap 105, according to Note Ten, totalled \$518.07 million. However, the Integrated Coastal Surveillance System loan balance was recorded as \$14,889,499.00 instead of \$13,077,498.96, resulting in a difference of \$1,812,000.04. Hence, the Special Loans Act Cap 105 was overstated by \$1,812,000.04.

2.122 The schedule for the 'Loans Raised Under Special Loans Act, Cap 105' carried incorrect redemption / maturity dates as listed below: -

Loan	Incorrect Date	Corrected Date
Coast Guard	28 Sept 2006	04 Jan 2031
Integrated Coastal Surveillance System	11 Aug 2006	31 Jan 2018
Defence and Security-Ships Expo. Ref	10 Aug 2007	10 Jan 2020

2.123 ***Treasury's Response***

This represents total debt, both current and long-term, which includes Treasury Bills, Current Portion of Long Term Debt and Long Term Debt. This is reflected in Note 10.

The note number was however inadvertently left off the face of the financial statements for the current portion of the debt. This will be added to the face of the financial statement in the future.

The Schedule will be adjusted for the corrected maturity dates.

Regarding the difference reported re Cap. 105, the ledger was updated for a transaction after the schedules were prepared and the schedules were not changed to reflect the transaction.

Caribbean Development Bank (CDB) Loans

- 2.124** Repayments of CDB loans were in order. However the balance outstanding carried in the multi-currency ledger totalled US \$100,280,189.42 while the Lending Agency Statement totalled US \$100,369,420.00, a difference of US \$89,230.58. This difference was not reconciled.

Pension Liability

- 2.125** There was no record of liability for pensions in the financial statements. The Government has a defined benefit plan for its workers as outlined in various pension enactments. It would have been useful for the Government to apply the transitional provisions, to give itself time to carry out the actuarial review that will be required to provide the estimate of the pension liability.

2.126 ***Treasury's Response***

Pension liability is not reflected in the financial statements. Government currently uses the Pay as You Go system and so the liability exists only when the Pension Payable is computed and approved by the Governor General. All payments approved during the financial year were made.

In the future a note will be included in the financial statements regarding the contingent liability.

Auditor's Comment

- 2.127** The comment from the Accountant General is not supported.

Other Funds

Sugar Industry Research and Development Fund

- 2.128** This Fund receives its revenue from the Barbados Agricultural Development and Marketing Corporation (BADMC) based on sugar production. The Ministry of Agriculture directs the Accountant General in

terms of any expenditure to be met from the Fund. According to the Act the revenue becomes due in the year following sugar production.

- 2.129** Financial statements were prepared on the accrual basis for the year ended 31st December 2007. Examination of these accounts revealed that the December 2006 financial statements were not restated to facilitate the transition to accrual accounting. Sugar Levy of \$ 511,812.97 for the year 2005, which would be revenue for 2006, was recorded as 2007 revenue. Therefore, the revenue reported for 2007 was overstated by \$ 511,812.97 in this instance.

Public Enterprise Investment Fund

Hotel and and Resorts Ltd.

- 2.130** A loan in the amount of \$9,583,913.11 was reflected in the Public Enterprise Investment Fund (PEIF) Report for 2007-2008. However, an interest free loan in the amount of \$14,496,325.61 was issued in accordance with the loan agreement, and is repayable by September 2014. Therefore, the loan amount was understated by \$4,912,412.50.
- 2.131** The amount of \$18,912,413.00 reflected in the report as Investments was therefore overstated by \$4,912,412.50. The correct amount should have been \$14,000,000.

Needham's Point Holdings Ltd.

- 2.132** Investment was reported as \$84,676,174. However, audit investigation indicates that this should in fact have been reflected as \$64,676,174.19. Hence, equity was overstated by \$20 million in this instance.

	\$
Loans	10,066,781.00
Equity	<u>64,676,174.19</u>
Total	<u>74,742,955.19</u>

Loans to Government Agencies

- 2.133** The Principal outstanding from the Barbados Cricket Association stood at \$2,250,000 as at 31st March, 2008. According to the loan agreement, the loan was for a duration of fifteen years, with a seven year grace period.

Therefore, repayments should have commenced with effect from January 2005. In addition, ninety-six monthly instalments of \$2,250 were due to commence from the last working day in 2005. As at 31st March 2008 no payments were received in relation to this loan.

Investments Written Off

- 2.134** The investment in the companies of Carib Express (\$500,647.50) and KDI Dev. Inc (\$575,000) were written off in the financials of 1997. The combined total of \$1,075,648 was still reported on the financial statement of 31st March, 2008.

Tourism Loan Fund

- 2.135** An amount of \$10,169,313 stated as equity in the Tourism Loan Fund should be classified as expenditure and not investment, as per Ministry of Finance memorandum, reference no. 5490/3/1, dated 17th September 2002.

Conclusion

- 2.136** This is the first year that the Government is reporting its financial statements under the accrual basis, and it is expected that there would be some errors and omissions. Some of these errors however, have been of a material nature, and these included the following:-
- (i) The short statement of land by \$175 million;
 - (ii) Inadequate supporting documentation for Other Capital Assets valued over \$1.2 billion;
 - (iii) The presentation of Revenue on a cash basis;
 - (iv) The inability to supply supporting evidence for buildings valued at \$1.1 billion;
 - (v) The omission of \$300 million in assets originating from PEIF;
 - (vi) The absence of information on Public Service pension liability;

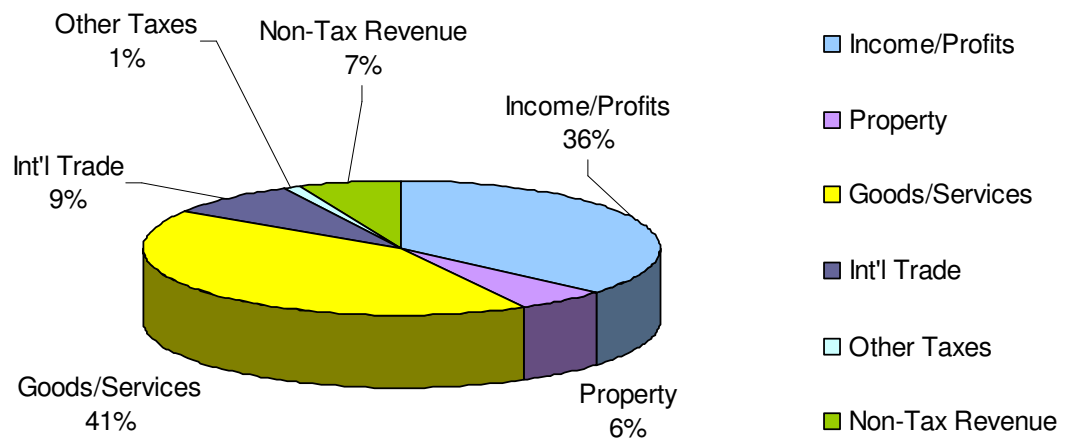
- (vii) Uncertainty surrounding the classification of \$248 million in expenditure made by the BTI on behalf of the Government;
- (viii) Outstanding refunds due by revenue agencies; one agency's refunds was in excess of \$50 million;
- (ix) Understatement of Sinking Fund Assets by \$29.5 million.

2.137

In view of the possible material effects on the financial statements of the matters described in the preceding paragraph, I am unable to express an opinion as to whether these financial statements are presented fairly in accordance with International Public Sector Accounting Standards

Total Revenue 2007 – 2008

CLASSIFICATION BY REVENUE AREA



Total Expenditure 2007 – 2008

CLASSIFICATION BY MINISTRY

