# Turks & Caicos Islands National Audit Office

**REPORT OF THE AUDITOR GENERAL ON THE TURKS & CAICOS ISLANDS GOVERNMENT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017**

*Dated March 15, 2018*

# Contents

# 1. Executive Summary

The National Audit Office (NAO) concluded several aspects of its audit of the TCIG's financial statements for the 2016/17 fiscal period submitted on ***July 31, 2017***. **Our audit was based on the financial statements submitted for audit on July 31, 2017 and revised on March 14, 2018. Some changes were in terms of some errors, omissions and/or under or overstatements (Notes 17, 19, 20, 21 etc.) as advised by the Accountant General.**

The primary responsibility of the public sector auditor is to satisfy himself that the accounts presented have been prepared in accordance with constitutional requirements, statutory laws and regulations and that proper accounting practice have been observed in their compilation.

The ultimate basis for true and fair financial reporting is outlined under Section 121.—(1) of the TCI Constitution which states that the House of Assembly shall be provided with such reports, information and accounts as may be necessary to ensure that the House is kept fully informed at all times of the state of the economy of the Islands and the finances of the Government.

We believe that the Financial Statements submitted to the House of Assembly does not ensure that the House is kept fully informed of the state of the economy of the Islands and the finances of the TCIG.

The basis for our Opinion is outlined immediately below and detailed in the audit findings throughout this audit report. These findings affect not only the accuracy and reliability of the financial statements but also have an indirect impact on regularity, propriety, internal controls, governance, risk management, value for money and transparency. While in some cases these impacts may not be quantifiable, the qualitative impacts are quite evident.

**Adverse Opinion**

In our opinion, because of the significance of effects of the matters described in the basis for adverse opinion paragraph, the financial statements have not been properly prepared, in accordance with the requirements set out in the Public Finance Management Ordinance and audited under the National Audit Office Ordinance. In our opinion the financial statements together with the notes thereon are not properly drawn up so as to exhibit a true and fair view of the state of the TCIG's affairs as at March 31, 2017 according to the best of our information and explanations given to us, and as shown by the books of the TCIG. **We also cannot place reliance on management's representation letter outlined in the financial statements as the evidence obtained in the audit contradicts the representations made in the letter.**

**Basis for Adverse Opinion**

We identified deficiencies in the design and implementation of the process for consolidating all ministries, offices, statutory authorities and other public institutions into one economic entity. As a result I believe that total assets, total liabilities, total net worth, total revenues and total expenses are pervasively affected by multiple misstatements. These are;

1. Financial Accounts have not been consolidated which would impact a multiplicity of transactions, statements, accounts and disclosures. The TCIG controls the financial and operating policies for the Whole of Government. The Constitution requires that the House of Assembly be fully informed of the state of the finances of TCIG. By not consolidating, it does not give a true picture of the state of the finances of TCIG. (Note 3.1)

2. Assets and Liabilities are materially misstated;

    i. For example the $897 million healthcare cost is treated as a commitment. For all intents and purposes, it is a liability, resulting in an understatement of the Liabilities in the Statement of Assets and Liabilities. (Note 3.2)

    ii. $408.5 million of Assets is not accounted for and/or disclosed properly in the Financial Statements. There is no clear disclosure for these amounts. This also implies that there is a high risk that assets could be exposed to misappropriation. This results in an understatement of the Assets in the Statement of Assets and Liabilities. (Note 3.3)

    iii. The Consolidated Fund (CF) does not tie back based on the financial statements received for audit. In the Annual Statement of Public Accounts (ASPA) Supplementary Note 9 "Statement of Assets and Liabilities" the CF balance was - $16.491 million and in the ASPA Supplementary Note 10.2 "Statement of Cash Flows", the CF balance was $38.318 million. The CF is materially misstated. (Note 3.4)

    iv. A key provision, Section 5 (3) of the PFMO states that the Development Fund (DF) shall not form part of the Consolidated Fund and shall be kept in a separate account by the Accountant General. The DF has not been managed in accordance with the legislation authorizing it as provided for under the PFMO. As the DF balances were co-mingled with the Consolidated Fund Balances (CFB), it also implies that the CFB is also incorrect, lending further support to the problem with the CF outlined in (iii) above. DF and CF amounts ideally should not be commingled as there are specific requirements in how the DF account is used and there are specific accountability requirements in regards to the lenders/grantors/foreign donors. The DF was also intended to be separate from the CF, so that it could at least identify clearly what expenditure was incurred for infrastructure, land purchases, buildings, boats, vehicles, furniture, equipment, computers and other fixed assets, the costs of which increases the service potential or useful life of the assets. While it may be possible to extract these figures, it is difficult to establish whether or not the funds allocated for development was legally spent on what it was supposed to be spent on. The separate tracking and legal separation of these two major accounts would also serve as a clear control of knowing what assets TCIG owns in order to limit misappropriation. The controls are weak or ineffective. The DF balance is materially misstated. (Note 3.5)

v. Consolidated pension liabilities total $584.3 million. The $489.9 million (unaudited) in pension liabilities at the NIB and the $94.4 million in TCIG pension liabilities must be treated with in TCIG's Accounts. NIB reserves are approximately $252 million while it is not clear as to what funding is available to address the TCIG pension liabilities. This results in a consolidated unfunded pension liability of $332.2 million ($584.3 - $489.9 - $94.4 [amounts in millions]). These have not been properly included in the Financial Statements of TCIG. It is also uncertain as to what are the estimates of post-employment healthcare liabilities. Pension liabilities and post-employment health care liabilities are significant long term liabilities that directly impact the vast majority of contributors. (Note 3.6)

vi. $55.7 million in arrears (made up of arrears and penalty) were not collected for various reasons and were not included in the Financial Statements. The arrears amounts cannot be assured as the notes are insufficient, back-up documentation is inadequate and this has been a repeat audit finding. Previously there was a $12.6 million write-off which adds further concerns around the effectiveness in collections. There are specific requirements that must be met under the PFMO prior to write-off of these large sums, recognizing some of the historical financial challenges. (Note 3.7)

vii. From our review of the $8.4 million loans listing for the assets taken over from TC Invest, we noted that some assets did not incur any movement during the year. There was no interest income accrued on these assets and no payments made out. The biggest portion of the assets did not have any recoveries during the year. We did not obtain any evidence of follow-up or alternative actions taken regarding the non-performing loans. There is no evidence that a physical verification of the mortgaged assets is/was performed. The assets are not verified by the board of surveys as part of their annual verification. We therefore could not ascertain the existence and current condition of these assets. (Note 3.8)

viii. The Statement of Assets and Liabilities had a total of $2.7 million for advances of which $2.6 million is to be written-off. The PFMO states that all advances shall be retired in the year made, so the balance on all advance accounts should be zero. (Note 3.9)

ix. Vouching of the items on the Statement of Commitment (Note 18 of the Financial Statements) to the Ministry's Reported Statement of Commitments revealed differences totaling approximately $2.2 million. (Note 3.10)

x. Within the financial statements is a $0.8 million amount related to stale dated cheques. These cheques were reclassified from cash balances into payables as they had been long outstanding. Through our inquiries with management, we were informed that management is still following up on why the payees did not cash their cheques. We could not verify whether these cheques were actually delivered to the payees. It is management's responsibility to settle these obligations as they have been outstanding for a period beyond one year. (Note 3.11)

xi. There were no recording of guarantees in the financial statements. For example if there is any temporary insufficiency in the assets of the NIB Pension Fund to meet the liabilities of the same fund, it shall be met by TCIG. Currently the NIB Pension Fund liabilities are estimated at approximately $489.9 million. TCIG also may be the loan guarantor for some loans between NIB and the old TC Invest and TCI Bank that are not reflected in TCIG's note disclosures. (Note 3.12)

xii. Previous year balances totalling $210,000 for the Ministry of Education and Ministry of Tourism were not included in the statements. There were no write-offs for the year ended 31 March 2017. There was also a loss of cash totalling $22,616.30 at the Judiciary that was not included in the financial statement for the years ended 31 March 2016 and 31 March 2017. There was also an amount on the statements for Ministry of Border of Control for residence permit which was omitted from the financial statements resulting in an understatement of $128,700. (Note 3.13, 3.14)

3. Revenue & Expenditures are materially misstated

i. The NAO was unable to audit the IT systems and controls upon which the financial statements are prepared. However, a spot check review of payments made revealed that there were 795 cheques totalling $7.0 million that were cancelled during the period under audit. According to Treasury, this occurred mainly as a result of a system error in SmartStream. There is a risk that duplicate payments may not be captured or reversed resulting in an overpayment of expenditures. This also implies that there may be other systemic issues with the IT System that have not yet been discovered or known. These systems have not been substantially audited for a substantially long period of time. Smartstream is the main accounting software used to manage TCIG's finances. It is the primary source for accurate recording of transactions of Government. We are unable to assure the accuracy or reliability of the financial information generated from

Smartstream, at least until an IT audit is performed. This issue has the potential to affect a multiplicity of accounts if there are this many system errors at this high value amount. (Note 3.15)

ii. TCIG has not recorded amounts from a few Statutory Bodies as a control to ensure that they receive the funds due to TCIG. During our audit of the statutory bodies, for example the Telecom Commission had an amount due to TCIG of approx. $1.6 million (Telecom's 2017 Audited Fin. Stats), Airports Authority of $0.5 million (2015 audited fin. Stats.), Civil Aviation of $0.5 million (2015 Audited Fin. Stats.), FSC of $2.9 million (FSC's 2017 Audited Fin. Stats.). These total approx. $5.5 million and are not reflected in TCIG's accounts implying that there are no controls to ensure that these amounts are actually received from the Statutory Bodies. During the reporting process, these figures may not all be captured resulting in an understatement of Revenues. There may be more that is due to TCIG that has not yet been collected and/or accounted for. These have far reaching implications for budget decisions. (Note 3.16)

iii. In the Financial Statements, Note 4.1, the Communications Tax and Gaming Machine tax are both $5.666 million. The Seaport Departure Tax, Stamp Duty-Vehicle Hire and Insurance Premium tax are all $1.424 million. These appear to be errors. This impacts the accuracy and reliability of the reported Revenues. (Note 3.17)

iv. There were several overstatements which impact the accuracy of the financial statements. For example the costs for Medical Treatment – Transfers to NHIB were overstated by $226,987.82 due to other vendors' costs being included in this figure. The costs for rental of assets were overstated by $221,889.53 due to incorrect classification of expenses. Expenses such as housing allowance, office supplies and catering were posted to the rental of building account. Also there were claims against the Government account which were overstated by $60,000 due to incorrect classification of expenses with respect to a refund of $50,000 for a Casino Licence and Professional and Consultancy costs of $10,000 for services relating to credit facility agreement for TCIG. (Note 3.18)

v. All manual journals/entries require approval by an authorised official prior to posting to the General Ledger. We extracted a sample of manual journals of the sample of 48 journals totaling $4,299,073.99, 10 journals totaling $288,341.20 were not authorised. The lack of authorization of manual journals shows a weakness in internal controls and poses a risk for potential management override of controls. This was also discovered in a previous audit. (Note 3.19)

4. Government and Statutory Bodies apply different bases of accounting making it difficult for Central Government to consolidate their accounts. While the Cash Flow Statement can be

consolidated, income statements and balance sheets are not. The bases of accounting range from cash accounting, modified-cash and accruals. These need to be aligned properly. These create financial reporting discrepancies. The 2012 new laws provided for the Accountant General to set the basis of accounting across the Whole of Government which includes Statutory Entities. (Note 3.20)

5. Certain information (documentation and/or explanations) were not received. Some requests for information were not received or could not be provided by the timeline due mainly to unforeseen circumstances such as the hurricane. These were the report of the healthcare reconciliation costs, support documents and reference numbers from Customs Department for transactions relating to Concessions granted and fees received relating to Import Duties, Fuel tax, Customs Processing Fee, Warehouse Rents, and Sale of confiscated Goods. We did not receive the support documents or reference numbers in order to conduct our testing. We were informed that due to the Department having to move from its previous location the information was not able to be compiled and would be provided at a later date. Therefore we would not be able to assure the accuracy or reliability of the Revenues.

6. Significant unresolved prior years' audit issues, some of which are included in this Audit Report again.

Audit Findings supporting the Adverse Opinion are detailed in Section 3.1 to 3.35 and 4.1 to 4.7.

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Priority focus should be on;

I. Securing resources to implement the audit recommendations or similar measures to improve the financial reporting.
II. The Consolidated and the Development Fund balances need to be thoroughly examined to ensure correctness. The Development Fund "funds" need to be accounted for and reported on in accordance with law and must be separate from the Consolidated Fund "funds". This will deal with capturing capital assets and also address the problem of not having a proper account of capital assets.
III. The cash basis of accounting is not appropriate to meet the PFMO & PFMR statutory requirements.
IV. Accruals accounting must be implemented across all statutory entities. This will ensure that liquidity problems are known/estimated well in advance of the problem arising. It will also ensure that the House of Assembly is kept fully informed of ALL financial matters that impact the sustainability of the Islands, not only now, but in the future.
V. At a minimum ALL ASSETS must be recorded even if some of the Capital Assets are not included in the financial statements. While various standards may dictate different reporting requirements, it is incumbent on TCIG to ensure that proper records of all of

TCIG's Assets are kept otherwise one cannot protect them from theft, loss or other misappropriation methods.

VI. Significant improvement is required in the quality review process so as to reduce the amount of errors and omissions.

VII. Signification improvement is required in the internal control and risk management environment including fraud risk management. Eliminate discretion in the accounting policies. Select specific accounting policies under IPSAS that applies to each and every line item of the Accounts. Using the IPSAS Cash Standard alone to meet the requirements of the PFMO is inadequate.

VIII. Accounting Officers must be in a position to provide reliable and accurate information for inclusion in the financial statements.

IX. Greater coordination is needed by the Ministry of Finance and the Statutory Bodies in relation to the preparation of Consolidated Financial Statements.

Without having strong financial reporting and control frameworks in place, significant deficiencies in the financial reporting system will continue.

In addition, I must stress that the NAO has not been able to fully conduct its work as independently as it should be. Since my appointment there have been several incidents of interference in the operations of the NAO. These have been reported to those charged with governance. However, these contraventions must be effectively addressed. There is provision for interference under the laws to ensure the independence of this Office is not compromised by such acts. For example, in the past, we had 3 large statutory bodies that attempted to interfere and/or interfered in the operations of the NAO which is in contravention of the Constitution and NAO Ordinance.

I also remain resolute that in a small island state where there is convincing evidence of weak controls, that the NAO should be the ones responsible for its staffing functions only with oversight from the Governor's Office, not the audit clients such as the Human Resources Department/Public Service Commission. This is a conflict in and of itself. While we do accept that the policies will assist the NAO, there are negative risks associated in adhering to HR policies which do not meet the international standards for the regulated auditing profession.

There are a few risks that the NAO is exposed to. These are audit detection risks (not having the requisite skills to detect or spot red flags/warning signs), reputational risk (where the NAO has to comply with audit clients' procedures that are weak), interference risks as outlined above, to name a few. Internationally recognized auditing standards clearly state that SAIs should have the Financial and managerial/administrative autonomy and the availability of appropriate human, material, and monetary resources. These challenges continue.

## ***CONCLUSION***

**<u>Acknowledgements -We would like to thank management and staff for providing assistance and support during this audit.  I would like to especially thank my Staff members for their continued efforts in the work of the NAO, despite limited resources.</u>**

## 2. Risk Assessment Model

| Description of issue in a High or Moderate Risk Process | Report in Audit Report | | | | |
|---|---|---|---|---|---|
| | High Significance Issues | | | Moderate Significance | |
| | Actual or Potential Misstatement of Financial Statements of a Significant Amount, Repeat Audit Comment, Standard of Control Gap, Major legal or regulatory non-compliance (deficiencies) | Procedure, System or Work Practice not in place to meet the required Standard | Procedure System or Work Practice in place but systematic issues in executing or documenting the Control | Procedure, System or Work Practice in place but not adequate to address the risk with additional control step or process documentation needed | Procedure, System or Work Practice in place but occasional issues in executing or documenting of Control |

| Description of issue in a Low Risk Process | Management Letter* | | |
|---|---|---|---|
| | Low Significance Issues | | |
| | Procedure, System or Work Practice in place but isolated or very infrequent issues in executing or documenting the Control | Procedure, System or Work Practice not in place or not adequate to fully address the risk and additional Control step or process documentation needed | Efficiency or Continuous Improvement Suggestion or Recommended Work Practice |

* Please note that there may be some items of low significance that may still be reported in the Audit Report.

**Table 1 – Risk Assessment Model used in this audit**

LR – Low Risk

MR – Moderate Risk

HR – High Risk

Note that other factors may determine a level of risk assigned.

# 3. Audit Findings*[1]

## 3.1 Consolidation of Controlled Entities not performed in accordance with IPSAS Cash Basis Standard - HR

***Consolidation required under IPSAS Cash Basis Standard***

**A mandatory requirement of the IPSAS Cash Basis Standard is that accounts must be consolidated.** This is one of the major challenges of this standard. The TCIG Financial Statements do not include Statutory Bodies and other public entities. A note in the financial statements identifying the statutory bodies and the level of control is insufficient for accounting purposes. While the MoF has indicated in the financial statements the reason for non-consolidation, the IPSAS Cash Basis Standard 1.3.35 – states that *"inappropriate accounting treatments are **not** rectified either by disclosure of the accounting policies used, or by notes or explanatory material".*

**NOTE:**

A 2002 Audit Report stated that *"in part because of technical difficulties posed by the TCIG accounts being prepared on a cash basis the accounts of government do not incorporate the financial statements of public sector bodies such as the statutory bodies. In this respect the statements as presented do not present a complete picture of TCIG financial activity, and are in contravention of the forthcoming International Public Sector Standards. At some stage in the future TCIG will have to give serious consideration to implementing an accruals based system of accounting. The implementation of Smart Stream now makes this more achievable. If this was undertaken it would make the task of preparing consolidated accounts more practicable."*

Also note that financial statements should be described as complying with IPSAS Cash ***only*** if they comply with ***all*** the requirements of Part 1 of the IPSAS [page 1 of the IPSAS Cash Basis Standard]. Until such time as the IPSAS Cash Basis Standard is changed, the current standard must be complied with (in conjunction with the laws).

Again, it is unclear why these previous audit recommendations have taken this long to begin implementation. The cash basis of accounting is inadequate for some of the classes of transactions and disclosure requirements under the TCI Laws.

Given that this is not done, we would still expect that the Ministry of Finance to review all such financial statements for each year ended to ensure that material matters are disclosed appropriately to the House of Assembly.

[1] A few high risk audit findings from the previous year was included to address

**Recommendation:**

Implement the Accruals basis of accounting and report in accordance with IPSAS standards, not just IPSAS Cash Basis Standards.

**Management Response:**

**It has not been possible to consolidate the whole of government accounts as different bases of accounting are used. As soon as central government moves to accrual accounting, full consolidation is possible.**

**Auditor General's Response:**

**This finding has been recommended since 2002. It is unacceptable that this recommendation has taken more than a decade and a half to begin implementation. While we do understand that public officers were not there at that time, it is/was incumbent upon the TCIG at any point in time to seek to implement.**

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## 3.2 $897.2 million Healthcare Costs not included as Liabilities - HR

The healthcare costs under the healthcare contract are approximately $897.2 million. They are currently classified as a commitment and not a liability. A prior year's audit recommendation was that TCIG needed to obtain an accounting and/or legal opinion as to how these amounts is to be treated. The cash basis of accounting is inappropriate for some classes of transactions. Depending on the treatment, these may need to be brought on the Balance Sheet as the amounts are legally binding, they can be reliably estimated and it is a present obligation. In assessing whether an item meets the definition of a liability, attention needs to be given to its underlying substance and economic reality and not merely its legal form.

In addition, healthcare expenditures are currently split between TCIG and NHIB and, as a result of non-consolidation, the total costs are not properly presented to the public.

Due to the significant size of the Hospital PPP there is a risk that, if the current accounting was not deemed to be accurate, very material changes would be necessary to TCIG's financial statements which, if made, may influence the users of the financial statements. Certain users of TCIG's financial statements are already separately adjusting them for the impact of the PPP. This should not be the case.

**Recommendation:**

Either the amounts should be recognized as a liability in the Balance Sheet or at the very least, an independent accounting and legal opinion should be obtained to determine how the Hospital PPP should be accounted for and/or disclosed in applying an appropriate accounting standards ((e.g. IPSAS 32 – Service Concession Arrangements – (Grantor)). TCIG should consider this opinion and the impact on TCIG's financial statements. If at all possible TCIG should amend its accounting to agree with the accounting requirements given in the independent opinion.

**Management Response:**

***An Independent opinion will be pursued and will be reflected in the financial statements once it is received.***

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## 3.3 $408.5 million of Capital Assets (which possibly includes $111 million in buildings) not disclosed or listed in the Financial Statements

TCIG does not report its capital assets including land within the financial statements. At the very minimum, a list of the capital assets should be categorized and disclosed in the financial statements. The 2013/14 audit reported 169 buildings owned by TCIG. According to a 2005/6 audit report, a 2004 asset inventory and condition survey was undertaken by a private firm of consultants which estimated government assets (i.e. owned buildings, standby power, airfield and facilities, water supply) to be worth approximately $111 million. It did not include monetary amounts for contents and equipment (e.g. medical and other electronic equipment) or new assets either constructed or acquired. Between 2000 and 2017 capital development expenditure totalled $408.5 million. Resources include vehicles and heavy equipment, plant machinery and equipment, vessels and boats, furniture and fixtures, office equipment, computer hardware and equipment and computer software. It also includes capital developments such as land, building and infrastructure. **With inadequate controls over Assets, it is difficult to assure that the capital spending on Assets is delivering value for money or that they are properly accounted for, safeguarded and maintained and are not prone to theft, loss or other misappropriation.** This approach of "if it's not in the accounting standard, then it's not required" is clearly inconsistent with the Public Financial Management Framework, which is part of the TCI Constitution. *This recommendation is made in reference to* International Standards for Supreme Audit Institutions (ISSAI) 9160 – Enhancing Good Governance for Public Assets.

There are two types of capital expenditures— (a) Capital acquisitions include vehicles and heavy equipment, plant machinery and equipment, vessels and boats, furniture and fixtures, office equipment, computer hardware and equipment and computer software; and (b) Capital developments include land, building and infrastructure. There have been issues around the accuracy of the inventory (another asset) balances as well. Crown Land leases and grants are also not disclosed in the financial statements as this is an extremely valuable finite resource (asset) and proper disclosures are required in the financials. There is a material weakness in the process of tracking, recording, and accounting for all assets and capital costs expended to enhance the service potential of these and other assets. Given that there are inadequate controls over TCIG's Assets, they therefore cannot be verified for accuracy, completeness and ownership. The Capital Expenditures also cannot be verified for accuracy, completeness, occurrence, classifications, in particular for land, building and infrastructure. The dollar value of Assets and Capital Expenditure including land, building, infrastructure, vehicles and heavy equipment, plant machinery and equipment, vessels and boats, furniture and fixtures, office equipment, computer hardware and equipment and computer software are in the hundreds of millions of dollars, for which TCIG has no way of assuring the public that they have safely accounted for. There is also no way to assure the public that capital spending has been efficiently, effectively and economically utilized. In addition, due to the NAO's inability to verify the accuracy, completeness and ownership of these assets, the financial statements presented for audit do not achieve fair presentation. In a 2005/06 Audit Report, the report made specific recommendations pertaining to the valuation of assets. It is not clear the extent to which any valuation has been done, but this finding is consistent with the key weaknesses in risk management outlined in this audit report and the repeated requirements of accounting and good governance for public assets.

**NOTE:**

> **A 2002 audit report recommended a partial accruals basis of reporting "at least in terms of reporting government owned assets".** The report went on to state that "*at some stage in the future TCIG will have to give serious consideration to implementing an accruals based system of accounting. The implementation of Smart Stream now makes this more achievable. If this was undertaken it would make the task of preparing consolidated accounts more practicable*."

It is quite possible that there would have been practical limitations in the implementation process over time, however, it is quite concerning that after approximately 15 years that the MoF has only now begun the process stating that adoption of the IPSAS Cash Basis Standard is the first step in providing comprehensive and accurate information in the Annual Accounts" (perhaps towards accruals accounting).

**NOTE:**

> **In a 2006 Audit Report, the report made specific recommendations pertaining to the valuation of assets.** The report recommended a risk management advisory committee be set up to develop an overall insurance strategy. It stated that the government must take overall responsibility and approve the level of risk it is willing to take; this can be done through a documented risk assessment process with complete and up-to-date information on value of assets (i.e. properties, contents, equipment etc.).

It is not clear the extent to which any valuation has been done, but this finding is consistent with the key weaknesses in risk management outlined in this audit report and the repeated recommendations of accounting for public assets.

The following is a summary listing of Capital Expenditures spent from 2000 to 2017. The amount totals capital spending of $408.5 million which was spent on capital assets but for which there is no verifiable way of determining to which those assets relate, whether or not they exist for verification and whether or not the amounts spent are an accurate reflection of the cost of the asset. Without a listing of assets, we cannot assure the balances in the development fund to which these amounts would have most likely been related to. While the NAO understands the challenges in accounting for capital spend several years ago, it remains unclear how even a mere listing of these assets could not have been kept.

| POSTING_YR | NO_OF_RECS | TRANS_AMT_SUM |
|---|---|---|
| 2000 | 707 | 3,393,802.62 |
| 2001 | 3635 | 12,559,371.45 |
| 2002 | 2625 | 16,175,683.02 |
| 2003 | 2371 | 19,336,625.35 |
| 2004 | 4567 | 32,290,236.43 |
| 2005 | 5613 | 36,201,179.33 |
| 2006 | 4651 | 79,356,345.02 |
| 2007 | 4306 | 81,920,022.10 |
| 2008 | 1936 | 29,569,632.80 |
| 2009 | 1674 | 10,364,918.19 |
| 2010 | 1921 | 8,243,760.41 |
| 2011 | 763 | 5,613,948.69 |
| 2012 | 1489 | 15,162,266.33 |
| 2013 | 677 | 9,711,142.55 |
| 2014 | 583 | 7,900,299.53 |
| 2015 | 438 | 11,538,980.89 |
| 2016 | 587 | 23,509,029.19 |
| 2017 | 114 | 5,643,606.68 |
| | | |
| | | |
| | | **408,490,850.58** |

**Management Response:**

TCIG has now embarked on a programme for the recording of known assets. This is also included in the move to accrual accounting. The programme involves:

i. Valuation of lands – this programme was interrupted in FY 17/18 by the passage of two hurricanes. Resources have since been channeled elsewhere in the recovery effort. It is expected that this will resume for FY18/19
ii. Analysis of past expenditure
    a. New spend has been included for the Office of the Accountant General which is to be dedicated to analysis past expenditure
    b. Going forward, expenditure for the current FY will be recorded.

i. Guidelines have been issued for the recording of purchases of assets
ii. The fixed asset policy is being reviewed

Based on the magnitude of the exercise, coupled with the losses suffered as a result of the Hurricanes care is being taken that only serviceable assets are recorded.

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## 3.4 Consolidated fund reported balances are materially misstated for current and prior year - HR

**Criteria**

The Consolidated Fund is the general operating fund of the TCIG, which records the financial transactions of the House of Assembly, all Government departments, offices and courts. It is into this fund that taxpayers pay revenue. Government uses this revenue to pay for its many programs such as health, education, public safety, infrastructure and public transportation. Paid out of this fund are loan proceeds and principal and interest payments. Sound accounting practices would require regular reconciliation of the consolidated fund account.

**Condition**

1. The Consolidated Fund (CF) does not tie back based on the financial statements received for audit. In the Annual Statement of Public Accounts (ASPA) Supplementary Note 9 "Statement of Assets and Liabilities" the CF balance was - $16.491 million and in the ASPA Supplementary Note 10.2 "Statement of Cash Flows", the CF balance was $38.318 million.

   The TCI Constitution mandates reporting of the activities and balances of a Consolidated Fund. The Consolidated Fund, **TCIG's Main Account, is however, materially misstated for the current year. As they are misstated for the current year, prior years will also be misstated as it is a cumulative balance.**

**Recommendation**

A proper review should be undertaken of the Consolidated Fund account to ensure that it is correct and the balances provided on different statements are the same. Two different balances of one account indicate that something is not right.

**Management Response**

**TCIG has always recorded annual expenditure consistent with cash accounting. As required by the S19 of the PFM Ordinance, no money shall be withdrawn from the Consolidated Fund except on the authority of a warrant. No control weaknesses have been highlighted in this regard in the current year or for previous years.**

**However, over the years there have been legislative changes, which have affected the Consolidated Fund (transfers to and from) as well as the other Funds operated by government. TCIG has also used different accounting bases - cash accounting as well as modified cash accounting. The impact of these changes on the various statements as reported in the Annual Public Accounts has not been reported separately and consequently has contributed to the differences.**

**Auditor General's Response**

**There are amounts in the Consolidated Fund that are non-cash. There are two sets of figures for the same Consolidated Fund. It means either the laws were not adhered to or the basis of accounting was inappropriate OR both. Please refer to prior year audit findings on this issue. There are journals that cannot be supported, amounts have been written off directly to the Consolidated Fund e.g. the Belize Bank balances. These have been documented in prior audits and explained at length. The account is wrong. Treasury simply cannot have two figures for one account.**

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## 3.5 Development Fund reported balances are materially misstated for current and prior year - HR

According to the law, the DF amounts are to be dealt with separately. Section 5 (3) of the PFMO states that the Development Fund shall not form part of the Consolidated Fund and shall be kept in a separate account by the Accountant General. The DF has not been dealt with in accordance with the legislation authorising them issued under the PFMO. As the DF balances were co-mingled with the Consolidated Fund Balances, it also implies that the Consolidated Fund Balance is also incorrect. Development Fund and Consolidated Fund amounts ideally should not be commingled as there are specific requirements in how the Dev. Fund account is used and there are specific accountability requirements in regards to the lenders/grantors/foreign donors.

The Development Fund was intended to be separate from the Consolidated Fund, so that it could at least identify clearly what expenditure was incurred for infrastructure, land purchases, buildings, boats, vehicles, furniture, equipment, computers and other fixed assets, the costs of which increases the service potential or useful life of the assets. The separate tracking and legal separation of these two major accounts would also serve as a clear control of knowing what assets TCIG owns in order to limit misappropriation. According to the Association of Certified Fraud Examiners (ACFE) 80% of asset misappropriation (fraud) occurs over assets in which controls are weak or ineffective.

It is also unclear how capital expenditures are defined in order to establish the Dev. Fund budget.

Development Fund expenditure over the last several years were approximately ***$408 million. These are assets not recorded or listed in the accounts.*** Note that this is not a past issue but a rolling issue that impacts the present accounts.

The Development Fund Account does not identify (show the inflow and outflow of funds) if there are any amounts as required under Section 5 (2) of the PFMO exist and whether or not they can be identified (as what it is spent on) such as;

- moneys received from Her Majesty's Government in the United Kingdom by way of grants or loans as development aid;
- moneys received from any other government, institution, body or person for the purpose of any development scheme, project or programme to be financed from the Development Fund, or generally for the purpose of the Development Fund;
- moneys received from the proceeds of loans raised by the Government for any scheme, project or programme to be financed from the Development Fund, or generally for the purpose of the Development Fund.

**Management Response**

**The Development Fund has been the subject of legislative changes the last being in 2016. As a result, the "balance" in the account reflects the net treatment computed under two bases – pre 2016 and post 2016.**
**A meeting is required to discuss the disclosure of the balance for greatest transparency. Unfortunately, the meeting has not yet materialised but is to be convened so that expanded disclosure can be reflected in FY17/18.**

The key law Section 5 (3) of the PFMO states that the Development Fund shall not form part of the Consolidated Fund and shall be kept in a separate account by the Accountant General. The DF has not been dealt with in accordance with the legislation authorising them issued under the PFMO.

**The Development Fund is maintained in a separate account – it is reported under its own series in the General Ledger. However, for cash management and internal control purposes, it is subject to the strict internal controls instituted within the accounting software used.**

The Development Fund was intended to be separate from the Consolidated Fund, so that it could at least identify clearly what expenditure was incurred for infrastructure, land purchases, buildings, boats, vehicles, furniture, equipment, computers and other fixed assets, the costs of which increases the service potential or useful life of the assets. The separate tracking and legal separation of these two major accounts would also serve as a clear control of knowing what assets TCIG owns in order to limit misappropriation.

**There is separate tracking and separation of the Consolidated Fund and the Development Fund with the latter being reported based on the projects as listed in the Annual Estimates of Expenditure.**

***These are assets not recorded or listed in the accounts.***

**It is unclear what the auditor means by this statement as the expenditure relates to a list of projects. These projects sometimes span two or three years. The listing for any given year is reported in the APA as well as in the Annual Estimates of Expenditure.**

The Development Fund does not identify if there are any amounts as required under Section 5 (2) of the PFMO exist and whether or not they can be identified

**The details of the Development Fund as presented to the Auditors clearly identifies the various sources of funding as required under the Ordinance. The categories include:**

- **UK DFID Programmes**
- **UK Other Grants**
- **CDB Grants**
- **Grants from Other Private Sources**
- **EU Grants**
- **Total from the National Forfeiture Fund (NFF)**

**Auditor General's Response**

**The disclosures provided are patently inadequate. Not enough information is provided on the capital projects. The Development Fund is not treated with in accordance with law. While the funding source is provided, it cannot be assured that they were spent for the purposes for which they were intended, especially since spending was directed from the Consolidated Fund.**

**There is a reason for having the Development Fund created under law and separate from the Consolidated Fund. It makes no sense to have the Development Fund created when it is not used in the manner in which it was intended to be used.**

**The Development Fund balances are wrong for current and previous years.**

**Transactions must pass through the DF account.**

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## 3.6 $332.3 million in consolidated unfunded pension liabilities not disclosed in TCIG's Whole of Government Accounts - HR

TCIG and NIB are responsible for various long-term pension liabilities to its current and former employees and members. Employee Benefits require that entities recognise the liabilities arising from pension.

The TCIG Actuarial Pension Liability, the present value of providing pension benefits attributable to years of past service is **$94.4 million** as at March 31, 2017. According to the actuarial report no funds have been set aside in a pension fund for this liability and therefore it is the Unfunded Actuarial Liability (UAL). Government has therefore accrued an Implicit Pension Debt of $94.4 million, which is the Unfunded Actuarial Liability. If the Public Service Pension Plan (PSPP) were to aim for full funding of benefits, the Government would have to contribute:

- Approximately 21% of payroll each year for the future benefits; and
- A fixed amount of $7.2 million per annum for the next 20 years to fully amortize the initial UAL of **$94.4 million** by the time the last Active employee retires

NIB's actuarial pension liability, the present value of providing pension benefits attributable to years of past service is **$489.9 million** as at March 31, 2016 (unaudited). However there is a reserve as reported to the public of approximately **$252 million**. This means that NIB has a UAL of **$237.9 million** as at March 31, 2016. A new valuation is to be performed around March 2018 for NIB.

Therefore the total UAL between TCIG and NIB is **$332.3 million.**

On a consolidated basis, these liabilities arising have not been fully disclosed and reported on in the financial statements.

Healthcare liabilities are also not actuarially assessed which is a separate but probably a large liability as well that has not been quantified.

**Recommendation**

Given the quantum of liabilities, these should be included on the balance sheet to ensure a true and fair view for the Whole of Government. From a medium to long term decision making perspective, the investment strategies, policies and decisions by the NIB should be reviewed. The NIB should explain the shortfall and what are the measures to be taken to reduce this unfunded portion, as the TCIG is ultimately responsible for any insufficiency, albeit, temporary.

**Management Response**

It is expected that the liabilities will be included in the TCIG financial statements on receipt of the actuarial valuation as at March 2018.

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## 3.7 $55.7 million understatement of arrears of which approx. $46.2 million deemed uncollectible (a large sum account for penalties) - HR

**Criteria:**

Public Finance Management Regulations 63 (3) The Accountant-General shall, on receiving the individual returns consolidate them into a statement showing all the revenue outstanding under each revenue item as at the end of that financial year. The statements shall form part of the Government's annual statements of accounts.

Section 22 (8) states that; In any other case of loss such as when an overpayment occurs which cannot be recovered or in which revenue or other debt due to the Government is deemed uncollectable, the Accounting Officer shall submit a full report to the Permanent Secretary, Finance, with a copy to the Accountant General and to the Auditor General.

Section 22 (9) states that; The report referred to in subregulation (8) shall be signed personally by the Accounting Officer and shall state the following—

(a) the nature of the overpayment, revenue or other debt;

(b) the name and designation of the public officer who made the overpayment or is responsible for the failure to collect the revenue or debt;

(c) the amount involved, supported where appropriate by detailed lists showing the names of the defaulters, the amounts outstanding in each case, and in the case of revenue the year in which it was due, and the dates on which demands and reminders were dispatched;

(d) the reasons why the overpayment occurred or the revenue or other debt cannot be recovered;

(e) the action taken to recover the overpayment, revenue or debt, including any legal means taken, whether this is considered to have been adequate, and the action taken by the Accounting Officer personally;

(f) whether the overpayment or failure to collect arose from a failure to observe current accounting instructions or from a fault in those instructions or in the accounting system;

(g) whether the amount involved has been made good by the public officer responsible;

**<u>Condition:</u>**

A review of the support documents provided by the Revenue Control Department show that a significant amount of arrears was not included in the Statement of Revenue Arrears. A return was submitted on 19 April 2017 with arrears of $5,089,498 and this was included in the Arrears of Revenue statement. We further noted a return submitted for the period ended 30 June 2017, although submitted late, with arrears in the amount of $46,194,267. We were not able to determine how much of this amount related to the period ended 31 March 2017. We further noted after enquiry that the amount was submitted for approval to write off. There was no disclosure of the 'amounts' in the notes to the financial statements.

A return submitted by the Attorney General's Chamber was signed and dated on 5th April 2017 which disclosed 'Nil' for revenue arrears. We requested and reviewed support documents and we noted that there were arrears in Crown Land rents as at 31 March 2017 of $9, 523,292. This was not disclosed in the return for Attorney General's Chamber and no other return was included in the files provided.

This issue was then raised with the Attorney General on 22nd January 2018. We received a return dated 21st April 2017 showing arrears of $9,433,807 under the Crown Land Unit, signed by the Director from the Attorney General on 13th February 2018. There was no indication as to when the return was sent and whether confirmation was obtained as having been received by the Accountant General.

The reporting of revenue arrears at year-end is inadequate. The arrears statement remains understated as a result of the non-disclosures described above.

The Note to the Statement of Arrears (#20) in the Financial Statements had indicated that Cabinet is to receive a submission for the write-off of amounts deemed uncollectible and that these amounts had not been included as the figure had not been verified.

**Effect or potential effect:**

Unrealistic and misleading amounts disclosed in the statement which do not show the accurate position at the end of the year.

**Recommendation**

We recommend that all arrears relating to the close of the financial year be disclosed as required by the PFMO and PFMR. There must be a thorough review of all disclosures before submitting for Audit. We also recommend that internal controls are strengthened in this area to ensure that unreported arrears or uncollected returns are identified and errors corrected.

**Management Response**

**The Statement of Arrears has been amended to include the amount.**

**Auditor General's position;**

**If the Arrears existed at the end of 31 March 2017, then it should be included in the revenue arrears note statement 20. To include a note "Cabinet is to receive a submission for the write-off of amounts deemed uncollectible. These amounts have not been included in the figures above" is not in accordance with any standard I know of. The IPSAS Cash Basis Standard 1.3.35 – states that *"inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material".***

**It is also unacceptable that only when the NAO identifies an issue it is dealt with after the fact, showing that the controls over significant sums are poor resulting in material misstatements.**

## 3.8 Inadequate controls over accuracy and recoverability of loans receivables amounting to $8.4 million - HR

**Criteria**

Best practice requires that all financial assets should be reviewed regularly for completeness, accuracy and value (test on impairment).

IPSAS 26 states that Cash-generating assets are assets held with the primary objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Holding an asset to generate a "commercial return" indicates that an entity intends to (a) generate positive cash inflows from the asset (or from the cash-generating unit of which the asset is a part), and (b) earn a commercial return that reflects the risk involved in holding the asset. An asset may be held with the primary objective of generating a commercial return even though it does not meet that objective during a particular reporting period.

An asset is impaired when its carrying amount exceeds its recoverable amount. An entity shall assess at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the entity shall estimate the recoverable amount of the asset. Evidence from internal reporting that indicates that an asset may be impaired includes the existence of: (a) Cash flows for acquiring the asset, or subsequent cash needs for operating or maintaining it, that are significantly higher than those originally budgeted; (b) Actual net cash flows or surplus or deficit flowing from the asset that are significantly worse than those budgeted; (c) A significant decline in budgeted net cash flows or surplus, or a significant increase in budgeted loss, flowing from the asset; or (d) Deficits or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

**Condition**

From our review of the loans listing for the assets taken over from TCInvest, we noted the following;

a) Some assets did not incur any movement during the year. There was no interest income accrued on these assets and no payments made out.
b) The biggest portion of the assets did not have any recoveries during the year. We did not obtain any evidence of follow-up or alternative actions taken regarding the non-performing loans.
c) There is no evidence of that a physical verification of the mortgaged assets is performed. The assets are not verified by the board of surveys as part of their annual verification. We therefore could not ascertain the existence and current condition of these assets.

A tabulated analysis of the loan portfolio is shown below.

| | As at 31 March 2016 | Movement during the year | As at 31 March 2017 | Number of loans |
|---|---|---|---|---|
| Outstanding loans that increased during the year | 4,890,955 | 70,763 | 4,961,718 | 52 |
| Outstanding loans that did not change during the year | 909,165.33 | 0 | 909,165.33 | 20 |
| Outstanding loans that reduced during the year | 2,625,379 | (248,898) | 2,376,481 | 50 |
| **Total for a/c 56001** | **8,425,499** | **(178,136)** | **8,247,364** | **122** |

We did not receive a loan that fully supports 100% of the TOLCO loans hence we could not ascertain completeness and accuracy of the amount recorded in the financial statements. TCIG is compensated at forty cents out of every dollar collected from this portfolio, until it is fully liquidated. These loans are recorded at 40% of their historical cost at the date of the sale, which is the maximum amount payable to TCIG by TOLCO, under the terms of the sales agreement with TCIG. We could not verify completeness, accuracy and recoverability of these assets.

**Recommendation**

Management should perform a physical verification of the assets. They should perform an assessment of the recoverability and revalue the loans receivable to reflect the recoverable amount.

**Management Response**

**The recognition and impairment of these loans have been considered and this matter has been referred to the Cabinet for a policy decision.**

d) There is no evidence of that a physical verification of the mortgaged assets is performed. The assets are not verified by the board of surveys as part of their annual verification. We therefore could not ascertain the existence and current condition of these assets.

**We are not aware of the NAO's efforts to verify any of the mortgaged assets. We are not aware of any requests made with respect to this aspect of the portfolio.**

**Additionally, the loans are categorised according to their original purpose as had been issued by Invest TC; this includes social housing, student loans, and various classes of mortgages. From the categories, it is evident that in keeping with the functions of government not all of its activities will be to generate a commercial return as cited in the criteria above.**

**Auditor General's Response**

**It is the responsibility of the Treasury Department to provide evidence of physical verification. In order for the NAO to do this, it would have to be a separate audit. Bottom line, the TCIG must be able to support any figure in the financials. The mortgages will perhaps account for a large portion of these. We are quite aware that not all activities will be able to generate a commercial return, and thus a proper accounting policy should be adopted for those types of assets that do not generate a commercial return. The real issue is not being able to verify any assets, not what criteria we set. Even without the criteria, there is a fundamental accounting and reporting problem.**

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## 3.9 $2.7 million Advances Balance recorded in the Statement of Assets and Liabilities - MR

**Criteria**

**PUBLIC FINANCIAL MANAGEMENT ORDINANCE PART XVII**

**LOANS, ADVANCES AND INVESTMENTS**

Authority for loans and advances

82. (1) The grant of loans and advances from public moneys or funds is strictly limited and such loans and advances may only be made by the Accountant General under the authority of an advance warrant under the hand of the Minister and for the purposes stated in the Ordinance.

(2) All such advances shall be retired in the financial year in which they are made, and no advance account or loan account shall be opened, nor will any action be taken by any public officer, which will result in the issue of an advance or loan without the prior approval of the Accountant General

**Condition**

For the financial year 2016/2017, the Statement of Assets and Liabilities had a total of $2,746,000 for advances of which $2,574,000 is to be written-off. The PFMO states that all advances shall be retired in the year made, so the balance on all advance accounts should be zero.

**Recommendation**

Accounting Officers should follow the PFMO in respect of advances. All advances should be repaid and closed at the end of the financial year.

**Management Response**

**The amount has been reflected in the Statement of Assets and Liabilities from FY 2011/12. Application has been made to the Cabinet seeking permission for the write-off.**

## 3.10 $2.2 million difference on Statement of Commitments - HR

**Criteria**

**PFMR 2012**

11. (1) The Accountant General is responsible for the compilation and management of the accounts of the Government and the safety of the public moneys, property and resources, and is the chief adviser to the Permanent Secretary, Finance and the Minister on accounting matters.

(2) For the purposes of discharging his or her duties and responsibilities under sub-regulation (1) of this Regulation, the Accountant General shall—.

(f) carry out sufficient checks, including surprise inspections in all Ministries, departments and other offices, to ensure that all regulations, orders, directions and instructions relating to the receipt, disbursement, safety, custody and control of public moneys, stamps, securities, stores and other public property are being complied with, and to ensure that the accounts and controls provide full and effective protection against losses or irregularities;

**Public Financial Management Ordinance (PFMO) Schedule 2**

1. The following accounts shall be submitted to the Auditor General and the Minister by the Accountant General—

(l) a summary statement of commitments and contingent liabilities outstanding for the supply of goods and services for each vote at the end of the financial year being a summary of the amount included for such commitments and contingent liabilities in the statement signed by accounting officers under paragraph 2 (b);

2. The following accounts shall be submitted to the Accountant General by accounting officers—

(b) a statement signed by the accounting officer and in the form the Accountant General may direct containing the amount of commitments and contingent liabilities outstanding for the supply, goods and services at the end of the financial year and any other information the Minister may require;

**Condition**

Vouching of the items on the Statement of Commitment (note 18) to the Ministry's Statement of Commitments revealed the following differences:

| | **$'000** | **$'000** | **$'000** |
|---|---|---|---|
| **Ministry** | **Financial Statements** | **Ministry Statements** | **Differences** |
| Office of the Governor | 16.00 | 0.00 | 16.00 |
| Police | 37.00 | 4.80 | 32.20 |
| Attorney General's Chambers | 305.00 | 3.77 | 301.23 |
| Judiciary | 169.00 | 5.37 | 163.63 |
| Ministry of Border Control and Labour | 27.00 | 27.00 | 0.00 |
| Ministry of Finance, Trade and Investments | 884.00 | 75.52 | 808.48 |
| Deputy Governor's Office | 19.00 | 4.77 | 14.23 |
| Ministry of Education, Youth, Sports and Library Services | 101.00 | 2,284.86 | (2,183.86) |
| Office of the Director of Public Prosecutions | 2.00 | 1.45 | 0.55 |
| Ministry of Home Affairs, Transportation & Communication | 1.00 | 1,303.05 | (1,302.05) |
| Ministry of Infrastructure, Housing and Planning | 113.00 | 113.00 | 0.00 |
| Ministry of Tourism, Environments, Heritage & Culture | 1,956.00 | 1,956.00 | 0.00 |
| Ministry of Health and Human Services | 60.00 | 60.00 | 0.00 |
| Office of the Premier and District Administration | 63.00 | 63.00 | 0.00 |
| **Total** | **3,753.00** | **5,902.59** | **(2,149.59)** |

**Recommendation**

The Accountant General as the officer responsible for the compilation and management of the accounts of the Government and safety of public money, property and resources should ensure that Accounting Officers maintain complete and accurate records for commitments. Additionally, Accounting Officers should be trained to recognise and record commitments.

**Management Response**

1. Your attention is directed to the Statement of Contingent Liability below for the Ministry of Education, Youth Sports and Library Services where the amount for that Ministry is included.
2. The Ministry of Finance, Trade and Investment is planning to host at least one workshop to sensitise Accounting Officers on this and other matters. It is hoped that this session will take place within this FY.

It should be noted that additional work has been done in this area to try to identify all commitments. This included a review of subsequent payments and the recording of any amounts that may not have been included on the reports presented.

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## 3.11 $0.8 million in Stale dated cheques - LR

**Criteria**

Best practice requires that management pays the government creditors on time and follows up on any unpresented cheques to avoid them from ageing into long outstanding/ stale dated cheques.

**Condition**

Within the financial statements is a US$758,864 amount related to stale dated cheques. These cheques were reclassified from cash balances into payables as they had been long outstanding. Through our inquiries with management, we were informed that management is still following up on why the payees did not cash their cheques. We could not verify whether these cheques were actually delivered to the payees. It is management's responsibility to settle these obligations as they have been outstanding for a period beyond one year.

**Recommendation**

Ministry of Finance should follow up with creditors and ensure timely payments are made and cheques are received by their rightful owners.

**Management Response**

**We are aware that some cheques remain uncollected. It is hoped that with the move to direct payments that this will be reduced, if not eliminated.**

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## 3.12 Incorrect recording of guarantees – HR

The note disclosures are incorrect. For example, if there is any temporary insufficiency in the assets of the NIB Pension Fund to meet the liabilities of the same fund, it shall be met by TCIG. TCIG also may be the loan guarantor for some loans between NIB and the old TC Invest and TCI Bank that are not recorded in TCIG's books.

**Recommendation**

Ensure that all statutory bodies provide financials early to the MoF (if audited financials are not available, then unaudited financials should be provided in the interim). In addition, a review of all the Ordinances for each statutory body should be reviewed to determine if there are any requirements that TCIG needs to perform in relation to guarantees or loans etc.

**Management Response**

**As indicated above, statutory bodies are required to submit reports on time. Procedures have been instituted to monitor submissions.**

**Auditor General's Response**

**These show the evident weakness in proper financial reporting and are a sound example of the poor controls that exist. These are reactive actions and more proactive measures must be taken to ensure proper financial reporting.**

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## 3.13 $0.2 million understatement of Losses of Public Money and Stores - MR

**Criteria**

PFMR 2012

11. (1) The Accountant General is responsible for the compilation and management of the accounts of the Government and the safety of the public moneys, property and resources, and is the chief adviser to the Permanent Secretary, Finance and the Minister on accounting matters.

(2) For the purposes of discharging his or her duties and responsibilities under sub-regulation (1) of this Regulation, the Accountant General shall—.

(f) carry out sufficient checks, including surprise inspections in all Ministries, departments and other offices, to ensure that all regulations, orders, directions and instructions relating to the receipt, disbursement, safety, custody and control of public moneys, stamps, securities, stores and other public property are being complied with, and to ensure that the accounts and controls provide full and effective protection against losses or irregularities;

14. A loss shall be considered to have occurred when the Government is deprived of the use of any public money, public property, stores or any other financial or physical asset.

15. (1) All losses incurred by or in any Ministry or department shall be brought to the attention of the Accountant General who, as the chief accountant of the Government, shall keep a register of such losses; and the Accountant General shall soon after the end of each financial year, prepare a statement of the losses for submission to the Auditor General as part of the accounts for each financial year concerned.

(2) A register of all losses incurred by or in any Ministry or department, showing the nature of the loss and action taken, shall be maintained by each Ministry or department.

(3) The Accounting Officer shall report to the Permanent Secretary, Finance monthly details of any uncollectable debts due to Government who shall seek approval for write off from the Cabinet which shall be reported to the House of Assembly on a quarterly basis. Provided that the

Permanent Secretary, Finance may approve write offs to the value of $500 without seeking approval from the Cabinet although they shall be required to be reported in retrospect.

(4) All exemptions from fees, charges and taxes due to Government shall require approval from the Cabinet before any agreement is reached or notifications issued to the parties involved.

16. Loss of public stores and property will include damage and deterioration which cannot be attributed to fair wear and tear.

17. Cash losses may take the form of—

(a) losses of cash by fraud, theft, errors, omissions, uncollectable arrears of revenue, or other irregularities, including unauthorised or excess payments; and

(b) losses of cash through fire, caused deliberately or otherwise and other natural disasters.

(2) Store loss may take the form of—

(a) losses of stores by fraud, theft, arson, errors, omissions, sabotage or other irregularities;

(b) losses from fire caused deliberately or otherwise, stress of weather or accident beyond the reasonable control of any responsible person;

(c) losses due to deterioration in store, arising from a defect in administration; and

(d) losses due to natural causes such as evaporation.

22. (1) It is the duty of every Accounting Officer to ensure that there is a mechanism in place for prompt detection and reporting of losses.

(2) Any public officer who becomes aware of any loss shall at once report the loss to the appropriate Accounting Officer, and in the report describe the nature, amount and circumstances of the loss, shortage, damage or destruction.

(3) The Accounting Officer shall report the losses, in writing, to the Permanent Secretary, Finance, copied to the Accountant General and Auditor General.

**Condition**

Review of the Statement of Losses of Public Money and Stores reveal the following;

- No valuation of furniture, equipment, books and office supplies lost during the Victoria Public Library fire.
- Loss of cash totalling $22,616.30 at the Judiciary was not included in the financial statement for the years ended 31 March 2016 and 31 March 2017.
- Previous year balances totalling $210,000 for the Ministry of Education and Ministry of Tourism were not included in the statements. There were no write-offs for the year ended 31 March 2017.

**Recommendation**

The Accountant General as the officer responsible for the the compilation and management of the accounts of the Government and safety of public moneys, property and resources should ensure that complete and accurate records are maintained of all public moneys, property and resources. Additionally, records should be maintained of all loss of public money and stores. Loss balances from the previous year should be carried forward in the financial statements unless they were written off.

**Management Response**

1. No valuation of furniture, equipment, books and office supplies lost during the Victoria Public Library fire.

   The APA disclosed that the losses sustained were not quantifiable as had been advised by the responsible Accounting Officer.

2. Loss of cash totalling $22,616.30 at the Judiciary was not included in the financial statement for the years ended 31 March 2016 and 31 March 2017.

   The amounts will be adjusted in the APA.

3. Previous year balances totalling $210,000 for the Ministry of Education and Ministry of Tourism were not included in the statements. There were no write-offs for the year ended 31 March 2017.

   The amount will be adjusted in the APA.

Generally, in recognition of the need to have a fixed asset register, the Accountant General issued directive in December 2017 under S 12 of the PFMO regarding the classification of expenditure. This will facilitate *inter alia* the recording of fixed assets. Additionally,

i. The fixed asset policy is being reviewed; it is expected that the review will be completed early in FY 2018/19.
ii. Additional staff has been requested for the Office of the Accountant General in FY 2018/19 in order to be able to monitor the reports which have being requested monthly.

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## 3.14 $0.1 million understatement of Stores and Other Assets - MR

**Criteria**

**Public Financial Management Ordinance (PFMO)**

36. (1) Every ministry and department of government shall maintain adequate records of stores.

(2) The Minister may make regulations or issue orders governing the acquisition, receipt, issue, custody and control of such stores.

(3) Every person shall be personally responsible for the proper custody, care and use of government stores under his or her control.

(4) An accounting officer shall be responsible for the general supervision and control of all government stores held within the ministry or department under him or her and for the due performance of their duties by his or her subordinate staff in relation thereto.

**Public Financial Management Regulations (PFMR)**

**PFMR 2012**

11. (1) The Accountant General is responsible for the compilation and management of the accounts of the Government and the safety of the public moneys, property and resources, and is the chief adviser to the Permanent Secretary, Finance and the Minister on accounting matters.

(2) For the purposes of discharging his or her duties and responsibilities under sub-regulation (1) of this Regulation, the Accountant General shall—.

(f) carry out sufficient checks, including surprise inspections in all Ministries, departments and other offices, to ensure that all regulations, orders, directions and instructions relating to the receipt, disbursement, safety, custody and control of public moneys, stamps, securities, stores and other public property are being complied with, and to ensure that the accounts and controls provide full and effective protection against losses or irregularities;

117. The Accountant General shall issue instructions on the format to be kept in respect of every store received and the procedure for the issuing of stores.

118. (1) Stores are accounted for by value as well as by quantity, and it is necessary to keep records so as to determine the unit cost of each stock item and the reconciliation of the total value of the stocks with the financial records.

(2) All vouchers and ledger entries for government stores shall show the value as well as the quantity of the items concerned.

(3) All purchases of inventories shall be charged directly to the relevant expenditure lines immediately on purchase, and the records referred to in sub-regulation (1) of this Regulation shall not form part of the general ledger.

**Condition**

Review of the Statement of Stores and Other Assets, Board of Survey the year ended 31 March 2017 Report and the Asset Registers for Ministries and Department across TCIG revealed the following:

- The following stores were not included in the Statement of Stores:
    - Attorney General's Chambers for sale of law books, CDs
    - Police

  Police did not have values for items listed as stores as required by PFMR 118.

- The amount on the statements for Ministry of Border of Control for residence permit was understated by $128,700.

| Description | Amount |
|---|---|
| Residence Permit ($1,650 @ 78) | 128,700.00 |

**Recommendation**

The Accountant General as the officer responsible for the compilation and management of the accounts of the Government, and safety of public money, property and resources should ensure that complete and accurate records are maintained for public stores and other assets.

**Management Response**

1. **The omission of stores from the AG's Chambers was an oversight. We will remind the AO of the need to record all assets on the Statement.**
2. **The Police indicated that there were insufficient resources to enable the valuation of the Stores held at the end of the FY.**
3. **The understatement as noted above will be corrected in the APA.**

**A directive has been issued reminding Accounting Officers of the need to properly account for government assets and also of the need to submit correct Annual Statements.**

**Estimate Completion Date: February 28, 2018**

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## 3.15 $7 million in cancelled cheques as a result of system error - HR

The NAO was also unable to audit the IT systems and controls upon which the financial statements are prepared. However, a spot check review of payments made revealed that there were 795 cheques totalling $7,021,803.74 that were cancelled during the period under audit. This occurred mainly as a result of a system error in SmartStream. There is a risk that payments may not be cancelled resulting in an overpayment of expenditures. This also implies that there may be other systemic issues with the IT System that have not yet been discovered or is known.

These systems have not been substantially audited for quite some time. Smartstream is the main accounting software used to manage TCIG's finances. It is the primary source for accurate recording of transactions of Government. Areas that we would have wanted to audit were to test employee access to the financial system, review the connected systems or software which feed figures/information into the SS system, the threats and vulnerabilities of the system, what happens if the system goes down (IT business continuity), testing module linkages, checking compliance with any service level agreements for SS providers, testing for faulty migration of transactions from an old to upgraded system etc. Therefore we are unable to assure the accuracy or reliability of the financial information generated from Smartstream. While this issue is likely to affect all of the accounts, it is placed in this section as it mainly affects revenues and expenditures.

**Recommendation**

Undertake a review exercise to determine the weaknesses in the system and correct as appropriate.

**Management Response**

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## 3.16 Approx $5.5 million due from Statutory Bodies not all recorded or disclosed – HR

iTCIG has not recorded amounts from a few Statutory Bodies as a control to ensure that they receive the funds due to TCIG. During our audit of the statutory bodies, for example the Telecom Commission had an amount due to TCIG of approx. $1.6 million (Telecom's 2017 Audited Fin. Stats), Airports Authority of $0.5 million (2015 audited fin. Stats.), Civil Aviation of $0.5 million (2015 Audited Fin. Stats.), FSC of $2.9 million (FSC's 2017 Audited Fin. Stats.).

These total approx. $5.5 million and are not reflected in TCIG's accounts implying that there are no controls to ensure that these amounts are actually received from the Statutory Bodies. During the reporting process, these figures may not all be captured resulting in an understatement of Revenues. There may be more that is due to TCIG that has not yet been collected and/or accounted for. These have far reaching implications for budget decisions.

**Recommendation**

Ensure that all statutory bodies provide financials early to the MoF (if audited financials are not available, then unaudited financials should be provided in the interim).

**Management Response**

**Statutory Bodies have been asked to submit the information in time for inclusion in the Annual Accounts. The Annual Public Accounts have been amended to reflect the amounts which were previously omitted.**

**Auditor General's Response**

**This is another example of waiting until the NAO points out these issues for the Treasury to take action. This is representative of a poor internal control system that has a direct impact on and wider dimension to the financial and operating decisions of the TCIG.**

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## 3.17 Inaccurate financial statements presented for audit - HR

**Criteria**

The MoF has 4 months from the end of the financial year in which to submit a complete set of financial statements for audit. General standard of financial controls such as a quality review during the period end financial reporting process is a critical internal control component to ensure the integrity of the financials that many users of the financial statements place heavy reliance on.

**Condition**

The TCIG financial statements presented to the Auditor General on July 31, 2017 contained a large number of issues. These included, but were not limited to typographical errors, addition errors, unclear accounting policies and accounting treatments, classification errors, incomplete and/or inadequate disclosures and omission of accounts specifically required under Schedule 2 of the PFMO.

**Over the last several years there has been the submission of inaccurate and incomplete financial statements presented for audit.** Further, transactions or events are not recorded or disclosed appropriately in the financial statements. These are significant control weakness and point to a lack of a proper quality review of the financials before they are presented for audit. *It is not uncommon for there to be some level of errors or omissions, however, the magnitude and extent of the errors and omissions are significant and is a control weakness in the financial year end reporting process.* Apart from the Consolidated Fund balance being incorrect and other accounts also possibly misstated and inadequate disclosures made, not to mention the numerous repeat audit findings that occur year over year remaining incomplete, the House of Assembly ***will not*** get an accurate picture of the overall financial health for the Whole of Government.

*Because of the combination of impact and severity of the audit findings, (i.e. risk) and several years of predominantly disclaimers or adverse audit opinions, accountability and responsibility comes in to question. It is clear, that significant improvement is required.*

There are several errors and omissions in the unaudited financial statements. Normally, we would not include this as an issue, but given materiality and frequency of the errors and/or omissions, some are therefore included as examples.

- Statement of Contingent Liabilities - Note 17 does not have the Statutory Charges for the Pension, although a note is there for $94.4 million. We also do not have explanations for 3 sets of figures $1.031 million, $2.227 million and $8.913 million on same note.
- Note 4.1 Taxes on Goods and Services. The Communications Tax and Gaming Machine tax are both $5.666 million. The Seaport Departure Tax, Stamp Duty-Vehicle Hire and Insurance Premium tax are all $1.424 million. This is quite likely incorrect.
- There are several minor errors of figures. E.g. Page 3 has $252,241.2 million. Please note four other similar type errors on same page.
- The Statement of Cash Flows - Development Fund - the b/fwd of $15.351 million in 2017 is different from the c/fwd in 2016 which is shown as $15.271 million.
- Other minor typos and errors (mainly on the headers) on Notes 5.1, 5.2, 5.3, 5.5, 24.2. Note 24.2 have figures of 28,713,688 and 2,717,577 are quoted under header '000s. You should drop the last 3 zeros.

***It is not the responsibility of the Auditor General to identify the issues highlighted above. Rather, it is the responsibility of the Auditor General to provide an opinion on the financial statements as presented. As a result of these errors, the users of the financial statements are not able to obtain all of the information that would be expected about the financial performance and financial position of TCIG.***

**Recommendation**

TCIG should perform a ***thorough*** review of the financial statements before submitting them to the Auditor General. This review should include examination of the disclosures for compliance with generally accepted accounting practice/principles and compliance with the disclosure requirements of IPSAS.

**Management Response**

**Every effort is made to conduct a thorough review of the financial statements prior to submission to the Auditor General. Where errors are subsequently discovered, these are corrected so that the accounts present a true and fair view for the period under review.**

**Auditor General's Response**

**This has been a repeat audit finding. This represents a weakness in the financial reporting system that must be corrected. The accounts do not represent a true and fair view. Controls are weak in this respect.**

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## 3.18 $0.5 million in other operating expenses incorrectly classified - MR

**Criteria**

PFMR 72 (4) A public officer who approves a payment voucher or electronic documentation shall ensure that:-

(a) the services specified in the payment voucher or electronic documentation have been duly and competently performed;

(b) the prices charged are either according to contracts or approved scales or are fair and reasonable according to local rates;

(c) authority has been obtained as quoted;

(d) the calculations and castings have been verified and are arithmetically correct;

(e) the classification of the expenditure and any deduction are correct;

(f) there are sufficient funds uncommitted in the relevant expenditure sub-head to meet the expenditure;

(g) the persons named in the voucher are those entitled to receive payment; and

(h) any supplies purchased have been taken on charge or issued for immediate use.

**Condition**

Vouching of the items in Note 5.5 to the Trial Balance and operating cost transaction revealed the following:

**Transfer to NHI overstated:**

The figure for Medical Treatment - Transfer to NHIB was overstated by $226,987.82.

**Rental of Assets overstated:**

The figure for rental of assets was overstated by $221,889.53 due to incorrect classification of expenses. Expenses such as housing allowance, office supplies and catering were posted to the rental of building account.

**Claims Against Government Account Overstated**

Claims against the Government account were overstated by $60,000 due to incorrect classification of expenses as follows:

- Refund of $50,000 for Casino Licence
- Professional and consultancy cost of $10,000 for services relating to credit facility agreement for TCIG.

**Recommendation**

Accounting Officers and approvers must ensure that expenditure is classified correctly before approving the SmartStream invoice.

**Management Response**

Officers have been reminded of the need to have correct codification. Finance Managers were moved to the first approver in SS and this is expected to reduce, if not eliminate this issue in FY17/18.

Additionally, the Accountant General is aware of inconsistency in the classification of expenditure. As a result, a directive was issued on December 19, 2017 re codification. It is expected that this should prevent recurrences.

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## 3.19 Manual Journals were not all authorized before processing - HR

**Criteria:**

Best practice requires that all manual journals/entries require approval by an authorised official prior to posting to the General Ledger.

**Condition:**

We extracted a sample of manual journals and performed the following tests:

- Ascertain whether there is evidence of support for the amount booked.
- Ascertain the adequacy of the support provided.
- Ascertain the appropriateness of personnel booking the entry
- Whether there is proper approval by personnel i.e. at least one level above the preparer
- Check for evidence of complete and accurate inclusion in the financial statements

We found that out of the sample of 48 journals totaling $4,299,073.99, 10 journals totaling $288,341.20 were not authorised.

**Effect or potential effect:**

The lack of authorization of manual journals shows a weakness in internal controls and poses a risk for potential management override of controls.

**Recommendation**

We recommend that all manual journals are properly authorized before processing.

**Action Plan**

Person Responsible: PS Finance
Accountant General

Estimated Completion Date:

***Management Response***

Officers have been reminded of the need to ensure that the authorisation of journal entries are evidenced.

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## 3.20 Inconsistency in the accounting bases across Whole of Government

Government and Statutory Bodies apply different bases of accounting making it difficult for Central Government to consolidate their accounts. While the Cash Flow Statement can be consolidated, income statements and balance sheets are not. The bases of accounting range from cash accounting, modified-cash and accruals. These need to be aligned properly. These create financial reporting discrepancies. The 2012 new laws provided for the Accountant General to set the basis of accounting across the Whole of Government which includes Statutory Entities.

***The accounting policy may not be suitable to satisfy the level of accountability and transparency required to the public.*** Where existing standards do not deal with a particular issue, judgment has to be exercised in selecting accounting policies that would help generate relevant and reliable financial information (true and fair).

**Management Response**

**The Accountant General issued a directive on January 17, 2018 for all Statutory Bodies to use the accrual basis of accounting for FY18/19 onwards.**

**Auditor General's Response**

**This is a move in the right direction.**

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## 3.21 Risk of Misappropriation - HR

80% of fraud takes place via misappropriation of assets. ***Assets are still not properly accounted for*** and/or disclosed in the financials. I note many land acquisitions and/or property acquisitions. How does Min. of Finance assure that the transactions are at arms-length and that the value paid is reasonable? TCIG does not know what assets it owns or the value of those assets or if it knows, it is not listed in the financials. This is further complicated by weak controls in key areas.

The law requires preparation of government balance sheets, and this involves the identification, measurement, and periodic reporting of government assets and liabilities, it requires governments to adopt a more systematic approach for identifying, keeping track of, and valuing all assets and liabilities.

The finance laws outlined under the TCI Constitution, PFMO and PFMR require public accountability and transparency for all public resources and all public property. Refer to ISSAI 9160 – Good Governance in Public Assets, Guiding Principles for Implementation. Pre-2012 and Post-2012 all had a requirement for a Balance Sheet.

**Recommendation**

Undertake an exercise to ensure that all assets are recorded. This has been a repeat audit finding for several years.

**Management Response**

I note many land acquisitions and/or property acquisitions. How does Min. of Finance assure that the transactions are at arms-length and that the value paid is reasonable?

**With respect to the land/property acquisitions, the individual transactions may be reviewed to ascertain the acquisition details. We are unable to respond to the generality if the opinion, and welcome any specific concern(s) relating to any of the transactions so that these may be addressed.**

TCIG does not know what assets it owns or the value of those assets or if it knows, it is not listed in the financials. This is further complicated by weak controls in key areas.

**Refer to response at 3.2 above regarding the TCIG's programme to record its assets.**

**Auditor General's Response**

**Specifically – Controls are weak. It has been demonstrated throughout the audit via specific audit findings included herein. The weaknesses identified are pervasive. It means that there is uncertainty as whether or not the controls are effective throughout all processes including whether or not transactions are at arms-length. However, to indulge Management, please refer to the several conflict of interests we have found and identified in the last and current audit, the fact that the NAO has to develop a business ethics compliance form (which is a management responsibility), and last but not least, an element of management bias in the treatment of the accounts (e.g. trying to have the requirement for the balance sheet to be removed, which inhibits transparency).**

**It has been noticed that Management tends not to disclose to the Auditors what the issues are. These weaknesses are not presented to the auditors. It is only when it is identified by the Auditors that an explanation is provided. This points to the high probability of further weaknesses that have not been identified.**

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## 3.22 Repeat Audit Findings and incomplete audit recommendations - HR

**Criteria**

Repeat audit findings should be closed out based on their risk exposure and likelihood. High risks should be closed out within 3 months, moderate risks (within 6 months) and low risks (within 1 year). While there may be some audit findings that can take longer than 3 months, these should occur only in exceptional circumstances.

**Condition**

There are several issues that have been raised over the last 5 years which have not yet been implemented. For example the Fixed Asset Register for land, buildings, infrastructure, vehicles, computers, furniture and fixtures etc. This covers a particularly large span of assets and while there may be some recording under the Board of Survey, the significant assets are not included in the Financial Statements. Other examples are several recurring non-compliance issues, a weak control environment, and a number of other areas identified throughout this report. These impact the reliability and integrity of the financial statements.

**Recommendation**

Management should implement audit recommendations and perform regular monitoring of the previously identified audit issues to ensure they have been resolved. Repeat audit findings have occurred several times.

**Management Response**

**The nature of some of the audit recommendations preclude being able to address the issues within the stated timelines of 3 months to 1 year. Additionally, some of the observations made by the Auditor General are very general in nature without specifically indicating specific weaknesses.**

**Auditor General's Response**

**I cannot be more specific than saying that there are repeat audit recommendations and what I have said in previous audits and the current audit. There is more than enough evidence to state that the Financial Statements are not up to standard or law and that there are significant control weaknesses. TCIG needs to take responsibility for its poor state of the Accounts. The Accounts are wrong, the controls are poor, risk management is non-existent and these have been raised in numerous audits with cogent, convincing and concrete evidence.**

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## 3.23 Inappropriate accounting policy and treatment with regard to the classification of Development Fund Expenditures - HR

***Many Capital expenditure amounts are allocated to projects do not appear to meet the requirements under the PFMO to be treated as non-current assets.*** What is the accounting policy for this and how does it ensure compliance with the definition of non-current assets? For example National Skills Audit, Airport Authority Master Plan, Strengthening Investments, CDB Capital Payment, Youth Week T-Shirts, Legislative and Regulatory Reform, Petroleum Sector Risk Assessment, Boat removal, Education Week Committee, Health Conferences etc. are all included in Development Capital Expenditure which do not meet the definition of a capital expenditure/development cost. There are many more.

**Recommendation:**

Apply an appropriate accounting policy. Even though the basis of accounting is cash, appropriate disclosures can still be made.

**Management Response:**

**The criteria for projects to be designated as falling within the Development Fund is determined by the tenure of the projects. If expenditure is a one off incident and assists with strengthening within the TCIG it is usually classified as Development expenditure. However, this will be looked into in detail within the upcoming financial year.**

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## 3.24 Inadequacy of the cash basis of accounting - HR

While the IPSAS Cash Basis Standard is a fair presentation framework, the cash basis of accounting is inappropriate for some classes of transactions and disclosures. The TCIG Accounts are required to represent faithfully the true economic substance rather than their legal form. *When performing analytical procedures, public sector auditors consider the unique challenges of using the cash basis of accounting and the related possibilities for manipulation of financial information [ISSAI 1240].*

The cash basis of accounting is inadequate to deliver the minimum financial statements as per Schedule 2 of the PFMO and in accordance with Section 45 of the PFMO which requires GAAP. Further the cash basis of accounting is not sufficient to meet the requirements under Schedule 2 of the PFMO which refers to assets, liabilities, commitments and contingent liabilities, arrears, advances etc. most of which would be non-cash type transactions.

In addition the cash basis of accounting, by itself, would not give the users of the financial statements, including the House of Assembly, crucial information for evaluating the TCIG's financial position and performance as required under PFMR Section 52 (5).

The cash basis of accounting is also weak when accounting for contracts straddling the year end as payments made may not accurately reflect the percentage completion of the project. Payments made be accelerated or delayed to meet, or avoid exceeding, budgeted amounts.

**Recommendation**

In the short term, it is recommended that proper note disclosures are made in accordance with a suitable accrual IPSAS standard. In the medium term, transition to accruals accounting is critical and measures should be taken now to move to accruals accounting.

**Management Response**

**Additional disclosures as recommended for entities reporting under the IPSAS Cash basis of accounting are made in the Annual Public Accounts. Additionally, TCIG is moving to accrual accounting and this is documented in the "Roadmap to Accrual Accounting", available for review by the Auditor General.**

**Auditor General's Response**

**Since 2003 it was recommended that Accruals accounting be adopted. And the note disclosures under the cash basis of accounting are inadequate and they do not give a true and fair view.**

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## 3.25 Related Party Transactions and/or events are not disclosed in the financial statements- HR

**Criteria**

ISSAI 1550 Para 14

The auditor shall inquire of management and others within the entity, and perform other risk assessment procedures considered appropriate, to obtain an understanding of the controls, if any, that management has established to: (Ref: Para. A15-A20) (a) Identify, account for, and disclose related party relationships and transactions in accordance with the applicable financial reporting framework; (b) Authorize and approve significant transactions and arrangements with related parties; and (Ref: Para. A21) (c) Authorize and approve significant transactions and arrangements outside the normal course of business.

Public sector entities may also be subject to specific restrictions on the nature and scope of the transactions that they can have with related parties. The restrictions may prohibit transactions or practices that might be permissible in related party relationships outside the public sector.

**Public sector auditors keep the wider definition of related parties in mind when applying the ISA.**

Definition of a Related Party (Ref: Para. 10(b))

A4. Many financial reporting frameworks discuss the concepts of control and significant influence. Although they may discuss these concepts using different terms, they generally explain that:

(a) Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities; and

(b) Significant influence (which may be gained by share ownership, statute or agreement) is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

A5. The existence of the following relationships may indicate the presence of control or significant influence:

a) Direct or indirect equity holdings or other financial interests in the entity.
b) The entity's holdings of direct or indirect equity or other financial interests in other entities.
c) Being part of those charged with governance or key management (that is, those members of management who have the authority and responsibility for planning, directing and controlling the activities of the entity).

d) Being a close family member of any person referred to in subparagraph (c).
e) Having a significant business relationship with any person referred to in subparagraph (c).

**Condition**

In the past, the NAO has also requested that annual business ethics declaration forms be filled out. However, this is a management responsibility to ensure that there are controls in place to capture related parties for financial reporting disclosures.

It is important to have systems and controls to identify and disclose all related party transactions as they carry increased risk. The related party definition under GAAP is wide and includes ministers and key senior public officers. It also covers their close family members. Related party transactions are particularly important, albeit difficult, given the size of TCI. Currently there exist insufficient disclosures and inadequate controls to manage and monitor related parties. While there have been efforts to manage and disclose these related party transactions, it remains inadequate.

In summary, TCIG's financial statements do not currently include sufficient disclosures on related party and related party transactions. While it is not expected to disclose all related parties, it is recommended that controls are instituted to ensure that those with key management personnel and their close family members as well as those having significant influence under the financial and operating policies of the MoF are appropriately managed. Far greater transparency and accountability reporting systems are needed in the area of related parties and significant influence.

The combination of insufficient risk management and inadequate fraud risk management procedures has the potential to increase risks of management override of controls.

**Recommendation**

To the extent that controls do not exist, management should establish controls to identify, account for, and disclose;

a. Related parties and related party transactions and appropriate disclosures in the financial statements; and
b. Authorize and approve significant transactions and arrangements with related parties.

This was recommended in the 2005/06 TCIG Audit Report.

**Management Response**

**The TCIG currently has controls to identify, account for and disclose related parties and related party transactions. The Accountant General issued a reminder on February 28 indicting the need to ensure the adherence to the related policy.**

**Auditor General's Response**

**The disclosures do not meet the requirements under ISSAI 1550. Please re-examine the requirements under ISSAI 1550. Those who have significant influence over the financial and operating decisions of the TCIG should disclose any conflicts they have in the financials.**

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## 3.26 Insufficient risk management and internal control procedures in place - HR

**Criteria**

Good governance practices require those charged with governance is to understand the entities strategies and associated risks and to ensure that management's risk management practices are appropriate. Management is responsible for identifying risks, categorizing them and minimizing their impact. The list of risks to identify includes items such as security, fraud, loss of key staff, loss of potential revenues, poor budget management, hackers and so on.

This process includes identifying:

- The likelihood of an event occurring
- The estimated value of the loss associated with said risky event
- Measures to prevent or mitigate impact of identifies risk

Without effective arrangements in place there is increased risk that the Government will fail in the achievement of objectives, that they will be delivered at much greater cost, or the fiduciary responsibilities of those placed in authority could be undermined. As the Government is exposed to a number of jurisdictions, currencies, laws and regulations there is a need for a robust strategic risk assessment and control framework in place.

**Condition**

The Government does not have in place robust arrangements for managing risk. There is no documented risk management framework, ministries and departments do not maintain risk registers, and there is not a documented risk strategy. Risk management is a key element of a robust internal control environment as it enables senior management to effectively manage the risks to the achievement of the Governments objectives, and also take well informed decisions about the actions it needs to take.

The TCIG's risk assessment process is inadequate, such as management's failure to identify a risk of material misstatement that the auditor would expect the entity's risk assessment process to have identified. For example, the consolidated fund balance is incorrect which implies that the TCIG does not know the financial position as at March 31, 2017. The risk of misstatement owing to the possibility of transactions that are omitted from the financial statements in other accounts is high.

There is also failure of the information and communication component of internal control to provide complete and accurate output because of deficiencies in timeliness, completeness, or accuracy, for example, the failure to prepare timely and accurate financial statements.

**Recommendation**

Management should develop a risk management framework in order to define the risk strategy and oversight responsibilities for risk management to drive accountability across the government. Ministries and departments should integrate risk management including the identification, assessment and analysis of risk within the ongoing business planning and performance management process. Coordinate the scope, people, processes and technology necessary to sustain optimally effective and efficient risk management and compliance activities. A framework shall enable TCIG to manage key risks with optimized processes and controls at the operational level, embedding consistent risk activities within existing processes.

**Management Response**

**The recommendation of the Auditor General is accepted.**

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## 3.27 Inadequate fraud risk management mechanism in place - HR

**This is a finding from the last audit that is repeated here for emphasis given its importance**

**Criteria**

Under internationally recognized audit standards, ISSAI 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements* states that the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management. It is important that management, with the oversight of those charged with governance, place a strong emphasis on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment. This involves a commitment to creating a culture of honesty and ethical behaviour which can be reinforced by an active oversight by those charged with governance. Oversight by those charged with governance includes considering the potential for override of controls or other inappropriate influence over the financial reporting process

To identify and assess the risks of material misstatement of the financial statements due to fraud, we are required to understand how management exercises oversight of processes for identifying and responding to the risks of fraud in the entity and the internal control that have been established to mitigate these risks.

Section 18 (b) of the TCIG Code of Conduct states that it is the responsibility of a Board of Directors/Management to ensure the establishment of a system of internal controls that safeguard assets from inappropriate use and loss from fraud or error.

Chapter 2 (sections 12 to 19) of the Public Service Ordinance 2012 sets in place a mechanism for identifying and handling any suspected unethical behaviour by public servants. These include reporting allegations of unethical or otherwise improper conduct, reporting to the Integrity Commission and to Head of Department or the Permanent Secretary of the Ministry in which the individual is employed and investigation of the matter and determination of an appropriate course of action.

**Condition**

A fraud risk assessment was performed for the financial year 2015/2016. The methodologies used for the fraud risk assessment were surveys and interviews with some Accounting Officers, certain Head of Departments and Financial Managers.

There is a reporting mechanism within the Integrity Commission for breaches of the Code or any other Ordinance in respect of which the Commission has a mandate:

**Physical Report/Complaints**

(1) Reports or complaints can be received by any staff of the Commission or any Commissioner from any member of the public. Under the Whistle Blower Protection provisions, (sections 86-95), reports and complaints are also received anonymously.

(2) Formal Reports and Complaints can be made and received by the Commission from within public service directly by the public servants.

(3) The Governor can make or pass on reports and complaints to the Commission under section 13(3) of the Ordinance.

**Virtual reports/ complaints:**

(4) Reports and complaints can also be made virtually via the Commission's secured website, using the appropriate forms available on the website.

While the MoF may make efforts to report certain suspected cases of fraud e.g. to the Internal Audit Department or persons can report directly to the Integrity Commission or Police Authorities, we noted that Management does not have in place robust mechanisms for identifying and responding to fraud risk factors. Noted gaps included;

1) Lack of a fraud policy. As part of TCIG's governance structure, a fraud risk management program should be in place, including a written policy to convey the roles and expectations of appropriate bodies regarding the management of fraud risk.

2) Lack of regular anti-fraud training for staff. There was no evidence of any anti-fraud training conducted in the year ended 31 March 2016.

3) While persons do fill out declaration forms at the request of the Audit Office, this is not the NAO's responsibility. It is the responsibility of the MoF and other Ministries to ensure that an annual declaration form is done to capture any conflicts of interests up front. It is recognized that persons do declare any conflicts prior to meetings, however, it is a requirement under ISSAI 1550 that Related Parties are recorded and accounted for.

4) Employees did not sign off on a statement of compliance, pledging that they have read and understood the Code of Conduct, and their job descriptions, to affirm that they understand their roles and responsibilities and will adhere to the stipulations of the TCIG code of conduct.

5) There is no system in place to reward or incentivize whistle blowers.

6) There is no evidence that a record of fraud or other breaches in the code of conduct is maintained within the Public Service, although the NAO has requested a business ethics compliance form be completed and this is done (although it is not the responsibility of the NAO to do this).

For information, in the application of an auditor's professional skepticism, several risk factors were considered which are extracted **DIRECTLY FROM THE ISSAI 1240**.

a) There appear to be perceived or real adverse effects of reporting significant deficiencies in internal controls or non-compliance with laws and regulations. Sanctions and penalties for non-compliance, weaknesses in systems and controls etc. and facing public scrutiny from the House of Assembly and the Public Accounts Committee are good controls to reducing fraud, wastage, impropriety etc.

b) There may exist, significant related-party transactions or events as there is little evidence to suggest that all related party transactions (cash and non-cash) are recorded and accounted for in the financial reports to the House of Assembly. There are disclosures around material related-transactions between central government, statutory bodies and other entities, though this is subject to audit and we were not able to confirm if all disclosures were made. However, controls are not sufficiently in place to deal with other aspects of related party transactions or events such as the lack of management responsibility in ensuring that there is a process to capture these transactions or events accurately and to report them or disclose them. There is no tracking or reporting process on ethical violations. The efforts are more reactive rather than proactive. For example it is only when an incident has occurred that this is reported to the relevant authorities for action. Where there exist related parties and inadequate systems to report related party transactions or events, control and significant influence over the financial and operating policies may exist. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities; and (b) Significant influence (which may be gained by share ownership, statute or agreement) is the power to participate in the financial and operating policy decisions of an entity, but is it is not "control" over those policies.

c) There have been assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate. Repeat audit findings have centered on a lack of controls, recording and disclosure of assets of TCIG. This is a significant weakness as over 80% of fraud occurs in the misappropriation of assets. Liabilities have not been accurately recorded for several years or may be classified or disclosed incorrectly. Findings in the current year's audit report are also recorded, which impact the accuracy and reliability of the annual statement of public accounts. There have been almost 8 years of disclaimers of the financial accounts as far as I am aware.

d) There have been significant, unusual, or highly complex transactions that pose difficult "substance over form" questions. A few instances of substance over form transactions do exist such as in the Public Private Partnership, contingent liabilities, non-cash economic items. Where there is more focus on how they are treated in the accounts rather than how they are treated on the economic substance of the transaction, raises concerns. For example, the inconsistent move from cash to modified-cash and then back to cash basis of accounting is questionable. While it may be a simpler reporting exercise, the fact that there is a requirement under the laws for a balance sheet which has been removed from the Public Financial Management Framework is concerning. There is a requirement for full disclosure to the House of Assembly and the financial performance and position of TCIG of the Consolidated and other Accounts should be fully presented.

e) Internal control components are deficient in several areas. There are identified deficiencies in internal control in several past audits as well as the current audit and are outlined throughout this audit report.

f) There have been instances where management has failed to remedy known significant deficiencies in internal control on a timely basis. Several audit findings remain open, there are repeat audit findings and the control environment is weak. Audits as far back as 2002 have made recommendations that, up to today, are very relevant.

g) There are some recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality. While the cash basis of accounting is a fair presentation framework, the Public Finance Management Framework mandates classification/accounting/recording/disclosing of items that are non-cash as well as assets, commitments and so on. Further to move towards accounting policies which only record cash does not accord with full disclosure requirements to the House of Assembly and does not fairly represent the true nature of transactions such as concessions, arrears of revenue, exemptions, subsidies, grants, gifts received and/given, assets, the public private partnerships, contingent liabilities etc.

h) There may be inadequate internal control over assets which is likely to increase the susceptibility of misappropriation of those assets. Lack of internal controls or deficiencies over assets have been identified in several audits and are clearly significantly material and pervasive in nature.

i) There is a lack of complete and timely reconciliations of assets and other accounts. This has been a frequent issue in the previous audits as well as the current audit.

j) There are or has been some discrepancies in the accounting records, including:
   - Transactions that are not recorded in a complete or timely manner or are improperly recorded as to amount, accounting period, classification, or entity policy.
   - Unsupported or unauthorized balances or transactions.
   - Last-minute adjustments that significantly affect financial results.

k) There are or has been conflicting or missing evidence, including missing documents,
   - Significant unexplained items on reconciliations.
   - Changes in important financial statements
   - Inconsistent, vague, or implausible responses arising from inquiries or analytical procedures.

l) The TCIG applies the cash basis of accounting. There are shortcomings of the cash basis of accounting, such as:
   - Non-recording of certain assets;
   - Inadequate details for assets;
   - Uncontrolled or unstructured move from bases of accounting

m) ISA 240 - unusual delays by the entity in providing requested information

**Recommendation**

1. Management should develop fraud policies and procedures and fraud awareness programs for the public service.
2. All incidents of fraud should be responded to promptly and records maintained.
3. Accounting officers should perform fraud risk assessments for all programs under their ministry at least annually.
4. Fraud plans should be developed and executed for all ministries and departments.
5. There should be continuous monitoring of fraud systems.
6. Management should be trained in fraud detection and prevention.
7. A formalized system for reporting unethical conduct should be developed.

**Management Response:**

**It is accepted that there is no document dealing specifically with fraud risk assessments, policies and procedures. However, there are internal controls in place which address this issue and on which reliance is currently placed.**

**Auditor General's Response**

**Management's verbal response is insufficient to address this matter. This has been a repeat audit finding. Given the significant weaknesses in internal controls identified in this audit, it is unlikely that controls in other areas will exist to the extent necessary to mitigate the risk of fraud.**

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## 3.28 Ineffective controls around review of exposures arising from financial instruments held - MR

**This is a finding from the last audit that is repeated here for emphasis given its importance**

**Criteria**

Best practice requires that management perform regular assessment of any exposures in the economy that may have an adverse effect on government assets and liabilities. It is important that management enhance financial statement users' understanding of the significance of financial instruments to the government's financial position, performance and cash flows by providing disclosure of information about the nature and extent of an entity's use of financial instruments, the financial purposes that they serve, the risks associated with them and management's policies for controlling those risks.

**Condition**

TCIG holds financial instruments that include revenue receivables, payables and refundable deposits, borrowings and cash and cash equivalents. One of main purposes of these financial instruments is to raise finance for the Government's operations. Revenue receivables and payables arise directly from the Government's operations. The main risks arising from the Government's financial instruments are interest rate risk, credit risk and liquidity risk. There is no evidence that management reviews and agrees policies for managing each of these risks.

Interest Rate Risk - The Government's borrowings are interest bound. Short-term financial liabilities are interest free. The disclosure has does not have details on whether these are variable interest rates. The interest rate risk exposure arising from the facilities, assuming an increase/ decrease in interest rates should be disclosed. The interest rate risk exposure relates to the effect that a reasonably possible movement in interest rates would have on the government surplus. The Government also has interest bearing investments and should disclose if the rates and variable and any exposures that may affect the cash receipts.

Credit Risk is the financial exposure generated by the potential default of third parties in fulfilling their obligations. The government main source of revenue is through taxes. There is $12,423,000 in revenue arrears as some taxpayers may not fulfil their obligations for several reasons. Management has not included a disclosure on the ageing of these arrears and on the recoverability. The government is also exposed by advances that may not be recovered. The Financial statements include $2.7 million advance that have been deemed irrecoverable and are recommended for write-off. Management has not explained what measures are in place to manage future exposures to such bad debt.

Liquidity risk –The financials do not disclose how government monitors its risk to shortage of funds. The disclosure should include an explanation on how management maintains a balance between continuity of funding and flexibility through the use of borrowings and cash collections. The disclosure should show an analysis on which financial instruments will mature in less than one year based on the carrying value of the assets and liabilities reflected in the financial statements. Management has not explained how it maintains compliance with the creditor commitments and obligations without adversely affecting liquidity.

**Recommendation**

Management should perform regular assessment of financial risk exposures and disclose within the financial statements the assessments performed to manage the existing risks.

**Management Response**

**In future, details as described above will be included in the Annual Public Accounts.**

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## 3.29 Lack of up to date approved manuals and operating procedures - HR

**Criteria**

Best practice requires that management drafts and gets approval of operating manuals and policies that are consistent with the ordinances in place to provide guidance to public servants as they perform their duties.

**Condition**

The manuals in place have been in draft form and it is not clear as to why they have not been approved and implemented. The manuals are necessary to demonstrate that there are financial controls in place to support the PFM Framework Laws and Regulations so as to ensure that assets are safeguarded, that financial statements are in conformity with generally accepted accounting principles and that finances are managed with responsible stewardship. They establish a minimum level of financial control necessary in government ministries and departments and provide a basis for standardized and good practices across TCIG to achieve consistency of reporting transparency and accountability.

It appears that the old manuals are being used.

**Recommendation**

Management needs to obtain approval of the existing draft manuals and develop a plan to implement the activity level requirements that support the financial laws and regulations.

**Management Response**

**The accounting software is being upgraded. It would therefore be counterproductive to complete review of the manuals prior to the completion of this exercise.**

**Auditor General's Response**

**This has been a repeat audit issue for 5 years or more. Perhaps if action was taken earlier rather than later, TCIG would not have had to wait until the software is upgraded. The management response appears to be more of an excuse for not dealing with this recommendation rather than attempting to fix the problem at the point in time it was identified.**

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## 3.30 Inadequate Accounting Policies

**Criteria**

Accounting policies are the specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting financial statements. In certain situations, there may exist transactions that, in substance, are other than cash, which require some accounting policy to be applied. In the absence of an Accounting Standard that specifically applies to a transaction, other event or condition, management is required to use its judgment in developing and applying an accounting policy that results in information that is relevant and reliable. In making that judgment, management must refer to, and consider the applicability of, the requirements and guidance in other IPSASs dealing with similar and related issues. Section 1.3.32 of the Cash Basis IPSAS Standard for general purpose financial statements should present information that is:

(a) Understandable;
(b) Relevant to the decision-making and accountability needs of users; and
(c) Reliable in that it:
(i) Represents faithfully the cash receipts, cash payments and cash balances of the entity and the other information disclosed;
(ii) Is neutral, that is, free from bias; and
(iii) Is complete in all material respects.

1.3.34 The accounting policies section of the notes to the financial statements should describe each specific accounting policy that is necessary for a proper understanding of the financial statements.

**Condition**

It was noted that there were no clear accounting policy outlined in the financial statements for revenue arrears, bad debts, debt forgiveness, concessions, stamp duty exemptions, preferential rates and/or benefits, write-offs, losses, guarantees, contingent liabilities including litigation, related party transactions, commitments, controlled entities, crown land (grants and leases), pension liabilities etc.

This can lead to an actual or potential misstatement of the financial statement where transactions are not, at a minimum, disclosed,

Information is material if its omission or misstatement could influence the decisions of users or assessments made on the basis of the financial statement. Materiality depends on the nature or size of the item or error judged in the particular circumstances of its omission or misstatement. Thus, materiality provides a threshold or cut-off point rather than being a primary qualitative characteristic which information must have if it is to be useful.

There is no accounting policy to treat with and/or disclose property, plant and equipment, heritage assets, crown land, etc. which should, at a minimum, be disclosed in order to reflect an accurate representation of TCIG's assets. If TCIG is unable to provide this in the financial statements, then it must so state why and what plans it has for safeguarding these assets.

*The cash basis of accounting is not sufficient to deal with non-cash transactions or events as these can simply not be reported. At the very least they should be disclosed in accordance with a recognized GAAP. They do not have to form part of the statement of financial performance or position. They can be disclosed consistent with an appropriate GAAP. Not doing so, does not provide an accurate picture of TCIG's financial performance or position.*

*For example, leases of crown land exist in which the cash basis of accounting stops short of being able to record these transactions because they are non-cash events, yet lands are leased at "peppercorn" rents. Because they are non-cash it does not mean that TCIG has not given up economic value. In fact it is quite the opposite. Economic value has been given up with impending benefits which have not been measured or monitored and therefore may not be transparent it its award.*

*Similarly development orders which provide incentives, subsidies that are provided and debt forgiveness arrangements, are non-cash transactions which, when not reported, do not provide an overall true and fair view. The risk is increased significantly as these transactions are one-way transactions which benefit the receiver and there is no way to ensure that the transaction is above board and transparent. By reporting non-cash transactions these encourage transparency, reduce the risk of fraud and initiates value for money reviews and checks on compliance with laws and regulations.*

*By adopting the cash basis of accounting there is a higher risk of bad debts increasing as debts may not be monitored as closely as they would be if they were included on the statement of financial* *position. In addition, by not including debts on the statement of financial position there is a high risk that the requirements of the PFMO for write-offs to be approved by the House of Assembly may be inadvertently by-passed. This is clearly evident with the uncollectable revenue arrears. It is also evident with the write off of the $2.5 million Belize Bank Account. An accounting policy should be developed to deal with bad debts.*

***At the very minimum, the economic substance rather than the legal form of the transaction should be disclosed.***

**Recommendation**

It is recommended that specific accounting policies and disclosure requirements be developed and outlined in the financial statements in respect of events or other conditions that are likely to influence the decisions of users or assessments made based on the financial statements. There must be a fundamental shift in thought so that the focus should be on economic events and not only cash based events.

**Management Response**

**TCIG will continue to improve the Annual Public Accounts by providing more additional information where it will enhance the experience of the user.**

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## 3.31 Ministry of Finance did not receive all unaudited financial statements from the Statutory Bodies in compiling its TCIG Financial Statements - HR

Notwithstanding any other Ordinance, any accounting officer or other public officer or person administering any statutory body, shall prepare, sign and submit to the Minister and the Accountant General, accounts of the statutory body in the form the Accountant General may from time to time direct and in accordance with a timetable issued by the Accountant General.

The NAO requested confirmation from the MoF as to the number of statutory entities that provided financials prior to preparation of TCIG's Accounts. This may be useful when preparing the TCIG's accounts. For example, where Statutory Bodies may have amounts due to the TCIG this can be identified and it can also facilitate a consolidation process as well.

**Recommendation**

Ensure that all statutory body unaudited financial statements are received by the MoF in order to review prior to finalization of the TCIG's accounts.

**Management Response**

**Additional measures are instituted to ensure that all available information is included in the Annual Public Accounts.**

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## 3.32 Continued delays in Establishing and Reviewing Significant Accounting Policies and Standard Operating Procedures in Various Areas - HR

**Criteria**

The Financial manual is required as a technical guide in preparation of financial statements that clearly lays out all the financial procedures in the treasury as well as the accounting policies in use.Best practice requires that management prepares and gets approval of operating manuals and policies that are consistent with the ordinances in place to provide guidance to public servants as they perform their duties and also set the accounting policies to be adopted in the financial reporting process.

**Condition**

There have been continued and consistent delays in documenting, completing, updating and approving the TCIG finance manual. All accounting policies relevant to the financial statements should be documented in the financial manual. The accounting currently policies included in the financial statements do not cover all balances currently reported within the TCIG accounting system (Smartstream) as well as off system balances. There is no accounting policy in the Financial Statements covering disclosed balances like payables, commitments, arrears, concessions, investments, valuation, impairment and write-off of receivables and advances, classification and recoverability of long term receivables (Loans receivable), Retention funds (funds held in escrow, prepayments and other deposits), Funds recovered from dormant accounts, Payables arising from stale dated/ Long outstanding cheques, Accounting for reserve accounts (Consolidated fund, Development fund and National Forfeiture fund). There were no accounting policies covering the above noted significant accounts in the annual statements of public account for the FY 2017. From our discussions with management, a draft financial manual is in place to update and revise the old manual as a result of the 2012 laws that came in place. We however note that there have been delays to complete and have the manual approved. Failure to have the manual revised on a timely basis makes it unclear how the areas above are accounted for as no accounting policies for these are in place.

**Recommendation**

All significant policies and procedures should be formally documented, meaning the policy has been written up in sufficient detail and the policy has been approved/authorized by personnel with authority to establish organizational policy.

All significant policies and procedures should be periodically reviewed and updated to ensure the policy remains current and applicable.

All treasury staff should be trained on how to use the finance manual and how to apply the right bases of accounting as per the accounting policies

**Management Response**

**We are currently in the process of updating the financial manual to be a comprehensive document. As you are aware, TCIG has a plan in place to move to accrual accounting. The manual is being prepared with this in mind, as there needs to be systems and procedures in place that will capture the information required on an on-going basis to facilitate the preparation of the accounts. Additionally, with the impending SmartStream upgrade, the manual needs to incorporate the relevant changes.**

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## 3.33 No evidence of documented and approved business continuity plan - HR

**Criteria**

Best practice requires that management puts in place a business continuity plan. The plan should be documented and revised on a regular basis for relevance with changing conditions and changing technology. The BCP should addressed the need to respond to structural and system interruptions with minimal downtime.

**Condition**

There is no evidences that TCIG has a documented business continuity plan. From our inquiries, we noted that whereas different department like CITU and DEMA have in place recovery procedures and disaster preparation and recovery plans, there's no comprehensive business continuity plan to align all of these and ensure smooth flow of processes and quick bounce back in case of a disaster. There is no evidence that the plans in place are tested on a regular basis to ensure that they can easily be implemented when required. Whereas there's a misconception that insurance covers the losses, management has to be aware that insurance can't cover losses like loss of reputation, and revenues lost due to downtime

**Recommendation**

Management should prepare a comprehensive business continuity plan and revisit it regularly to ensure it conforms to current trends and situations.

**Management Response**

This is a work in progress. Business continuity plans are in place and were activated for the recent hurricanes.

## 3.34 Weaknesses in bank reconciliation process - LR

**Criteria**

Proper financial management practice requires that the bank balances are reconciled to cashbook balances on a regular basis. Bank reconciliations are prepared so as to ensure that the cash book entries are complete. Items missing from the cash book will not have been recorded in other ledger accounts and the business records will be unreliable.

**Condition**

There are long outstanding deposits that are included in the bank reconciliations as amounts traced to bank statements but not recorded in SmartStream. Management is supposed to reconcile deposits in the bank to SmartStream and or to the arrears. Tabulated analysis of these amounts (in US$) is shown below.

| Account | Less than 6 months | Between 6 months to 1 year | Over a year | Total |
|---|---|---|---|---|
| 52026 | 24,226 | - | - | **24,226** |
| 52023 | 17,324 | - | - | **17,324** |
| 52022 | 500 | 467 | - | **967** |
| 52017 | 776,631 | 62,124 | 139,423 | **978,178** |

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**Recommendation**

Management should reconcile amounts deposited in the bank to Smartstream or to the arrears schedule

Management Response

We have been in contact with the bank and they were of the opinion that they had addressed the queries. Unfortunately, the service has deteriorated over the past year with the transfer of some functions to Trinidad. A meeting is scheduled to review the remainder of the outstanding matters as soon as we have received copies of previous responses from the bank.

## 3.35 No monetary Value for Fixed Assets in Balance Sheet - HR

**Criteria**

**PUBLIC FINANCIAL MANAGEMENT ORDINANCE SCHEDULE 2**

The following accounts shall be submitted to the Auditor General and the Minister by the Accountant General—

(b) a balance sheet showing the assets and liabilities of the Consolidated Fund;

2. The following accounts shall be submitted to the Accountant General by accounting Officers

(e) a statement of assets signed by the accounting officer containing details and values of all unallocated stores under his or her control at the end of the financial year together with the details and values of any other classes of assets under the control of the accounting officer as the Accountant General
may from time to time determine;

**Condition**

Fixed assets were not included in the Statement of Assets and Liabilities for Turks and Caicos Government for the year ended March 31, 2017, as required by PFMO. Complete and accurate fixed asset registers were not maintained for property, plant and equipment.

**Recommendation**

Accounting Officers should ensure that mechanisms are in place to record fixed assets in their custody. Additional, controls should be in place to ensure that those records are complete and accurate. Fixed assets should be included in the Statement of Assets and Liabilities as required by the PFMO.

**Management Response**

**Accounting Officers were reminded of their responsibility in this regard.**

# 4. Other Audit Findings

## 4.1 Increase in arrears of revenue within ministries when compared with previous financial years - MR

**<u>Criteria</u>**

Public Finance Management Regulations Part X11 Sec 53 (1) (a) – (e)

53. (1) An Accounting Officer is personally responsible for ensuring that—

(a) all revenue is assessed, invoiced, and paid promptly;

(b) adequate safeguards exist and are applied for the prompt assessment, invoicing, collection and deposit of, and proper accounting for, all Government revenue and other public moneys relating to their ministries or departments;

(c) all persons liable to pay revenue are informed by bills, demand notes or other appropriate notices of debts due, and that they are reminded promptly and frequently of revenue which is in arrears; and

(d) Adequate measures, including legal action where appropriate, are taken to obtain payment;

(e) Official receipts are issued for all moneys paid to Government of the Turks and Caicos islands.

(2) An Accounting Officer who experiences difficulty in collecting moneys due to the government must report the Responsibility for revenue collection circumstances to the Accountant General without delay, and copy such reports to the Permanent Secretary, Finance.

**<u>Condition</u>**

During the period, significant increases (> 5%) were reported by the following Ministries highlighted in black.

Table 1: Statement of Arrears of Revenue – Showing Significant increases in Revenue Arrears for the period.

**Table 1 – Statement of Revenue Arrears for the period ended 31 March 2017.**

| MINISTRY | 31 March 2017 US$'000 | 31 March 2016 US$'000 | Increase/ (Decrease) in arrears | % Increase/ (Decrease) in arrears |
|---|---|---|---|---|
| Police | 10 | 13 | (3) | (23%) |
| Attorney General's Chamber | - | 2,333 | (2,333) | (100%) |

| | | | | |
|---|---|---|---|---|
| **Ministry of Finance, Trade and Investment** | **6,678** | **5,984** | **694** | **12%** |
| Ministry of Education Youth Sports and Library Services | 50 | 178 | (128) | (72%) |
| Ministry of Home Affairs, Transportation & Communication | 24 | 39 | (15) | (38%) |
| **Ministry of Infrastructure, Housing & Planning** | **5,423** | **3,496** | **1,927** | **55%** |
| Ministry of Tourism, Environment, Heritage & Culture | 338 | 381 | (43) | (11%) |
| **Total Arrears of Revenue** | **12,523** | **12,424** | **99** | |
| **Overall Increase** | | | **1%** | |

The increase in 2016/2017 for the Ministry of Infrastructure, Housing & Planning support documents show that this was due to arrears in "Sale of Water" from $3.4Mil to $5.4Mil. This is a significant increase.

**Effect or potential effect:**

Increased arrears cause uncontrolled and unmonitored increases in arrears.
Unrealistic information to confirm arrears are not checked.

**Recommendation**

The responsible Officer must implement a plan to monitor and collect the arrears outstanding to TCIG.

**Action Plan**

Person Responsible: PS Finance
Accounting Officers

Estimated Completion Date:

## *Management Response*

The Finance Managers/Senior Accounting Officers are tasked with recording the arrears monthly, as reported in the monthly accounts. Accounting officers are responsible for indicating any action taken.

## 4.2 Returns from Ministries/Departments were not properly labelled by Accounting Officers - LR

**Criteria:**

Public Finance Management Regulations 63(2) the return shall state for each revenue head and item the arrears outstanding at the end of that financial year.

## Condition:

We reviewed all revenue arrears returns submitted. We were not able to identify which Ministry/Department the signed return represented because no Ministry/Department account codes were stated and no Ministry/Department headings were written. To properly identify the Ministry or Department the signature of the individual was matched to the Ministry/Department. Most of the returns in this category had nil arrears or was not applicable. Even though these were nil submissions, this is not in accordance with the requirements of the ordinance and it does not give clarity in order to understand which revenue stream is being reported on.

List of Ministries/Departments that submitted returns without account and Ministry codes.

**Table 2 – Returns submitted late**

| RETURNS NOT LABELED |
|---|
| Director of Public Prosecutions |
| House of Assembly |
| Judiciary |
| Ministry of Education |
| Ministry of Finance |
| SPPD |
| Statistics Dept. |
| Budget Office |
| CITU |
| Office of the Premier |

## Effect or potential effect:

Inaccurate disclosures for revenue accounts.
Errors in the presentation of arrears for Ministries/Departments.
Inability to track disclosed arrears.

## Recommendation

We recommend that Accounting Officers be informed of the proper way to complete the arrears returns in accordance with the Public Finance Management Ordinance.

## Action Plan

Person Responsible: PS Finance
Accountant General
Accounting Officers

Estimated Completion Date:

***Management Response***

The Accounting Officers were reminded on February 28, 2018, of the need to properly complete the forms.

### 4.3 Revenue Arrears Returns submitted after the required date - MR

**Criteria:**

Public Finance Management Regulations 63 (1) within thirty (30) days after the close of the financial year, each Accounting Officer shall submit to the Accountant General in a form approved by the Accountant General with a copy to the Auditor General, a return of all arrears of the revenue for which he is responsible.

**Condition:**

A Review of all returns submitted to the Accountant General revealed that not all Ministries/Departments submitted the relevant Arrears of Revenue returns by the 30 April.

**Effect or potential effect:**

Lack of information to complete the year-end statement.

Late submissions

**Recommendation**

Accounting Officers must ensure that Arrears of Revenue returns are submitted by the deadline stated in the Public Finance Management Regulations.

**Action Plan**

Person Responsible: PS Finance
Accountant General
Accounting Officers

Estimated Completion Date:

## *Management Response*

Accounting Officers were reminded on February 28, 2018 of the need to submit the returns on time.

### 4.4 Refund of Permanent Residency Fees and Customs Import Duties paid in the financial year subsequent to the year the revenue was collected were recorded contrary to the Ordinance - HR

**Criteria:**

61. (1) Refunds of revenue may become necessary because of collections or over-collections made in error or because, although properly collected in accordance with an Ordinance or regulation, provision exists under the Ordinance or regulation for the revenue to be reclaimed under certain circumstances in the form of a rebate or drawback.

(2) Where the collection, over-collection, rebate or drawback is made in the same financial year as that in which the revenue was originally collected, it shall be authorised by the Accounting Officer concerned to be charged as a debit item in the appropriate revenue head.

(3) A rebate or drawback made in the financial year subsequent to that in which the revenue was collected shall be made with prior approval of the Accountant-General who shall debit it to an expenditure item called "Refunds of Revenue of Previous Year".

(4) A rebate or drawback made in accordance with an enactment or instruction shall be authorised by the officers prescribed in the enactment or instruction and charged against the appropriate revenue or expenditure item.

**Condition:**

We extracted all debit transactions >10,000 and tested all (17) seventeen totaling $1,286,914.46. In our review of debit transactions posted under revenue accounts, we noted refunds relating to various fees collected by TCIG during the previous financial year. We noted that refunds relating to revenue collected in the previous year were not properly accounted for.

The following are refunds recorded in the accounting system during 2016/2017 which related to revenue received in the prior period. These were posted against revenue accounts, which is contrary to PFMR 61 (3) which requires the refund to be debited to an expenditure account.

**Table 3 – Refunded Revenue Paid in 2016/2017 but Collected in Prior year**

| JOURNAL ID | DETAILS | REFUND AMOUNT 2016/2017 | REVENUE RECEIVED BY TCIG |
|---|---|---|---|
| AP 1608192027243 | PRC REFUND | $10,400.00 | 2015/2016 |
| AP 1608192027243 | PRC REFUND | $10,600.00 | 2015/2016 |
| AP 1611182019310 | REFUND OF IMPORT DUTIES | $12,969.90 | 2015/2016 |

**Effect or potential effect:**

Amounts for revenue might be understated.

**Recommendation**

We recommend that the requirements of Public Finance Management Regulations be observed.

**Action Plan**

Person Responsible: PS Finance
Accountant General

Estimated Completion Date:

***Management Response***

Management Response

The amounts identified above were not considered material to warrant an amendment of the current year's accounts.

As TCIG moves toward accrual accounting, the Accountant General issued a directive on January 17, 2018 requiring refunds to be identified and posted to a payable account in the Statement of Financial Position account.

### 4.5 Limited oversight for Lottery Operator for the period - MR

**Criteria:**

National Lottery Ordinance Part 1 Sec 6(a)-(g) – Powers of the Board

**Condition:**

We reviewed all transactions greater than $10,000 relating to revenue received by TCIG for Lottery Tax (8 transactions totaling $183,377). It was noted that there were no support documentations available for review in relation to the collections. There were no checks completed to ascertain whether the correct amount of lottery tax was received by TCIG and no review of financial data to validate that calculations were correct for the period.

Lottery tax collected for 2015/2016 totaled $286,322, 2016/2017 totaled $204,409 a noted decrease of $81,913 or 29%.

**Cause**

Failure to ensure that a functioning Lottery Board was established as required by the Law.
Failure of the Gaming Department to establish controls to address the requirements of the ordinance.

**Effect or potential effect:**

Potential risk of loss of revenue.

**Recommendation**

Controls must be established to address the issues raised above and TCIG must consider reestablishing the Lottery Board to ensure there is appropriate oversight over the lottery operations in the TCI.

**Action Plan**

Person Responsible: PS Finance
Gaming Dept.

***Management Response***

In 2017 approval was obtained from Cabinet for the re-establishment of the Lottery Board. The establishment of the Board will be concluded in FY 17/18.

## 4.6 Potential for Revenue Loss - MR

**Criteria:**

Best practice requires all registered Businesses to pay the required taxes.

**Condition:**

Based on reports requested from the Revenue Control Unit detailing VRBO businesses that were registered during the period and our review and analysis of the reports and payments received by TCIG during the period 1 April 2016 to 31 March 2017, we observed the following:-

- 495 entities registered under the category VRBO. Out of this amount, 473 paid taxes during the period 2016/2017, totaling $7,813,762.
- 22 entities registered prior to 2016/2017 were noted as not paying taxes.

- 108 new registrants were entered from 1 January 2016 to 31 March 2017. TCIG collected $982,350.19 from the new registrants during the period 1 April 2016 to 31 March 2017.
- 17 out of the 108 new registrants did not pay taxes during 2016/2017.

This information is based on registered entities; however, we were not able to ascertain whether all VRBOs have been registered with the TCIG.

**Effect or potential effect:**

Loss of revenue
Incomplete or inaccurate register of VRBOs

**Recommendation**

We recommend that TCIG enforces compliance with the laws and regulations of Turks and Caicos Islands. Entities that have not paid and those that have not been registered should face penalties for not paying taxes.

**Action Plan**

Person Responsible: PS Finance
Commissioner of Revenue
Estimated Completion Date:

***Management Response***

In FY 17/18 MOF started the process of negotiating a MOU with Air BnB to assist with the compliance and registration of VRBO within the TCI. It is hoped that this revenue stream will be better policed in FY 18/19

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## 4.7 Statement of Related Party Transactions and Code of Conduct - MR

**Criteria**

**Public Procurement Ordinance (PPO)**

**PPO 3** "conflict of interest" means the situation that arises when an obligation, interest or distraction exists that would interfere with an independent exercise of judgement;

**PPO 4 (6)** An Officer must declare an interest the officer may have in any entity that does or could, supply the government with goods, services or works.

**PPO 4 (7)** A notification of a potential conflict of interest must be made by an officer in writing and held on the project file.

**PPO 8. (1)** Competition is a key element of the government's procurement framework.

(2) Effective competition requires non-discrimination and the use of competitive procurement processes.

**PPO (11)** Ethical behaviour identifies and manages conflicts of interests, and does not make improper use of an individual's position.

(12) In particular, an officer undertaking procurement must act ethically throughout the procurement.

(13) Ethical behaviour includes—

(a) recognising and dealing with actual, potential and perceived conflicts of interest;

(b) dealing with suppliers and potential suppliers and tenderers equitably, including by seeking appropriate internal or external advice if probity issues arise and by not accepting gifts or hospitality contrary to any law, instruction or guidance; and

(c) carefully considering the use of government resources.

**Appendix B**

A conflict of interest is deemed to arise if a person in public life or those exercising public functions, were to make a or participate in the making of a decision in the execution of his office and at the same time knows or ought reasonably to have known that in the making of the decision, there is an opportunity either directly or indirectly to further his private interest or that of a member of his family or any other person.

**Identifying Conflict of Interest**

Two ways in which a conflict of interest, or the perception of it, can arise:

- From the exercise of power or other influence in a way that does or could be considered to affect the value an interest held; or
- From using special knowledge acquired in the course of public duties in ways which brings benefit or avoid loss (or could arouse reasonable suspicion of this) in relation to private interest.

Persons in public office should scrupulously avoid any danger of an actual or apparent conflict of interest between their professional duties and their private interest. In order to avoid such damage, they should be guided by the general principle that they should either dispose of any financial interest giving rise to the actual or apparent conflict or take alternative steps to prevent such conflict.

**General conflict situations are as follows:**

- A public officer reviews, approves or controls a contractual or business relationship between TCIG and a vendor with which the public officer or a family member has a financial relationship.
- A public officer supervises, reviews, determines compensation or assigns work to a family member.
- A public officer has, or is aware that a family member has, a significant interest in an outside company that provides goods or services to TCIG.

**Condition**

Review of the Statement of Related Party Transactions and Code of Conduct Declarations for the year ended 31 March 2017 revealed that:

- The Attorney General's Chambers and the Ministry of Health did not provide declarations.
- Public officers certified and approved 29 transactions totalling $337,708.02 for family members.
- Public Officers were not trained to recognize and manage conflict of interest.
- Two public officers did not read the Code of Conduct.

**Recommendation**

Accounting Officers must ensure that the relevant officers complete and sign the Statement of Related Party Transactions and Code of Conduct Declaration.

Conflict of interest can lead to reputational risk for TCIG. Accounting Officers should ensure that controls are in place to detect and manage conflict of interest. Additionally, Public Officers should be trained to recognise conflict of interest transactions.

**Management Response**

The Accountant General issued a reminder on February 28, 2018 regarding the need to have transparency in the approval and certification process. Officers who have breached these guidelines will also be reminded individually.

Additional training is also proposed in the new FY but this will be dependent on the budget being approved.

## 5. Limitations

The parameter within which this audit was conducted provides findings related to the implementation of policy. It does not comment on policy initiatives. However, where the accounting policies are considered inappropriate for any transaction, event or condition (cash or non-cash, economic or otherwise), which are likely to result in a material misstatement of the financial statements, issues and recommendations will be provided. Furthermore the opinion is arrived at by taking into consideration a combination of matters and not any individual matter. The findings are based on evidence suitable for an audit of this nature. The audit procedures employed were suitable for an audit to discover errors or omissions, but not suitable for the discovery of fraud as this requires procedures that fall outside of the scope of this audit. Our report may not have considered issues relevant to any third parties. Any use such third parties may choose to make of this Audit Report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. Our audit was based on the annual public statements presented on 31 July, 2017, not on any subsequent revisions. Management responses and additional disclosures after the first financial statements were prepared were not subjected to the detailed auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them. However, we have sought and received management representations in certain instances as part of our audit evidence. Revisions were allowed to account for minor changes and not material changes to the figures. We hold no responsibility for assuring changes that were made under the revised financials for which we may not have been made aware. The NAO has not reviewed any other documents containing audited financial statements. Insofar as discovery is continued in this matter, I reserve the right to supplement or otherwise amend this report regarding assumptions, interpretations, supplementary notes and statements of opinions. It should also be noted that references to various standards and research were made which applied in the context of this audit which have not been fully outlined.

## 6. Key Definitions

A ***deficiency in internal control*** exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

A ***material weakness*** is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

***Applicable financial reporting framework***—The financial reporting framework adopted by management and, where appropriate, those charged with governance in the preparation of the financial statements that is acceptable in view of the nature of the entity and the objective of the financial statements, or that is required by law or regulation.

The term —fair presentation framework is used to refer to a financial reporting framework that requires compliance with the requirements of the framework and:

> (a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or
>
> (b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

The term —compliance framework is used to refer to a financial reporting framework that requires compliance with the requirements of the framework, but does not contain the acknowledgements in (a) or (b) above.

A ***significant deficiency*** is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

***Assets*** are resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

***Capital Expenditure*** means the acquisition, construction or development of any tangible capital asset valued in excess of $75,000 which is distinguished from current account expenditure for repair and maintenance in that it enhances the service potential of a capital asset and therefore consists of a betterment (enhancing the output of the asset, or extending its useful life). There are two types of capital expenditures –

- Capital acquisitions include vehicles and heavy equipment, plant machinery and equipment, vessels and boats, furniture and fixtures, office equipment, computer hardware and equipment and computer software;
- Capital developments include land, building and infrastructure.

***Commitment*** means future expenses and liabilities incurred whether by contract or otherwise.

***Contingent liability*** means a liability that will necessarily arise or come into being if one or more certain events occur or do not occur.

***Economy*** means the acquisition of the appropriate quality and quantity of financial, human and physical resources at the appropriate times and at the lowest cost.

***Efficiency*** means the use of financial, human and physical resources such that output is maximized for a given set of resource inputs, or input is minimized for a given quantity and quality of output provided.

***Effectiveness*** means the achievement of the objective or other intended effect of a program, operation or activity.

***Expenses*** are decreases in economic benefits or service potential during the reporting period in the form of outflows or consumption of assets or incurrences of liabilities that result in decreases in net assets/equity, other than those relating to distributions to owners.

***Generally Accepted Accounting Practice*** means accounting practices and procedures recognised by the accounting profession in the Islands and approved by the Accountant General as appropriate for reporting financial information relating to Government, a department, a fund or a statutory body.

***Internal control*** is the whole system of financial and other controls, including the organizational structure, methods, procedures and internal audit, established by management within its corporate goals, to assist in conducting the business of the audited entity in a regular economic, efficient and effective manner; ensuring adherence to management policies; safeguarding assets and resources; securing the accuracy and completeness of accounting records; and producing timely and reliable financial and management information.

***Liabilities*** are present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow from the entity of resources embodying economic benefits or service potential.

***Non-current assets*** are assets that, by their nature, have useful lives extending over more than one fiscal year, and include all major items of furniture and equipment for either Government offices, quarters, plant, equipment, and larger tools for Government works, vehicles and launches, owned by the Government of the Turks and Caicos Islands.

***Propriety*** means the requirement that expenditure and receipts must be dealt with in accordance with the intentions of the House of Assembly and, in particular, those expressed through the Public Accounts Committee.

***Public property*** means resources owned by the Government or in the custody or care of the Government.

***Regularity*** means the requirement for all items of expenditure and receipts to be dealt with in accordance with the legislation authorising them, including this Ordinance and any applicable delegated authority, regulations, directives and instructions issued under this Ordinance.

***Resources*** include moneys, stores, property, assets, loans and investments.

***Revenue*** is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets/equity, other than increases relating to contributions from owners.

**Value for money** means the economic, efficient and effective utilisation of resources.

***Vote*** means a group of estimates of expenditure, including statutory expenditure, for which an appropriation has been made by an Appropriation Ordinance or a Supplementary Appropriation Ordinance.

## Appendix 1 – Audit Objectives and Scope

The objectives and scope are outlined in accordance with Section 18 (1) of the NAO Ordinance where the Auditor General shall cause the Annual Statement of Public Accounts to be examined and audited in accordance with internationally recognized audit standards and shall, report on the result of the examination and audit and certify where appropriate whether or not—

(a) the accounts and statements conform to the requirements of the Public Finance Management Ordinance (PFMO) in force at the time of the relevant accounting period;

(b) the accounts and statements conform to the requirements of any framework document, within the meaning of section 2 of the PFMO, in force at the time of the relevant accounting period;

(c) the accounts represent fairly the financial position of the entity or give a true and fair view of the financial position of the entity as the case may be;

(d) the financial affairs of the entity have been conducted with regularity and propriety in accordance with this Ordinance or any other applicable law;

(e) reasonable precautions have been taken to safeguard the proper collection of moneys to which such examination and audit relate, and that the laws and instructions relating thereto have been duly observed;

(f) reasonable precautions have been taken in connection with the receipt, custody and issue of, and accounting for, property, money, stamps, securities, stores, equipment, trust money, trust property and other assets to which such examination and audit relate, and that the laws and instructions relating thereto have been duly observed;

(g) receipts, payments and other transactions are made in accordance with the applicable laws and instructions and are supported by adequate vouchers, and in particular that all expenditure to which such examination and audit relate has been lawfully incurred;

(h) the internal control system and the provision of internal audit services in the entity is adequate and complies with any instructions issued by the Permanent Secretary, Finance; and

(i) satisfactory management measures have been taken to ensure that public or other resources are procured economically and utilized efficiently and effectively.

In addition to the above, Section 38 of the PFMO outlines certain responsibilities of the Auditor General which states that in his or her examination of the annual accounts, the Auditor General shall ascertain whether in his or her opinion—

(a) the accounts have been properly kept;

(b) all public moneys have been fully accounted for, and the rules and procedures applicable are sufficient to secure an effective check on the assessment, collection and proper allocation of the revenue;

(c) moneys have been expended for the purposes for which they were appropriated and the expenditures have been made as authorised and that ministries or departments of Government have adhered to the law relating to procurement;

(d) essential records are maintained and the rules and procedures applied are sufficient to safeguard and control public property; and

(e) financial business has been conducted with due regard to economy in relation to the results achieved.