
CHAPTER 3

General Audit Concerns and Observations

This chapter highlights general accounting concerns observed during the course of the audits of Ministries and Departments. It also includes responses by Ministries/Departments to the concerns raised.

Audit Mandate

- 3.2** An audit of the accounts of the Ministries and Departments of Government for the financial year ended 31st March 2008 was conducted by the Barbados Audit Office as required by Section 26 of the Financial Management and Audit Act, 2007-11.
- 3.3** As determined by this Act, the onus for the proper discharge of financial administration and the preparation of financial statements rests on the Accounting Officer. It is the Auditor General's responsibility to form an independent opinion on the accounts, based on the audits carried out by this Office.

Audit Purpose and Scope

- 3.4** The Barbados Audit Office is empowered to carry out audits on ministries and departments 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 Revenue and Appropriation accounts are correctly and properly stated.

3.5 Issues and concerns arising out of these audits are reported in the remainder of this chapter.

Special Audit of The Immigration Department

- 3.6** There has been considerable discussion with regard to the number of persons residing in Barbados without the necessary permission, and the management of this issue by the Immigration Department. In accordance with its mandate to review the efficiency and effectiveness of Government Ministries and Departments, the Office undertook a review of the Immigration Department with a view to assessing how efficiently and effectively this Department was handling migration into the country. Audit issues observed form the basis of the following Report.

Executive Summary

- 3.7** One of the most critical factors for decision making in managing the migration process is the availability of accurate information on visitors. It would be expected that the Immigration Department would have a system in place which would record all the relevant information on persons entering and leaving the country. The production of reports on persons remaining without permission should be evaluated; and effective action taken to better manage the process. However, there is no evidence that such reports were requested and analysed by management on a systematic basis, for the purpose of decision making.
- 3.8** The Immigration Department has invested in a computer system called the Immigration Management and Control System (IMCS) AS/400, for controlling and monitoring immigration. This computerised system is a valuable tool for improving officers' ability to manage arrivals, departures and enforcement cases that involve investigations, detentions and removals.
- 3.9** Information on persons entering the country is entered into a database at the Department. However, the Department informed that it was not possible to accurately state from this data the number of persons in the country without permission.
- 3.10** The lack of adequate monitoring of, and enforcement action against, persons who overstayed their visit, has led to a growing but unknown

number of persons who remain in Barbados without the permission of the Immigration Department. This includes non-nationals whose applications for work permits, extensions and visas were unsuccessful. In the 2006-2008 period, the number of persons who were refused work permits, extensions and visa applications was 3,916. These persons were expected to leave Barbados voluntarily. It is however unclear where they are, since there is inadequate keeping of records and follow-up action to ensure that they return to their homelands.

- 3.11** Over the last two years, the Department has issued 15,803 work permits. These were issued mostly in the two main sectors – the agricultural sector (2,600) and the construction sector (7,627). There was no clear evidence that the Department had established a basis for the issuance of work permits to the various sectors, for example, labour market information to show the labour shortages prior to work permits being issued. It is also unclear how the Immigration Department determines that applicants are bona fide artisans in the absence of certification.
- 3.12** There has been much discussion of the impact of the Caribbean Single Market and Economy (C.S.M.E) on migration. Investigations revealed that 328 persons applied for resident status in Barbados as a result of the freedom of movement provisions of the CSME as spelt out in the Revised Treaty of Chaguaramas (RTC) 2001. In addition, 33 businesses were established in Barbados under these provisions. Thus the C.S.M.E has not significantly impacted the movement of skilled CARICOM nationals into Barbados.
- 3.13** Under the Immigration Act “a person may not engage or employ another person who is not a citizen, permanent resident or immigrant unless there is a work permit in force.” It was however observed that:
- Employers were hiring persons who were in the island illegally and applying for work permits on their behalf;
 - Many of these applications were favorably considered and approved.
- 3.14** Furthermore, work permits were in some instances issued to individuals without the requisite documentation, and this included the submission of incomplete application forms.

- 3.15** In situations where applications for extensions or work permits were refused, applicants were simply told that the application had not been granted and they were required to leave the island. In general this information was not immediately communicated to the Investigation Section for enforcement.
- 3.16** This lack of timely information has hampered the Investigation Section in carrying out its mandate effectively. In addition, the number of officers attached to this unit is insufficient and should be increased.

Introduction

- 3.17** The Barbados Audit Office has a mandate to conduct performance audits under the Financial Management and Audit Act, 2007-11. A Performance Audit is an independent appraisal of an entity to determine the extent to which resources (financial, human and physical) are managed with due regard to economy, effectiveness and efficiency in conformity with applicable regulations, rules and procedures.
- 3.18** The Immigration Department, headquartered at Careenage House, The Wharf, Bridgetown, controls Barbados' ports of entry at the Grantley Adams International Airport (G.A.I.A.), which includes the International Aircraft Management (I.A.M.) facility and the Simpsons' Hangar Incorporated, the Bridgetown Port, and the Port St. Charles Marina in St. Peter.
- 3.19** This Department has responsibility for immigration matters in Barbados, in accordance with the Immigration Act, Cap.186 to Cap.190. The functions of the Department involve issuing work permits, visas, and passports, processing applications for immigrant status, and the processing of visitors to the island. There has been considerable debate on the number of persons staying in the Island illegally. As a result of this public discourse, the Barbados Audit Office conducted a Performance Audit on the Immigration Department.

Methodology and Scope

- 3.20** Interviews and discussions were held with the acting Permanent Secretary of Defence and Security, the Chief Immigration Officer (Ag.), members of the Enforcement Division and officers of the Data Processing Unit. In

addition, relevant records in the Department were reviewed, along with accounting information and the Department's operational manual. The audit covered the period 1st April 2006 to 31st March 2008.

Objectives and Scope

3.21 The audit evaluated the efficiency and effectiveness of the Immigration Department with respect to the management and control of immigrants for the period 1st April 2006 to 31st March 2008. The objectives of this review were to:

- Determine whether adequate systems are in place to record and monitor persons allowed entry into and exit from the country in accordance with the laws, regulations and policies (Immigration Act Cap.190);
- Determine whether the resources available to the Department are adequate and efficiently utilized to achieve the Department's mandate;
- Review and report on the extent to which persons are in Barbados illegally and the action the Immigration Department is taking to combat the problem;
- Provide management with practical recommendations to improve operations.

3.22 This audit was conducted in accordance with the Financial Management and Audit Act 2007-11, and INTOSAI Auditing Standards and other administrative directives.

Arrivals and Departures

3.23 Although arrival and departure information is entered into a computerized database at the Department, a common identifier for tracking each person entering and exiting the country is not assigned. This was one of the factors which made it challenging to provide relevant statistics on persons in the island without relevant permission.

- 3.24** The Data Processing Officer stated that some persons travel on multiple passports and different names, and could therefore enter the country using one passport, but exit using another. In such cases, the system would not match the departure information to the arrival information.
- 3.25** This situation regarding the absence of up-to-date information on persons staying in the Island illegally has developed over time, and shows a major deficiency in the operations of the Department. Management of the migration process requires timely and accurate information for decision making. There is an urgent need for corrective action to address this information deficiency.

Inadequate Monitoring of Arrivals

- 3.26** There are no facilities in place at the Bridgetown Port or Port St. Charles Marina for monitoring the arrival and departure of yachts. The onus is solely on the yacht's captain to bring the documentation for Immigration Officers to check, and then return to Carlisle Bay or Port St. Charles Marina, from whence the yacht departs. Thus, the checking on entry and departure of yachts is dependent on the captain's integrity to report the vessel's arrival and departure.
- 3.27** For instance, on 15th December 2006 it was realized that yacht "LeiJia" had arrived in Barbados and anchored in the area off Rockley Hotel. The three crew members on board proceeded to disembark without clearance from Immigration officials. After further investigations it was revealed that the yacht arrived in Barbados on the 14th December 2006, and one of the crew had been previously deported. Inadequate monitoring of the seaports is a security risk that should be urgently addressed.

Work Permits

- 3.28** In accordance with Section 17 (1-2) of the Immigration Act, Cap. 190, "a person may not engage or employ another person who is not a citizen, permanent resident or immigrant unless there is a work permit in force." In contravention of the Act, some employers were employing non-nationals and then applying to the Immigration Department for work permits. This is an offence, nevertheless such applications have been favorably considered by the Department and work permits have been granted.

Recommendation

- 3.29** Persons who engage or employ non-nationals are in violation of the Immigration Act and should be held accountable for their action.

Issuing of Work Permits without Appropriate Documentation

- 3.30** There are two categories of work permits, short-term and long-term. Short-term work permits are valid for six (6) months, while long-term work permits are generally approved for periods ranging from one to three years, but can be extended to five years in the case of University lecturers.

Audit Findings

- 3.31** A sample of 250 applications was examined to ensure compliance with the Department's policies in respect of the issuing of work permits. Overall, 30% of the population sampled were granted work permits without requirements such as:

- The application being signed by the employer;
- Cover letter being signed;
- Police certificate from the applicant's homeland;
- Application being approved by the Minister;
- Complete documentation (in case of a permit for one year).

Issuing of Work Permits

- 3.32** In the period 2006-2008, approximately 6,300 work permits and 9,500 work permit renewals were granted as follows:

Work Permits

Period	New Applications	Approvals	Refusals	Renewals Applications	Renewals Approvals	Refusals
2006– 07	4,095	3,272	823	4,575	4,303	272
2007– 08	3,801	2,995	806	5,436	5,233	203
Total	7,896	6,267	1,629	10,011	9,536	475

- 3.33** The system of granting work permits needs to be reviewed to ensure that permits are issued in accordance with the established criteria backed by data showing the shortage of local labour in the particular area.

Caricom Single Market and Economy and Migration

- 3.34** The CARICOM Single Market and Economy (CSME) (Article 45 of the Revised Treaty of Chaguaramas 2001) makes provision for the free movement of persons. This provision can be divided into two broad categories:
- (i) The Free Movement of Skills/Labour;
 - (ii) The facilitation of Travel/ Hassel-Free Travel.
- 3.35** The Treaty accords to Community Skilled Nationals the right to free movement in search of career enrichment, and to conduct economic activities in all CARICOM Member States as either a wage-earner or non-wage earner, without the need to obtain a work permit.
- 3.36** This entitlement applies to several categories of CARICOM Nationals, including university graduates, artistes, musicians and artisans.
- 3.37** The processing of qualifying workers is done by either the Barbados Accreditation Council (BAC), or the Immigration Department, depending on the category. In the event that a CARICOM National does not fall into one of the approved categories, then the National would require a work permit to work in Barbados.

Findings

- 3.38** Over the past two years the BAC granted Certificates of Recognition of CARICOM Skills Qualification to 328 non-nationals. In addition 33 businesses were established under CSME.

Auditor's Comments

- 3.39** The influx of CARICOM nationals into the country has not been greatly affected by Barbados' commitment under the Revised Treaty of Chaguaramas. This influx of CARICOM nationals was seen mostly in the agricultural and construction sectors, for which work permits are required.

Enforcement

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

Recommendation

- 3.41** Enforcement procedures should be integrated with the application process, and the information on newly failed applicants should be promptly passed to Investigation Section for necessary action.

Staffing

- 3.42** The Investigation Section has a staff complement of six Enforcement Immigration Officers with the mandate to track down illegal persons and ensure they are deported in accordance with Cap. 190. This manpower appears to be currently inadequate, given the challenges of this Section.

Recommendation

- 3.43** Management should maintain an up-to-date listing of overstays, thereby creating a database which can be sourced by the Investigation Section at any given time, in order to effectively carry out its duties.

Conclusions

- 3.44** One of the main challenges the Department faces, relates to the production of information to Management on the extent of illegal persons present in the country. The controls that should have been in place to manage this process have been absent or relaxed, and as a result the Department has the monumental task of determining the number of persons who are in the Island illegally.
- 3.45** The application and enforcement processes were operating largely as separate systems. For example, when persons were denied work permits and were therefore required to leave the country, the information was not immediately communicated to the Investigation Section, thereby hindering timely follow-up action.
- 3.46** Individuals seeking employment are not entitled to apply for their own work permits, yet in many instances such persons applied for work permits and were granted, including many who were in the country illegally.
- 3.47** In addition many work permits were granted without the provision of the necessary documentation, such as a Police Certificate of Character and application forms signed by the potential employer.
- 3.48** The Department has not been successful in ensuring that a large number of persons in the island without permission were promptly dealt with. The Department would have exacerbated the situation by approving permits for some of these persons who were in violation of the Immigration Act.
- 3.49** In order to ensure that the Immigration laws of the country are complied with, a major effort should be undertaken to halt the flow of illegal immigrants, and to account for those persons currently in the Island without permission.

3.50 **Department's Response**

The Department will ensure that in the future the Immigration laws and policies are strictly followed when processing applications. Also greater emphasis will be placed on the proper completion of all application forms. It is recognized that the overstayers are a problem but the Department will continue to improve the computer system currently being used to meet the challenges highlighted in your report to arrive at an estimate.

Value Added Tax Division

Introduction

- 3.51** The Value Added Tax Division is an integral part of the Customs and Excise Department, and has responsibility for the collection of VAT generated locally. The operations of the Division are governed by the Value Added Tax Act, Cap 87, and the Value Added Tax Regulations 1996. The Division collected \$485 million in taxes for the financial year ended 31st March 2008. Of this amount, \$112 million was refunded to registrants.

Audit Objectives

- 3.52** The objectives of this review were as follows:
- (a) Assess the Division's policy to ensure all qualified vendors are registered;
 - (b) Assess the risk-analysis strategy for choosing applicants to be audited, and the impact of audits on the generating of additional taxes;
 - (c) Assess the refund process, including the reasons for delays in processing;
 - (d) Determine whether follow-up action is taken to recover overdue taxes in a timely manner.

Methodology

- 3.53** Interviews were conducted with the Director as well as personnel from the Registration, Refund, Compliance and Audit Sections within the Division. Files, reports and tax-payable records were reviewed.

Registration Section

- 3.54** The VAT Act Section 51(1) and 38 (3; 7-8) gives the Comptroller of Customs the authority to cancel the registration of a person who had been

registered for a period of at least one year and had not, since being registered performed any taxable activities.

3.55 It should be noted that the deregistration of a person does not affect their obligations and liabilities under the Act in respect of anything done or omitted to be done by the person while registered or required to be registered.

3.56 At 31st March 2008, there were 1,116 businesses awaiting deregistration. The Division therefore needs to take the necessary action to remove those persons who are currently registered, but are not engaged in the level of business specified in the VAT Act. However, with a limited amount of staff available to conduct audits, a system needs to be introduced to determine whether any firm which is being deregistered should be audited. It should be noted that some firms on the list have been registered since 1997 and have not done any taxable activity.

3.57 It should also be noted that a company has the right, under Section 75(3) of the VAT Act, to destroy records and books of account after seven years, unless authorized otherwise by the Division. Therefore, the timely completion of the inspection of these companies should be carried out, if deemed necessary, before this time has expired.

3.58 **Division's Response**

It should be noted that a person would not be "deregistered" in the following circumstances: (a) where the person has filed returns that were in 'error', mathematical or otherwise, (b) where the registrant is awaiting refunds, (c) where the registrant is in arrears, or (d) there are outstanding returns.

3.59 **Auditor's Comment**

Notwithstanding the above circumstances the Division needs to resolve any outstanding issues and effect deregistration expeditiously.

VAT Audits

3.60 The Audit Section of the Value Added Tax Division has responsibility for conducting audits on the accounting and other records of registrants. These audits can be carried out if there is any suspicion of tax evasion, and can serve as a deterrent to other registrants, who may not be complying fully with the provisions of the VAT Act.

Audit Selection

3.61 The Division recognizes that identifying and targeting 'high risk registrants' is the key to assigning its audit resources in the most effective manner. However, there is no evidence that this practice is adhered to.

Duration of Audits

3.62 Once a decision is taken to conduct an audit, a file is created on the computer system. A total of 1,618 audit files were created over the eleven year period 1997-2008, of which 118 have been cancelled. Of the remaining 1,500, a total of 454 cases (30%) have been completed as shown in the following table.

Audits Opened During 1997-2008

Year	Selected Cases	Opened Cases	Completed Cases
1997-98	132	35	97
1998-99	164	107	57
1999-00	82	65	17
2000-01	142	115	27
2001-02	149	82	67
2002-03	216	120	96
2003-04	151	116	35
2004-05	74	54	20
2005-06	145	107	38
2006-07	185	185	0
2007-08	60	60	0
Totals	1,500	1,046	454

- 3.63** The number of audits conducted annually has declined, with no audits being completed during the past two years. Some audits have taken several years to be completed, that is, from the time the audit is initiated to when the assessment is submitted. It was also noted that some audits opened since 1998 remained outstanding.
- 3.64** The Division needs to take action to reduce the time taken to conduct these audits in order to convey reassessment to registrants in a timely manner, and to allow the relevant action to be taken to recover outstanding amounts. This action would contribute to a more efficient use of resources.
- 3.65** It should also be noted that the staffing complement of the Audit Section consists of 16 persons and is inadequate to handle the current volume of audit work. In the 2006-2008 period, 245 cases were opened; to date none of these audits was shown in the system as complete.
- 3.66** The reassessments resulting from past audits have increased the amounts owed to the Division by \$16 million. However, these reassessments were not shown in the computerized records. It is not clear why the records have not been updated, since the results of audits indicate that there can be substantial benefit from this activity.

3.67 **Division's Response**

The actual start date of the audit could be a long time after this (selection) as there are a large number of selections and a few auditors..... Since the final stage of the audit process is the generation of the assessment notice, when this stage has been completed the system should have been programmed to automatically close the case. A number of these cases have since been closed and we are working on hitches in the system, which prevent the closing of some others.

Limitation Period

- 3.68** The Value Added Tax Act, Section 75(3) states that every registrant is required to retain books and records for a period of seven years, or such other period as may be prescribed. In respect of those audits which were in excess of seven years, no notices were seen authorising registrants to keep their records longer, as stipulated by Section 75(5) of the Act.

- 3.69** There were 322 audit files opened between 1997 and 2001 which have exceeded the period of limitation, and unless the registrants were notified to keep the records, these audits should be urgently concluded.

Auditor's Comments

- 3.70** The closure of files when audits are not completed will result in the restriction of the planned audit coverage. In many instances the additional time spent on partially completed audits would have been wasted.
- 3.71** Currently there are not enough staff members assigned to the audit of registrants. This has resulted in a backlog of audit cases, and a narrowing of the audit base.
- 3.72** Audit activity should be increased as it could serve as a deterrent factor and result in increases in tax due.

Refund Section

- 3.73** The Refund Section is responsible for the processing of all refunds claimed by registrants and non registrants.
- 3.74** At 31st March 2005, there were 6,830 refunds outstanding with a value of \$45 million; 60% being at the initial stage. In contrast, at 31st March 2008, there were 8,398 refunds outstanding with a value in excess of \$55 million of which 64% were at the initial stage of processing.
- 3.75** Refund claims have increased by an additional 1,568 over the past three years and there are over 6,000 claims currently being processed. The Refund Section has a staff compliment of 11 officers and with the increasing number of outstanding claims, the Section will be further challenged to process refunds in a timely manner.

Unallocated Funds

- 3.76** In addition to the large number of refunds outstanding, there is a significant amount of Unallocated Funds to be processed. These "Overpayments" as they are referred to, represent payments from registrants which are in excess of amounts filed as output taxes, or amounts not entered correctly on the tax payers' accounts. Amounts listed

as Unallocated Funds have been steadily increasing, rising from \$2.6 million in 2005 to approximately \$25 million in 2008.

- 3.77** These unallocated amounts must be investigated to determine whether the registrants should be refunded, or the funds properly allocated to the appropriate tax period in the registrants' account. The challenge of reducing the Unallocated Funds in a timely manner has been compounded, due to internal staff arrangements. Unless concerted action is taken on this matter, it will become increasingly difficult to process these large unallocated amounts in a timely manner. This delay is likely to result in complaints from registrants about the accuracy of their accounts. Unallocated funds are as follows:

Unallocated Funds

Year	No. of "Overpayments"	Amount
		\$
2005	2,305	2,658,556.37
2008	3,421	25,050,000.00

3.78 **Division's Response**

Unallocated Funds or "Overpayments" as they are referred to, represents payments received from registrants which were in excess of amounts filed as tax payable... Each must be investigated on a case by case basis.

Outstanding Refund Interest

- 3.79** Cap. 87, Section 47(4) (c) states that "*where the refund for the taxable period is not paid or applied as required ..., within 6 months after the month in which the return for the taxable period was filed, interest is payable to the registrant ... at the prescribed rate ... for each month or part thereof during which any amount of the refund remained unpaid*" However, tax payers who submit their applications late or have outstanding returns are not entitled to late refund interest.
- 3.80** The Division has not been paying late refund interest of 1% as required by the VAT Act. Thus, interest is only paid if the registrant makes a written application requesting such. This is in contravention of the Act.

- 3.81** Late refund interest in the sum of \$1,378,897.85 was paid to 72 registrants over the past five years. In the period 2006-2008, only 13 registrants were paid interest in respect of late refunds. This figure would have been significantly more had the Division adhered to the Act. The Division's policy of not paying interest without an application has resulted in the understatement of interest payable, and in addition, exposed the Division to litigation.

Compliance Section

- 3.82** The Compliance Section is responsible for ensuring outstanding returns are filed, collections of arrears, investigations, responding to breaches of the VAT legislation, complaints, and administering the Public Entertainments Act.

Arrears of Revenue

- 3.83** The tax debt continues to grow substantially. At 31st March 2008, the total uncollected taxes, penalties and interest owed totaled \$196,150,748.57, and involved 2,507 registrants. This was \$31,250,096.48 more than the previous year's total of \$164,900,652.09. The categories of businesses that are indebted to the VAT Division with the largest amount of arrears appearing first are as follows:

Categories of Businesses Owning Arrears

Sector	\$	%
Tourism	45,788,829.00	23.2
Finance	43,022,958.00	21.8
Wholesale	37,891,628.00	19.2
General	22,115,509.00	11.2
Construction	20,691,652.00	10.5
Manufacturing	15,796,263.00	8.0
Transport	8,950,638.20	4.5
Other Agriculture	1,312,403.00	0.7
Mining	885,193.29	0.4
Government	294,654.99	0.1
Electricity	225,957.88	0.1
	196,975,686.36	100%

- 3.84** The above table shows the various areas of commerce that owe amounts to the Division. It would be expected that the Division would have some risk assessment strategies, targeting those sectors to which percentages of outstanding arrears are high. There was no evidence that the Division has been pursuing such a strategy.
- 3.85** There are firms being paid considerable funds by Government agencies, inclusive of VAT, who have not paid this tax over to the Division. Reports on these firms/persons need to be obtained from the Ministries and Departments and follow-up action taken against the defaulters. This information could contribute towards the identification of non-registrants and assist in the collection of the tax debt from persons in the shadow economy.

Collection of Arrears

- 3.86** The Division has sought to utilize several methods of enforcement to reduce the amount of taxes outstanding, but these methods have not been effective. This is shown in the following:

Unpaid Tax Certificates

- 3.87** Unpaid Tax Certificates (UTC) in the sum of \$9,428,016.35 were lodged in the Supreme Court from the year 1999, in respect of 55 claims against registrants. The relevant files were sent to the Solicitor General's Chambers between September 2001 and October 2004, but there is no evidence that action has been taken on this matter. The UTC method of enforcing the recovery of VAT has therefore not been effective.

Revenue Arrears Payment Programme

- 3.88** The Ministry of Finance and Economic Affairs, through the VAT Division implemented an amnesty programme called Revenue Arrears Payment (RAP). This programme allowed tax registrants to reduce their arrears through an Instalment Agreement from 1st September 2002 to 31st August 2005, thus suspending penalties and interest if the registrants complied with the stipulations. Failure to comply with the terms of the programme would result in the registrants being liable for penalties and interest due.
- 3.89** At the commencement of the RAP programme, there were 3,047 tax registrants eligible for waivers, with arrears totaling \$71,134,101.06

including penalties and interest. Only 295 registrants responded and \$6,754,252.56 (9.5%) in taxes was collected.

- 3.90** The waiver of penalties and interest should have been an incentive to reduce the VAT arrears by registrants. The RAP programme however was not very effective in reducing the level of arrears.

Collections of Garnishments

- 3.91** The VAT Act Cap 87, Section 91, provides the authority for Demands on Third Parties. The Act stipulates that when a registrant is indebted to the Crown and is owed money by a third party, the Comptroller may deliver to the third party a demand for payment, which is called a garnishment.

- 3.92** The garnishing of tax registrants commenced in 1999. At 31st March 2008, total revenue of \$49,136,155.25 had been collected from 2,268 tax registrants.

Uncollectible Outstanding Debt

- 3.93** An analysis of outstanding amounts at 31st March 2007 is shown in the table below. The Ageing Analysis excludes \$10 million recommended for write-off. The majority of the outstanding arrears are in excess of five years. Early action in the lifecycle of a tax debt account is important to the successful collection of outstanding amounts. The longer the debt is outstanding, the more difficult it is to collect.

Ageing Analysis as at March 31st 2007

Period	Amount
	\$
Under 6 months	12,642,500.59
6 months to 1 year	8,377,248.51
Over 1 year and up to 2 years	21,428,513.59
Over 2 years and up to 3 years	14,150,332.63
Over 3 years and up to 4 years	13,892,540.33
Over 4 years and up to 5 years	15,293,923.98
Over 5 years	<u>71,495,607.59</u>
Total	<u>157,280,667.22</u>

Human Resources

- 3.94** According to the established Public Service Staff List, there were 22 vacant posts at the Division as at 31st March 2008. This reflects a serious shortage which is a challenge and limits the Division's effectiveness in achieving its mandate. Delays in filling vacancies have impacted negatively on the smooth operations of the Division.
- 3.95** The Compliance Section, staffed by 11 officers, is responsible for ensuring that 8,078 registrants comply with the VAT Act. Over 2,500 of these are currently in arrears.
- 3.96** This section needs additional personnel and should be restructured with components having responsibility for Accounts Receivable, Investigations and Public Entertainment.
- 3.97** An analysis of the human resource requirements of the VAT Division should be conducted and consideration given to urgently filling vacant posts, with the aim of increasing the level of monitoring of tax registrants.

General Observations

- 3.98** In accordance with the Financial Management and Audit Act, 2007-11, the financial statements of the Government are to be accounted for in accordance with the International Public Sector Accounting Standards (IPSAS). In order to comply with IPSAS, the Treasury requires revenue information on an accrual basis. It was however noted that revenue was reported primarily on a cash basis. Such action could lead to a qualification of the Government's Accounts.

Recommendation

- 3.99** The Division should therefore take steps to ensure that its revenue is reported in accordance to IPSAS.

Special Audit of the Barbados Agricultural Development and Marketing Corporation

Introduction

- 3.100** In response to a request from the Chief Executive Officer on 6th May 2008, a special review of the accounting system of the Barbados Agricultural Development and Marketing Corporation (BADMC) was carried out in accordance with the provision of Section 36 of the Financial Management and Audit Act, 2007-11.

Background

- 3.101** The Barbados Agricultural Development and Marketing Corporation was established to develop the agriculture sector by providing technical, financial and marketing services. Some programmes provided include Irrigation and Extension Services, and Land for the Landless.
- 3.102** The Corporation is mainly funded by Government grants which were \$2,700,000 for the financial year ended 31st December 2007.

Audit Objectives

- 3.103** This audit was conducted to:
- (i) Analyse the accounting system and records of the Corporation to ensure its operations comply with the directives of the Board, the Barbados Agricultural Development and Marketing Act 1993 and generally accepted accounting principles;
 - (ii) Review the operations of the Corporation to identify whether the internal controls are effective;
 - (iii) Review the operations of the Finance and Accounts Department.

Methodology and Scope

- 3.104** Interviews were conducted with the Chief Executive Officer and other officers in the accounts and personnel sections of the Corporation. Documentary evidence was obtained from accounting records, minutes of the Board of Management and reports from previous auditors.
- 3.105** The audit review took into consideration the Corporation's operations during the period 1st January 2005 to 31st May 2008.
- 3.106** The audit did not assess the specific human resource requirements of the Corporation.

Audit Findings

- 3.107** The BADMC faces a number of critical challenges relating to the management and control of its assets such as land and inventory. In addition it has been challenged to produce financial statements for audit in a timely manner in accordance with International Accounting Standards.
- 3.108** The Finance and Accounts Department needs to access the skills of a professional accountant with adequate experience to effectively manage its operations and prepare its financial statements on a timely basis. This observation is supported by the degree of involvement of the auditors in the process of producing the Corporation's financial statements. This practice is a major concern, as it compromises the auditors' independence and increases the cost of audits. In addition, there is a need for an adequate procedural manual to guide the operations of the Finance and Accounts Department.
- 3.109** The ACCPAC accounting software is used as the main accounting application, supported by the Green Trees computer program and Microsoft Excel. However, these programs are not integrated and require manual transfer of data across systems. This situation has created some challenges for the Department in ensuring that there is an accurate transfer of data to the General Ledger.
- 3.110** The decision not to carry forward year-end account balances to the succeeding financial year until the final accounts of the previous financial year have been audited, has created significant problems for the Finance and Accounts Department. Any financial reports produced would therefore be unreliable, since brought-forward balances of assets and liabilities

would be excluded from the accounts. The last audited financial statement was for the year ending 31st December 2003. This is unacceptable and this practice therefore needs to be addressed urgently.

Ministry of Agriculture and Rural Development

- 3.111** The objectives of this Ministry include the guiding and directing of agricultural and fisheries development in the country and improving the livelihood of residents in rural areas. The audit of the accounts for the financial year ended 31st March 2008 revealed the following:

Rental Arrears re: Markets

- 3.112** Arrears for the rental of stalls and other spaces at Markets totaled \$321,857 at 31st March 2008. Some of the outstanding balances have accumulated over several years, but efforts to collect the arrears have met with little success.

Fixed Assets

- 3.113** A complete listing of assets was not in place at the time of the audit inspection. In keeping with the Financial Rules this information should be prepared and kept up to date so as to provide a proper control and check to the satisfaction of the Auditor General. It should also be noted that the Ministry needs to keep accurate account of its assets, their values and depreciation allowances for reporting purposes under the accrual system of accounting that has been adopted by the Government with effect from 1st April 2007. Instructions 7.2.8 to 7.2.10 and 7.4.1 to 7.4.3 issued to Departments, set out the policies regarding fixed assets, depreciation and inventory. Such instructions should be adhered to.

Government Analytical Services

Samples

- 3.114** Arrears totalling \$402,437.13 for the testing of samples were owed to the Government Analytical Services at 31st March 2008. This figure has continued to increase each year since the collection efforts employed have been ineffective. This situation is unsatisfactory and firm and decisive action is needed to have the uncollectible amounts written off and the remainder collected.

Barbados Drug Service

- 3.115** The activities of the Barbados Drug Service include the provision of drugs and related items to all Government Health Institutions, as well as the provision of medication free of cost or at reduced prices to all residents who qualify.

Contracts

- 3.116** A formal contract between the Barbados Drug Service and private participating pharmacies has not been put in place since the previous one expired on 31st March, 2005. This contract was however still in operation at 31st March 2008, based on a letter (dated 31st March 2005) from the Drug Service informing the private pharmacies that the contract would remain in force until further notice, pending legal guidance from the Solicitor General. The failure to have a new contract in place after three and a half years is unsatisfactory, particularly since the existing arrangement was not agreed to in writing by both parties.

3.117 ***Department's Response***

A contract was issued for one year from April 1st 2004 to March 31st 2005, pending review by the Attorney General's Office. To date, a review has not been done and contracts were extended until further notice. The Ministry of Health is in the process of revisiting all outstanding issues with the Attorney General's Office.

Ministry of Home Affairs

Prison Department

- 3.118** The purpose of Her Majesty's Prison is to provide safe custody for persons committed in accordance with the Law, and to provide training, education and skills in a manner designed to provide for their rehabilitation.

Assets/Inventory

- 3.119** A complete listing of assets and inventory was not prepared as required by the Financial Rules. It was explained that the information was currently being prepared in electronic format. This information should be finalized as soon as possible. It should be noted that the Prison has numerous assets, including items valued at \$446,839 purchased during the year, and these need to be properly accounted for.

Stores

- 3.120** An up-to-date stores ledger showing the receipt, issue and balance on items in stock was not in place as required by the Financial Rules. Over \$1.9 million was spent on food items during the year. The failure to keep adequate records for large quantities of stock can lead to wastage or misuse going undetected.

3.121 ***Department's Response***

The record keeping in the storeroom is in place but not adequately updated because of the transfer from the Harrison's Point Facility. However, the Financial Controller and Information Technology Section at the Ministry of Home Affairs along with the Steward from the Storeroom are in the process of putting systems in place to correct all issues in Storeroom.

Contracts

- 3.122** During the year under review substantial sums totalling in excess of \$950,000 were paid out for the supply of food items without any contracts being drawn up with the suppliers. The Financial Rules state that contracts or written agreements shall be drawn up for the supply of goods or the undertaking of works or services in excess of \$20,000. These contracts act as a safeguard for Government and should be in place when substantial expenditure is involved.

Government Industrial Schools

Barrows Construction Project

- 3.123** The renovation of the former Barrows Children's Home has been ongoing since December 2006 and was still not completed when an audit team visited the site on 15th October 2008. In accordance with a Cabinet decision, the work on the project is being carried out by personnel from the Ministry of Public Works, but stoppages over the issue of payment for overtime claimed, low productivity as stated by the Project Consultant in a report dated 20th August 2008, and the absence of a fixed date for completion, have contributed to the length of time spent on the project. Sums totalling in excess of \$627,000 have been spent on the project as at August 2008 and a further \$877,000 has been approved to pay for the remaining work. It is recommended that the proposal by the Project Consultant to demobilize the Ministry's staff from the site and hire small contractors in specialized work groups for labour-only contracts be considered as soon as possible.

3.124 **Ministry's Response**

The Ministry of Home Affairs concedes that this project has exceeded time and budgetary estimates. In this regard the Project Unit has begun the process utilizing contracts to execute some of the works in an effort to advance the project.

Inland Revenue Department

- 3.125** The Inland Revenue Department is one of Government's major revenue collecting agencies. The responsibilities of this Department include the collection of revenue from taxes on income and profits, property and international trade. During the financial year ending 31st March 2008, the Department collected approximately \$953 million in revenue out of which \$114 million was refunded. Issues arising from the audit of the accounts of this Department were:

Balance on Tax Refunds Bank Account

- 3.126** The balance on this bank account was \$30,751,487.57 as at 31st March 2007 and \$25,041,439.00 as at 31st March 2008. This account has not been reconciled for a number of years and has exposed the Department to the risk of not being able to detect errors and irregularities in the activities of the account, and to identify unrepresented refund cheques.

Recommendation

- 3.127** A bank reconciliation should be carried out on a monthly basis and differences promptly investigated and resolved. Excess cash should be paid into the Treasury.

Provision for Doubtful Debts

- 3.128** A decision was made to allot 2% of Accounts Receivable to Provision For Doubtful Debts. No documented evidence was made available to the Audit Office to substantiate such policy or the reasonableness of the provisions.

Recommendation

- 3.129** The Department needs to provide information showing the reasonableness of the Provision For Doubtful Debts.

Accounting for Revenue

- 3.130** The Financial Management and Audit Act, 2007-11 requires the Financial Statements of the Government to be accounted for in accordance with

International Public Sector Accounting Standards. In order to comply with these standards, the Treasury requires revenue information on an accrual basis. It was however noted that revenue was reported primarily on a cash basis. Such action could lead to a qualification of the Government's Consolidated Financial Statements.

Recommendation

- 3.131** The Department should therefore take steps to ensure that it reports its revenue in accordance with International Public Sector Accounting Standards.

Ministry of International Transport

- 3.132** Audit of the accounts for the Ministry of International Transport for the financial year ended 31st March 2008, revealed the following:

Arrears of Revenue

- 3.133** Sums owed to the Government of Barbados by Airline Companies and Concessionaires operating from the Grantley Adams International Airport totalled \$5,990,235.47 at 31st March, 2008. This sum includes balances that were outstanding for over ten years. Efforts to have them settled, including written correspondence and proposed legal action have met with little success. Some of the companies have requested copies of the outstanding invoices for their own investigations, but these requests have not been facilitated. There is no obstacle to the Ministry providing this information since it maintains ledger accounts for each customer, supported by duplicate invoices and receipts.

- 3.134** ***Ministry's Response***

The Ministry proposes to seek the advice of the Solicitor General as to the most effective and efficient way of collecting the arrears in order to liquidate the outstanding receivables.

Commission for Pan African Affairs

The Bicentennial Global Dialogue

- 3.135** In October 2007, the Commission for Pan African Affairs hosted a Bicentennial Global Dialogue. It was estimated that the cost of this activity would be approximately \$534,419. Based on the initial Cabinet approval, the Commission booked air travel and hotel accommodation for persons who had indicated a willingness to attend. The late confirmation of the Conference resulted in cancellation by a number of the persons previously booked. Consequently, the Commission had to pay the full air travel cost and one night's accommodation for these delegates.
- 3.136** Some of the cancellations were in respect of persons who had key roles in the execution of the Conference. The Commission sought to replace such persons, which resulted in additional costs in respect of airfare and accommodation.
- 3.137** From the information submitted by the Prime Minister's Office and the Commission for Pan African Affairs, it was determined that total expenditure for the Conference was **\$1,071,405.08**.
- 3.138** Total expenditure exceeded the budget. This can be attributed to the fact that there was not enough regard paid to the authorized ceiling. It is also necessary that the Commission ensures that funds are available before incurring expenditure.
- 3.139** The Prime Minister's Office and the Commission for Pan African Affairs should ensure that the financial management of future events complies with the Financial Rules. In cases where additional funds are required, a supplementary appropriation should be sought before Government is committed to such expenditures.

National Disability Unit

Slow Implementation of Programs and Inadequate Storage

- 3.140** The Disability Unit has experienced delays in implementing a number of programs for which it has acquired equipment and furniture. As a result, a large number of items remained unused. The Disability Unit lacks adequate storage space/facilities, and as a result has been storing items at a number of locations, including two instances where the items remained with the vendors.
- 3.141** This situation has created a number of problems for the Disability Unit, including loss, wastage, and lack of adequate control over assets.

Purchase of Chairs

- 3.142** In March 2002, the Disability Unit paid \$13,356 for the construction of two storage units (\$3,996) and 60 chairs (\$9,360). These items were not immediately collected by the Disability Unit. Late in 2005, it was reported that 33 chairs had become termite infested and had been discarded. This has resulted in a loss of \$5,148 in public funds.

Purchase of Equipment

- 3.143** In 2002, the Unit paid \$75,000 (VAT inclusive) for purchasing four pieces of equipment. These items remained in storage at the importer up to the time of writing.
- 3.144** Officers from the Audit Office and the Disability Unit visited the site on 25th September 2008, but were not allowed to inspect the equipment in the absence of the Chief Executive Officer, who was reportedly not on the premises at the time. Further attempts to visit the site for inspection purposes have been unsuccessful. The Disability Unit has since written to the importer requesting that the items be handed over.
- 3.145** Payment for items not delivered to the Unit constitutes a breach of Rule 48 (2) (f) of the Financial Administration and Audit (Financial) Rules, 1971, which requires the Certifying Officer to ensure that “stores purchased have been supplied and accounted for.” Failure to observe this regulation deprived the Unit of control over the assets in question. In addition, there

is no evidence that the Unit entered into any written agreements over the storage of these items, which exposed the Unit to the risk of being unable to recover such items in the event of damage, loss or misuse.

Problems Resulting From Lack of Use and Inadequate Storage Facilities

- 3.146** The Unit presently has a large number of unused items. These items, some bought as far back as 2002, have a value in excess of \$180,000. As a result of rapid technological changes, some of this equipment, such as computers, can be outdated and/or obsolete within a few years. The Unit therefore faces the prospect of equipment becoming outdated and/or obsolete before being put to use.
- 3.147** Evidence indicates that the Disability Unit has been in correspondence with the Ministry of Housing over the years seeking accommodation for the various projects which it has planned. It has however experienced difficulty in obtaining this accommodation.

Recommendations

- 3.148** The Ministry of Housing needs to provide the necessary accommodation in order for the Unit to implement its projects.
- 3.149** The Unit should desist from purchasing additional equipment for projects until the necessary accommodation has been acquired.

Outstanding Issues From 2007

3.150 In my Annual Audit Report for the year 2007, there were a number of issues reported, in respect of various Ministries and Departments, which at that time remained unresolved. I requested an update on what action, if any, had been taken to resolve the matters mentioned in my Report. Following are the issues related to the relevant ministries/departments and their responses.

Ministry of Agriculture

3.151 I had outlined a number of issues relating to the management of contracts at the Ministry of Agriculture which were of concern. In my view these matters have not been properly addressed and I have asked the Permanent Secretary to supply the relevant update on the following:-

- (a) The payment of the full contract price for remodelling 13 stalls near the Speightstown Bus Terminal even though the work was not completed;
- (b) The method used by the Ministry to approve the variation submitted by the construction company contracted to conduct repairs to the roof of the Veterinary Laboratory;
- (c) The Ministry's basis for approval of numerous variations submitted by the contractor for renovation to the roof of the Oistins' Fish Market, which resulted in cost overruns being incurred.
- (d) The payment of performance bond expenses and insurance, to which the construction company hired to carry out renovations and extensions to the old Griffith's Reliance Pharmacy Building, Palmetto Square, was not entitled.

3.152 At the time of compiling this report, my Office had not received any response from the Ministry.

Department of Corporate Affairs and Intellectual Property

- 3.153** I had indicated that the Department had received an advance payment of \$3.8 million in respect of Property Transfer Tax as a result of the transfer of 25 million shares in one commercial bank to another. I had indicated that an amount of \$652,500 was outstanding in respect of Property Transfer Tax and Stamp Duties. I had also indicated that there was no action taken to collect the outstanding amount.
- 3.154** Since then the attorneys for the Bank have objected to the valuation and have indicated that the information on the valuation was only communicated to them some four years after the transaction was finalized. The attorneys have also stated that to request these funds now would be inequitable.
- 3.155** This matter has been outstanding for some time and the necessary follow up action needs to be taken by the Department to bring this issue to a conclusion.

Ministry of Housing and Lands

- 3.156** I had outlined a number of issues relating to the Ministry of Housing and Lands which were of concern. In my view these matters have not been properly addressed and I have asked the Permanent Secretary to supply the relevant update on the following:-
- (a) The absence of up-to-date information in relation to land acquired over the years;
 - (b) The absence of Cabinet authorization for lease agreements on commercial properties;
 - (c) Inadequacy of insurance coverage on Government buildings.
- 3.157** At the time of compiling this report, my Office had not received any response from the Ministry.

Ministry of Public Works and Transport

3.158 I had outlined an issue pertaining to the rental of the Ministry's Crane to a firm, under an arrangement in which the Ministry not only receives lease payments from the firm, but also pays rental money to the firm when the crane is used by the Ministry. In my view this matter has not been properly addressed, and I have asked the Permanent Secretary to supply the relevant update on the recovery of amounts outstanding for the lease of this Crane.

3.159 The Ministry had previously responded by indicating that correspondence had been sent to the General Manager of the company in question, informing him of the outstanding debt and asking for prompt settlement. Instructions had been given that no further payments were to be made by the Ministry for the rental of the crane.

3.160 ***Ministry's Response***

After thorough investigation and discussion it was concluded that the date of termination of the contract was 31st March, 2006 as agreed between the parties.

Since payment (of the outstanding debt) was made the crane which has now become obsolete is in the possession of this Ministry and can be located at the Buildings and Drainage Unit at the Old Livestock Station, Pine North-South Road, St. Michael. The Ministry is in the process of having the said crane boarded.

Newton Business Park

3.161 It was noted that the BIDC entered a contract with a developer for the design and construction of a business park at the Newton Estate for \$18.5 million. The contract was terminated by the BIDC in March 2007.

3.162 The BIDC commissioned an independent consultant who determined that there were defects in the construction of the buildings in the park. It was also indicated that it would take in excess of \$7 million to rectify the situation. The Corporation had indicated that it had given the contractor

notice to remedy the specified defects and complete the unfinished work within 30 days.

3.163 I requested information from the BIDC as to what action had been taken against the contractor on this matter, and the BIDC responded as follows:-

3.164 ***BIDC Response***

Rectification of the defects which were discovered by the Project engineers formed part of the works to be carried out under the new contract between Newton Business Park Project Company Ltd. (NBPPCL) and the new Contractor.

No action was taken by the former Contractor to remedy any of the defects.

The BIDC on behalf of NBPPCL has retained the services of the Attorney-at-Law to pursue its claims against the former Contractor.

Construction of Police Station at Crab Hill, St Lucy

3.165 I had outlined an issue pertaining to the substandard work left by the former contractor of the Police Station at Crab Hill, St. Lucy. The main concern of this project related to the wastage of Government funds. This project was awarded to a contractor for \$1,483,485.28 in 2004. The project is now estimated to cost in excess of \$4 million, and this is some \$2.6 million more than had been anticipated.

3.166 In my view this matter has not been properly addressed and I have asked the Permanent Secretary to supply the relevant update on the recovery of costs relating to these deficiencies.

3.167 At the time of compiling this report, my Office had not received a response from the Ministry.