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 2018

Dated November 30, 2018

1. Executive Summary

The National Audit Office ('NAO') concluded several aspects of its audit of the Turks and Caicos Islands Government's ('TCIG') financial statements for the 2017/18 fiscal period submitted on ***July 31, 2018***.

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.

Public Accountability is one of the pillars of good governance. Reliable and accurate financial reporting is the cornerstone of any government's ability to ensure the degree of probity and transparency that is necessary to fulfil the government's basic responsibility to govern effectively and to report to the public its activities.

"Governance encourages better organizational decision making and accountability for the efficient stewardship of resources. It is also characterized by robust scrutiny, which provides important pressure for improving organizational performance. Effective governance affects the entire organizational cycle: strategic planning, resource utilization, value creation, accountability, and assurance. Such a holistic approach ensures that governance is not "bolt on" but "built in"—integrated into all aspects of an organization." (International Federation of Accountants)

The robust scrutiny referred to in the last paragraph depends upon complete, accurate and verifiable financial information. Without reliable financial information, officials cannot be held accountable and fraud cannot be prosecuted. 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 and as a consequence transparency and good governance are ***impaired***. ***The TCIG financial reports are not reliable and do not present a true and fair view.***

We remain extremely concerned about inaccurate financial reporting, over 10 years or more of disclaimers or adverse audit opinions, weak financial controls, discretionary accounting, large Public Private Partnership Liability not included in debt ($850 million), extremely high revenue arrears ($165 million), large amounts of incurred and impending write-offs ($63 million and possibly more) even though TCIG provided large annual concessions of approx. $179 million in the last 5 years, large unfunded pension liabilities ($362 million – NIB and TCIG), significant disparities in pension benefits between legislators, civil servants and NIB contributors, unknown healthcare liabilities, unverifiable capital assets ($426 million and quite likely more), poor related party disclosures, public damages and losses that will have a significant financial impact ($71 million), unresolved audit findings, lack of compliance with laws and several cases of interference in the work of the NAO. As a consequence there is a high risk of fraud and good governance and transparency is undermined.

Without having strong financial reporting and control frameworks in place to support the laws, ***significant deficiencies*** in the financial reporting system will continue and transparency and good ***governance will be undermined***. Therefore the appropriate mix of resources, skills, competencies and capabilities (capacity) must be provided to improve the quality of financial reporting across the Whole of Government. The laws have been changed before in an effort to improve transparency and good governance yet the ***weak financial reporting systems still remain***. Changing the laws therefore will not bring about the needed change to improving transparency and good governance. The answer lies in providing the necessary resources and obtaining support from all arms of Government and the Legislature to the financial laws to ensure that they are enforced and adhered to.

There must be a fundamental shift in how TCIG accounts for its use of public resources. Only if TCIG accounts for the full nature and extent of the financial affairs and resources which the government controls can TCIG begin to understand and assess the management of the public financial affairs and resources entrusted to the Government.

The basis for our ***Adverse Opinion*** is outlined below and detailed in the audit findings throughout this Audit Report. These significant deficiencies have been identified over several years and are evidenced by the several years of disclaimed and adverse audit reports for over 10 years. ***The picture worsens when the audit findings are not implemented in a reasonable timeframe***. These significant deficiencies affect not only the accuracy and reliability of the financial statements but also have an indirect ***negative impact*** on regularity, propriety, internal controls, governance, risk management, value for money and transparency.

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, 2018 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 full reliance on management's representation and responses as the evidence obtained in the audit contradicts the representations made in the letter and the responses are similar year after year with little movement on implementation of our audit recommendations.**

Basis for Adverse Opinion

The basis for the adverse opinion is as follows;

1. **MATERIAL AND PERVASIVE MISSTATEMENTS**

The TCIG's total assets, total liabilities, total funds, total net worth, total revenues and total expenses are pervasively affected by ***multiple material misstatements*** in both prior and current years.

2. **POOR FINANCIAL REPORTING CONTROLS**

There are ***numerous weaknesses*** in the financial accounting and reporting process, such as numerous errors, omissions, lack of suitable accounting policies, inappropriate bases of accounting applied, incorrect reconciliations, weak controls, little risk management efforts, repeat audit findings, unresolved audit findings, lack of supporting documents, lack of proper explanations, lack of compliance with financial laws etc.

The TCIG needs to increase skills and competencies (build capacity) throughout the TCIG, reduce/eliminate the errors/omissions, introduce a consistent set of policies, institute proper financial controls to support the new laws, introduce an enterprise wide risk management system, read/understand the laws, follow the regulations, ensure regular training that is subsequently applied in the work setting, read and implement the audit recommendations, secure the necessary resources and accept responsibility for the state of the financial affairs of government.

Without adhering to strong financial reporting and control frameworks to support the financial laws, significant deficiencies in the financial reporting system will continue and transparency and good governance will be undermined. Note that we are not advocating for "more" controls, but "strong" controls that are adhered to in the first place.

3. **SIGNIFICANT UNRESOLVED AUDIT ISSUES**

There are ***significant unresolved prior years' audit issues***, some of which are included in this Audit Report again and span the course of 6 years and more. This ***evident lack of progress*** in implementation of the audit recommendations continues to be a serious problem. For one reason or the other, these recommendations or at the very least, alternatives to achieving the same end, are not being done in a reasonable timeframe. It is ***unacceptable*** that these recommendations are provided and in many instances they are ignored. Responses are provided that they will be done, and yet they remain unresolved or they are repeated time and time again.

4. **MILLIONS IN CAPITAL ASSETS UNACCOUNTED FOR, SOME OF WHICH MAY NEVER BE ACCOUNTED FOR**

The NAO is ***especially concerned*** now that since raising this audit issue over 6 years, millions in Capital Assets **($425 million** and quite probably more) have ***not been properly accounted for***. We are unsure as to what these amounts make up, where they are located, their condition, and whether or not they will ever be accounted for. We cannot provide any assurance on the accuracy, existence, completeness etc. of these Capital Assets. Given the length of time since identifying this issue and there being no resolution to it, I am left to conclude that there is the ***high probability that some portion of those assets may not be able to be accounted for verified due to misappropriation, loss or theft***. However, ***we are uncertain as to the extent of this misappropriation, loss or theft*** due to the fact that we have not been able to obtain verifiable information pertaining to these assets. This amount does not include Crown Land. However, Crown Land needs to be included and audited as well.

5. TCIG'S MAIN ACCOUNT BALANCE IS MATERIALLY MISSTATED FOR CURRENT AND PRIOR YEARS

The Consolidated Fund is TCIG's main account.

i. The Consolidated Fund has been not been used in compliance with the legislation authorizing it as we have noted several significant "adjustments" made in the past direct to this account which should not have been done. The Consolidated Fund should mainly contain the surplus or deficits that are accumulated each year.

ii. There are also ***significant unresolved prior year Consolidated Fund Audit Findings*** which should have been corrected in other accounts and for which there is ***little support documentation*** to justify its accounting which means that the opening and closing balances are also ***misstated***. Our prior year audits, in particular, 2015/16 and 2016/17 have also indicated for a number of reasons that the CF Balance is incorrect and the issues we have raised previously have not been resolved. As a consequence the 2017/18 balance will also be incorrect.

iii. There is also a ***double counting*** of **$72.6 million** of assets introduced in the Consolidated Fund which had already previously been charged to the Consolidated Fund in earlier years. It is stated that this was charged through the Development Fund so there is no double counting, however, it is public knowledge (and proven from all of our audits that payments for capital development never passed through the Development Fund). The MoF has not been using the Development Fund in accordance with the legislation authorizing it for years and therefore there we have no confidence that these funds were ever passed through the Development Fund. If the capital spending was actually going through the Development Fund then the Development Fund would have a significantly larger balance.

iv. Due to a ***lack of proper accounting processes or policies***, any figure can basically be brought into the accounts and the Consolidated Fund can be adjusted with journals to balance so that it appears that the Statement of Financial Position is correct, when in fact it is not. Evidence of a reconciliation has shown this and the many "adjustments" seen in the Consolidated Fund are not items that go through the fund.

v. There were a number of inconsistencies in the balances of the Consolidated Fund. The Consolidated Fund opening balance of **$90.3 million** for 2017/18 did not correspond with prior year closing balance of **$16.5 million** for 2016/17, this is a difference of **$78.3 million**. A reconciliation for the Consolidated Fund Account shown in the Accountant General's report (not in the Financial Statements, which is where this account reconciliation MUST be shown), was incorrect due to an amount of **$12.6 million** that was not deducted for repayment of borrowings.

6. MILLIONS IN REVENUES OWED TO GOVERNMENT

Arrears have significantly increased over the last several years. Currently there exists **<u>$164.5 million</u>** ***owed to TCIG*** (made up of arrears and penalty) which were not collected for various reasons and while disclosed as a note in the financial statements, they were not included in the Statement of Financial Position as a receivable. ***Revenue Arrears increased*** **<u>$96.3 million</u>** when compared to the 2016/17 financial year. The root cause of this issue appears to be the ***lack of sufficient tracking***, aging and ***lack of adequate enforcement to collect*** outstanding funds. We believe that there is the ***over-use of "write-off" mechanisms***, without proper attempts at aging and collection enforcement which are causing significant losses for TCIG. These same funds, if collected, can be used to fund ministries, departments, statutory bodies, courts and other public corporations so as to improve service delivery.

For example, according to the Revenue Control Unit, Hotel and Restaurant Tax there exists large amounts relating to arrears owed to TCIG by Royal Bay Resort/Beaches Resort (review period Sept 2014 to March 2018) and Holiday Village/Club Med (April 2014 to March 2016) in the amounts of **<u>$77 million</u>** and **<u>$8.8 million</u>** respectively. We observed that these amounts are within the prior 4 to 5 year period and have not been collected. The question remains to be seen whether or not the most recent set of arrears will be written-off. These and other arrears have been forwarded to the Attorney General's Chambers for their action.

In addition, TCIG revenue was also understated by $0.3 million. Revenue earned from a number of High Schools and a primary school was not accounted for in TCIG Revenue stream. In addition, the schools were operating bank accounts that were not authorized by Accountant General and expenditures made from the account were not in accordance with the Public Procurement Ordinance.

7. MILLIONS IN WRITE-OFFS OR IMPENDING WRITE-OFFS

We remain ***extremely concerned*** at the high level of write-offs or intentions to write-off such as salary advances ($2.6 million), Business Licenses including penalty and interest ($48.5 million), Scholarship Fund Contributions ($2 million), TC Invest Loans inclusive of interest ($10.1 million) etc. And while there may be legitimate reasons for write-offs of long-standing arrears, we believe that recent arrears, within the last 5 years or so, once correctly aged and assessed should be collected. As indicated previously, the ***weaknesses in control*** over collections are cause for concern as these funds can be used to resource the public service in order to improve service delivery to the public.

8. MILLIONS IN LIABILITIES IN RELATION TO THE HOSPITALS NOT INCLUDED IN STATEMENT OF FINANCIAL POSITION

The **<u>$850 million</u> in liabilities** in relation to the Hospital needs to be incorporated in the Statement of Financial Position. It is a charge on the Consolidated Fund. Every year a portion of it is owed and has to be paid. It should not and must not be treated as an ***"off-balance sheet"*** item. The NAO believes that this is a liability and as it is already taken into account when developing the Fiscal & Strategic Policy Statement (FSPS), it should also be included in the TCIG's Financial Statements. The corresponding assets should also be introduced into the Statement of Financial Position. Given that this was previously treated as an "off-balance sheet" item and the complexity of the arrangement i.e. the Interhealth Canada contract, the NAO recommended that a legal opinion should be sought so that an appropriate accounting standard is adopted in its treatment and the appropriate amounts booked in the accounts. The exclusion of the amounts will materially misstate the TCIG's financial position.

9. MILLIONS IN UNFUNDED PENSION LIABILITIES

Based on the most recent available actuarial reports, the combined unfunded pension liability for TCIG and NIB is **$362 million**. The TCIG actuarial pension liability, the present value of providing pension benefits attributable to years of past service is **$94.4 million**. 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 UAL. NIB's actuarial pension liability, the present value of providing pension benefits attributable to years of past service is **$459 million**. However, there is a reserve of **$191 million** (NIB 2016 audited financials used as it is the closest time to when the last actuarial report was done). This means that NIB has a UAL of **$268 million ($459 million - $191 million)**.

It would therefore seem ***impossible to assess the stewardship of the trustees*** if the fund's significant liabilities are excluded. It is ***doubtful*** whether such incomplete information can be regarded as satisfactory even if the basis was fully disclosed in the notes to the financial statements.

How is $362 million in unfunded pension liability going to be financed? This is a significant financial burden for the TCIG. In order to fund this liability, an additional **$18 million** per annum would have to be set aside at least for the next 20 years and possibly more in order to fund this unfunded portion. The other alternative would be some aspect of pension reform which has been recommended in the 8th Actuarial Report for NIB.

It is quite ***concerning that pension reform would be suggested with a fund that has is around 20 years, a relatively "young' fund.*** In addition the ***TCIG's pension expense remains unfunded and there seem to be no plans for pension reform*** in this respect. If a decision is taken to fund the unfunded portion, that would mean a total of over $33 million in pension expenses annually. This remains a medium to long-term financial risk and needs to be addressed.

We also note that it is reported to the public that the NIB has a large reserve amount (for example $191 million or $252 million) but the NIB fails to also inform the public that the pension liabilities to the end of the respective financial period are also a large amount ($459 million). The full picture should be reported to the public. It is misleading to give only a partial picture of the entire NIB fund.

10. MILLIONS IN UNFUNDED PENSION AND GRATUITY EXPENSES

In addition to the ***large unfunded pension liabilities***, there are ***large annual pension expenses***. Currently TCIG and NIB combined pays approximately $15.4 million (2017/18 figure) annually in pension expenses. In order to fund the unfunded portion of the pension liabilities, it means that an ***additional $18 million per annum would be needed*** to fund that unfunded portion over a 20 year period (estimate) and this does not include any additional unfunded pension liabilities that would arise during that 20 year period. Other options would be to ***increase pension contributions that would place a burden on the***

future pensioners, reduce benefits which would also impact future pensioners or amend laws but this would be a decision for those in authority on how they intend to address this annual expense.

11. PENSION AND GRATUITY EXPENSES BETWEEN DIFFERENT CATEGORIES OF BENEFICIARIES ARE SIGNIFICANT AND NOT DISCLOSED

Further to points 9 and 10 above, the TCIG Annual Financial Statement disclosures on pensions and gratuities are ***patently inadequate***. There are ***no disclosures to users regarding a breakdown of the pension and gratuity costs between legislative pensioners and civil servants***. This disclosure is important as Government civil servants and Legislators entitlements operate under separate Ordinances with different rules. The disclosure of the breakdown of the pension payments/expense in the TCIG Financial Statements ensures that the users are aware of the differences that exist in the pension payments and their materiality. For example, the total number of pensioners inclusive of Legislators for TCIG as at 2017/18 was 292. Legislators represented 19 pensioners, while Civil Service Pensioners made up the rest. For NIB there were 1,070 pensioners. ***Legislators pension amount increased by 63%, from $632 thousand in 2016/17 to $1 million in 2017/18 financial year. Over the same period civil servants' pensions increased by 9% from $4 million in 2016/17 to $4.4 million in 2017/18.*** Of significance, is that for 2017/18 the ***Avg. monthly pension for a NIB pensioner was $780, for a TCIG Civil Servant it was $1,342 and for a Legislator it was $4,515***. The non-inclusion of the breakdown would be misleading to the users of the financial statements. It is also important to understand that if accruals basis of accounting was applied, the accrued liabilities would have identified a ***significant disparity between NIB, civil servants and Legislators pensions.***

12. UNKNOWN AMOUNTS OF HEALTHCARE LIABILTIIES NOT YET ACTUARIALLY ASSESSED

It is understood that actuarial assessments of healthcare liabilities are currently being done. As it stands now however, the NAO is ***uncertain*** as to the quantum of this amount and there are no amounts included in the TCIG's accounts. The accounts are therefore materially misstated in this respect.

13. INSUFFICIENT RELATED PARTY AND KEY RELATIONSHIP DISCLOSURES

The TCIG Annual Statements ***do not include sufficient information on related party transactions and key relationships***. IPSAS 20 identifies key related parties as having the ability to control or having significant influence over the other party in making financial and operating decisions. These key relationships may include Ministers and key senior public officers and their close family members. There are currently ***no disclosures made in the public accounts in regards to key related parties***. It is important to have systems and controls to identify and disclose all related party transactions as they carry increased risk.

In addition there are ***inter-governmental transactions that have not been properly disclosed***. There are numerous transactions conducted by statutory bodies that are not reflected in TCIG's Financial Statements and this has been identified in several audits. Also as noted previously, TCIG Annual Financial Statement does not disclose to the users a breakdown of the pension and gratuity costs between legislative pensioners, civil servants and NIB pensioners.

14. DEVELOPMENT FUND AMOUNTS ARE MISSTATED AND CAPITAL (ASSETS, PROJECTS, SPENDING OR EXPENDITURES) ARE INAPPROPRIATELY CLASSIFIED OR DEFINED

i. Fixed Assets are materially misstated. Between 2000-2018, Capital Expenditures amounting to **<u>$424.5 million</u>** were spent through the Development Fund. Of this, only **<u>$72.6 million</u>** were introduced as assets but also ***cannot be verified*** for accuracy, classification, completeness, existence and valuation. They are also ***not disclosed in the accounts***. This same amount is reflected in the current and prior year which is incorrect because capital was expended during the year. Furthermore there are ***fixed assets that have not been capitalized*** that are currently treated as operating expenditure which ***misstates*** both Capex and Opex.

ii. There are ***no clear accounting policies*** to outline how an expense is treated as capital or operating. Therefore there is the risk that some costs that may be operating expenses which would be budgeted as capital or vice versa. There may also be amounts classified as capital projects but are really capital assets (not projects) and there may be amounts classified as operating expenditure that are projects which may not be capital expenditure. A proper accounting policy on what are treated as capital and operating expenditure is critical to ensuring other processes operate efficiently and effectively.

iii. The opening balance for the Development Fund was recorded as **$22.1 million** instead of **$23.3 million**, a ***difference of*** **$1.2 million***.* The Acting Accountant General stated that the amount was revised based on work done in reconciling development fund from 2014/15 to 2017/18. There was no disclosure note in the Annual Statements to explain the reason for the revised figures and comparative analysis on prior years was not included in the Statement of Financial Position as per IPSAS 3 which deals with retrospective restatement and application. These ***unexplained variations*** in the balances presented in the Development Fund will result in users of the Financial Statements ***questioning the integrity of the information*** and whether or not the information provided is giving a true and fair view of the financial statements.

iv. The Development Fund Assets (DFA) balances for 2018 are ***incorrect***. It is known that there were Development Fund expenditures of $16.1 million in 2018, yet both 2017 and 2018 DFA figures are the same in the Statement of Financial Position which is ***wholly incorrect***. There has been no inclusion in the Statement of Financial Position of the Development Fund expenditures for the financial year.

v. We noted that non-performing loans of $1.36 million was repurchased by the TCIG and this was appropriated for in the Development Fund Budget 54-111-005305-1001 Acquisition of TOLCO secured loan $1.45 million which should be classified as a financial instrument or 'secured' investment. Furthermore, Public Finance Management Regulation 31 "Use of the Fund" states that no provision shall be made for expenditure to be charged on the Fund other than for the purpose of a development project. It is not clear why the repurchase of non-performing loans would be classified as a Development Fund Asset, only to write off this repurchase afterward.

15. MILLIONS IN LOSSES OF PUBLIC MONEY AND STORES NOT ACCOUNTED FOR

The Statement of Losses of Public Money and Stores stated total losses for TCIG for FY 2017/18 to be **$0.24 million**. It was however noted that United Nations Economic Commission for Latin America and the Caribbean (ECLAC) prior to giving assistance to the Turks & Caicos Islands did an assessment of the damages done by the hurricanes in September 2017. In their assessment they valued ***public sector damages/losses/deficiencies at $70.8 million***. This is a difference of **$70.6 million** from the losses reported by TCIG. Even if we were to exclude the damages cost, the remaining difference still brings into question the accuracy of the amounts recorded for TCIG in the Annual Statements as this would indicate that the TCIG losses have been significantly understated. It also raises the question as to how TCIG is going to address these ***damages, deficiencies, and/or losses*** and lends support to the lack of appropriate controls in place to safeguarding of assets.

16. CONTROL WEAKNESSES IN THE PAYROLL AND HUMAN RESOURCES PROCESS

A number of ***overpayments*** were noted in salary paid to terminated employees and pensioners. This primarily resulted from inadequate communication and review of payroll information and calculations prior to authorizing payments. Payroll variances were not being adequately performed to ensure that all variances are identified and resolved. The determination as to extent of how this breakdown in control impacted TCIG was limited as a number of ministries and departments did not submit their support documents as requested. Another contributing factor was that employees' files were not being properly maintained and managed by the Treasury and Human Resources. ***The inadequate management*** of some aspects of the payroll and human resource management process needs to be addressed. ***The lack of effective controls*** over this process will also result in TCIG being unable to recover outstanding loan amounts from employees who have resigned. There is also the ***inadequate management*** of bi-weekly staff wages and payroll variances are not adequately reviewed. There were also instances of individuals having both an employee ID for the payroll system and another for pension including payments to employees via a vendor ID. Salaries and pensions were ***incorrectly calculated*** in some instances and there was also the ***incorrect classification*** of these types of expenditures. The NAO also noted an increase in pension and retirement allowances without amendments to the Ordinance as well as ***lack of support documentation*** for audit of pensioners and their allowances. The NAO discovered ***evidence of potentially false qualifications*** being presented and ***incoherent statements*** made to the NAO from a former civil servant where proper background checks were not done and which is a responsibility of Human Resources. With the several varied instances of ***non-compliance*** within the samples we were able to audit, it implies that there may be similar weaknesses that have not been discovered. HR and the Accountant General's Department need to ensure that controls are in place to address these issues as ***weaknesses*** in the system can lead to ***misrepresentation*** and ***probable collusion*** as had actually occurred. A detailed audit is recommended in this area to determine if there are other likely instances of weak controls, misrepresentation and/or fraud.

17. LACK OF COMPLIANCE WITH LAWS AND LACK OF APPROPRIATE RESOURCES AND CAPACITY MAY IMPACT SERVICE DELIVERY

With respect to financial accounting and reporting, key financial laws, regulations, accounting standards (referred herein to as "rules") are mainly not adhered to, implemented, or correctly applied. The problem does not appear to originate from the complexity or administrative burden of the rules, but the ***lack of compliance with those rules (intentional or not).*** While there may be some ways to ease the administrative burdens of the rules, they are not the problem. Changing them will not improve service delivery to the public. There are several ministries, departments, statutory bodies and other public corporations that adhere to the laws as far as possible and have been doing so for several years. While there can always be room for improvement, this does not imply that the laws are causing service delivery problems to the public. The cause may be more the case of teething problems within the process that need to be fixed. It will not be repaired by changing laws. Processes are there to support the laws and therefore changes to the law will not improve processes which support it. The cause is also a ***lack of appropriate skills, capacity, resources and training.*** Securing the appropriate skills and building capacity should be a top priority coupled with the public officers being provided with adequate resources and training. When training is provided, public officers must apply them in the work setting to be able to derive the benefits from it and as a consequence improve service delivery to the public.

18. SIGNIFICANT DELAYS IN THE IMPLEMENTATION OF ACCRUALS ACCOUNTING

The Treasury Department road map to adopt IPSAS accrual basis indicates that TCIG started adopting the accrual basis from 2014/15 financial year and that the process should be completed by financial year 2027. However, this recommendation was made as far back as 2003. As of financial year 2017/18 the accrual basis is not fully adopted by TCIG and is said to be still in transition, this is three (3) years from the start date stated in the Accountant General road map. Based on IPSAS 33 the transitional period for relief from certain requirements of the IPSAS accrual basis is 3 years, after which the entity it is expected to be reporting in full accordance of IPSAS accrual basis. Based on the current progress of the adoption of the IPSAS accrual basis of accounting TCIG will not be able to be fully compliant within the 3-year transitional provisional period. The Roadmap has not clearly stated the path to adoption of the accrual process; as a result the cash and accrual basis is being used inconsistently in the accounting for items and presentation in the financial statements. These inconsistencies in the use of the cash and accrual basis have impacted how information is presented and noted in the financial statements. The inconsistency in the use of the bases also provides the opportunity for the preparers to use a basis that reflects a preferred financial position depending on the circumstances. These inconsistencies will impair the true and fair view presented to the users.

19. CONTINUOUS INTERFERENCE IN THE OPERATIONS OF THE AUDIT OFFICE (PAST AND PRESENT)

There have been several attempts at ***interference in work of the NAO*** that has occurred with little consequence. There have also been ***several attempts at intimidating me.*** These were not simple disagreements; it is raised here because they amount to quite likely ***constitutional and legal breaches or contraventions***. Without reservation, these are ***unacceptable*** and should be dealt with under the laws governing the independence of the Auditor General and the NAO. For example, I was issued a subpoena (when there was no need to) in early 2015 in a matter for which I appeared in private session and was never given a transcript, which by right I am required to receive under the Standing Orders of the House. In late 2015, there was one former MD of a statutory body that sought to amend the scope of the audit and attempted to direct the NAO as to what areas we could and could not cover in our audit. In mid-2016 the Chair and Board of a statutory body sought to frustrate and arguably obstruct the audit of that statutory body which lasted for over a year and a half. In late 2016, yet another statutory body Chair and CEO engaged a private audit firm without my involvement or authority to conduct the annual audit, in direct contravention of the Constitution which they are now conveniently claiming was a "different" audit. The statutory audit therefore remains undone. There are also other incidents which are too numerous to note here but that have amounted to attempts at intimidating me. Similar incidents have occurred with previous Chief Auditors and continue to be something that has not been effectively dealt with. ***This undermines transparency, accountability and good governance***, if not dealt with. These matters have been reported to the Governor and Attorney General and must be dealt with, so that future Auditors' General are not intimidated and/or their work interfered with.

I remain prepared to explain any and all conclusions I have drawn from the findings of this audit.

CONCLUSION

Without having strong financial reporting and control frameworks in place to support the laws, significant deficiencies in the financial reporting system will continue and transparency and good governance will be undermined. Therefore the appropriate mix of resources, skills, competencies and capabilities (capacity) ***must*** be provided to improve the quality of financial reporting across the Whole of Government. The laws have been changed before in an effort to improve transparency and good governance yet the weak financial reporting systems still remain. Changing the laws therefore will not bring about the needed change to improving transparency and good governance. The answer lies in providing the necessary resources, appropriate skills and support from all arms of Government and the Legislature to ensure that the financial laws are ultimately enforced and adhered to.

Acknowledgements -We would sincerely 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.

Where there are no management responses, either none was received or it was received after finalization of this report and thus could not be included. More than adequate time was provided to the Ministries and Departments to provide their responses.

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	Internal Management correspondence*		
	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 (audit issues must be completed within 6 to 9 months)

MR – Moderate Risk (audit issues must be completed within 3 to 6 months)

HR – High Risk (audit issues must be completed within 1 to 3 months)

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

3. Matters for Special Consideration

3.1 $165 million in revenue arrears - HR

Criteria

PFMR 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.

Condition

A. Significant increase in Revenue Arrears

The total revenue arrears for TCIG have increased significantly over the last five years. In FY 2013/14, revenue arrears were $15,239,000, this increased to $164,500,000 in FY 2017/18. This represents an overall increase of 975% in arrears from 2014. The "Arrears Movement" is stated in the next tables show the Statement of Revenue Arrears from 2017 to 2018.

Management does not have systems in place to age the arrears, controls around regular assessments for recoverability are ***weak*** and although enforcement of collection policies are in place, they have not been effectively deployed.

Table 2 - Arrears Movement from year ended 31 March 2014 to 31 March 2018

	YEARS				
	2014	**2015**	**2016**	**2017**	**2018**
TOTAL ARREARS OF REVENUE	15,239	17,433	12,424	68,241	164,500
(Increase)/Decrease		(2,194)	5,009	(55,817)	(96,259)
%Change		14%	29%	449%	141%

Table 3 – Statement of Revenue Arrears for the period ended 31 March 2018.

MINISTRY/DEPT	AS AT 31 MARCH 2018 US$'000	AS AT 31 MARCH 2017 US$'000	VARIANCE (Increase)/Decrease US$'000	VARIANCE PER CENT (Increase)/Decrease US$'000
OFFICE OF THE GOVERNOR	-	-	-	
AG CHAMBERS	13,588	9,523	(4,065)	(43)
MINISTRY OF HOME AFFAIRS	61	24	(37)	(154)
MINISTRY OF INFRASTRUCTURE	6,048	5,423	(625)	(12)
MINISTRY OF EDUCATION	50	50	-	-
MINISTRY OF FINANCE	144,127	52,873	(91,254)	(173)
MINISTRY OF TOURISM	311	338	27	8
OFFICE OF THE DEPUTY PREMIER AND MINISRY OF HOME AFFAIRS	263	-	(263)	(100)
POLICE	11	10	(1)	(10)
JUDICIARY	41	-	(41)	(100)
TOTAL ARREARS OF REVENUE	**164,500**	**68,241**	**(96,259)**	(141)
OVERALL % INCREASE			**141% INCREASE**	

B. Outstanding revenue arrears Revenue Control Unit

The MoF revenue in arrears was $144,127,000 in FY 2017/18 and $52,873,000 in FY 2016/17, this represents an increase of $91,254,000 or 173%. The primary areas that caused this increase in revenue in arrears were as follows:

Table 4 - Movement of areas with significant arrears

Major Arrears Under Ministry of Finance	March 31, 2017 Balance	Movement	March 31, 2018 balance
Hotel and Restaurant	2,992,049	86,848,850	89,276,899
Business Licence Renewal	46,194,269	5,257,432	51,451,701
Net Revenue – Statutory Boards	0	5,272,140	5,272,140

The Revenue Control Unit is responsible for managing the arrears for Hotel and Restaurant Tax and Business Licenses.

(i) Hotel and Restaurant Tax – the figure above includes large amounts relating to arrears owed to TCIG by Royal Bay Resort/Beaches Resort (review period Sept 2014 to March 2018) and Holiday Village/Club Med (April 2014 to March 2016) in the amounts of $$77,018,476 and $8,759,917 respectively. We observed that these amounts are long outstanding and have not been collected. Overall, Revenue Control Unit has reported that in terms of monitoring and following up on arrears they have engaged in follow up letters, visits and reporting of arrears to the Attorney General's Chambers. To date it has been recorded that $89.248 million of arrears relating to Hotel and Accommodation tax have been forwarded to the Attorney General's Chambers for legal action.

(ii) Business License Renewal – a Cabinet paper was submitted in 2017 regarding the write off of uncollected arrears from business license fees in the amount of $48,481,108. The primary Ordinances used by the Revenue Control Unit are as follows:

a) The PFMO and PFMR;
b) Hotel and Restaurant Tax Ordinance; and;
c) The Business Licensing Ordinance.

These Ordnances do not provide the Revenue Control Unit with the authority to enforce collection on revenue in arrears. In following up on arrears, the Revenue Control Unit will contact persons via telephone call or letters in order to make payments. A call log is not maintained by all Officers as required and as a result the NAO was unable to ascertain the frequency of the follow ups done. There is no consistency as to when and how often arrears letters are sent out. The Revenue Control Unit must therefore submit long outstanding arrears to the Attorney General's Chambers for enforcement action. The inadequate application of follow up procedures and the lack of an enforcement arm within the mentioned Ordinances contribute to the continuous increases in revenue arrears.

C. Crown land Arrears Returns are not reviewed against support documents

The Crown Land Unit is under the oversight of the Attorney General's Chambers. Based on the NAO review of the support information provided, the actual arrears were $13,229,687.59 instead of $13,600,000 which was stated in the Annual Statements at Note 21, page 58. The difference in amounts was as a result of the inclusion of outstanding arrears from the Crown Land Unit noted after March 31, 2018 in the arrears report that was submitted to the Accountant General. This has resulted in an overstatement of $357,840.03 in Crown Land arrears disclosed.

D. Inadequate Enforcement of Procedures for Recovery of Outstanding Crown Land Rents Payable

The Crown Land arrears of $13,229,687.59 in FY 2017/18 represent an increase of $3,706,000 or 39% from the prior year amount of $9,523,000. The NAO was unable to assess how long Crown land arrears existed as there is no aging report to track these outstanding balances.

The Crown Land Unit has published notices to encourage or remind persons to pay outstanding balances; however, this action has not been successful in reducing the arrears. Based on the records of the Conditional Purchase Lease ('CPL'), the total revenue expected from Crown Land rents for the FY 2017/18 was $1,412,919 and the actual revenue collected was $698,284. In FY 2016/17 based on the records of the CPL, the total expected revenue was $1,248,726.57 and the amount collected was $658,955.92. This indicates that there was no considerable reduction in the revenue arrears as a result of publishing notifications to the public.

The Crown Land Ordinance Section 40, "Cancellation of Leases" gives the Governor/Director the authority to cancel leases of delinquent lease holders. The NAO did not receive the requested information to evidence that action has been taken against delinquent lease holders during the FY 2017/18.

The increase in amounts owing is a result of the Crown Land Unit's lack of enforcement action in recovering the outstanding debt.

E. Outstanding revenue arrears Water Undertaking Department

The Ministry of Infrastructure is responsible for the Water Undertaking department. Sale of water arrears have been steadily increasing when compared to previous years. Arrears reported by the Water Undertaking Department show that 83% of the customers connected to the 'City Water" 'are in arrears and 17% of Customers have credit balances or zero balances during the period. The next table shows the details of this information.

Table 5 – Sale of Water - Arrears over the last four years

YEAR	SALE OF WATER – ARREARS CUMULATIVE
	'000
2014/2015	$3,175
2015/2016	$3,496
2016/2017	$5,423
2017/2018	$6,048

In FY 2016/17 water arrears were $5,423,000 and this increased to $6,048,000 in FY 2017/18. This is an increase of $625,000 or 12% during the FY 2017/18. The continuous increase in water arrears primarily resulted from Cabinet's decision in 2012 to discontinue enforcement action to collect the amounts in arrears until they had an opportunity to review the matter. We did not receive any other correspondence showing whether the decision by Cabinet was still in place or was removed. However, it was noted that based on the information received from Water Undertaking, the decision was still in place. This was stated in the Cabinet memorandum dated December 17, 2012; however, the memorandum did not state the reason why enforcement action was discontinued. The Water Undertaking department has at their disposal the following enforcement action based on the Water and Sewerage Ordinance section 49 and PFMO 53 1 (d);

- **i.** Disconnection of service and removal of equipment;
- **ii.** Escalate to Attorney General to recover the outstanding amounts through litigation.

Table 6 – Total No. of Customers per area

Area	2016/2017	2017/2018
Commercial	385	387
Government Offices	48	52
Residential	746	753
TOTAL	**1162**	**1192**

Table 7 – Total Customers in arrears

Area	2016/2017	Arrears	2017/2018	Arrears
Commercial	324	1,908,462	319	2,040,105
Government Offices	31	1,443,890	36	1,819,242
Residential	641	2,068,311	637	2,195,165
TOTAL	**996**		**992**	

It was also noted that the Water Undertaking department did not have an aged listing for the revenue in arrears. The aging list ensures that outstanding arrears are monitored and escalated for enforcement on the expiration of their notice period. Arrears listings for the sale of water should be updated, reviewed and collectability determined. An aged listing should be prepared to enable the NAO to assess the length of time arrears are outstanding.

We also observed that the supporting documents provided for the FY 2017/18 shows totals for Commercial customers as $2,047,436, however when the information was recalculated for accuracy we found that the amount recorded was incorrect. Based on the NAO's review of the records submitted, the correct amount should have been reported as $2,040,105. Based on this observation, the report was overstated for the FY 2017/18 by $7,331.

F. Outstanding revenue arrears - Judiciary

Judiciary had revenue in arrears of $41,000 which represents a 100% increase from the prior year as there were no arrears during that period. The increase resulted from the Police not issuing warrants for fines that were owed. Warrants were not issued to defaulters as the Police did not have sufficient staff to undertake this task. The lack of implementing this enforcement action may result in further increases in revenue arrears.

G. Outstanding revenue arrears for Statutory Boards

Statutory Boards Net Revenue payable to TCIG represents amounts owing to TCIG from Statutory Boards which have not been received. It is required that if amounts held in the reserve fund exceed the expected recurrent expenditure of the Board for the relevant FY, the Board is mandated to pay a sum equal to the excess to TCIG within fourteen days of the last working day of the quarter. Based on the NAO's review, the increase in arrears is as a result of Statutory Boards not paying their net revenue timely to the Treasury Department as specified in the Ordinance.

Recommendation

(i) The entities should develop policies and procedures in accordance with their Ordinances on how revenue in arrears should be managed and escalated for recovery. The Responsible Officer must implement a plan to age, monitor, follow up and collect timely the arrears outstanding to TCIG.

(ii) Management should ensure that the provisions of the relevant Ordinances are enforced when amounts are outstanding.

(iii) The MoF should to ensure that funds outstanding from Statutory Boards are paid on a timely basis in accordance with the Ordinances.

(iv) Services rendered must be invoiced and receipted to ensure inclusion in the system and in compliance with the PFMR.

Management Response 2017/18

Agree. The work to resolve some of the long-standing issues with revenue arrears continues and while all issues will not be resolved in one financial year some improvements has been seen in the arrears of monitoring and enforcement by the various agencies. The Ministry of finance has also strengthened its monitoring of the performance of the statutory bodies and ensuring that returns are paid on timely basis.

3.2 $63 million in incurred and probable write-offs not subjected to proper review - HR

Criteria

PFMR Section 23

23. (1) The Permanent Secretary, Finance or Deputy Governor may establish a Board of Enquiry to investigate the circumstances of any large or unusual losses referred to it by the Accounting Officer, Audit Committee, Governor or Deputy Governor.

(2) The Board of Enquiry shall comprise at least three members, who shall not be employees of the same Ministry or department.

Best Practice

Best practice dictates the following concerning proper review and monitoring of uncollectible debt:

- All amounts deemed uncollectible should be reported to the responsible person on a quarterly basis;
- Debt should be aged;
- The necessary action must be taken to recover all that is due with the thought of full recovery;
- Set performance Targets to improve the collections;
- Loans should be categorized as ‘cannot pay’ or ‘will not pay’ in order that targeted recovery methods can be utilized; and;
- Before any debt can be written off it must be proven that the debt has become irrecoverable.

For any recommendations for write off the information must be consistent and accurate in that irrecoverable debt will be defined as debt where the tracing of the debtors is unsuccessful, and Evidence that all reasonable steps were taken by the officials to recover the debt.

Condition

A. Write offs are not subjected to a Board of Inquiry review

TCIG is considering writing off the following debts:

- Salary advances of $2,602,000;
- Business licenses $48,481,107.78;
- Scholarship Fund Contribution $1,957,450
- TC Invest loans $10,139,208.75 inclusive of interest

These debts were not subjected to review by a Board of Inquiry. In the NAO's opinion these debts are large and unusual and therefore should have been subjected to a review by a Board of Inquiry as required by the PFMR 23. The Board of Inquiry upon completing its report would produce a report on its findings to Permanent Secretary Finance or the Governor. This process if followed would ensure that there is an independent review and investigation of the circumstances for the write off. Lack of an independent review of write offs prior to submission to Cabinet and the HOA could result in loss of revenue as recoverable amounts may be written off. This control is also a deterrent to fraud.

B. Inadequate procedures to evaluate write offs

TCIG does not have a write off policy that states the steps to be taken to verify the eligibility of a debt for write off. A policy would provide guidelines on the writing off of a debt and as part of the process the following should be taken into consideration:

i. Recoverability of the debt (i.e. "cannot pay" or "will not pay");
ii. Documentation of all action taken to locate the borrower and recover the debt;
iii. Debt should be aged;
iv. Value of the tangible assets related to the loan should be accurate determined.

The salary advances and business licenses write offs have been approved by Cabinet and are pending the approval of the HOA.

Business licenses write off resulted from businesses being closed and funds were deemed uncollectible. The NAO requested support documentation to evidence action taken to recover the loan amounts and the action taken to verify that the businesses were closed however the records could not be located.

Salary advances were written off as a result of irreconcilable balances resulting from poor record keeping and system issues.

TC Invest loan amounts were submitted to Cabinet with several options for their write off. A decision has not yet been made on an option. The value of the properties and the recoverability of the loan amounts have not yet been verified. Having policies and procedures ensures that write offs are done objectively and in line with the requirements established by TCIG. It also gives assurances that the procedures followed will ensure that reliable estimates are determined.

Recommendation

It is recommended that Management develop and maintain policies and procedure for the writing off of debts.

Management Response 2017/18

Agree with the recommendation. Management has acknowledged the need to develop and maintain various policies and procedures. While given resource constraints all will not be achieved immediately, work has begun in this area and will continue.

3.3 Consolidated fund reported balances are materially misstated for current and prior years - HR

Criteria

The Consolidated Fund (CF) 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

The Consolidated Fund (CF) balances in the 2017/18 Annual Statements did not correspond with the prior year and the closing balance in the Statement of Financial Position did not correspond with that recorded in Smart Stream. This is also a prior year issue.

A. Significant unresolved prior year Consolidated Fund Audit Findings

The NAO has indicated in the 2015/16 and 2016/17 Audit Reports that the Consolidated Fund Balances are incorrect or materially misstated. No evidence was provided to the NAO by the Ministry of Finance to evidence any corrections were made. This will therefore have an impact on the accuracy and reliability of the Consolidated Fund Balances for the period 2017/18. Without a proper reconciliation and reporting of the Consolidated Fund Transactions, the Consolidated Fund figures quoted in the Financial Statements cannot be assured.

B. Numerous "adjustments" made directly within the Consolidated Fund Account which should have been made in other accounts and for which there is little support documentation to justify its accounting

The following extract shows numerous unexplained "adjustments" in the Consolidated Fund Account when this should only mainly show the Surpluses or Deficits each year or transfers to/from other Fund Accounts. The transactions shown within the Consolidated Fund Account however, are transactions that should ideally be done in other accounts, not the Consolidated Fund Account.

There were numerous adjustments valued in the millions of dollars that should not be in the accounts of the Consolidated Fund and are likely not in accordance with the legislation authorizing them. There is also little support for these adjustments.

Table 8 – Journals posted to the Consolidated Fund to March 31, 2016

Yr	Description	Trans. Amt
2002	AUDIT ADJUSTMENT POST AUDIT 31/03/3	3,230,774.15
2003	UPDATE FUNDS AT YEAR END	(11,492,553.00)
2003	REVERSE SURPLUS	6,539,834.00
2004	08	(6,536,834.00)
2005	TO ADJUST 91001 FOR 2005	(17,827,778.00)
2005	$1.3MIL: CONSERVATION FUND ACCOM TAX TRANSFER	(1,372,282.00)
2005	Corr Mispost' of Exp & Rev to 91001	(702,660.00)
2005	To Adjust AC 75002 for FY 2005	(463,136.00)
2005	To Adjust AC 75002 for FY 2005	(403,776.00)
2005	EXPENSES FOR CONSERVATION A/C FY 2005	(369,370.00)
2005	$1.3MIL: CONSERVATION FUND ACCOM TAX TRANSFER	351,330.00
2005	To Adjust AC 75002 for FY 2005	403,776.00
2005	To Adjust AC 75002 for FY 2005	463,136.00
2005	TRANSFER ACCOMMODATION TAX 10 % FY 2005	1,043,491.00
2005	Corr Mispost' of Exp & Rev to 91001	2,744,564.00
2005	DEFICIT FY 2005	5,553,146.00
2005	FY 2005	5,561,205.00
2005	TO ADJUST 91001 FOR 2005	12,586,826.00
2006	SURPLUS FY 2006	(17,827,778.00)
2006	ADJUST BAL FY 2006	(12,586,826.00)
2006	To Adjust AC 75002 for FY 2006	(2,029,732.00)
2006	75002 share of accommodation tax (receipts)	1,790,885.00
2006	TO REVERSE EXP DR TO 72002 INCORR	2,029,732.00
2006	ADJUST BAL FY 2006	12,586,826.00
2006	SURPLUS FY 2006	17,827,778.00
2007	TO CORRECTLY CLASSIFY INTEREST PAYMT RE AS PRINP FOR LOAN AC 1035610 IN FY 2006	71,182.00
2007	NORTH/MIDDLE CAICOS ROAD INV 48065	10,801,559.80
2007	to tidy up the Contingency Fund Balance	12,869,753.06
2010	reinstate xmas advance	(2,009,445.91)
2010	to reinstate balances	(1,156,664.11)
2010	TO WRITE OFF VARIOUS BALANCES	(910,536.14)
2010	PROVO BANK IMPREST	(481,465.16)
2010	TO WRITE OFF OVERSTATE OF XMAS ADV	(396,112.32)
2010	TO WRITE OFF OVERSTATE OF XMAS ADV	(24,728.19)
2010	correction of mispost	(3,514.04)
2010	TO WRITE OFF OVERSTATE OF XMAS ADV	2,429,365.07
2011	CLOSING OF INFRASTRUCTURE FUND	(5,938,802.00)
2011	CLOSING OF OTHER FUND MISC	(5,343,700.00)
2011	CLOSING OF CONSERVATION FUND	(2,916,656.00)
2011	TO ADJUST AP TO PRIOR YEAR	(730,682.97)
2011	ACCOUNT WRITTEN - PRIOR YEAR ADJ	(481,465.16)
2011	CLOSING OF CONTINGENCY FUND	(429,119.21)
2011	TO CORRECT ADJUSTMENT TO SALARIES	(150,000.00)
2011	CLOSING OF CONTINGENCY FUND	(70,880.79)
2011	TO CORRECT ADJUSTMENT TO SALARIES	(60,159.00)
2011	TO CORRECT ADJUSTMENT TO SALARIES	(58,872.58)
2011	CLOSING OF PROPERTY LOAN FUND	(32,699.82)
2011	TO CORRECT ADJUSTMENT TO SALARIES	(8,872.58)
2011	RECORD ADJUSTMENT TO ACCOUNTS	(3,932.15)
2011	RECORD ADJUSTMENT TO ACCOUNTS	8,872.58
2011	To Correct Misposting of Special Security Service	52,954.00
2011	To correct Misposted expense posted to wrong account	200,100.00
2011	TO CORRECT MISPOSTING TO CORRECT AC	200,100.00
2011	TO CORRECT MISPOSTING OF CAPITAL PR	465,154.57
2011	TO CORRECT MISPOSTING OF PRIOR YEAR ADJUSTMENTS TO CORRECT	926,698.33
2011	To correct Misposting of NHIP advance	1,755,691.68
2011	Closing Balance from 2011 - 08 021 91001	183,358,990.16
2012	Close Rec/Capital to Cons Fund	(240,237,404.35)
2012	Xfr from TD 20/08/2007	(10,048,219.18)
2012	Debit memo 03/07/2007	(8,342,356.16)
2012	Debit memo 31/08/2007	(5,056,586.78)
2012	Debit memo 22/05/2007	(4,176,244.94)
2012	TC Invest Opening Balances Oct 2012	(4,117,616.52)
2012	Xfr from TD 21/03/2007	(4,000,000.00)
2012	Xfr from TD 25/07/2007	(3,353,436.30)
2012	Xfr to TD 06/09/2006	(1,606,689.10)
2012	Xfr to TD 22/09/2006	(1,603,000.00)
2012	Xfr to TD 22/05/2007 (part of $1,617,894.78 posted to bank)	(1,450,000.00)
2012	Correction to RBTT (2018) Loan Balance	(1,111,111.10)
2012	Debit memo 04/10/2007	(809,678.34)
2012	TCI Govt. Payroll A/C# 10442797	(480,890.93)
2012	Adjustment to CDB Shares Balance	(422,713.58)
2012	Xfr from TD 04/10/2007	(357,217.58)
2012	TCInvest Entries Oct-Mar Adjustment	(261,057.22)
2012	Xfr from TD 22/06/2009	(245,656.69)
2012	Reversal of PYA Adjustment	(200,100.00)
2012	Xfr to TD 22/05/2007	(167,894.78)
2012	To Adjust TCInvest Balances	(76,500.00)
2012	TCInvest Opening Bal. Adjustments	(65,258.84)
2012	Xfr from TD 04/10/2007	(56,876.81)

Yr	Description	Trans. Amt
2012	Xfr from TD 22/05/2007	79,139.72
2012	Adjusting Hypothecated Account Balance	201,760.33
2012	Xfr from TD 04/10/2007	223,772.73
2012	Crown Agent Prior Year Adjustment	251,101.44
2012	TC Invest Entries Oct -Mar 213	261,057.22
2012	Xfr to TD 25/07/2007	353,436.30
2012	Correction to RBTT (2015) Loan Balance	361,111.12
2012	Xfr from TD 22/05/2007 (part of $794,139.72 posted to bank)	715,000.00
2012	Adjusting Entries	1,268,215.09
2012	Xfr to TD 22/09/2006	1,603,000.00
2012	Xfr to TD 22/09/2006	1,603,000.00
2012	Xfr to TD 21/03/2007	1,603,561.64
2012	Ck deposit BBL 19/07/2007	3,000,000.00
2012	Adj Opening Balances For PYA	3,257,448.96
2012	To adjust for NFF fund Balance	3,280,952.50
2012	Xfr to TD 03/07/2007	3,342,356.16
2012	Xfr from TD 22/09/2006	4,000,000.00
2012	Xfr to TD 22/09/2006	4,033,689.10
2012	Debit memo 20/08/2007	5,048,219.18
2012	Credit memo code 114 on 22/09/2006	8,000,000.00
2012	Xfr to TD 19/07/2007	10,000,000.00
2012	To adjust Development fund balance	16,155,405.97
2012	To adjust for Sinking Fund Balance	41,009,348.11
2012	Close Rec/Capital to Cons Fund	183,949,105.23
2013	TCInvest Entries Apr 2013	(48,763.55)
2013	TCInvest Entries May 2013	(25,977.21)
2013	Consolidated Fund	(3,059.91)
2013	Adjustment to TCInvest entries June	3,059.91
2013	Interest on Sinking Fund	14,340.66
2013	Interest on Sinking Fund	14,813.70
2013	Adjustment to TCInvest Entries May	25,977.21
2013	Consolidated Fund	48,763.55
2013	To adjust NFF Fund Balances	114,750.00
2013	Transfer from FCIB to Sinking Fund	1,300,000.00
2013	Transfer from Consolidated Fund to Sinking Fund	14,246.39
2013	Transfer from Consolidated Fund to Sinking Fund	14,823.62
2013	Transfer from Consolidated Fund to Sinking Fund	14,828.60
2013	Interest on Sinking Funf & Transfer	14,355.26
2013	Interest Received on Sinking Fund Oct-31-13	14,838.52
2013	Intrest Received on Sinking Fund 29/11/2013	14,364.61
2013	Transfer from NFF to Consolidated Fund	1,280,952.50
2013	Interest Received on Sinking Fund 31/12/2013	14,848.41
2013	Interest Received on Sinking Fund	14,897.43
2013	Transfer to Sinking Fund	2,000,000.00
2013	Interest received on Sinking Fund 28/02/2014	14,474.61
2013	Interest Received on Sinking Fund 28/02/2014	(14,474.61)
2013	Interest Received on Sinking Fund 28/02/2014	14,474.61
2013	Close Rec & Capital to Consol Fund	(215,338,323.63)
2013	To Correct JNLS posted for transfer from NFF	(1,280,952.50)
2013	To Correct JNLS posted for transfer from NFF	(114,750.00)
2013	TCInvest Agency April130-Feb14 Consolidated Fund	(57,088.02)
2013	JNLADJ201384	(9,250.00)
2013	JNLADJ201385	(5,879.06)
2013	JNLADJ201381	(3,266.74)
2013	JNLADJ201380	(2,564.55)
2013	JNLADJ201382.	(2,295.00)
2013	Interest Received on Sinking Fund	17,146.37
2013	Transfer to Sinking Fund 31/03/2014	2,500,000.00
2013	Transfer from NFF to Sinking Fund	4,463,128.00
2013	Transfer to Sinking Fund 31/03/2014	5,448,858.00
2013	Close Rec & Capital to Consol Fund	191,317,162.67
2014	INTEREST RECEIVED-SINKING FUND 30/04/2014	19,127.96
2014	Interest Received on Sinking Fund 30/05/2014	20,911.72
2014	Transfer to Sinking Fund	4,000,000.00
2014	Debt Settlement 10/07/2014	(9,000,000.00)
2014	Interest received on Sinking Fund 31/07/2014	18,975.20
2014	Interest Sinking Fund 30/06/2014	20,456.14
2014	Trans -Sinking Fund to Term Deposit	(60,000,000.00)
2014	Interest Received on Sinking Fund 29/08/2014	16,343.12
2014	Transfer - Scotia main to Sinking Fund 29/08/2014	6,750,000.00
2014	EIB Loan	(24,574.00)
2014	Close Rec & Capital to Consol Fund	(260,853,975.73)
2014	Prior Year Stale dated chqs-Mar2015 - Cancelled	(68,896.43)
2014	Various Employees	(1,962.00)
2014	Various Employees	33,050.05
2014	To Adjust Courts Deposits to the account for Deposits or the Deposits Outstandin	100,266.42
2014	PRIOR YEAR ADJUSTMENTS	291,030.20
2014	To adjust Dev. Fund Balance	5,729,801.20
2014	To Adjust Sinking Funds Balance for Term Deposits Held	110,000,000.00
2014	Close Rec & Capital to Consol Fund	191,221,583.70

Yr	Description	Trans. Amt	Yr	Description	Trans. Amt
2012	PYA to Bond Pricipal Opening Balance	(5,381.09)	2015	Stale dated Cheque # 38214 for FY2014-15	(1,200.00)
2012	Correction of CDB Loan (Solid Waste Management) Balance	10,490.68	2015	Stale dated Chq #41313 for FY2014-15	(6,925.00)
2012	To Correct JNLADJ201341	16,980.13	2015	Stale Dated Cheque # 37766 for FY2014-15	(1,050.00)
2012	To post adjs to Loan Balances	21,739.13	2015	Transfer from the Sinking Fund Feb 16th & 17th 2016	(110,000,000.00)
2012	Consolidated Fund	30,631.07	2015	Trans.from NFF to consolidated fund	(575,000.00)
2012	Correction of CDB Loan (Further Education) Balance	36,253.81	2015	To Tansfer Balance	(26,909.01)
2012	Corr to Interest earned on beliezed fixed deposit 29/01/07	37,733.68	2015	Transfer Funds ending Bal of Fin. Year 2015	(3,844.41)
2012	Xfr from TD 31/08/2007	56,586.78	2015	To transfer prior year adjustment	321,557.85
			2015	To Adjust development Fund Balance	7,999,860.62

C. Unsupported opening balance restatement

The opening CF Balance brought forward in the 2017/18 TCIG Financial Annual Statements was $90.3 million (page 44 of the TCIG 2017/18 Financial Statements). However, the prior year's accounts for the year ended 2016/17 the closing balance for the CF was $16.491 million (page 35 of the TCIG 2016/17 Financial Statements). This is a significant variance of $73.8 million between amounts that should correspond. There was no explanation provided in the TCIG Annual Statements for the differences in the prior year closing and opening balance of the CF account. However, without a Statement of the movement in the CF Flows and/or disclosures of the restatements that were done, we are unable to understand what difference is. It is also unclear why restatements would be done for prior years and not include the adjustments in the current period. It was explained that the major difference was the introduction of Development Fund Assets of $72.6 million. However, this is clearly incorrect as these amounts were already accounted for in the Consolidated Fund in prior years. (See B below)

D. Probable double counting of $72.6 million of assets in the Consolidated Fund

$72.6 million of Development Fund Assets which were introduced in the prior year was already credited to the Consolidated Fund as these were paid for in prior years. To include these same amounts in the Consolidated Fund again is wholly incorrect as you would be passing it through the Consolidated Fund again. An even greater issue is that these amounts are unable to be verified and we have not been provided with sufficient and appropriate evidence to assure that these amounts can be relied upon.

E. Closing balance Misstatement

As the opening balance statement is incorrect, the closing balance will also be affected and therefore this amount is also misstated.

F. Inaccuracies in the Accounting of the Consolidated Fund

The Consolidated Fund Balance of $137.6 million does not correctly reflect the true balance of the fund. In order to validate the accuracy of the closing balance the opening balance of the Consolidated Fund was added to the surplus for the year (i.e. Net increase in Consolidated Cash & Cash Equivalents at page 46), the calculated balance should correspond with the closing balance of the Consolidated Fund. This amount was however computed to be $125.3 million (See below computation) and difference of $12.3 million (I.e.$137.6-$125.3) between the recorded TCIG Annual Statements.

Table 9 – Auditor General's verification check of CF Balance

	($000)
Consolidated Fund Opening b/d as per B/S	90,312
Add Net Cash and Cash Equivalent	35,034
Consolidated Fund Balance (17/18)	125,346
Consolidated Fund balance as per B/S	(137,644)
Unexplained difference	**12, 298**

Note that this difference does not take into consideration the opening balance errors/misstatements.

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

Additionally, as part of our testing we performed a re-computation of the movement in the Consolidated Fund Account and found a difference of $12.2 million between the re-computed amount and the Consolidated Fund Balance of $137.6 million.

Table 10 – Re-computation of Consolidated Fund Balance

	$ Millions
Operating Surplus	63.3
Investing Activities	(15.6)
Financing Activities	(12.6)
Net Surplus	**35.1**
2016/17 Brought Forward Consol Fund Balance	90.3
2017/18 Carry Forward Consol Fund Balance	125.4
Consol Fund Balance currently in Statement of Financial Position	137.6
Unaccounted difference	**(12.2)**

Note that the 2016/17 Brought Forward Consolidated Fund Balance (prior year) is also incorrect.

It is important to note that the re-computation from the Statement of Receipts and Payments perspective show that an amount of $125.4 million should have been reflected in the Statement of Financial Position.

Recommendation

A proper review should be undertaken of the CF account to ensure that the balances recorded are accurate. In instances where the balances are revised, adequate disclosure should be made in the Annual Statements.

Management Action to remediate prior year Issue

Management did not provide the NAO with an appropriate action plan on how this issue was remediated.

Management Response 2017/18

Unexplained difference of $12,298,000.00

This calculation only takes into consideration cash movement in the CF balance please see below calculation of balance.

Table 11 – Management response for verification of CF balance

	($000)
Opening Consolidated Fund Balance	90,312
Closing Consolidated Fund Balance	137,644
Increase	47,332
Cash and Cash Equivalents	35,034
Receivables from exchange transactions	4,050
Financial assets (investments)	(366)
Payables from Exchange transactions	(1,376)
Provision for Uncollectible Accounts	(2,602)
Borrowings	12,593
Total	**12,299**

Difference of 1 due to rounding

The majority of the entries noted are transfers between funds and the automatic year-end close entries during previous financial years. All other entries noted are prior year adjustments to retained earnings. These would have been explained during previous audits.

Management accepts that a note explaining the restated balance of the consolidated fund should have been included in the financial statements, however most of the adjustments relates to work carried out to reconcile the development fund and all this detailed information was provided.

The 72.6 million in assets recorded would have been expensed to the development fund in prior years and not the consolidated fund therefore no double counting.

As previously noted the reconciliation performed by the NAO did not take into consideration all movement in the Fund's assets and Liabilities thus the difference of $12.2

Opening Consolidated Fund Balance = $90,312
Closing Consolidated Fund Balance= $137,644
Increase = $47,332 as explained below:

Cash and Cash Equivalents	35,034.00
Receivables from exchange transactions	4,050.00
Financial assets(investments)	(366.00)
Payables from Exchange transactions	(1,376.00)
Provision for Uncollectible Accounts	(2,602.00)
Borrowings	12,593.00
Total Movement	47,333.00

Fund Balance is the difference between the fund's assets and liabilities (Fund Assets -Funds Liabilities = Fund Balance) Therefore:
Increase in Fund's assets = Increase in fund balance
Decrease in Fund's assets = Decrease in fund balance
Increase in Fund's Liabilities = Decrease in fund balance
Decrease in Fund's Liabilities = Increase in fund balance

This is why the repayment of borrowing in the amount of $12.59 million is shown as an **INCREASE**, not an INFLOW

Auditor General's response:

The "reconciliation" provided above is incorrect for the following reasons;

1. The opening balance of $90.3 million is not verified and has not been explained in the accounts how and why the adjustments were done prior year instead of in the current year.
2. The prior years' fund balances were also incorrect and therefore the brought forward balances would also remain incorrect unless evidence is provided and disclosures are made in the accounts as to what adjustments have been made.

3. The reconciliation above is incorrect in several other respects for example;
    - Borrowings – repayment of borrowings i.e. a reduction in your borrowings year over year represents an OUTFLOW. One would have paid that out. The above reconciliation shows the $12.59 million as an INFLOW or added to the CF Balance. This is incorrect.
    - The increase in the payables from exchange transaction is an inflow, so to deduct this is incorrect.
    - The increase in the provision which is also a liability means that this is something that you have not yet paid, so you have this "cash" with you and therefore it should be an "inflow".
4. Based on all of our previous audits and work in the prior years around this matter and the many issues that occur around the CF, the $137.6 million appears to be a figure that is a balancing figure so that any changes that are made, this amount can be "adjusted" to balance. Hence the reason why adjustments are made "prior year" rather than in the year itself. As there are no accounting policies to guide Treasury, accounting manipulation can occur.
5. The process to "reconcile" the consolidated fund is also incorrect. The way in which it is done, Treasury can bring onto the accounts ANY figure and the balance sheet will balance.
6. In response to the specific management response of there being no double counting of the $72.6 million, management states "the 72.6 million in assets recorded would have been expensed to the development fund in prior years and not the consolidated fund therefore no double counting" is not consistent with the evidentiary explanation that the Consolidated Fund and Development Fund Balances have always been co-mingled, and there is no evidence to suggest that the Consolidated Fund and Development Fund were separate accounts. Even up to the point in writing, there is no separate Development Fund Account, even though current AND prior legislation required that they be treated separately.

We also noted a statement in the Accountant General's report which is included with the 2017/18 financial statements on page 21 as follows;

Table 12 – Extract from Accountant General's Report submitted together with the 2017/18 Unaudited Financials

	Consolidated Fund
Balance as at 31st March 2017*	**90,312**
Changes in Net Assets/Fund Balances for the financial year ended 31st March 2018	
Surplus for the year - Statement of Financial Performance (as perAnnual Statements)	63,314
Transfer to Development Fund	(17,762)
Purchase of TOLCO Portfolio	1,359
Funds Reverting to the CF	420
Transfer from NFF	-
Transfer from Sinking Fund	-
	47,331
Balance as at 31st March 2018	**137,643**

Note that this "reconciliation" of the Consolidated Fund Balance immediately above does not have included an amount of cash outflows related repayment of BORROWINGS of $12.593 million.

The NAO is not confident about the accounting and other arbitrary practices employed by the Treasury Department and the "adjustments" made within the Consolidated Fund Account and the fact that the Consolidated Fund cannot be correctly reconciled at all.

3.4 $352 million or more of Capital Assets not included in Statement of Financial Position and are not properly classified or accounted for- HR

Criteria

Nature of non-current assets

128. (1) 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.

(2) Such assets are required to be retained until they are finally written-off and disposed of because they are either unserviceable or are of no further use to the Government; and while the overall responsibility for such assets or equipment rests with the relevant Accounting Officer, the public officers to whom the assets are issued have the primary responsibility over their custody, maintenance, safeguarding and proper use until they are returned to store.

In this Part, in respect of procurement—

“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—

(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;

Condition

TCIG does not fully report on all 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.

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. Capital Expenditure 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.

The NAO is especially concerned now that these large amounts have not been verified since they were extracted from the accounts of TCIG. What do these amounts make up? Where are these assets located? Is it being maintained? How do we know that any part of these amounts has been misappropriated? Is there any likelihood that these amounts would ever be accounted for?

As Auditor General, I do not make these assertions lightly. It appears to me that there may be amounts of these assets that cannot be accounted for. A simple example I will use to illustrate. TCIG may purchase a building or other property and the property may not be transferred to the TCIG. Monies would have been expended for which there is now no evidence to assure that the TCIG has rights over that property. This is a risk that will certainly exist and remain a concern until all of the capital spending has been accounted for.

The current Statement of Financial position for 2017/18 and prior year showed Development Fund Assets figures at $72,625,000, indicating no movement in the Development Fund assets for FY 2017/18. However, there was Development Fund expenditure of $16,059,000 (see page 20 of Annual Statements) that was not recorded in the Statement of Development Fund Assets, Note 15, page 52 of the Annual Statements. The amount was also not recorded in the total Development Fund Assets in the Statement of Financial Position of 2017/18 (See note 10.1, Statement of Financial Position, page 44). In the prior year Auditor General's report there was a finding for "$408.5 million of Capital Assets not disclosed or listed in the Financial Statements". There was no disclosure note in the 2017/18 Annual Statements in relation to the exclusion of Development Fund assets valuing $351.95.9M (i.e. $408.5M+$16.05-$72.6M)

The 2013/14 audit reported 169 buildings owned by TCIG. According to a 2005/06 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.

With inadequate controls over Capital Assets, it is difficult to assure that the capital spending on those Assets is delivering value for money or that they are properly accounted for, safeguarded and maintained and are not prone to theft, loss, abuse 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.

NOTE:

> **A 2002 audit report recommended a partial accruals basis of reporting "<u>at least in terms of reporting government owned assets</u>"**. 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 <u>first step</u> in providing comprehensive and accurate information in the Annual Accounts" (perhaps towards accruals accounting).

NOTE:

> **In a 2006 Audit Report, the report made specific <u>recommendations pertaining to the valuation of assets.</u>** 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 table shows total capital spending of $425 million for 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. While the NAO understands the challenges in accounting for capital spent several years ago, it remains unclear how even a mere listing of these assets was not kept.

Table 13- Capital Expenditure from 2000 to 2018

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
2018	271	16,058,137.58
TOTAL		**424,548,988.16**

This is a repeat issue of prior year audits

In addition we noted that there was a compulsory acquisition of land valuing $989,000 not included in the Statement of Financial Position. A Review of transactions in account 37501 "Claims Against Government", we noted two transactions for compulsory land acquisition valuing $989,000 that were not included in the non-current assets in the Statement of Financial Position. Additionally, the items were classified as operating expenditure and expensed in the Statement of Cash Receipts and Payments. The misclassification of the transactions will result in the understatement of assets and the over statement of expenditures.

Management Action to Remediate Prior Year Issue

FY 2017/18

Capital assets from the Development Fund have been brought to book from 2010. Next step is to analyse to the various categories based on the FA policy.

Auditor General's Response to Management's Action to Remediate Prior Year Issue

Updating the capital assets from 2010 to present is not an adequate reflection of the value of all of TCIG's assets, as there is no accountability for the assets from 2000 to 2009. There is still even no accountability for the spend from 2010 to present because they are not classified or properly accounted for in the accounts. We also have not been provided with evidence to verify the existence of these assets or to verify rights to these assets. This represents $352 million of the assets identified in the prior year issue and therefore the value of TCIG assets remains understated. The Accountant General in collaboration with the Accounting Officers should develop a timeline for the action that will be taken to resolve the issue.

Management Response 2017/18

Based on Prior audit conditions the department endeavoured to bring to book asset from the development fund from 2010. This continues to be a work in progress and preliminary work have already begun for a valuation of TCIG's assets which will be conducted in a phased approach.

3.5 $850 million probable understatement in Liabilities - HR

Criteria

IPSAS 5.14

A liability is a present obligation of the entity for an outflow of resources that results from a past event.

IPSAS 5.15

Public sector entities can have a number of obligations. A present obligation is a legally binding obligation (legal obligation) or non-legally binding obligation, which an entity has little or no realistic alternative to avoid. Obligations are not present obligations unless they are binding and there is little or no realistic alternative to avoid an outflow of resources.

IPSAS 5.17

To satisfy the definition of a liability, it is necessary that a present obligation arises as a result of a past transaction or other event and requires an outflow of resources from the entity. The complexity of public sector programs and activities means that a number of events in the development, implementation and operation of a particular program may give rise to obligations.

Condition

The Statement of Financial Position excluded the following liabilities from the financial statements:

A. $797,959,827 Understatement of Long Term Liabilities

(i) Long term liabilities with InterHealth, totaling $795,329,000 in the Annual Statements were not included in the Statement of Financial Position, see Note 23 page 59 of the Annual Statements.

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 National Health Insurance Board ('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 Public-Private Partnership ('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. This is a prior year issue.

In addition, we note that the Fiscal & Strategic Policy Statement (FSPS) 2018 – 2022 includes these liabilities. We are therefore not clear why this would be included in the FSPS and not in the annual TCIG Financial Statements. This was explained extensively in the 2013-14 Audit Report.

Table 14 – TCIG Debt extracted from the Fiscal & Strategic Policy Statement

GOVERNMENT DEBT	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
	$' 000	$' 000	$' 000	$' 000	$' 000	$' 000
RBC 2015-2016	20,000	12,000	4,000	-	-	-
Citibank Commercial Loan	626	-	-	-	-	-
CDB Loans	2,719	1,486	1,164	804	688	-
RBTT Loans	555	-	-	-	-	-
TCI Bank	4,474	3,407	2,340	1,273	-	
CDB 2015-2016	4,000	3,000	2,000	1,000	-	-
Government Debt	**32,374**	**19,893**	**9,504**	**3,077**	**688**	**-**
Imputed PPP Hospital debt outstanding	81,771	76,553	71,336	66,118	60,901	55,683
TCIAA (Adjusted to FFD 20% weighting)	6,628	4,861	3,093	1,326	-	-
Total Government Debt	**120,773**	**101,307**	**83,933**	**70,521**	**61,589**	**55,683**
Net Debt	**73,426**	**23,290**	**25,955**	**1,725**	**(29,205)**	**(61,449)**
Core Government Debt	**(14,973)**	**(58,124)**	**(56,474)**	**(73,719)**	**(98,106)**	**(125,133)**

Source: Budget Office

(ii) InterHealth's current portion of Hospital liabilities for $50,325,000 was not included in the Statement of Financial Position. (Note 23);

B. Understatement of other Current Liabilities

(i) Ministries Statement of Commitments prepared by Accounting Officers were noted. Unpaid bills totalling $368,730.88, for the billing periods 24-7-2017 to 31-3-2018 before the Smart Stream system was closed for the end of the financial year;

(ii) Payment of $109,000 for goods received from IGA during the passage of last years' storms were not authorized for payment, as a result of not following the procurement procedures. These amounts are still outstanding and therefore should be classified as part of the current liability;

(iii) Payment of $30,000 goods for Deli food provided to the islands of Grand Turk and North Caicos during the passage of last years' storms was not authorized for payment as the procurement procedures were not followed. This should also be considered part of the current liabilities;

(iv) Helicopter expenses of $55,000 for helicopter services rendered from the Camacho Emergency Relief team after last year's storms has not been authorized for payment. This unpaid expense should have considered a part of the current liabilities.

(v) Liabilities also not included are accrued gratuities, accrued vacation leave which have also never been disclosed. We are therefore uncertain as to the amount that should be included in the Financial Statements.

The understatement of liabilities in the Statement of Financial Position impairs the user's view of the TCIG liabilities presented in the Annual Statements. Understated liabilities may mislead the users of the financial statements and give the appearance that TCIG is in a much stronger financial position.

Recommendation

Management should ensure that all liabilities within TCIG are accounted for within the Statement of Financial Position so that the users can make informed decisions with information that accurate and reliable.

Management Response 2017/18

This issue pertaining interhealth Liability is noted by management and is one which is under review.

As TCIG uses a cash basis of accounting the current liabilities highlighted would have only been recorded when paid. This is main reason for disclosing this information using the statement of commitments in the notes to the financial statements.

3.6 $362 million consolidated unfunded pension liabilities, large unfunded/partially funded annual pension expense and unknown amount for healthcare liabilities - HR

Criteria

TCIG and National Insurance Board ('NIB') are responsible for various long-term pension liabilities to its current and former employees and members. IPSAS standards require that public entities recognise the liabilities arising from services offered in exchange for a deferred benefit i.e. pensions as liabilities. If the accounts omit a significant liability then it is questionable whether or not that the financial statements give a true and fair view of the fund's financial affairs. It would therefore seem impossible to assess the stewardship of the trustees if the fund's significant liabilities are excluded. It is doubtful whether such incomplete information can be regarded as satisfactory even if the basis was fully disclosed in the notes to the financial statements.

The objective of the accounts is to provide information on the financial position, performance and changes that is useful to its employees, pensioners and to those who act in their interests, in making economic decisions and assessing the stewardship of its trustees. The financial position is as at the end of a particular period and only recognizes accrued pension obligations to date. It does not include future pension liabilities. The determining factor as to whether or not a long-term pension liability exists is the provision of employees' services which is provided in exchange for salaries and benefits. Employee service gives rise to an obligation which TCIG must meet as there is a reasonable expectation that the contributing employee and member will receive a pension when he/she is no longer able to work. While the salary is paid monthly, some benefits are "unpaid" such as pension benefits. In other words, employee service is the obligating event which occurs over the time the employee provides his/her service in exchange for that pension benefit.

A present obligation is created simply by employees and members being in observance of the conditions required by the TCIG's legislation/regulation.

Condition

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 **$459 million** as at March 31, 2016 (audited). However, there is a reserve as reported to the public of approximately **$191 million**. This means that NIB has a UAL of **$268 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 **$362 million.**

If the accounts omit a significant liability then it is questionable whether or not that the financial statements give a true and fair view of the fund's financial affairs. It would therefore seem impossible to assess the stewardship of the trustees if the fund's significant liabilities are excluded. It is doubtful whether such incomplete information can be regarded as satisfactory even if the basis was fully disclosed in the notes to the financial statements.

On a consolidated basis, these liabilities arising have not been fully disclosed and reported on in the financial statements. This is a repeat of a prior year issue.

We also note that it is reported to the public that the NIB has a large reserve amount (say $191 million) but fail to also inform the public that the pension liabilities to the end of the respective financial period are also a large amount ($459 million). The full picture should be reported to the public. It is misleading to give only a partial picture of the entire NIB fund.

In addition to the large unfunded pension liabilities, there are large annual pension expenses. Currently TCIG and NIB combined pays approximately $15.4 million (2017/18 figure) annually in pension expenses. In order to fund the unfunded portion of the pension liabilities, it means that an additional $18 million per annum would be needed to fund that unfunded portion over a 20 year period (estimate) and this does not include any additional unfunded pension liabilities that would arise during that 20 year period.

Other options would be to increase pension contributions that would place a burden on the future pensioners, reduce benefits which would also impact future pensioners or amend laws.

How is $362 million in unfunded pension liability going to be financed? This is a significant financial burden for the TCIG. In order to fund this liability, an additional **<u>$18 million</u>** per annum would have to be set aside at least for the next 20 years and possibly more in order to fund this unfunded portion. The other alternative would be pension reform which has been recommended in the 8th Actuarial Report for NIB. It is quite concerning that pension reform would be suggested with a fund that has is around 20 years. In addition the TCIG's pension expense remains unfunded and there seem to be no plans for pension reform in this respect. If a decision is taken to fund the unfunded portion, that would mean a total of over $33 million in pension expenses annually. This remains a medium to long-term financial risk and needs to be addressed.

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

<u>Recommendation</u>

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.

<u>Management Action to Remediate Prior Year Issue</u>

The Accountant General stated that the Treasury department was not in receipt of the Statutory Body audited financial statements.

<u>Auditor's Response to Action to Remediate Prior Issue</u>

The action taken to remediate the issue was inadequate, full disclosure is required for these liabilities and in the interim the unaudited financial statements could be used. This has been an issue that has been raised previously. We would suggest that if the latest audited financial statements are not available, then perhaps obtaining the last audited financial statements would be another alternative.

<u>Management Response 2017/18</u>

Noted. The unfunded pension liability was disclosed in the statement of contingent liabilities.

3.7 Significant disparity between pension and gratuity for Legislators and other persons receiving same - HR

Criteria

Retiring Allowances Legislative Service, Section 3

***Circumstances in which retiring allowances are payable*.**

(1) Subject to the provisions of this Ordinance, a retiring allowance shall be paid to any person who— (a) has served as a legislator for two full parliamentary terms or for periods amounting in the aggregate to not less than eight years; (Amended by Ord. 28 of 2004) (b) has ceased to be a legislator; and (c) either— (i) has attained the age of fifty years; or (ii) not having attained the age of fifty years, has produced medical evidence to the satisfaction of the Governor that he is incapable by reason of infirmity of mind or body of discharging the duties of a legislator and that the infirmity is likely to be permanent.

(2) In determining for the purposes of this Ordinance the length of service of any person as a legislator, account shall be taken of former legislative service and no account shall be taken of any other legislative service prior to the commencement of the Ordinance.

(3) For the purposes of this section, a person— (a) does not cease to be a legislator by reason only of the dissolution of the House of Assembly; and (b) who immediately before its dissolution was a member of the House of Assembly shall cease to be a member thereof if he is not elected as a member of the Council at the general election next following the dissolution and if he so ceases shall be deemed to have ceased to be a legislator from the date of the dissolution aforesaid.

CHAPTER 21.14 PENSIONS (SPECIAL PROVISIONS) ORDINANCE Subsection 5

Grant of pensions to certain officers 5. (1) Notwithstanding section 64 (2) of the National Insurance Ordinance, an officer employed in the public service on or after 6 April 1992— (a) having attained the age of fifty years or older on or before 1 April 2012; and (b) who has been in the public service for ten years or more, may elect to retire from the public service on attaining the age of fifty-five years and may, if the Governor thinks fit, be granted a pension at the rate of three-fourths of any pension that would have been payable to the officer had he been eligible to receive a pension under the Pensions Ordinance, without the right to commute any part of such pension in return for the payment of a gratuity. But an officer who does not exercise this option may, with the approval of the Governor, continue in the public service until he attains the age of sixty years. (2) Notwithstanding section 64(2) of the National Insurance Ordinance, a person employed in the public service on or after 6 April 1992, who— (a) has retired from the public service before the commencement of this Ordinance; and (b) has been in the public service for ten years or more, may, if the Governor thinks fit, be granted a pension at the rate of three-fourths of any pension that would have been payable to that person had he been eligible to receive a pension under the Pensions Ordinance, without the right to commute any part of such pension in return for the payment of a gratuity. (3) A person granted a pension under this section shall, unless the Governor directs otherwise, continue to receive such pension until he attains the age of sixty years.

Condition

TCIG Annual Financial Statement does not disclose to the users a breakdown of the pension and gratuity costs between legislative pensioners and civil servants. This disclosure is important as Government civil servants and Legislators entitlements operate under separate Ordinances with different rules.

Civil servants pension scheme was discontinued when the Pension Ordinance was amended on April 1, 2012 and currently civil servants on retirement are entitled to benefits based on their contributions to the National Insurance Board scheme that came into effect in 1992. Legislators upon serving two full terms and reaching the age of 50 are entitled to pension for life on a monthly basis at a rate of two thirds of the highest annual rate of the basic salary paid to the legislator. The legislator can also opt to receive a one-off gratuity payment but the life monthly retiring allowance will be reduced. The reduced retired allowance is calculated at a rate of three quarters of the regular retiring allowance and the gratuity is calculated at the rate of 12 and a half times the annual rate of the reduced allowance.

For example, the total number of pensioners inclusive of legislators for TCIG as at 2017/18 was 292. Legislators represented 19 pensioners, while Civil Service Pensioners made up the other. For NIB there were 1,070 pensioners.

Legislators pension amount increased by 63%, from $632 thousand in 2016/17 to $1 million in 2017/18 financial year. Over the same period civil servants' pensions increased by 9% from $4 million in 2016/17 to $4.4 million in 2017/18.

Of significance, is that for 2017/18 the Avg. monthly pension for a TCIG Civil Servant was $1,342, for a Legislator it was $4,515 and for an NIB pensioner it was $780.

There is also a significant disparity between gratuity payments to contract employees and Legislators.

The grouping of the pensions and non-inclusion of the breakdown of the relationship would be misleading to the users of the financial statements. It is also important to understand that if accruals basis of accounting was applied, the accrued liabilities would have identified a ***significant disparity between public servants' pensions, legislators' pensions and NIB pensions.***

Table 15: Pension & Gratuity Analysis (TCIG & NIB Consolidated) from 2014 to 2018

PENSION					
Year	No. of TCIG Civil Servant Pensioners	No. of Legislators receiving pensions	No. of Civil Servants & Legislative pensioners	No. of NIB Pensioners	Total No. of Pensioners
FY 2017/18	273	19	292	1,070	1,362
FY 2016/17	276	19	295	1,070	1,365
FY 2015/16	274	15	289	974	1,263
FY 2014/15	280	16	296	900	1,196
Amount	$	$	$	$	Total
FY 2017/18	4,395,185	1,029,462	**5,424,647**	10,015,345	15,439,992
FY 2016/17	3,996,042	631,558	**4,627,600**	8,051,419	12,679,019
FY 2015/16	3,850,511	472,294	**4,322,805**	8,766,189	13,088,994
FY 2014/15	3,953,216	775,248	**4,728,464**	7,357,129	12,085,593
4 Year Total	16,194,954	2,908,562	19,103,516	34,190,082	53,293,598

GRATUITY				
Year	No. of contract employees receiving gratuity	No. of Legislators receiving gratuity	No. of TCIG Legislators and Contractors receiving gratuity	**Consolidated Pension & Gratuity (No. and Amt.)**
FY 2017/18	66	0	66	**1,428**
FY 2016/17	110	10	120	**1,485**
FY 2015/16	63	2	65	**1,328**
FY 2014/15	61	5	66	**1,262**
Amount	$	$	$	**$**
FY 2017/18	936,664	0	936,664	**16,376,656**
FY 2016/17	955,466	308,533	1,263,999	**13,943,018**
FY 2015/16	846,715	313,333	1,160,048	**14,249,042**
FY 2014/15	874,481	1,381,764	2,256,245	**14,341,838**
	3,613,326	2,003,630	5,616,956	**58,910,554**

Avg. annual pension amount	TCIG Civil Servant Pensions ($)	Legislators Pension ($)	NIB pensions ($)
FY 2017/18	16,100	54,182	9,360
FY 2016/17	14,478	33,240	7,525
FY 2015/16	14,053	31,486	9,000
FY 2014/15	14,119	48,453	8,175

Avg. annual gratuity	Contract employees gratuity ($)	Legislators gratuity ($)
FY 2017/18	14,192	-
FY 2016/17	8,686	30,853
FY 2015/16	13,440	156,667
FY 2014/15	14,336	276,353

Avg. monthly pension amount	TCIG Civil Servant Pensions ($)	Legislators Pension ($)	NIB pensions ($)
FY 2017/18	1,342	4,515	780
FY 2016/17	1,207	2,770	627
FY 2015/16	1,171	2,624	750
FY 2014/15	1,177	4,038	681

Avg. monthly gratuity	Contract employees gratuity ($)	Legislators gratuity ($)
FY 2017/18	1,183	-
FY 2016/17	724	2,571
FY 2015/16	1,120	13,056
FY 2014/15	1,195	23,029

Disclosures of Pension & Gratuity Expenses are ***inadequate***. The disclosure of the breakdown of the pension payments/expense in the TCIG Financial Statements ensures that the users are aware of the differences that exist in the pension payments and their materiality. A breakdown in gratuity payments should also be considered. The grouping of the pensions and non-inclusion of the breakdown of the relationship would be misleading to the users of the financial statements.

It is also important to understand that if accruals basis of accounting was applied, the accrued liabilities would have identified a mismatch between public servants' pensions and legislators' pensions.

Recommendation

Management in addition to showing the prior and current year overall pensionable and gratuity amounts should ensure that a breakdown of the Legislators and civil servants pension is provided to the users.

Management Response 2017/18

Accepted. Moving forward we will endeavour to provide a breakdown of pensions between legislators and civil servants.

3.8 $71 million likely misstatement of Public Damages, Losses, Other Costs – 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—.

(a) 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

The Statement of Losses of Public Money and Stores stated total losses for TCIG for FY 2017/18 to be $244,000. It was however noted that United Nations Economic Commission for Latin America and the Caribbean (ECLAC) prior to giving assistance to the Turks & Caicos Islands did an assessment of the damages done by the hurricanes in September 2017. In their assessment they valued public sector losses at $ $70,771,675 (See Note 20, page 57 of the Annual Statements). This is a difference of $70,527,675 from the losses reported by TCIG. Based on the vast difference in losses it brings into question the accuracy of the amounts recorded for TCIG in the Annual Statements as this would indicate that the TCIG losses have been significantly understated. The next table shows a breakdown of the additional losses as assessed by ECLAC. This implies that there may exist ***inadequate*** controls over assessment of damages and losses which may impact the accuracy and reliability of the assets. It may impact the quantum of insurance proceeds.

Table 16 – ECLAC Breakdown of Public Damages and Losses

Damage	49,376,570
Losses	11,443,110
Additional Costs	9,951,995
Total	70,771,675

Write-offs will have to be assessed in relation to the damages, losses and other expenditures incurred.

TCIG Annual Statements stated that there were no write offs during the year (See Note 20, page 57 of the Annual Statements). However, the Statement of Loss of Public Money and Stores in the Annual Statements indicated a reduction in the losses of $148,000 from the prior year for the below Ministries. A reduction in the losses from the prior year is indicative that a write off had occurred. The note in the Annual Statements did not provide any disclosure on the changes in losses for the period.

Table 17 - Analysis of Statement of Losses Change FY 2017/18

Ministry Department	Amount of reduction in loss from prior year ($)
Attorney General Chambers	1,000
Judiciary	23,000
Office of the Deputy Premier & Ministry of Border Control & Employment	4,000
Ministry of Education Youth Culture and Library Services	30,000
Ministry of Home Affairs, Transportation	10,000
Ministry of Tourism, Environment & Heritage	90,000
Total	**148,000**

It was also noted that the previous year balances totalling $308,000 for the Ministries were not included in the statements. These are repeat issues from the prior year.

TCIG needs to ensure that all losses for the FY are accounted for and disclosed in the Annual Statements to ensure that users of the financial reports are fully cognisant of the financial disposition of the Turks and Caicos Islands. Unrecorded losses and unaccounted for assets can be a means of misappropriating funds and assets. Losses need to have appropriate oversight to ensure that there is no misuse of public moneys and assets.

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 loss of public moneys and stores. Loss balances from the previous year should be carried forward in the Annual Statements unless they were written off.

Management Action to Remediate Issue

The Accountant general stated that the following was performed to close the issue.

The understated losses identified 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.

Auditor General's Response to Action to Remediate Issue

The action taken appears not to have been adequate enough to address the issue and avoid a reoccurrence. The Accountant General needs to set up appropriate controls and reporting systems with the Accounting Officers to improve the accuracy of the information provided. The Accounting Officers need to ensure that the necessary controls are in place to track and record losses when they occur. In light of the two hurricanes that devastated the Islands losses of $244,000 should have been questioned.

Management Response 2017/18

The Accountant General's Department issued a series of directives and procedural changes, designed to train staff, improve record maintenance and to promote a better understanding and compliance with PFM policies and procedures. We have also recently during FY 2018/19 finalized our fixed asset policy which will also speak to the issues raised.

3.9 Inadequate controls over accuracy and recoverability of loans receivables amounting to $10.1 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

A. Loan Portfolio Recoverability Not assessed by TCIG

From our review of the loans listing for the assets taken over from TC Invest, 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;

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 in next table below.

Table 18 – Analysis of the loan portfolio

Outstanding Loans Increased during the year	As at March 2017	Movement during the year	As at 31 March 2018	
Outstanding Loans Increased during the year	4,961,718	3,142,809	8,104,527	70
Outstanding loans that did not change during the year	909,165	969, 271	1,878,456	43
Outstanding loans reduced during the year	2625379	106153	156,225.66	3
Total	**$8,247364**	**3,248,962**	**10,139,209**	**116**

TCIG is unable to verify the completeness, accuracy and recoverability of these assets. This is a repeat issue from the prior year.

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 Action to Remediate Prior Year Issue

For FY 17/18 provisions have been made as necessary. Cabinet was requested to write-off certain balances, but no decision has as yet been taken.

Auditor General's Response to Management Action to Remediate Issue

Management needs to revalue the loans receivable and assess their recoverability. The action taken by management has not remediated the issue as it is not prudent to write off loans that may be deemed collectible and without establishing a basis for the write off.

B. Inadequacies in the Management of the Loan Receivables

It was noted from the records reviewed that the principal loan amounts were not being paid by the borrowers. The interest and insurance charges for the FY 2017/18 was $612,076 (i.e. interest $561,104 + insurance $50,972) and payments made by borrowers during the period was $389,535 indicating that the overall loan amount would be increasing by $361,756 as the debt is not being serviced by the borrowers and payments made were not sufficient to reduce the principal loan amount. The records kept showed a number of inconsistencies in its maintenance. The inconsistencies were primarily in relation to the below which were noted in March 31, 2018 payment schedule maintained by the Treasury Department. See next table.

Table 19 - TC Invest Analysis of Payments

Month 2017	Principal Loan Amount (A)	Interest C/F (B)	Interest Charges (C)	Insurance Charges (D)	Total Payments (E)	Amount Available to Reduce Principal (C + D + E)	Total Owing at Month End (A + B + C + D + E)
April	(8,247,363.66)	(1,761,668.47)	(55,952.34)	(4,274.86)	32,849.91	(27,377.29)	(10,036,409.42)
May	(8,238,732.82)	(1,795,218.07)	(55,215.72)	(4,270.41)	49,183.47	(10,302.66)	(10,044,253.55)
June	(8,223,028.11)	(1,823,197.25)	(55,800.10)	(4,263.82)	38,271.73	(21,792.19)	(10,036,409.42)
July	(8,210,826.14)	(1,855,155.72)	(55,714.29)	(4,260.37)	42,351.21	(17,623.45)	(10,083,605.31)
August	(8,196,954.74)	(1,884,621.45)	(55,626.15)	(4,256.12)	32,122.74	(27,759.53)	(10,109,335.72)
September	(8,185,906.85)	(1,919,172.75)	(55,552.06)	(4,251.23)	27,213.02	(32,590.27)	(10,137,669.87)
October	(8,177,397.51)	(1,957,751.64)	(55,494.91)	(4,246.42)	32,863.44	(26,877.89)	(10,162,027.04)
November	(8,166,871.29)	(1,992,885.02)	(20,466.77)	(4,241.56)	16,941.76	(7,766.57)	(10,167,522.88)
December	(8,157,326.93)	(2,006,606.16)	(20,403.81)	(4,232.15)	14,818.17	(9,817.79)	(10,173,750.88)
January	(8,148,592.09)	(2,021,960.55)	20,384.88	(4,230.35)	21,178.09	37,332.62	(10,207,885.26)
February	(8,139,495.57)	(2,030,680.41)	(55,277.02)	(4,224.55)	32,557.61	(26,943.96)	(10,197,119.94)
March	(8,129,287.77)	(2,065,458.85)	(55,215.72)	(4,220.75)	49,183.47	(10,253.00)	(10,204,999.62)
Total			**(520,334.02)**	**(50,972.59)**	**389,534.62**	**(181,771.99)**	

(i) TCIG pays life and property insurance for mortgage properties so that in the event that the property becomes damaged or borrowers die they will be able to offset the loan with the amount recovered from the insurance coverage. Property and life insurance however was not being paid for some borrowers. There were 22 borrowers with property loans valuing $3,542,833.40 with no property insurance being paid and four borrowers whose life insurance and property insurance was not paid. The total value of these properties was $496,620.43.

Table 20 – Borrowers with Life and Property Insurance Not Paid

ITEM #	Loan #	Opening Principal Balance March
79	3300081	207,998.84
102	3301273	45,652.14
103	3300548	104,931.23
127	3301439	138,038.23
Total		**496,620.43**

If the property insurance is not being paid on properties under loan, TCIG faces the risk of loss and/or devaluation to property in the event of damage or destruction.

(ii) Records have indicated that there were 16 borrowers with properties valuing $1,134,204.08 who were not being charged interest on their loan amounts. Twelve of these (12) of these borrowers received their loan under a social housing program and were therefore exempted from interest charges. The total value of the loans under the social housing program was $1,134,204.08. The NAO was told that these accounts were taken over by the Accountant General in their present status and are being treated the same as when the individual's loans were with TC Invest. The NAO was unable to confirm through review of supporting documents that these persons received the loan under the social program. In addition, there were no policies and procedures available to provide guidance on how these loans should be administered. There were four regular loans valued at $169,096.67 that were not being charged interest. As a result of not posting the interest payable on these properties the closing balance for the TC Invest loan to borrowers would be understated in the Statement of Financial Position. See next table.

Table 21 - Interest not charged on borrowers Loan Portfolio

ITEM #		Loan type	Opening Principal Balance March
28	3301428	Classified-Bus	67,285.90

37	3301442	Mortgage	1,438.23
63	3300352	Not stated	16,299.71
122	3300815	Mortgage	84,072.83
Total			**169,096.67**

(iii) Borrowers are required to reimburse property insurance paid by TCIG each year. The property insurance is accounted for in account code 56002 in Smart Stream. During FY 2017/18 the amount owing by borrowers was $74,160.79 and the prior year balance was $5,632.42, this represents an increase in arrears of 1,217%. It was noted from the review of the records that the individual loan balances as at March 31, 2018 did not reflect the property insurance owing by borrowers. The relationship between the property insurance loan and TC Invest loan portfolio is not disclosed in the Annual Statements. In addition, the amounts owing on interest and life insurance paid by TCIG are not added to the principal loan amount and they were not disclosed in the TCIG Annual Statements as being related to the properties in TC Invest. The amounts owed by borrowers on property interest and life insurance as at March 31, 2018 was $181,772 (Table 19). The non-disclosure and exclusion of these factors understates the loan balances being presented in the Annual Statements and as a result the information in the Annual Statements does not provide a true and fair view to the users.

(iv) The closing balance of account 56001, TC Invest loan portfolio in Smart Stream did not correspond with the records kept by the Treasury Department. As at March 31, 2018 the account in Smart Stream had a balance of $8,162,317.28 and the Treasury Department records had a balance of $10,139,208.75. Smart Stream showed the closing balance had reduced from $8,247,363 (i.e. prior year closing balance) to $8,162,317 as at March 31, 2018. This indicates there was movement (i.e. payment etc.) of $85,046.38 during the year, however the records maintained by Treasury Department show that payments during the year were $389,534.62 (inclusive of interest and life insurance). The records do not correspond and the trial balance is showing that the loan balance has reduced. However, the audit has shown that the payments made do not exceed the interest and insurance accrued during the year. Therefore, there cannot be a reduction in the closing loan balance. In addition to the above the monthly balances carried forward did not correspond to the brought forward amounts. There was no evidence that a reconciliation is performed between Smart Stream and manual records kept. This would ensure that variances are resolved and the information is complete and consistent.

(v) There are no policies and procedure in existence to provide guidance on how the TC Invest loan portfolio should be managed and accounted for.

The above inconsistencies and inaccuracies in the accounting of TC Invest loans indicates that the records do not provide a true and fair view of the state of the TC Invest loan amounts. Users of the accounts are therefore not provided with full disclosure for their assessment of the information presented in the financial statements.

C. $2.6 Million TOLCO Provision for Write Off Not Accurately Determined

The loans portfolio previously sold to The Outstanding Loan Company ('TOLCO') by TCIG was repurchased on February 17, 2017 for $1,359,000 and is now managed along with the loans from TC Invest by the Accountant General. The aggregate outstanding amount under the TOLCO loans portfolio was $3,682,523.87. It is anticipated by the public that the amounts owing generally from TC Invest inclusive of TOLCO may be written off wholly or partially. This may have direct correlation with the adverse loan payments. For example, receivables from property insurance has increased by 1,217% since financial year 2016/17.

TCIG has created a write off provision of $2,602,000 in the TCIG Annual Statements as it is not expected to recover all of the loan portfolio purchased (See Note 14 page 52 of the Financial Statements). TCIG has repurchased the loan at an agreed purchase price with the seller and therefore can only book the loan value on the accounts at the purchase price or perform a valuation on the loan amount to restate the purchase price amount. The amounts were assessed irredeemable prior to repurchasing and cannot now be booked in the accounts as a provision for write off. The purchasing of the loan portfolio with a possible irredeemable balance could only have been profitable to TCIG if they were operating as a loan company and were seeking to make a profit by enforcement after repurchasing the loans.

It would appear as if this provision for write off is not in relation to that submitted to Cabinet. The submission presented to Cabinet on July 4, 2018 had seven options for reducing the loan balances for all loans via TC Invest, inclusive of those repurchased from TOLCO. A decision has not been made on an option, therefore a realistic assessment of the amount for a write off provision cannot be determined at this point in time. Based on the NAO's review, the submission for the $2,602,000 write off of the TOLCO loan amounts has nothing to do with the write off submissions to Cabinet. To date there has been no updated valuation of properties under the loan portfolio. This information is critical in the determination of the amounts that may be realistically recoverable from the borrowers.

The writing off of the loans without an assessment of the value of the properties and loan recoverability will result in further losses to TCIG as the determination of the amounts to be written off may not be objective as it is not professionally and independently assessed.

Recommendations

1. Management should develop a policy and procedure on how loan portfolios should be accounted for and managed.

2. Management should perform a physical verification of the assets. Additionally, an assessment of the recoverability should be performed and the loans receivable revalued to reflect the recoverable amount.

3. Management should ensure that proper accounting records are maintained. Periodic reconciliation of loan payments should be performed between the records in Smart Stream and those maintained manually, closing balances should reflect all outstanding amounts owed by borrowers and full disclosure made in the Annual Statements of all new loan amounts that are related to the borrowers.

4. Management should ensure that all property and life insurance premiums are paid.

5. Management should develop a more robust collection process for the collection of outstanding amounts.

Management Response 2017/18

1. Recommendation 3-Margil Loan management software was recently purchased as the previous system that was in use, has been down since March 2017. The loans will be imported into the new system which will help give a more realistic view of the portfolio and give TCIG the ability to provide reports and record customer information. Once this is done the journals will be posted to Smart Stream and will reflect the up to date balances.

2. Reconciliations are carried out monthly for the loan portfolio.

Management accepts the recommendations made by the auditor general. The department still requires itself to be equipped to carry out all that functions that management of this portfolio entails. As previously noted, Loan management software was only recently purchased to replace the previous system which has been out of service since March of 2017. Reconciliations are kept however, which shows the differences between the balance in smart stream and the manual system currently being used. We are also in the process of recruiting personnel to fully manage this area.

Auditor General's Response

(i) Management response (1)-The Accountant General needs to state the date when new software will be on board and what action will be taken in the interim if the software is not acquired timely.

(ii) Management response (2)-The NAO was told that there was no record maintained to evidence the reconciliation performed between Smart Stream and manual record of the loan payments.

3.10 Issues materially impacting the Development Fund Balance - HR

A. A Separate Bank Account is not maintained for the Development Fund

Criteria

According to the law, the Development Fund amounts are to be accounted for separately. Section 5 (3) of the Public Finance Management Ordinance ('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. Section 32 of the old Finance and Audit Ordinance also required that the Development Fund be kept separate and accounted for separately.

Condition

The Development Fund has not been dealt with in accordance with the legislation authorising them issued under the PFMO. As the Development Fund amounts and balances were included with the Consolidated Fund amounts and Balances, it also implies that the Consolidated Fund Balance is also incorrect. Development Fund and Consolidated Fund amounts ideally should not be included together as there are specific requirements in how the Development 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.

Management Response 2017/18

While the development is accounted for separately, because this recommendation is consistent with prior audits, management is working with its software consultants to have the software updated so that the development fund can be a separate payment entity from the consolidated fund. A separate account bank account is already opened for the fund.

B. Inaccuracies in the opening balance for Development Fund

The opening balance for DF was recorded as $22,109,000.00 (see page 44 of 17/18 Annual Statements) instead of $23,305,000.00 (See page 35 of 16/17 Annual Statement), a *difference of $1,196,000.00.* The Acting Accountant General stated that the amount was revised based on work done in reconciling development fund from 2014/15 to 2017/18. There was no disclosure note in the Annual Statements to explain the reason for the revised figures and comparative analysis on prior years was not included in the Statement of Financial Position as per IPSAS 3 which deals with retrospective restatement and application. These unexplained variations in the balances presented in the Development Fund will result in users of the Financial Statements questioning the integrity of the information and whether or not the information provided is giving a true and fair view of the financial statements.

Management Response 2017/18

Management agrees that a note should have been included explaining the restatement of the development fund's balance. Based on recommendations made in prior audits the department undertook what we believe to have been thorough reconciliation of the development and its balance.

C. Inaccurate calculation of Development Fund revised balance and lack of supporting documents

A reconciliation schedule of the Development Fund was provided for review. The schedule dated back to the financial year 2014 – 2015 to the current audit period, and was prepared in order to reconcile amounts to be posted to the Development Fund account and amounts that should revert to the Consolidated Fund. The schedule shows the following information:

- **(a)** The project information (Ministry, Department, Project number, Source of Funds, Project description and is divided into Committed and Un-Committed Prioritized Projects);
- **(b)** The Trial Balance amount;
- **(c)** The amounts in relation to Committed Contracts;
- **(d)** The amounts in relation to contracts not requiring commitment;
- **(e)** The balance carried forward;
- **(f)** The net amounts reverting to the Consolidated Fund.

In order to determine the Development Fund balance for each financial year during 2014/15 to 2017/18, the Treasury Department performed the following calculation for each project within the financial year:

- Development Fund prior balances carry forward less *Actual Development Fund expenditure* plus *Committed contracts expenditure* less *Contracts not requiring committed expenditure*.

If the project is completed and there is a balance it is reverted to the Consolidated Fund, if the project is not completed the amount is carried forward to the next year, until the completion date of the project. The NAO was unable to verify the amounts at **(c)** and **(d)** above that were related to expenditure for committed contracts and contracts not requiring commitment as the supporting information was not provided. The total *expenditure for committed contracts* recorded in the reconciliation schedule was $18,684,262 and $310,675.3 (see next table for calculation) was stated for *contracts not requiring commitments*. As a result, reliance could not be placed on the Development Fund balances computed. In addition, the appropriate calculation should have been as follows:

- Adding the prior year balances to the amounts moved from the Consolidated Fund for Development Fund expenditure and less the Actual Development Fund expenditure for the year.

Table 22 – Total Expenditure for Committed Contracts

Year	Committed Contracts	Contracts not Requiring Commitment
14/15	39,936 .00	(11,782.30)
15/16	936,995.21	(133,050.00)
16/17	(90.00)	(111,385.00)
17/18	17,707,420.85	(54,458.00)
	18,684,262.00	**(310,675.30)**

As stated above these anomalies in the calculation of the Development Fund indicates that balances presented for the fund in the TCIG Annual Statements may not provide a true and fair view to the users.

Recommendation

Management should ensure that the opening balance in the Annual Statement for the Development Fund is accurate by performing effective reconciliations and reviews of the account on a regular basis. This would ensure that transactions and projects are properly classified and the correct amounts are recorded for the prior year Development Fund balances. The Development Fund account 93001 should be used whenever a transaction occurs throughout the year rather than having the accumulated total being journalized at year end. The basis of the revised calculations of the Development Fund account should also be fully disclosed to the users of the financial statements. Management should also furnish the NAO with an explanation of the amounts stated within the account and how the account is used. All projects actual and budgeted costs should be shown with the respective variances in the financial statements.

Management Action to Remediate Prior Year Issue:

Management has stated upon upgrading Smart Stream in 2018/19 the operations of the Development Fund will be separated from the Consolidated Fund.

Auditor's Response to Action to Remediate Prior Year Issue

This issue was identified in 2016/17 Auditor General's report and the opening of a bank account for the Development Fund is not dependent on updating of Smart Stream. The action taken to remediate the above issues were assessed as inadequate.

Management Response 2017/18

The calculation used by the Accountant General Department to Calculate the Development fund balance is as follows:
The Opening Fund Balance
+ Capital Contributions (Committed Contracts)

-Development Fund Expenditure for the year
- Funds reverting to the consolidated
= Ending Development Fund Balance

D. Recurrent Expenditure Misclassified as Capital Expenditure

Criteria

PFMO Section 67

In this Part, in respect of procurement—

“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—

(b) 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;

PFMR (Amendment) 2015 52 (7)

(7) Development Fund expenditure shall not include those of a recurrent nature, for the avoidance of doubt this means that only incremental costs associated with a project can be charged to the Development Fund projects.”.

31. No provision shall be made for expenditure to be charged on the Fund other than for the purpose of a development project.

Condition

(i) Misclassification of Transactions and Projects

During the audit, we noted that 15 transactions totaling $55,975.50 and 19 projects where the following amounts were incorrectly classified as capital expenditure:

(a) Actual – $1,260,820.00
(b) Estimated cost – $444,000.00

(ii) Misclassification of Transactions as capital expenditure

Based on the PFMO section 67 and the nature of these transactions, they should have been classified as recurrent. The transactions relate to CDB Board of Governors meetings and were primarily for meals. The next table shows the details of these transactions.

Table 23 – Transactions that were incorrectly classified as non- recurrent

MIN./DEPT.	PROJECT #	PROJECT DESCRIPTION	PAYEE	TRANSACTION DESCRIPTION	INVOICE #	TRANSACTION AMOUNT
54-111	5281	Hosting of CDB Board of Governors Meeting	FOTTA00001	Bambarra Cakes	439	1,050.00
54-111	5281	Hosting of CDB Board of Governors Meeting	ISLAN00028	Installation	591	1,300.00
54-111	5281	Hosting of CDB Board of Governors Meeting	ISLAN00028	Graphic Design Fee	591	1,425.00
54-111	5281	Hosting of CDB Board of Governors Meeting	BEACH00001	Government Tax	BTC0700	1,452.00
54-111	5281	Hosting of CDB Board of Governors Meeting	MICHA00001	Services Rendered	2017-3	1,875.00
54-111	5281	Hosting of CDB Board of Governors Meeting	BEACH00001	Service Charge	BTC0700	1,942.50
54-111	5281	Hosting of CDB Board of Governors Meeting	BEACH00001	Soft Drinks	BTC0700	2,200.00
54-111	5281	Hosting of CDB Board of Governors Meeting	MANGO00001	Lunch Buffet Style	0001	2,800.00
54-111	5281	Hosting of CDB Board of Governors Meeting	ELROY00001	Music & Sound Entertainment for CDB	25052017	3,000.00
54-111	5281	Hosting of CDB Board of Governors Meeting	BOHIO000001	Luncheon	2517	3,064.00
57-033	5392	Scholarship Database System	KALOK00001	Meals	1628239	3,863.00
54-111	5281	Hosting of CDB Board of Governors Meeting	ISLAN00028	Consultancy	591	6,000.00
54-111	5281	Hosting of CDB Board of Governors Meeting	ISLAN00028	Production	591	8,004.00
54-111	5281	Hosting of CDB Board of Governors Meeting	SPOTL00001	Photography for CDB Conference	000092	8,100.00
54-111	5281	Hosting of CDB Board of Governors Meeting	BEACH00001	Buffet Luncheon	BTC0700	9,900.00
TOTAL						**55,975.50**

(iii) Misclassification of Projects as Non-Recurrent Expenditure

It was noted during the audit that projects that were not "Capital Expenditure" in nature were classified as such. An example of a project that was incorrectly classified as capital expenditure was "*The National Skills Audit*". Details on these projects can be found at Appendix 2. PFMO 67 provides the guidelines for the determination of capital expenditure.

The misclassification of items as capital expenditure is a repeat issue from prior year audits of 2015/16 and 2016/17.

The risk of classifying transactions of a recurrent nature as capital expenses could result in the over-valuing of the project.

(iv) TOLCO Loan Repurchase classified as capital expenditure

Review of the Development Fund account within Smart Stream (denoted by account number 93001) showed a credit in the amount of $1,359,200.00 representing the repurchase of TOLCO loan portfolio.

As outlined in the PFMO section 67's definition of capital expenditure, the repurchase of TOLCO loan portfolio does not meet the criteria to be considered as capital expenditure and should not be classified as such.

As previously stated, the risk of classifying expenditure recurrent in nature as capital could result in the over-valuing of projects and/or amounts within the Development Fund account or under-reporting of operating expenditure.

There are no clear accounting policies to outline how an expense is treated as capital or operating. Therefore there is the risk that some costs that may be operating would be budgeted as capital or vice versa. If, capital costs are expensed, it means that your capital assets would be understated. A proper accounting policy needs to be applied and the PFM laws and regulations need to be followed.

Recommendation

Before final approval, Management should review the proposed listing of Capital Development projects to determine if the projects are correctly classified. All transactions that are recurrent in nature should be funded through the recurrent budget which falls under the 3-series of accounts within the accounting system.

Auditor's Response

Management's response to the issue is noted. Could Management please provide an action plan to remediate this issue.

E. Over Expenditure of Development Fund Warrant

Criteria

Public Financial Management Regulation (Amendment) 2015 ('PFMR')

39 (2) Section 26, in respect of expenditure in excess, applies to the Development Fund."

PFMO Section 26 (1)

26. (1) Where, in exceptional circumstances, at the close of accounts for any financial year it is found that moneys have been expended on any expenditure in excess of the amount appropriated for it by an Appropriation Ordinance or a Supplementary Appropriation Ordinance or for a purpose for which no moneys have been voted and appropriated, the amount of the excess expended, or not appropriated, as the case may be, shall be included in a statement of expenditure in excess.

Condition

During the review of the projects within the Development Fund it was noted that eight of the projects actual expenditure exceeded the amounts authorized by their respective warrant. Four of those projects were identified as under the materiality level (i.e. $1000). However, they were included within the issue for a holistic view.

Over expenditure of warrant amounts indicates that management lacks the appropriate controls to ensure proper fiscal management of the resources allocated to the warrant process.

The next table shows the details of this information. This is a repeat issue from the audit of the financial year 2015 – 2016 and 2016 - 2017.

We requested explanations for the over expenditure from the relevant Accounting Officers. However, to date, we have only received responses from two Accounting Officers. Additionally, there were no supplementary warrants presented to support the over expenditure as noted in Section 5 – Capital Development Program section 4 (d). The lack a supplementary warrant for an over expenditure indicates that the expenditures may have been unauthorized as there was no evidence that they were appropriately approved as per the Ordinance.

Table 24 – Actuals in excess of Warrants

MIN./DEPT.	PROJECT #	PROJECT DESCRIPTION	WARRANT AMOUNT	ACTUAL AMOUNT	VARIANCE
54 - 025	4861	Upgrade of the Revenue System SIGTAS	134,900.00	151,578.20	(16,678.20)
54 – 111	5229	Outfitting Ministry of Finance Department	164,463.24	164,818.99	(355.75)
05 - 013	5247	Equipment for Judiciary	76,734.75	76,824.75	(90.00)
57 - 033	5206	Upgrading of Schools	588,088.77	1,066,684.95	(478,596.18)
57 - 037	5296	HJR Building Works	139,186.70	330,623.57	(191,436.87)
62 - 030	5189	Community Clinic	172,585.73	323,042.90	(150,457.17)
62 - 057	5297	Vector Control Trucks	35,042.00	35,132.00	(90.00)
03 - 009	5166	Police Boats	1,263,669.72	1,264,645.72	(976.00)
TOTAL					**838,680.17**

Recommendation

The Strategic Policy and Planning Department (SPPD) should review and monitor project accounts in order to ensure that over spending against warrants are identified, investigated and followed up and supplementary warrants approved where applicable. Capital budget monitoring reports should be presented to the responsible officer at least on a quarterly basis. Accounting Officers must ensure that all legal requirements are satisfied over the control and authorization of public funds as set out in the PFMR.

Management Response 2017/18

Management would like to thank the Auditor for the feedback. However, feedback was provided on all the projects mentioned as only three (3) projects had over-expenditure which were as a result of wiring transactions. The following breakdown is provided.

- 4861 – over by $16,678.20-Not over. Warrant DFW #41 covered all expenses.
- 5230 – over by $355.75 Not Over DFW #51 16/17 covered the expense.
- 5247 – over by $90.00-Overage due to wiring fees.
- 5206 – over by $478,596.18- Not over. DFW#44 covered expenses.
- 5296 – over by $191,436.87- still to be confirmed.
- 5189 – over by $150,457.17Not over- DFW #20 covered the expenses.
- 5297 – over by $90.00- Overage due to wiring fees.
- 5166 – over by $976.00- Overage due to wiring fees.

Auditor's Response

Management's response is noted. However, after further review it was noted that the warrants as per the file received from the SPPD do not cover the actual amounts as stated by Management. The following are the amounts noted for the warrants the NAO has on file from SPPD:

- DFW #41 - $134,900 – This does not cover the total actual cost as shown in the previous table.
- Project number 5230 listed in the previous table should be noted as a mistake. The project number and description should be 5229 – Outfitting Ministry of Finance Department. We apologize for this mistake.

- DFW #44 - $588,088.77 – This does not cover the total actual cost as shown in the previous table.

- DFW #20 - $172,585.73 – This does not cover the total actual cost as shown in the previous table.

- Although the amounts are small and due to wiring fees. The criteria sited above "**Section 5 – Capital Development Program (Appropriation Ordinance) 4 (d)"** does not make allowances for wiring fees. Therefore, any overages should be covered by an authorized supplementary.

We would appreciate if the SPPD could provide additional documentation to support and clarify the response provided.

F. No Actual Expenditure for Appropriated Projects

Criteria

Sound economic principles require effective absorption of available funds through government investment to stimulate economic growth and development. Section 9 of the Public Procurement Ordinance (PPO) 2014 calls for use of an efficient procurement process that ensures effective use of government resources.

PFMO Section 11 (3)(a) and (b):

3. The Permanent Secretary, Finance is responsible for the effective application of this Ordinance and any regulations made or any instructions given or any directives issued under section 10(4); and in particular shall –

(a) Ensure that systems are established throughout Government for planning, allocating and budgeting for the use of resources in order to improve the economy, efficiency and effectiveness of Government;
(b) Ensure that a classification system is established throughout Government which is compatible with an internationally recognized system of statistical analysis and which enables the consistent recording of each financial transaction for the purposes of expenditure control, costing and economic and statistical analysis.

Duties and responsibilities of Ministries and Departments

9. (1) The primary responsibility of a Ministry or department is to execute the policies of the Government and its statutory functions in the most economic, efficient and effective manner within its overall financial allocation and any cash or other financial limits imposed by the Minister taking into account the specific requirements in Schedule 2.

(2) A Ministry or department referred to in sub regulation (1) shall ensure that—

(a) All resources, including money, human capital and capital assets are allocated and deployed to best effect;
(c) All control totals such as those contained in the approved estimates and warrants are strictly observed.

PFMR 68(4) (b) and (5)

(4) Before undertaking a new procurement process or awarding a new contract the Accounting Officer must—
(b) Ensure that the estimated value can be met from the appropriate budget (capital or revenue or both);
(5) Estimates of value and methods of valuation must be genuine and not designed to avoid exceeding any threshold.

Condition

Review of the Appropriation Ordinance during the audit noted that there was no actual expenditure for 17 projects where funds were made available through appropriation for FY 2017 – 2018, this amount totaled $9,435,691.00. This indicates partial service delivery (see Appendix 3 for details of projects with no actual expenditure for the year). Projects under-absorbed ranged from a maximum of $3,250,000 to a minimum of $10,000. Most affected service delivery areas were; Upgrading of Schools, Road Development, Upgrades to the Wellness Centre and Morgue and Development of the National Physical Development Plan.

While there may be plausible explanations for the under-absorption, these explanations need to be closely examined as over allocation of resources in one area may result in inadequate resourcing in another. The inadequate allocation of financial resources will result in inefficiencies in the completion of some projects or the starting of others. Proper management of how funds are disbursed to projects would ensure that priority projects are adequately funded and make funding available for other projects that may have been delayed due to the lack of financing. This is a repeat issue from both the 2015 – 2016 and 2016 – 2017 financial years.

Recommendation

Management should ensure that the appropriate planning and research is done prior to starting a project. This would enable more reliable estimates of cost to be determined, timely implementation of projects and programs. Management should also include disclosures on the Development Fund Budget versus Actual within the financial statements. Management should perform periodic performance reviews on on-going projects to determine if they are being implemented within the set timelines, and to identify if there are any issues that may impact the project and its completion date.

Management Response 2017/18

Management would like to thank the Auditor for the feedback. FY 2017/18 was an exceptional year as the country was impacted by two major hurricanes which resulted in the Capital Program being reprioritized and a corresponding decrease in the amount appropriated to $20.3m. As management would have explained to the Auditor in our initial meeting, the projects are noted in one financial year with the bulk of expenditure occurring in the following financial year. This is as a result of capacity constraints at PWD and also when the projects are tendered, no bids are received therefore, they are re-issued. Progress reports are submitted to the Director of Contracts for each contracted project.

Auditor's Response

Management's response is noted.

G. Projects Lack Estimates as required by the Appropriation Ordinance

Criteria

PFMR, section 35, 2(a-c)
The Minister shall cause to be prepared before the commencement of each financial year estimates of the revenue and expenditure of the fund and such estimates shall form part of the annual estimates of revenue and expenditure of the Government to be laid before the House of Assembly as required by section 21 of the Ordinance.

(2) The estimates of expenditure from the fund shall –

(a) Conform with the requirements of section 21 of the Ordinance; and

(b) Assign a separate subhead of expenditure (which may contain one or more items) for each development project provided for therein and the various subheads shall be grouped under development fund votes according to the Ministries and departments responsible for carrying out the development projects concerned; and

(c) In respect of each development project provided for therein show –

(i) The estimates of total cost;
(ii) The total actual expenditure to the end of the previous financial year;
(iii) The approved estimate for the current financial year;
(iv) The sum required for the following financial year.

Condition

There were seven projects with an actual spent of $614,288.26 that had no estimated expenditure listed in the Appropriation Ordinance for the project. There was no evidence noted within the prior year Appropriation Ordinance that these projects were previously appropriated.

This is not in compliance with PFMR, section 35 and could result in unauthorized and over expenditure due to inadequate planning and budgeting for expenses and non-adherence to controls implemented to manage expenditures. The criteria as stated above, enables Ministries/Departments, Director SPPD, Accountant General and the Permanent Secretary Ministry of Finance to better manage and organize TCIG financial affairs in relation to spending for development projects. This is a repeat issue noted in the audit of the Development Fund for the financial year 2016 – 2017.

The next table shows the details of this information.

Table 25 – Projects with actual expenditure but no estimated amount

MIN.	DEPT.	PROJ. #	PROJECT DESCRIPTION	ACTUAL AMOUNT $
03	009	5302	CCTV Implementation	297,679.00
16	096	5359	Furniture & Equipment Border Control and Employment	54,458.12
54	111	5230	Turks and Caicos Islands Airport Authority Master Plan	90.00
57	033	5392	Scholarship Database System	48,112.19
59	060	5307	Repairs to Perimeter Fence of HMP	122,310.23
61	134	5303	Boat Removal Project	82,515.99

Recommendation

Management should ensure that budgets are reliable by performing adequate planning and review. In instances where expenditures are expected to exceed the budgeted amount a supplementary is required to be authorized prior to payment.

Management Response 2017/18

Management would like to thank the Auditor for the feedback. As explained in the initial meeting and the supporting information that was provided, with the change in the Ordinance, there is no longer a need to re-appropriate the funding for the project after it is noted in Cabinet. When the project is noted the transfer is made from the Consolidated Fund to the Development Fund for the contracted sum of the project. The warrant is issued for the contracted sum which does not expire. Please see additional information below.

- 5302- expenditure was covered by DFW #45 rolled over balance
- 5359- expenditure was covered by DFW 101 (16/17) rolled over balance
- 5230- the funding was transferred to the Department but this $90 was a wire charge
- 5392- expenditure was covered by DFW #22 (rolled over balance)
- 5307- expenditure was covered by DFW #12
- 5303- expenditure was covered by DFW #87 rolled over balance

Auditor's Response

Management's response is noted. Could you please provide information on when these projects were initially appropriated?

H. Lack of proper documentation maintained for Development Fund projects/transactions

Criteria

PFMR Section 32(1)
No moneys shall be paid out of the Fund except where the payment of those moneys has been authorized by an Appropriation Ordinance or by a warrant under the hand of the Minister given in accordance with the provisions of the Ordinance or this Part.

PFMO, section 68(2) (a-e)

A Ministry or Department or Statutory Body in planning, developing and executing a project must ensure value for money by clearly understanding and expressing the goals and purpose of the procurement in five stages –

(b) Appraisal and Business Case Stage;
(c) Procurement Stage;
(d) Contract Management Stage;
(e) Delivery Stage; and
(f) Evaluation Stage

In accordance with best practice Development Fund transactions were tested to verify that:

1. Valid Development Fund Warrants were issued detailing project numbers and descriptions, amounts, and signed by the appropriate authority.

2. Valid Business Cases were submitted for projects detailing project numbers, reasons for project, project descriptions and signed by the appropriate authority.

3. Transactions were correctly approved on Smart Stream by the relevant personnel.

4. Smart Stream invoices carried the correct information (i.e. transaction descriptions, correct posting and correct attachments) and attachments were certified true and correct and approved for payment by the relevant personnel.

5. Corresponding project transactions were submitted to the Procurement Board for approval and tender and properly documented on Procurement Board information.

Additionally, best practice requires that all Smart Stream transactions should be accurately posted to the relevant Ministry, Department, Account and/or subaccount code. In addition, invoice descriptions should be adequate and give proper explanations of the goods or services being acquired.

Condition

Testing was carried out on all transactions in relation to the Development Fund within the payment range of $1,000.00 and above for the financial year 2017 – 2018 in accordance with the above listed criteria. This included 235 transactions with a total of $16,046,152.29. The following was noted:

(i) Inadequate Support Documents for Development Fund Records

Based on the review completed on the files received from the SPPD, it was noted that the following documents were not on file to support the Development Fund projects as required by PFMO, Section 68;

- Business Case File - There were three projects totaling $468,101.42 that had no evidence that a Business Case was submitted to the SPPD. The next table shows a listing of these projects.

Table 26 – Projects with no evidence of business case on file received from SPPD

PROJECT #	PROJECT DESCRIPTION	TRANSACTION AMOUNT
5302	CCTV Implementation	297,679.00
5392	Scholarship Database System	48,112.19
5307	Repairs to Perimeter Fence of HMP	122,310.23
TOTAL		**468,101.42**

(ii) Inadequate Maintenance of Records

Information from the Procurement Board relating to projects were reviewed and we were unable to determine the following:

- If one project totaling $48,112.19 went through the proper Procurement Board procedures, as information was not recorded to facilitate tracing and verification that the appropriate procedures were followed. We were unable to match this project to the progress reports received as there was no listing of this project on the various registers and/or spreadsheets received from the Procurement Board. The next table shows the details of this project.

Table 27- Projects with no evidence of the proper Procurement Board Procedures

PROJECT #	PROJECT DESCRIPTION	TRANSACTION AMOUNT
5392	Scholarship Database System	48,112.19

Having the appropriate records properly maintained on file (i.e. i and ii above) provides an audit trail and evidences that the appropriate steps were followed in the approval process of the project. In collaboration with other controls, maintaining proper support documents is a deterrent to fraud. Support documents are also essential in the event that there are any litigation proceedings.

(iii) Inadequate description of Transactions in Smart Stream

It was noted from the transactions reviewed that three transactions totaling $89,490.08 had inadequate invoice descriptions as the description stated on the invoice was not commensurate with that noted in the project. These transactions are listed in the next table.

Table 28 – Transactions with inadequate descriptions

MIN./DEPT.	PROJECT #	PROJECT DESCRIPTION	INVOICE #	PAYEE	INVOICE DESCRIPTION	TRANSACTION AMOUNT
54 - 111	5281	Hosting of CDB Board of Governors Meeting	23417	MYRIA00003	SECOND INSTALMENT PAYMENT	10,000.00
60 - 043	5217	Development Fund Project Management	PWD15/06C OMMUNITY COLL	ENGDS00001	PAYMENT FOR THE FRAME WORK FOR	6,760.00
62 - 072	5190	Mobile Clinics	TCIG403	CHAMP00001	CAR RENTAL	72,730.08
TOTAL						**89,490.08**

Inadequate descriptions of transactions may result in incorrect classification, which may lead to understatement or overstatement of the specific account balances impacted.

(iv) Payment made via email

It was noted that a payment in relation to project number 5228 – Land Acquisition, in the amount of 6,552.41 was done via an email instead of an actual invoice. The payment was in relation to funds required as a result of additional compensation for land acquisition of 0.29 acres. An email is not an acceptable substitute for a purchase invoice or a means of supporting payment of funds within TCIG.

Based on the nature of the expense the source document supporting the payment should have been more formal. Proper invoices are required to support purchases or sales within TCIG.

Recommendation (i) to (iv)

Management of SPPD should ensure that adequate documentation is maintained, that supports authorization of the Development Fund warrants. These documents should be subjected to SPPD review to verify that they meet the requirements for authorization of the warrants.

Management should review support information prior to authorizing and issue to ensure the following:

- Payments are accurately described, classified, calculated, posted and proper invoices are attached where applicable within Smart Stream. Additional information about the invoice can be documented in the “comments” window if insufficient space exists in the description section of Smart Stream.

SPPD should schedule periodic meetings with Financial Managers and Data Entry personnel to discuss issues identified in postings and provide training as a means of implementing corrective action.

Management Response 2017/18

Management would like to thank the Auditor for the feedback. The PPO states that all Capital projects should be publicly tendered. Therefore, if there is uncertainty with a project, the Director of Contracts should be contacted to clarify this uncertainty.

The business case for CCTV is attached for reference.

As it relates to the description of the project, when the warrant is issued to the Accounting Officers, it is their responsibility to ensure that the project description is adequate before approving a payment. This will be flagged to ensure that there are some improvements in this area.

Auditor’s Response

Management’s response to the issue is noted. However, there was no supporting documents provided for the following:

- Project # 5392 – Business Case
- Project # 5307 – Business Case

As a best practice and compensating control, SPPD should retain all supporting documents in relation to Capital Development projects to evidence completeness within the process.

3.11 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

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. However, the laws/regulations do not seem to be adhered to.

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) <u>There have been assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate.</u> 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 over 10 years of disclaimers and/or adverse opinions.

d) <u>There have been significant, unusual, or highly complex transactions that pose difficult "substance over form" questions.</u> A few instances of substance over form transactions do exist such as in the Public Private Partnership, assets, contingent liabilities, pensions, healthcare liabilities and 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 was previously 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) <u>Internal control components are deficient in several areas.</u> 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) <u>There have been instances where management has failed to remedy known significant deficiencies in internal control on a timely basis.</u> 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, pensions, healthcare 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 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.

j) 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.

k) 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

l) 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 Action to Remediate Prior Year Issue

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 to Management Action to Remediated Issue

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. The NAO also has evidence that there are a sufficient number of red flags or warning signals to indicate that fraud and abuse is possible especially given the weak internal controls.

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

Criteria

IPSAS 20

The objective of this standard is to require the disclosure of the existence of related party relationships where control exist, and the disclosure of information about transactions between the entity and its related parties in certain circumstances. This information is required for accountability purposes, and to facilitate a better understanding of the financial position and performance of the reporting entity. The principal issues in disclosing information about related parties are (a) identifying which parties control or significantly influence the reporting entity, and (b) determining what information should be disclosed about transactions with those parties.

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

The TCIG Annual Statements do not include sufficient information on related party transactions and key relationships.

IPSAS 20 identifies key related parties as having the ability to control or having significant influence over the other party in making financial and operating decisions. These key relationships may include Ministers and key senior public officers and their close family members.

In considering a related party relationship, attention should be directed to the substance of the relationship and not merely the legal form. This IPSAS also requires the reporting of relationships that that have significant influence over policy and financial operating decisions of an entity with whom TCIG has a business relationship.

There are currently no disclosures made in the public accounts in regards to key related parties.

TCIG Annual Statements are also required to include remuneration received by TCIG key management personnel from the reporting entity for services provided as members of the governing body or as an employee.

It is important to have systems and controls to identify and disclose all related party transactions as they carry increased risk. Currently with the TCIG there exist insufficient disclosures and inadequate controls to manage and monitor related parties. Management is responsible for ensuring that the annual ethics declaration forms and any other appropriate best practice reviews are completed so that related parties and their transactions can be captured and disclosed in the financial statements. Related party transaction reporting is critical and must be reported although there may be challenges given the size of the Turks and Caicos Islands ('TCI').

The full disclosure of these relationships and/or transactions will ensure that any perceived conflict of interest can be evaluated and assessed. The special relationship inherent between related parties can create a conflict of interest that can result in actions that benefit the individuals involved as opposed to the benefits that should accrue to the public. The disclosure of these associations and relationships are critical in the assessment of the risk that a person is able to have on policies and mutual dealings with an entity with whom TCIG is conducting business. A significant risk of a related party transaction is that it may be motivated by other than ordinary business considerations, for example, profit sharing or even fraud, other possible risk of not disclosing these relationships are;

(i) True and fair view of the TCIG's affairs may not be given unless full disclosure is made, and;
(ii) Financial scandals involving related parties.

For example the NIB's Audited Financial Statements had numerous transactions that relate to TCIG. These should be reflected in the TCIG's Financial Statements. This ensures that related party transactions are not only disclosed separately, it can also be used as a control to ensure that the transactions are also appropriately reflected in TCIG's Financial Statements.

Table 29 – Extract from NIB's financial statements 2016 audited, 2017 audited and 2018 unaudited

TURKS AND CACOS ISLANDS NATIONAL INSURANCE BOARD
Notes to Financial Statements
Years ended 31 March

TCIG transactions	2018	2017	2016
Collection of contributions (Employer and employees' contributions)	4,936,995	4,529,350	3,953,121
Contributions — private sector (Employer and employees' contributions)	3,069,706	2,832,184	2,460,218
Contributions — civil servants	1,867,288	1,697,166	1,492,903
Payment of employment injury costs to NHIB Payments to	223,000	522,000	-
Interest income	277,008	245,536	153,342
NIB's payment of NHIB contributions	141,968	151,940	146,495
Repayment of Treasury bond	150,000	150,000	150,000
NIB's payment of NIB contributions	154,558	149,324	132,550
Rent income	128,000	138,667	128,000
Repayment of TCI Investment Agency Ltd. Loans	-	-	1,853,811
Employment injury costs accrued	-	-	450,000
Accrued NHIB employment injury costs	718,058	718,058	1,240,058
Treasury bonds — at par	450,000	600,000	750,000
Interest receivable	12,103	16,008	20,065

Other examples are amounts due from Civil Aviation Authority $0.5 million (2017 Audited Fin Stats) and Financial Services Commission $3.2 million (2018 Audited Fin Stats).

The NAO would have also noted this issue in the last audit where in 2016/17 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.
These are only some of the examples.

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 Action to Remediate Prior Year Issue

Management has stated that a directive was issued for the disclosure of related party transaction.

Auditor General's Response to Management Action to Remediated Issue

Management action to address the issue is inadequate as steps need to be taken to ensure that related party transactions and associations are adequately disclosed in the financial statements as required by

IPSAS 20. The implementation of these controls would bring closure to this issue with the accounting standards. It will also reduce the possibility of incorrect information being placed in the public domain, if proper disclosures are supplied in the financial statements.

Management Response 2017/18

All officers who have significant influence over the financial and operating decisions of any department are required to disclose related party information. Directives were issued by the department to reinforce the need for disclosure.

Auditor General's Response

Disclosures are not made in the Financial Statements of related party transactions. Those who have control and significant influence must disclose their interest in the FINANCIAL STATEMENTS. For example Ministers or Senior Public Officers who have businesses that are contracted by Government, must disclose the details of this. This is a significant weakness.

(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.

3.13 Non-existent accounting policies and existing accounting policies unclear - HR

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 policies outlined in the financial statements for the following areas;

(i) Grants and Contributions
(ii) Gifts and Donations
(iii) Cash Receipt and Payments
(iv) Recurrent programs and projects
(v) Insurance payments claims and proceeds
(vi) Repatriation expenses and Recoverability
(vii) Overtime

In the 2016/17 Auditor General's report it reported as an issue that there were no policies for the 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 statements. 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 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. In addition, it does not comply with the PFM Framework which goes beyond just cash accounting. 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 if awarded.

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 HOA 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 through the transition to accruals accounting.

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 Action to Remediate Prior Year Issue

No action was taken to remediate issue

Management Response 2017/18

Management agrees with the recommendations of the Auditor General.

3.14 Repeat Audit Findings and incomplete audit recommendations - HR

Criteria

Repeat audit findings should be closed out based on their risk exposure and likelihood. High risk issues should be closed out within three months, moderate risk issues within six months and low risk issues within one year. While there may be some audit findings that can take longer than three months, these should occur only in exceptional circumstances.

Condition

There are several issues that have been raised over the last five 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. It is noted that repeat audit findings have occurred several times.

Management Response prior year

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

The specific weaknesses are numerous errors, omissions, lack of accounting policy, incorrect reconciliations, weak controls, no risk management efforts, repeat audit findings, lack of supporting documents, lack of proper explanations, lack of compliance with financial laws etc. Management needs to reduce/eliminate the errors/omissions, introduce a consistent set of policies, institute proper financial controls, introduce an enterprise wide risk management system, read/understand the laws, follow the regulations, ensure regular training that is subsequently applied in the work setting, increase skills and competencies throughout the finance system, read and implement the audit recommendations, secure the necessary resources and accept responsibility for the state of the financial affairs of government.

Management Response 2017/18

Management notes and agrees with the recommendations of The Auditor General. We are working continuously the improve systems, procedures, and controls however, given the fact that the department has limited resources we are not able to addressed at once. We must note that despite this, officers continue to work hard and that there has been year over year improvements. We have highlighted and will continue to highlight the need to be better resourced to address, implement and monitor, previously identified audit issues.

3.15 Inconsistencies in the use of cash and accrual basis - HR

Criteria

IPSAS 1.3.29

The accounting policies section of the notes to the financial statement shall describe each specific accounting policy that is necessary for a proper understanding of the financial statements, including the extent to which the entity has applied any transitional provisions in this standard.

IPSAS 33

First time adoption of accrual basis IPSASs identifies transitional provisions that provide entities with relief from adoption of certain of the requirements of accrual IPSAS for three (3) years from the date of adoption of accrual IPSAS. IPSAS 33 provides that on the date of adoption of IPSAS, a first time adopter may elect to adopt one or more of the exemptions included in IPSAS 33 and subject to the nature of the exemption adopted, identify its financial statements as either,

(a) Transitional IPSAS financial statements, when it adopts exemptions identified in IPSAS 33 as "Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS"
(b) Financial Statements that comply with the accrual IPSAS, when it adopts other of the exemptions identified in IPSAS 33. That is exemption identified in IPSAS 33as "Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS".

IPSAS Hand Book "Preface" page 15

Moving from Cash to accrual Basis

16.The cash basis encourages an entity to voluntarily disclose accrual based information, although its core financial statements will nonetheless be prepared under the cash basis of accounting. An entity in the process of moving from cash basis to accrual basis of accounting may wish to include particular accrual based disclosures during the process.

17. IPSAB also attempts to facilitate compliance with accrual based IPSASs through the use of transitional provisions in certain standards. Where transitional provisions exist, they may allow an entity additional time to meet the full requirements of a specific accrual based IPSAS or provide relief from certain requirements when initially applying an IPSAS. An entity may at any time elect to adopt the

accrual basis of accounting in accordance with IPSAS. Having decided to adopt the accrual accounting in accordance with IPSAS, the transitional provisions would govern the length of time available to make the transition. On the expiry of the transitional provision, the entity reports in full accordance with all accrual based IPSASs.

Condition

A. Non-compliance with the Accrual Basis Transitional Period.

The Treasury Department road map to adopt IPSAS accrual basis indicates that TCIG started adopting the accrual basis from 2014/15 financial year and that the process should be completed by financial year 2027. As of financial year 2017/18 the accrual basis is not fully adopted by TCIG and is said to be still in transition, this is three (3) years from the start date stated in the Accountant General road map. Based on IPSAS 33 the transitional period for relief from certain requirements of the IPSAS accrual basis is 3 years, after which the entity it is expected to be reporting in full accordance of IPSAS accrual basis. Based on the current progress of the adoption of the IPSAS accrual basis of accounting TCIG will not be able to be fully compliant within the 3-year transitional provisional period.

The TCIG Annual Financial Statements from 2014/15 to 2017/18 were said to be in transition however the statements were not identified as being “Exemptions that Affect Fair Presentation and Compliance with Accrual Basis IPSAS” or “Exemptions that Do Not Affect Fair Presentation and Compliance with Accrual Basis IPSAS” as per IPSAS 33.

B. Non-Disclosure of Accounting Policies that are in Transition to Accrual Basis

The review of the TCIG Annual Statement identified a number of inconsistencies in the application of the IPSAS cash and accrual basis. Examples of these inconsistencies are as follows;

(i) “**Provision for Uncollected Accounts**” for **$2,602,000** was created for TOLCO loan amounts deemed uncollectible in FY 17/18 (See Note 14 in the Financial Statements). This conflicted with the treatment of “**Receivables from exchange transactions**”. Employee advances amounting to **$2,600,000** was deemed not recoverable. The amounts are pending write off and there were no provisions created. Note 12 in the Financial Statements states that “No provision for impairment has been made under IPSAS Cash Basis of accounting”.

(ii) The pending write-offs for Business licenses in arrears amounting to $48,481,107.78 was not noted as a provision in the Annual Statement.

(iii) Amounts noted in the Statement of Revenue in Arrears of $164,501,000 was not included in receivables. This is inconsistent with the receivables noted in the Statement of Financial Position at Note 12 of the Financial Statements. As a result of the non-inclusion of this information, the receivables reported are understated.

(iv) Borrowings at Note 17, page 53 of the TCIG Financial Statements had $10,389,000 recognized as current liabilities and $9,394,000 as long term liabilities however, the amounts for the below accounts were excluded from current and long term liabilities;

Table 30 – Accounts excluded from current and long term liabilities

Account	Classification of account	
InterHealth payments due within 18/19	Current Liability	$50,325,000
InterHealth long term commitment	Long term liability	$795,329,000

The TCIG Annual Statements over the period 2013/14 to 2017/18 did not disclose what accounting policies were being subjected to the accrual basis transitional provisions. The Roadmap developed did not indicate for the first three years' period of the adoption the IPSAS accrual basis which accounts and when they would be subjected to provisional transition to the accrual basis. As result of not including this information as guide for adopting the process TCIG has been on ad hoc basis or based on preference treating accounts under the IPSAS accrual or cash basis of accounting.

The non-inclusion of a policy to provide information on accounts under provisional transition to the accrual basis has resulted in inconsistency in how accounts are recorded under the cash and accrual basis. The non-compliance to IPSAS adoption process and the ad hoc nature of applying the accounting policies will result in uncertainty in the information being provided in the TCIG Financial Statement. This will result in user's loss of confidence in the financial information presented.

Recommendation

TCIG should follow the guidelines outlined by IPSAS in adopting the accrual basis. The Roadmap and the Annual Statements should clearly state the accounting policies being impacted during the provisional transition period to IPSAS accrual basis.

Management Response 2017/18

It must be noted that the application of IPSAS 33 is **the last stage** of the move from Cash to Accrual Basis IPSAS and applies from the "date of adoption" of **ACCRUAL BASIS IPSAS**. All countries utilize a roadmap for a move from cash to accrual accounting to reach this point of "adoption" and TCIG is no exception. *We* do agree however, that our roadmap needs to be revised to set more specific deadlines and accounting policies implemented during a particular financial year should be noted.

4. Audit Findings

4.1 Prior Years' Adjustments are not disclosed in the Financial Statements - HR

Criteria

IPSAS 3-Accounting Policies, Changes in Accounting Estimates and Errors

The International Public Sector Accounting Standard (IPAS) is drawn primarily from International Accounting Standards (IAS) 8….

Prior Period Errors are omissions from and misstatement in, the entity's financial statement for one or more prior periods arising from a failure to use, or misuse of, faithfully representative information that:

a) Was available when financial statement for those periods were authorized for issue; and
b) Could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversight or misinterpretation of facts and fraud.

IPSAS 3(27) Retrospective Applications

Subject to paragraph 28, when a change in accounting policy is applied retrospectively in accordance 24(a) or (b), the entity shall adjust the opening balance of each affected component of the net asset/equity for the earliest period presented, and the other comparative amounts disclosed for each prior period presented as if the new accounting policy had always been applied

Condition

During the review of the TCIG Annual Statements it was noted that there were a number of instances where opening balances for the FY 2017/18 were different from the closing balance of the prior year. The Accountant General had stated that this resulted from the revision of the prior year amounts. The primary accounts that were impacted by the revision of the prior year amounts are stated below

Table 31 - Differences in current year opening balance and prior year closing balance

Account	FY 2017/18 Opening Balance	Prior year FY 2016/17 Closing Balance	Difference due to revision of prior year figures
Development Fund	$22,109,000	$23,305,000	$1,196,000.00
Consolidated Fund	$90,300,000	16,491,000	$73,800,000
Taxes on Goods and	$105,359,000	$103,069,000	$2,290,000

Services			
Recurrent expenditure account-"Other Expenses"	$44,898,000	$45,384,000	$486,000
Bond Inflow	$367,000	$581,000	$214,000
Non-recurrent expenditure-Statutory Lands	$487,000	-	$487,000

****The opening balance of the current year should agree with the closing balance of the prior year.**

IPSAS 3 requires that the revised figures in the financial statements be reflected retrospectively from the earliest period present. This disclosure was not stated in the TCIG Annual Statements for the above accounts with the revised figures. The notes of the financial statements should also provide the users with the rationale for revising the figures. This information is essential as it enables them the users to understand the reason for the changes in the accounts. The application of IPSAS 3 ensures that full disclosure of the accounts is made to the users of the financial statements.

Recommendation

Management should implement the revised figures for the Financial Statements as per IPSAS 3. This ensures that there is full disclosure of changes to the users of the Financial Statements.

Management Response 2017/18

We accept the recommendations of the Auditor General.

4.2 $10.6 million misstatement Current Assets - HR

A. $4.4 million Statement of Stores and Other Assets not included in the Statement of Financial Position

Condition

The Statement of Stores and Other Assets, Note 22 amounting to $4,399,000 was not included in the Balance Sheet at Note 9. This is an understatement of current assets held by TCIG for the period ended 31 March 2018. In addition, it was noted during the review of the Water Undertaking revenue in arrears for 2017/2018, that there were overpayments to Water Undertaking department totalling $14,239 that were not included as current assets of the Statement of Financial Position for the period ended 31 March 2018.

As these were not recorded in the Annual Statement of Financial Position, it represents a total understatement of $4,413,239 in current assets.

B. $2.5 million CDB shares not included in the Statement of Financial Position

Condition

Acquisition of CDB shares consisting of 416 callable shares allocated to TCIG as at March 31, 2018 which have a par value of $2.5 million were not included in the Statement of Financial Position as an investment by TCIG (Note 13.1).

The exclusion of the above from the Annual Statements will not provide the users of the financial statements with a True and Fair view of TCIG's financial position.

Recommendation

The Accountant General should ensure that the appropriate controls exist to capture and properly classify all assets for presentation in the financial statements.

C. $3.7 million receivable from Statutory Bodies not included in the Statement of Financial Position

These are amounts due from Civil Aviation Authority $0.5 million (2017 Audited Fin Stats) and Financial Services Commission $3.2 million (2018 Audited Fin Stats). There may be other receivables due that have not been identified. We requested from the Treasury Department as to whether or not they had received Financial Statements from the Statutory Bodies but we did not receive a response.

Treasury are not following up on collecting these amounts and are likely not aware of the amounts due. It is only when the Statutory Bodies decide to remit these amounts, that it is recognized. This implies weak collection controls over significant amounts due to TCIG.

Management Response 2017/18

We note the recommendation of the Auditor General. These issues are due to the fact that we utilize a cash basis of accounting (i.e. the stores would have been expensed, paid-up but not called-up shares recorded, receivables not recorded) The various accounting policies that will be implemented during our transition to Accrual basis IPSAS will address these. The Ministry of finance has also strengthened its monitoring of the performance of the statutory bodies. The statutory bodies submit quarterly statements to the ministry and these are now being carefully monitored and reviewed to ensure that any returns owed are paid on timely basis.

4.3 Gifts and Donation disclosures are inadequate – HR

Criteria

IPSAS 23 Gifts and Donations, including Goods In-kind

30. Gifts and donations are voluntary transfers of assets including cash or other monetary assets, goods in-kind and services in-kind that one entity makes to another, normally free from stipulations. The transferor may be an entity or an individual. For gifts and donations of cash or other monetary assets and goods in-kind, the past event giving rise to the control of resources embodying future economic benefits or service potential is normally the receipt of the gift or donation. Recognition of gifts or donations of services in-kind are addressed in paragraphs 98 - 103 below.

31. Goods in-kind are tangible assets transferred to an entity in a non-exchange transaction, without charge, but may be subject to stipulations. External assistance provided by multilateral or bilateral development organizations often includes a component of goods in-kind.

32. Gifts and donations (other than services in-kind) are recognized as assets and revenue when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. With gifts and donations, the making of the gift or donation and the transfer of legal title are often simultaneous, in such circumstances, there is no doubt as to the future economic benefits flowing to the entity.

33. Goods in-kind are recognized as assets when the goods are received, or there is a binding arrangement to receive the goods. If goods in-kind are received without conditions attached, revenue is recognized immediately. If conditions are attached, a liability is recognized, which is reduced and revenue recognized as the conditions are satisfied.

34. On initial recognition, gifts and donations including goods in-kind are measured at their fair value as at the date of acquisition, which may be ascertained by reference to an active market, or by appraisal. An appraisal of the value of an asset is normally undertaken by a member of the valuation profession who holds a recognized and relevant professional qualification. For many assets, the fair value will be readily ascertainable by reference to quoted prices in an active and liquid market. For example, current market prices can usually be obtained for land, non-specialized buildings, motor vehicles and many types of plant and equipment.

35. An entity shall disclose in the notes to the general purpose financial statements:

(a) The accounting policies adopted for the recognition of revenue from non-exchange transactions.

(b) For major classes of revenue from non-exchange transactions, the basis on which the fair value of inflowing resources was measured.

(c) For major classes of taxation revenue which the entity cannot measure reliably during the period in which the taxable event occurs, information about the nature of the tax.

(d) The nature and type of major classes of bequests, gifts, donations showing separately major classes of goods in-kind received.

36. Entities are encouraged to disclose the nature and type of major classes of services in-kind received, including those not recognized. The extent to which an entity is dependent on a class of services in-kind will determine the disclosures it makes in respect of that class.

37. The disclosures required by paragraphs 106 and 107 assist the reporting entity to satisfy the objectives of financial reporting, as set out in IPSAS 1, "Presentation of Financial Statements," which is to provide information useful for decision making and to demonstrate the accountability of the entity for the resources entrusted to it.

Condition

It was noted during the review of the Annual Statements that there was no record of the donations received by TCIG as a result of the hurricanes in 2017. This information would have been stated at Note 4.6 External Assistance, the note only provided information on external assistance through a European Union (EU) Grant for $4,780,000. Information received from the MoF has indicated that there were donations totaling $288,518 and this was inclusive of cash of $94,100. There was no other available information to support the donations received by TCIG during this period.

The following donations were received by the Turks and Caicos Islands ('TCI') after the hurricanes devastated the islands in 2017

(i) On October 30, 2017 Haiti donated items to the Turks and Caicos Islands, the supplies include: 630 generators, 1000 sheets of plywood, 4,500 tarps, 2,000 sheet rock and 4,000 metal roof sheets which were presented to TCIG. The items were handed over to the Ministry of Home Affairs and the Department of Disaster Management and Emergencies by Haiti's Consul to the TCI. This information was sourced from an article in the Resilient Caribbean at https://resilientcaribbean.caricom.org/haitian-government-makes-major-donation-to-turks-and-caicos-630-generators-among-supplies/ in an article titled "*Haitian Government makes major donation to Turks and Caicos, 630 generators among supplies*".

(ii) Caribbean Disaster Management Agency (CDEMA) in partnership with UNICEF donated 88 computers to the TCI public schools. This information was sourced from http://magneticmediatv.com/2018/11/cdema-legacy-project-gives-more-to-hurricane-weary-countries-tci-gets-computers/ and the name of the article was "*CDEMA Legacy Project gives more to hurricane weary countries, TCI gets computers*".

(iii) It was also indicated that goods and services were received from the Foreign Commonwealth Office (FCO), Red Cross and other multilateral agencies. This is in inclusive of motor vehicles etc.

These donations were not evidenced in the information presented to the NAO by the MoF. Based on the extent of the hurricane devastation of TCI damages and losses to the public and private sector were assessed to be approximately $559 million by the United Nations Economic Commission for Latin America and the Caribbean (ELAC) in contrast the MoF only has a record of $288,000 in donations and gifts received from external agencies and private individuals in the aftermath of the hurricanes. This seems wholly inadequate and not a true reflection of the total value of the assistance received in goods and services as it appears that all the records were not provided to the NAO. The next table shows the break-down of the ECLAC assessment.

Table 32 – ECLAC Assessment on damages after the hurricanes in 2017

ECLAC Areas of Assessment for Hurricane Cost	Public Sector ($)	Private Sector ($)	Total ($)
Damage	49,376,570	240,249,156	289,625,726
Losses	11,443,110	218,996,378	230,439,488
Additional cost	9,951,995	28959378	520,065,214
Total	**70,771,675**	**488,204,912**	**558,976,587**

Based on the NAO's review of the Statement of Financial Position, fixed assets donated were not noted and accounted for in the Annual Statements. The Annual Statements also did not provide information on the total cash donations received. In addition, TCIG does not have policies and procedures for the handling and management of donations and gifts.

The above findings indicate that there is a lack of control over receipt and accounting of goods and services that were donated in the aftermath of the hurricanes in September 2017. Fraud and the misappropriation assets inclusive of cash can result if the appropriate controls are not in place over the receipt and management of donations and gifts received by TCIG.

Recommendation

Management should develop and implement policies and procedures over the receipt and management of donations and gifts. Proper records should be maintained to evidence the donations and gifts received and their distribution. Sufficient detail on the donations received should be provided in the financial statement for the users. The Ministry of Finance and the Treasury Department should ensure that the Accounting Officers implement the controls necessary for the management and accountability of the of donations and gifts received.

Management Response 2017/18

Management accepts the recommendations of the Auditor General.

4.4 Controls over advances to staff are inadequate – MR

Criteria

PFMO 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

A. **For the financial year 2017/2018, the Statement of Assets and Liabilities had a total of $2,702,889, this comprises of the following;**

    (i) Hurricane salary advance of $38, 133.03;
    (ii) General staff advances of $37,833.01;
    (iii) Outstanding salary advances of $2,574,000.

The outstanding staff salary advances of $2,574,000 has been approved for write off by Cabinet and is scheduled to be submitted to the HOA in 2018/19 for its final approval. The write off was granted as a result of inefficiencies resulting from inadequacies in the Treasury Department's prior years accounting and reconciliation of the balances. The primary reason given for writing off of these balances was historic ***misposting of transactions*** and ***non-recording of amounts*** deducted coupled with improper record keeping. The breakdown in the processes outlined caused the balances to be irreconcilable. In granting the write off, it was understood that the appropriate controls and procedures would have to be implemented to avoid future requests for write offs.

Staff Salary advances outstanding at the end of the financial year was $75,971.04 this comprised of general salary advances of 37,833.01 and Hurricane advance of 38,133.03. It should be noted that salary advance repayments are usually set up and deducted automatically from the employee's salary over the agreed payment period. Therefore, indicating that once an individual is employed by TCIG, the advances would be repaid within the financial year. As per PFMO and the TCIG Advance Policy, advances granted during the year shall be retired in the year made, so the balance on all advance accounts should be zero. Based on the review conducted on the salary advances it was determined that the outstanding amounts were primarily the result of the following:

(i) Employees acquiring salary advances prior to leaving the TCIG and resigning with short notice thus avoiding repayment. This is a gap in the process of granting advances to employees.

(ii) Hurricane advances were granted to all employees in September 2017 prior to the hurricane and the usual controls and processes such as completing an application form and having it reviewed by the responsible heads at the Ministries, Departments and Human Resource Directorate were not followed. This resulted in employees who had resigned in August 2017 receiving hurricane advances. From the samples reviewed it was noted that one employee who was on pension and also earning a salary had received a hurricane advance as a pensioner and as a salary employed person. This individual is an active employee and the amount currently owed is not being deducted from their salary.

(iii) There was one prior employee on the books who had a balance of $53,000, the salary advance owing was not aged. Through review of Smart Stream, it was determined that the outstanding amount existed from 2009. This employee had only made two payments totaling $2,000 over the period 2009 to 2017. The individual's name was not identified on the Attorney General's litigation list.

B. Non-Compliance with TCIG Advance Policy

It was noted from the review that hurricane salary advances of $200,739 were granted to Pensioners. This is in contravention of the Salary Advance Policy which states that advances are only applicable to active monthly paid employees (See Salary Advance sub-heading Applicability, page 2). There were four individuals who were in receipt of Pension and salary who acquired hurricane advance loans as a pensioner and as a TCIG employee. One of these individuals has not repaid the salary advance of $1,274.44. Although a significant amount of the hurricane salary advance has been recuperated, the break down in the controls that occurred during the issuing of the loans exposes TCIG to fraud and inefficiencies in the disbursement of the loan.

As there was no adherence to the established Salary Advance policy there is no legally binding agreement with employees to ensure recovery of outstanding salary advances granted. The basis of these loans granted increases the risk that outstanding hurricane advances granted to prior employees maybe irrecoverable.

C. Inadequate maintenance of records for advances

In addition to the above, the records of the advances were not being adequately maintained to ensure that balances are accurate and easily tracked.

The hurricane advance spreadsheet maintained to monitor advance balances granted over the 6-month period to March 2018 had a total of $2,555,560. This was noted as incorrect as the total amounts for that column was $1,777,996. The total of repayments made for each month, October 2017 to March 2018 was also incorrect. See next table for analysis.

Table 33 – Analysis of Advances

Area with Incorrect calculations on Salary Advance Spreadsheet	Amount on Treasury Department spreadsheet ($)	NAO computation of the amounts ($)	Unexplained Variance Noted in Treasury Department Computation
Loan Given in September 2017	2,555,560.24	1,771,563.92	783,996
Loan Given in October 2017	13,688.06	6,432.89	7,255.17
Employee's Repayment October 2017	(453,643.53)	(326,505.91)	14,1521.25
Employee's Repayment November 2017	(436,124.53)	(312,122.28)	124,002.25
Employee's Repayment December 2017	(416,320.13)	(298,678.47)	117,641.66
Employee's Repayment January 2018	(415,752.80)	(299,605.40)	116,147.40
Employee's Repayment February 2018	(500,229.70)	(310,038.95)	190,191.15
Employee's Repayment March 2018	(2,962,449.12)	(291,715.38)	2,670,733.74

The bank remittance list showed that 1,054 employees received hurricane advances. However, the Treasury Department's records indicated that 1,439 employees received advances. This is a difference of 385 employees between the both lists.

In the "Name" section of the general salary advance spreadsheet maintained by the Treasury Department it was noted that an advance of $916.28 was granted to three employees. The records kept for these advances did not indicate the period for which these outstanding salary advances existed. The inclusion of this information would also assist in the event that there is a misposting. The records would enable the reviewer to easily identify and reconcile monthly payments that are not being reflected correctly against balances.

If the appropriate controls are not implemented to address the gaps and issues identified, then in the near future TCIG will likely have to consider writing off salary advances.

This is a repeat of a prior year issue.

Recommendation

Management should develop policies and procedures over the areas identified below and include them in the Salary Advance Policy;

(i) Management should ensure that appropriate controls are developed to close the gap that exists where salary advances remain outstanding as they are requested prior to employees leaving TCIG impromptu.

(ii) Develop in collaboration with the Human Resource Directorate procedures and guidelines for the future granting of advances prior to hurricanes.

(iii) Management should also develop a more robust process for collecting outstanding advance amounts owed by persons no longer employed to TCIG.

In addition to the above, Management should ensure that accurate record keeping is maintained in order that there are no discrepancies and all advances are accurately accounted for and granted in accordance with the established Salary Advance policy.

Management Action to Remediate Prior Year Issue

FY 2017/18

Management stated to remediate the prior year issue of outstanding salary advances they had submitted the irreconcilable prior years' amounts to Cabinet and the House of Assembly for write off.

Auditor General's Response to Action Management's Action to Remediate Issue

Management's action to remediate the issue and ensure that there was no reoccurrence of a write off for salary Advances granted to employees was assessed as inadequate. The writing off of the advances has not addressed the root cause of the issue.

Management Response 2017/18

Management stated to remediate the prior year issue of outstanding salary advances they had submitted the irreconcilable prior years' amounts to Cabinet and the House of Assembly for write off.

4.5 $1.9 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

There were six transactions noted within the over $75,000 category totalling $1,545,401.73 and three transactions noted within the under $75,000 category totalling $4,062.00, that were incorrectly classified and recorded in the general ledger. Please see the next two tables with regards to the details of these transactions.

Table 34 – Transactions over $75,000 incorrectly classified and recorded in the General Ledger.

Date	Min.	Prog.	A/C	Description	Amount	Comments	Ministry's Response
05/03/2018	03	009	33003	INOVA00001 18536 Software	95,432.00	Incorrect classification 34401 maint of software	Did not have access to this account
27/02/2018	03	009	33399	AMPGL00001 152526 911 Upgrade and Police Network	247,331.28	PO 21 (5) waiver 22/2/2018 via email. incorrect classification 34401 maint of software	Did not have access to this account
29/12/2017	14	068	37601	TAMER00002 291217 PARTIAL PAYMENT	550,000.00	PPO does not apply/ incorrect classification. should be capital expenditure	Noted. Statutory Payment. Deed of Settlement will be provided by MFTI. Deed of Settlement attached.
28/03/2018	14	068	37601	TAMER00002 28318 COMPULSORY LAND ACQUISTION	425,000.00	PPO does not apply/ incorrect classification. should be capital expenditure	Noted. Statutory Payment. Deed of Settlement will be provided by MFTI

19/10/2017	54	093	33530	INFOR00003 100411 SMARTSTREAM RENEWAL FEES	100,000.00	Incorrect classification 34405 or 34401	Payment made on behalf of the Treasury (54-021) due to fund constraints and to meet essential deadlines. See Treasury INFOR0003 comments for further details. These were part of a multiyear commitment as per addendum between the vendor and TCIG. See attached Dep PS Finance approved muti year payment scheduled attached.
16/01/2018	54	093	33530	INFOR00003 201217 PAYMENT BALANCE	127,638.55	INCORRECT CLASSIFICATION 34405 OR 34401	**See INFOR0003 comment above**
				Total	**1,545,401.83**		

Table 35 – Transactions under $75,000 incorrectly classified and recorded in the General Ledger.

Date	Min.	Prog.	A/C	Description	Amount	Comments	Ministry's Response
06/03/2018	57	038	33001	GOTUC00001 89-11 MISCELLANEOUS	1,281.00	Incorrect classification 34222 - youth activities	No response provided.
02/08/2017	61	123	34702	EASTB00002 2285 HOTEL ACCOMODATIONS	1,281.00	Incorrect classification 32301 - accom. & sub. local travel	This was taken from the account to accommodate the annual summer camp, all expenses related to this initiative are covered within this particular account.
04/01/2018	64	133	34704	PATSP00001 1244128 MISCELLANEOUS	1,500.00	Incorrect classification 34701 - local hosting & entertainment	The office of the Premier has viewed the payment for Patricia Simmons/Pat's Place in the amount $1,500 and acknowledge the recommendation made by audit that the payment should be class under 34701 Local Hosting and Entertainment as opposed to 34704 meetings and conferences.
				Total	**4,062.00**		

During the review of the Annual Statements, it was noted that "Civil Recovery Cost" of $729,000 noted in Annual Statements at "Other Operating Expenses" at Note 5.5, page 37 did not include the Judiciary civil recovery cost of $229,837.42. This amount was incorrectly reflected in an account named "Expenditure Accounts less than $500 Thousand".

Additionally, the annual rent payments of $132,756 for SIPT is not included in SIPT Court Cases. This rental cost was incorrectly included in the General Rental Account.

The risk of incorrectly classifying accounts could result in the under and/or overvaluing of accounts. This may also result in the under/over statement of certain classifications of expenditure, for example, expensing non-current items that should be capitalised resulting in the statement not showing a true and fair view of expenses and assets.

This is prior year repeat issue.

Management Response to Remediate Prior Year Issue

The Accountant General stated that a directive was sent to the Accounting Officers.

Auditor General's Response to Management Action to Remediate Issue

This is continuously a repeat issue each FY and a directive will not resolve the issue. The root cause of the issue is inappropriate review and lack of knowledge in the classification of items. Action has to be taken by the Accountant General to address the root cause of the issue, if not it will persist and remain unclosed. In 2016/17 there were three items valuing 0.5 million that were misclassified as operating expenses, for 2017/18 this has increased to 11 items valuing $1.9 million, representing more than a 300% increase in misclassification.

Recommendation

Accounting Officers should ensure that transactions are recorded and classified correctly and it's the responsibility of the Accountant General to have the Accounting Officers implement controls to address the misclassification of transactions. Public officers who are approving payment vouchers or electronic documents should ensure that through their review, items are recorded and classified correctly before they are approved. In addition, persons who are responsible for entering the data should be sufficiently trained so that they can make the proper classification of items.

Management Response 2017/18

The Auditor General's comments are noted. While the number is high $1.0 million of this relates solely to two transactions for statutory land acquisition and we note the Auditor General's Comments in this regard. The department continues to issue directives on the classification of expenditure and has also carried out recent endeavours through the use of Finance Managers and The Training Unit to provide training on many of these issues. We have noted significant improvements on a year over year basis with the performance of the Various Ministries and Departments and we are committed to working with them so that these 11 anomalies out of 33,997 payments (0.03%) will be down to nil.

4.6 $0.9 million in transactions not in compliance with PPO inclusive of $0.5 million in transactions that were not Tendered – HR

A. Four Projects Valuing $512,296 not Tendered

Criteria

Public Procurement Ordinance ('PPO') 2012

33. (1) This section applies if the estimated value of a proposed contract is $75,000 or more or is capital spending.

(2) This section applies despite any waiver granted under section 21.

(3) The proposed contract shall be subject to a tendering process.

(4) The nature of the procurement route to be followed will be determined by the Pre- procurement phase set out in section 27.

(5) In each case the route to be followed will be as set out in sections 35 and 36.

(6) The Director of Contracts must log high value procurement and give it a reference number that must be quoted on all documentation relating to the invitation to tender and any subsequent contract.

(7) An officer must ensure that high value procurement is authorised by the Permanent Secretary, Finance before the being advertised.

37. (1) An officer must carry out pre-qualification on objective but not subjective based information.

(2) An officer must ensure that evaluation criteria are weighted and based around—

(a) eligibility;

(b) financial standing; and

(c) technical capacity.

(3) Eligibility includes economic, social and environmental criteria, for example the number of Turks and Caicos Islanders employed as a percentage of total workforce or the number of young Turks and Caicos Islanders employed as trainees.

(4) Financial standing must include audited financial statements and provision of proof of ability to provide any guarantee or performance bond as required under the proposed contract.

(5) An officer must also check with the relevant authorities including the Integrity Commission, the Accountant General, the Director of Contracts, the Director of Procurement, the Collector of Customs, and the Revenue Collection Office.

(6) Technical capacity must include the contractor's ability to meet the specification, quality management systems including human resources, health and safety and environmental management systems relevant and appropriate to the performance of the proposed contract.

Condition

A. **The Ministry of Infrastructure Housing and Planning had four transactions totalling $512,296.54 that were not tendered** and were not listed in waivers noted in the Ministry's documents and the Public Procurement Board's waiver listing.

Table 36 - Projects not Tendered

Date	Min	Prog.	Account	Description	Amount ($)
08/05/2017	60	043	33713	OLYMP00003 PWD16/38M PAYMENT FOR REPAIRS TO SEA WALL GT	101,371.02
17/12/2017	60	043	33713	IDRIL00001 1842	186,500.00
28/03/2018	60	043	33750	GORDO00008 9133 FE GENERATOR	109,095.04
20/12/2017	60	082	33707	OLYMP00003	115,330.48
				Total	**512,296.54**

As part of the tendering process the procurements are required to be subjected to an evaluation. There was no evidence that the four projects noted in Table 36 above were subjected to the evaluation criteria established by the Ordinance. The evaluation ensures that the areas listed below are reviewed for each prospective supplier prior to selecting the successful candidate.

- Eligibility-social, economic, social and environmental (e.g. Number Turks Caicos Islanders that will be employed);
- Financial Standing-Audited financial statements, provision of proof of ability to provide guarantee or performance bond;
- Evidence that checks were done with the following authorities, Integrity Commission, Accountant General, Director of Contracts, Director of Procurement, Collector of Customs and the Revenue Collection Office; and;
- Technical Capacity-Has proven ability to perform the contract.

The procurement procedures established by the PPO ensures the elimination or reduction in the risk stated below.

TCIG may not acquire the most suitable candidate to provide them with the goods or services needed as the candidate selection was not done objectively from a pool of suppliers. The advantage gained from competitive pricing would also be mitigated and value for money may not be achieved as a result of the limited choices.

The PPO was established to provide guidance on procurement of transactions minimize the risks of fraud, abuse and wastage.

The Ministry has not provided the NAO with a response to the observations noted from the audit.

B. <u>No Business Cases for Transactions Over $75,000</u>

Criteria

PPO 2012

8 (8) To ensure that an informed decision can be made on whether or not to proceed to the procurement stage of a project, the business case that results from the appraisal process must –

(a) demonstrate the economic need for the project; and

(b) include a fully argued and costed risk and impact assessment and specify the benefits the project is designed to deliver.

Condition

The Ministry of Infrastructure did not have any businesses cases for four transactions valuing $512,296.54 that were not tendered (as listed in previous table).

TCIG exposes itself to the following risk if they do not have business cases for their transactions over the amount of $75,000:

(i) Cost overruns due to decisions being made without assessing and analysing the project. Business cases allows for a cost and benefit to be conducted.

(ii) Uninformed decisions are made on whether or not to proceed to the procurement stage of a contract. Business cases are used to demonstrate the need for a project and assess the risk, cost and benefit to the Ministry or department.

C. Two Transactions Valuing $295,595 did not have Purchase Orders

Criteria

PPO

50 (8) An officer must ensure, for payment purposes, that there is a Purchase Order in respect of a contract and, if relevant, a Cabinet Conclusion reference from the approval granted in the pre-procurement stage.

Condition

It was noted that purchases for two of the Ministry of Infrastructure's transactions not tendered (as listed in previous table) in the amounts of $186,500 and $109,095.04 were not acquired via purchase order ('PO'). Additionally, there were no PO's available for these transactions within the physical records provided by the Ministry for review. The Ministry did not provide a response to the NAO's observations.

As per the PPO a PO is one of the main source documents required for initiating the procurement of goods and/or services. Its non-inclusion can result in unauthorized expenditure, loss of audit trail and records to evidence purchase.

D. Eleven Transactions Valuing $90,000 had no Quotations

<u>Criteria</u>

PPO Section 31 (1 – 8) Low value procurement:

1. This section applies if the estimated value of a proposed contract is $5,000 or less.
2. If an appropriate framework agreement or approved list is in place, an officer must use it as an alternative to the provisions of this section.
3. An officer may obtain goods and services with an estimated value of $1,500 or less on the basis of a single quotation by telephone or in writing.
4. Since goods and services procured on a recurring basis are subject to aggregation, an officer, before proceeding, must consider the aggregated value of the purchase.
5. For proposed contracts or orders with an estimated value of more than $1,500 but less than $5,000, an officer must obtain at least three written quotations.
6. The officer must retain on file full details of each quotation, including the supplier approached, the contact person and the quotation details.
7. The officer must ensure that procurement is formalised by issuing a purchase order that details the exact nature of the goods or services purchased and the agreed price.
8. Exceptionally, if an officer is of the opinion that it is not reasonably practicable to obtain competitive or sufficient competitive quotations as required under this section, the officer must follow the procedure for obtaining a waiver set out in section 21. *(Amended by Legal Notice 65/2012)*

<u>Condition</u>

There was no evidence on the accounting system Smart Stream or within the information provided from various Ministries that the proper procurement procedures as set out in PPO section 31 (1 – 8) in relation to low value procurement were adhered to for 14 transactions totalling $106,926.86 as listed below.

(i) <u>No quotations for transactions $1,500 but less than $5,000</u>

There were no quotations for 11 transactions totalling $90,179.45 as is required by PPO section 31 (5). Additionally, there was no evidence from the information provided that an appropriate framework or approved list existed or a waiver was obtained for these vendors as required by PPO section 31 (2) (8). The details of these transactions are listed in next table.

Table 37 – Transactions with no quotations available for review

Date	Min.	Prog.	Acct.	Description	Amount	Ministry's Response	Comments
13/03/2018	01	001	32402	PROVO00008 14634 AIRLINE - INTERNATIONAL TRAVEL	5,563.80	As per your attached file in email regarding account 01-001-32402 – International Travel - $5563.80. This was a business class ticket purchased for the Governor to attend an overseas conference of Governor's in the United Kingdom. Provo Travel is the only provider of tickets for Government tickets, hence the purchase through Provo travel and absence of quotes.	Although there is only one known travel agency in the Turks and Caicos Islands. There are a few different options available for acquiring airline tickets for international travel. For example, directly from the airline/online. If departments prefer using the travel agency, there is the option of applying for single source procurement.
16/12/2017	03	009	32301	REEFR00001 1365-17 HOTEL ACCOMODATIONS	5,535.14	No response provided	
13/03/2018	03	009	34247	PAMPE00001 7114 bllod test / evaluation	1,863.00	Client provided same information attached to Smart Stream.	The information provided by the department is the same information that was reviewed on Smart Stream during testing and does not provide an adequate response to the observation.
10/05/2017	03	009	34304	KATHE00005 TCI201701 Shirland Don Elkanah Sutherland	3,209.00	Client provided same information attached to Smart Stream.	The information provided by the department is the same information that was reviewed on Smart Stream during testing and does not provide an adequate response to the observation.
05/02/2018	56	090	32402	PROVO00008 14489 AIRLINE - INTERNATIONAL TRAVEL	6,948.22	Being payment to Provo Travel for round trip airline ticket for the Deputy Governor to travel on 17th February 2018 from Provo-Miami-Brussels on official duties to attend the EU-OCT Forum in Brussels, Belgium. Additionally, I am not certain if TCIG has an official agreement in place with the vendor, but to the best of my knowledge and experience this is the sole travel agency utilized by TCIG.	Although there is only one known travel agency in the Turks and Caicos Islands. There are a few different options available for acquiring airline tickets for international travel. For example, directly from the airline/online. If departments prefer using the travel agency, there is the option of applying for single source procurement.

Date	Min.	Prog.	Acct.	Description	Amount	Ministry's Response	Comments
20/02/2018	58	113	35002	BUDGE00001 SCFEB1 TRAINING SERVICES	2,500.00	No response provided.	
10/01/2018	59	094	33508	DURHA00002 NOVEMBER2017 FUEL CHARGES NOVEMBER2017	11,388.45	Tender for the supply of fuel was advertised and this supplier was the only vendor from Grand Turk who responded and submitted a bid. However, one of the other bidders from the other islands had a concern about the fix pricing. The matter was left unresolved and no contracts were awarded that year therefore the department continued to operate under the previous contract until the matter could be resolved.	The Ministry's response is noted
22/11/2017	61	100	33524	CARGO00002 3807719 SECURITY SERVICES	35,665.00	the dept. cannot forecast the untimely arrival of poacher vessels, unfortunately this vessel arrived over the weekend, which proved difficult in obtaining the three quotes, at this time the goods were in urgent need to be stored. The dept. has complied with the procurement requirements, in all future matters of this nature.	The Ministry's response is noted
01/03/2018	61	134	32403	PROVO00008 14481 INTERNATIONAL TRAVEL	6,779.12	Three quotes was not sourced for this transaction as it has been common practice across TCIG with using Provo Travel to facilitate travel	The Ministry's response is noted. Although there is only one known travel agency in the Turks and Caicos Islands. <u>There are a few different options available for acquiring airline tickets for international travel</u>. For example, directly from the airline/online. If departments prefer using the travel agency, there is the option of applying for single source procurement.
01/03/2018	63	090	32301	WINDS00004 1240 HOTEL ACCOMODATIONS	2,583.10	"The Procurement process was followed. The three quotation was source and the Procurement Form was completed although not attached to Smart Stream	The department's response is noted. The procurement file for HOA that is at the NAO was checked for this procurement. It was noted that there was no procurement information for

Date	Min.	Prog.	Acct.	Description	Amount	Ministry's Response	Comments
						due to system issues at the time. The physical copies were retained on file. Copies of same is with the Audit Office along with the department submission. It was an oversight that procurement information was not attached to Smart Stream when the system was return to normal.	this transaction noted on the file. This observation therefore remains the same.
21/07/2017	64	133	32402	PROVO00008 14047 MISCELLANEOUS	8,144.62	As far as we are aware travel was covered/guided by the travel policy, which is why three quotations were not attached to travel payment. If this is not the case, the Office of the Premier going forward will request the necessary written quotations or the waiver for travel over $1,500.	The Ministry's response is noted. Although there is only one known travel agency in the Turks and Caicos Islands. There are a few different options available for acquiring airline tickets for international travel. For example, directly from the airline/online. If departments prefer using the travel agency, there is the option of applying for single source procurement.
				TOTAL	**90,179.45**		

(ii) Transactions without the required three quotations

It was noted that three transactions totalling $16,747.41 obtained only two quotations instead of three as required by PPO Section 31 (5). The details of these transactions are listed in next table.

Table 38 – Transactions with only two quotes

Date	Min.	Prog.	Acct.	Description	Amount	Ministry's Response	Comments
17/02/2018	03	009	34245	DSDPR00001 1009 Voice Recorder/ night owl	8,748.41	Client provided same information attached to Smart Stream	The information provided by the department is the same information that was reviewed on Smart Stream during testing and does not provide an adequate response to the observation.
17/02/2018	03	009	33003	DSDPR00001 1007 CIQ Kit	1,999.00	Client provided same information attached to Smart Stream	The information provided by the department is the same information that was reviewed on Smart Stream during testing and does not provide an adequate response to the observation.
15/11/2017	54	141	34305	EDWIN00001 11517 PROFESSIONAL & CONSULTANCY	6,000.00	Awaiting response	

Date	Min.	Prog.	Acct.	Description	Amount	Ministry's Response	Comments
				CHARGES			
				TOTAL	**16,747.41**		

Having the required quotations ensure that the procurement process is fair and objective. This process enables TCIG to acquire the best price and achieve value for money in their procurement of goods and/or services.

Recommendations

Management should ensure that the necessary controls are implemented to ensure that they are in compliance with the PPO. Based on the issues identified the controls should include but not be limited to the following:

(i) Management should ensure that business cases are prepared for all project so that informed decision are being made at each stage of the projects. Business cases should be authorized by the PS, Finance to ensure that they were subjected to the appropriate oversight.

(ii) Management should ensure that a purchase order is used to procure goods and services as required by the Public Procurement Ordinance.

Management Response 2017/18

The Auditor General's comments are noted. The department continues stress the importance to adherence to the PFM and PPO ordinances and also carried out recent endeavours through the use of Finance Managers and The Training Unit to provide training on many of these issues. We have noted significant improvements on a year over year basis with the performance of the Various Ministries and Departments and we are committed to working with them so that these 15 anomalies out of 33,997 payments (0.04%) will be down to nil.

4.7 $0.31 million of invoices in Statement of Commitment over 30 days excluded from Statement of Financial Position and $0.33 million in unauthorised expenditure- HR

Criteria

PFMR

73. (1) Accounting Officers shall settle payments by their ministries or departments for all goods and services received from other departments, public bodies, individuals and private institutions out of the budgetary warrant issued for the purpose, within a period of thirty days of their receipt.

Condition

(i) $306,972 Commitments not stated as Liabilities

The total actual commitments for FY 2017/18 were $1.5 million. During the review of the Ministries Statement of Commitments prepared by Accounting Officers, we noted unpaid bills totalling $368,730.88, the billing periods were between 24-7-2017 to 31-3-2018 before the Smart Stream system was closed for the end of the financial year. $306,972.99 of the unpaid bills were 30 days overdue. This is in contravention of PFMR 73(1) which requires payments to be made within 30 days. This under absorption primarily resulted from Ministries and Departments not being able to make the usual expenditures as a result of abnormalities that ensue upon the occurrence of the hurricanes. As a result, there were unspent funds from their annual budgeted expenditures.

There was one instance noted from the samples reviewed where an invoice valuing $109,095.04 remained outstanding for 120 days and as result incurred late payment interest charges of $8,308.04. Outstanding commitments should be treated as a current liability as TCIG received the goods and services on credit and is obligated to make for this obligation.

When payments for goods and services are not made timely it may impact TCIG in the following ways:

- Reputational risk for not paying creditors and for paying creditors late.
- Interest and penalty incurred due to late payments
- Understatement of liabilities
- Under absorption of budget for expenditure

(ii) $328,000 Over expenditure not Supported by a Supplementary Budget

It was noted during the review that the Ministry of Home Affairs and the Ministry of Infrastructure's actual committed expenditure exceeded their budgetary allocation for the financial year. The over expenditures for the two ministries are as follows:

- Ministry of Home Affairs excess of $45,000
- Ministry of Infrastructure excess of $283,000

There was no supplementary expenditure authorizing the over expenditures identified for these ministries. See next table for analysis.

Table 39 – Commitments not stated as liabilities

Description	Estimates	Supplementary	Revised Estimates	Actual	Commitments FS	Actual + Commitments	Variance [Revised Estimates – (Actual + Commitments)]	Variance %
Ministry of	1,352,824	(902,624)	10,450,200	10,391,369	104,000	10,495,369	(45,168.60)	(0)

Home Affairs, Transportation and Communication								
Ministry of Infrastructure, Housing and Planning	16,510,377	104,135	16,614,512	16,573,225	324,000	16,897,225	(282,712.61)	(2)

Recommendation

Management should adhere to the Public Financial Management Regulations to settle payment within a thirty-day period. Expenses are budgeted for each department and ministries within TCIG. It's the Accounting Officers responsibility to ensure that appropriate controls are in place to identify, follow up and pay outstanding amounts prior to the 30 days established by the PFMR.

The Accountant General should recognise commitments/outstanding invoices as a current liability in the statement of financial position as TCIG received the goods and services on credit and is obligated to make payment.

Management Response 2017/18

We note the recommendation of the Auditor General. The various accounting policies that will be implemented during our transition to Accrual basis IPSAS will address these. Management also continues stress the importance to adherence to the PFM and PPO ordinances and carried out recent endeavours through the use of Finance Managers and The Training Unit to provide training on many of these issues.

4.8 Understatement of TCIG Revenue by $0.28 million -HR

Criteria

All revenue should be included in the Annual Statements

PFMO Section 12 (1) – (2)

Powers and duties of the Accountant General

12. (1) In the discharge of his or her responsibilities the Accountant General may give general or specific instructions to accounting officers and public officers which are consistent with this Ordinance, or any regulations made or instructions issued under it.

(2) Without prejudice to the generality of subsection (1), the Accountant General shall—

(a) specify for every department of Government, fund, statutory body or other reporting unit required to produce accounts under section 34—

(i) the basis of the accounting to be adopted; and
(ii) the classification system to be used;

(b) ensure that an appropriate system of accounting is established in each department of Government, fund, statutory body, or reporting unit which is compatible with the requirements of section 34 and which ensures that all money received and paid by the Government is brought promptly and properly to account;

(c) refuse any payment which is wrong or deficient in content, or that contravenes any regulations, directives or instructions properly made or given under this or any other law for the management of public money, or that is in any way unacceptable in support of a charge on public funds;

(d) report to the Permanent Secretary, Finance in writing any apparent defect in departmental control of revenue, expenditure, cash, stores and other property of the Government and any breach or non-observance of any regulations, directives or instructions which may come or be brought to his or her notice;

(e) ensure, so far as practicable, that adequate provisions exist for the safe custody of public money, property, securities and accountable documents; and

(f) take precautions, by the maintenance of efficient checks, including surprise inspections, against the occurrence of fraud, embezzlement, corruption or mismanagement.

<u>All bank accounts should be opened by the Accountant General</u>

PFMO Section 26 (1) – (2) and Sec 27

26. (1) The Accountant General shall open, operate and maintain a bank account or bank accounts with a bank or banks approved by the Minister, through which the Consolidated Fund shall be operated.

(2) Notwithstanding the provisions of any other law, no bank account shall be opened on behalf of the Government or a statutory body in any bank, except under the authority of the Minister signified by the Accountant General in writing; and the continued operation of that account shall be subject to the terms and conditions the Accountant General may, from time to time, determine.

27. (1) Every person who collects or receives any public moneys shall keep a record of receipts and deposits thereof in such form and manner as the Accountant General may determine.

(2) Every person who collects or receives any public moneys without having the prior authority of the Accountant General for so doing, shall immediately pay such moneys into the Consolidated Fund and explain to the Accountant General the circumstances in which those moneys came into his or her possession.

(3) All persons authorised to collect or receive public moneys shall pay all such moneys promptly into the Consolidated Fund in accordance with section 7.

Condition

It has been noted that five Primary/ High Schools have in their bank accounts approximately $276,000. These funds are balance of the receipts from revenue generated at the schools. The revenue has never been accounted for in TCIG FY 2017/18 total revenue. In addition, the following was also noted.

- **(i)** The revenue generated is kept in bank accounts not authorized by the Accountant General
- **(ii)** The bank accounts are kept in the name of the schools or Board
- **(iii)** Funds withdrawn from the account are authorized by the signatories to the bank account.

The lack of management of these funds by Accountant General and the likelihood that the funds used from these accounts are not in compliance with PFMO, PFMR and PPO increases the possibility for the occurrence of fraud. In addition, its non-inclusion of the bank account balance and revenue results in an understatement of TCIG revenue and bank balance.

Recommendations

Management should implement appropriate controls to ensure that all Ministries and Government departments are aware that all bank accounts and revenue earned should have the oversight of the Accountant General

Management Response 2017/18

The recommendation of the Auditor General is accepted. The department continues stress the importance to adherence to the PFM ordinance and also carried out recent endeavours through the use of Finance Managers and The Training Unit to provide training on many of these issues.

4.9 Revenue Arrears Understated by $0.26 million

Criteria

PFMO Schedule 2 Section 2(d)

(d) a statement of arrears of revenue signed by the accounting officer showing the amount outstanding at the end of the financial year for each source of revenue and containing information in the form the Accountant General may direct; a nil return should be submitted if appropriate;

Condition

A review of the Dishonored Cheque listing revealed that cheques totaling $257,456 were dishonored by the Bank, these cheques were for services rendered by the departments. The amounts on the dishonored cheques were not included in the revenue arrears returns of the Department. To date there is no record of the amounts being received by TCIG.

If amounts for dishonoured cheques are not honoured at the end of the financial year they should be included in the Statement of Arrears. This would ensure that the revenue in arrears is not understated and there is full disclosure of the arrears status to the users of the financial statements.

Recommendation

Accounting Officers must ensure that dishonoured cheques are disclosed on the Arrears of Revenue returns. The Accountant General must also ensure that this is complied with and is checked before completing the arrears of revenue statement.

Management Response 2017/18

The recommendation of the Auditor General is accepted.

4.10 Unauthorised Expenditure of $0.13 million - HR

Criteria

PFMR

74. (1) A public officer shall not commit the Government to any expenditure, unless the officer-

(a) is authorized to do so in his letter of appointment as an accountable officer; and

(b) has been advised, in writing, by the relevant accountable officer that funds are available for the specific purpose.

(2) A public officer who fails to comply with sub regulation (1) is liable to a surcharge of a sum equal to the amount of the unauthorized payment.

22 (8) 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 un-collectable, 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.

A. Unauthorized Expenditures during the Hurricanes

Condition

i. **Unauthorized payment of $139,000**

During review of the Ministries Statements prepared by the Accounting Officers, it was noted that $139,000 remains unpaid as it was unauthorized. The expenditures were related to the acquisition of food and shelter during the passage of the hurricanes during September 2017.

- $109,000 for food provided to shelters in Grand Turk and North Caicos; and;
- $30,000 for deli food provided to Provo Shelter.

The goods and services were acquired during extenuating circumstances however this should not prevent the TCIG from developing and implementing policies and procedures to ensure that there are controls over contracts and agreements resulting in expenditures during these instances. These controls would mitigate or eliminate the opportunity of persons taking advantage of the situation to achieve personal gain or commit fraud. It would also ensure that suppliers who supply goods and services during these periods get paid without any problems. If not addressed, it could result in suppliers being reluctant to supply goods and services in emergency situations.

ii. $10,000 Overpayment in Utilities

The examination of the Ministries Statements prepared by the Accounting Officers also indicated that Fortis was overpaid an amount of $10,000. An overpayment of bills is indicative of an inadequate review of the invoices prior to authorizing payment. The lack of proper review of invoices will result in inaccuracies in payments made to suppliers and may also lead to fraud.

Recommendation

In accordance with the applicable Ordinances TCIG should consider developing policies and procedures on how to conduct purchases during extenuating circumstances such as hurricanes and earthquakes. These procedures should ensure that controls exist that are deterrent to fraud or individuals using the circumstances to exploit TCIG to achieve personal gain.

Management Response 2017/18

The Auditor General’s comments are noted. The department continues stress the importance to adherence to the PFM and PPO ordinances and also carried out recent endeavours through the use of Finance Managers and The Training Unit to provide training on many of these issues. We have noted significant improvements on a year over year basis with the performance of the Various Ministries and Departments and we are committed to continued work with them.

4.11 Inadequate management of some aspects of the payroll process - HR

A. $46,000 Owing to TCIG as a Result of Overpayments in Salary, Allowances and Resignations in Lieu of Notice

<u>Criteria</u>

Public Service Ordinances Section 56 - Termination of permanent appointments

The Governor may terminate the appointment of a public officer who holds a permanent appointment for the following reasons only—

a) Abandonment of the office;
b) Compulsory retirement;
c) Voluntary or early retirement;
d) Retirement for medical reasons or incapacity;
e) The officer is on probation and confirmation of his appointment has not been recommended;
f) Resignation of a public officer who has given the required period of notice or payment in lieu of notice;
g) Dismissal in consequence of disciplinary proceedings; and;
h) Termination in the public interest.

Public Services Ordinances Section 57 - Termination of temporary or contractual appointments

The Governor may terminate the appointment of a public officer who holds a temporary appointment or is appointed pursuant to a contract for a fixed period, or an employee, for the following reasons only—

a) Abandonment of the office;
b) Expiry or other termination of an appointment or contract for a specific period;
c) Except in the case of an officer or employee appointed on contract, the public office or employment is of a temporary nature and is no longer necessary;
d) The officer is on probation and confirmation of his appointment has not been recommended;
e) Resignation of an officer who has given the required period of notice or payment in lieu of notice;
f) Termination in the public interest;
g) Retirement or frustration of contract for medical reasons or incapacity; and;
h) Dismissal in consequence of disciplinary proceedings.

<u>Condition</u>

A sample of 14 terminated employees were chosen and their employee files requested from the Human Resource Directorate, Royal Turks and Caicos Islands Police Force ('RTCIPF') and the Treasury Department.

During the audit the following was noted from the examination of the records provided:

i. $29,000 Overpayment of Salaries and Allowances to employees

- Two employees were paid salaries and allowances of $28,951.50 after the date of their resignation

  Employee # 16398 was overpaid $12,023, three months' salary and allowances. The employee submitted their resignation on August 24, 2017 and the resignation was effective immediately. The Human Resource Department communication indicated their approval of the employee resignation on November 14, 2017. As a result of the untimely communication of the resignation to the Treasury Department the employee was overpaid.

  EmployeeID#17319 was contracted to work with TCIG from September 2017 to November 6, 2017. It was noted that this employee erroneously received salary and allowances for four months, that is from November 13, 2017 to February 2018. It was noted from the review that this employee was overpaid $16,637.17.

ii. $16,928.50 not paid to TCIG in Lieu of Resignation Notice

- The Audit identified six employees who resigned with immediate effect from TCIG and did not pay amounts due in lieu of notice to TCIG.

Table 40 – Overpayment of salary in lieu of resignation notice

Employee ID#	Amount Owed in Lieu of Notice
17171	$4,368.71
17130	$4,962.71
16433	$2,784.58
16895	$2,027.92
11340	$2784.58
Total	**$16,928.50**

As result of the inadequate communication and controls over the resignation process between ministries and departments, TCIG policies are being breached and employees are being overpaid. The lack of effective controls over the process will also result in TCIG being unable to recover outstanding loan amounts from employees resigning.

Recommendation

Ministries and departments need to improve their communication between each other so as to ensure the immediate processing of TCIG claims against persons who are resigning. Management need to also ensure that there is proper record management and maintenance of files in their possession as this will improve timeliness and accuracy of the processing of employee's administrative activities. Escalation procedures should be developed to recover outstanding amounts from resigned.

Auditor General's Response

Management needs to implement an action plan that will address the root cause of the issue. The root cause of the issue is that there is a breakdown in the communication between the Ministries and department and the need to implement escalation procedures for persons who left TCIG owing outstanding amounts. The gap in the controls over the process needs to be address in order to avoid a write off in the long term.

B. Inadequate management of bi-weekly staff wages

Criteria

PFMR 2014 - SCHEDULE 1 (Regulations 91and 98)

Documents Retention Schedule

Type of Record	Retention Period - Manual Records	Retention Period - Electronic Records
Payroll Cards and Register	45 years	60 years
Payroll support documents (time sheets, deduction order, etc.)	5 years	5 years

Best Practices for Hourly/Daily rate Employees

Employers must retain timekeeping records for all Hourly/daily rate employees for over a period of time for Audit purposes. Each employer shall preserve for at least three years' payroll records. All Ministries and /or Departments with Hourly/Daily Rated Employees should have a time clock or some sort of time keeping to monitor their employees time and this information should be compiled and sent to the Treasury for record keeping purposes.

Condition

For the FY 2017/18, the total number of daily and hourly paid staff was 325 and the total amount expended for their wages was $4.7 million. See next table for a breakdown of the daily and hourly paid salary amount expended in FY 2017/18.

Table 41– Daily and hourly paid salary

Description	Amount

Wages	4,321,341.45
Leave Pay	14,476.68
Overtime	31,848.91
NIS	191,336.83
NHIB	132,398.78
Total	**4,691,402.65**

The Treasury Department does not keep on record a copy of the time sheets used to determine the payments made to daily and hourly paid workers. Salaries are paid based on email communications from the Ministries and Departments. It is purported that Ministries and Departments retain the timesheets for these workers. There is no established policy for hiring, paying and terminating daily and hourly paid workers. This gap in the control over the processing of daily and hourly paid workers can result in fraud and employees being paid for hours not worked.

Recommendation

The Treasury Department is responsible for processing the salaries of daily and hourly paid employees and therefore should ensure that they acquire and retain time sheets for review of the accuracy of calculations prior to authorizing payments. The timesheets should be reviewed and filed to support payments. It is recommended that management develop policies and procedures over the management of daily and hourly paid workers. This would ensure consistency in how the processes are managed across all Ministries and Departments.

C. Payroll Variances of are not adequately Reviewed

Criteria

Payroll Procedures Draft Manual - Payroll Control Objectives

The Payroll Control Objectives are as follows:

11. **Control Objective 1 - All payroll data is accurately recorded**

KEY CONTROLS:

a) There is clear segregation of duties between staff who account for payroll and those who make the payments. Staff responsible for handling payroll data and calculating gross/net pay are not required or allowed to handle cheques (including those returned un-cleared);
b) Each payroll statement is reviewed and authorized by a senior officer who is not directly involved in the payroll preparation;
c) Authorization of payroll payments (the production of the bank authorization and cheques) is restricted to an appropriate number of senior staff independent of the production of the payroll itself;

d) A check is made on changes to the number of staff on the payroll compared with the last period. On each payroll/section of payroll the number of staff paid is reconciled with the previous month (or week period) and the changes agreed within authorized data input;
e) Checks are in place to ensure that unusual amounts are investigated;
f) All changes to payroll input data is checked and authorized, through use of Appendix B form;
g) All payroll for staff leavers is ceased promptly on the correct date;
h) New employees are set up in the payroll system within the timeframe to ensure they are included in the payroll run;
i) No employees are to be paid outside of the payroll system.

12. Control Objective 2 - Employees are paid accurately and promptly, payroll variations processed on a timely basis with net pay properly calculated

KEY CONTROLS

a) Checks are in place to ensure that unusual amounts are investigated;
b) Each payroll statement is reviewed and authorized by a senior officer who is not directly involved in its preparation;
c) A check is made on changes to the number of staff on the payroll compared with the last period. On each payroll/section of payroll the number of staff paid is reconciled with the previous month (or week period) and the changes agreed within authorized data input;
d) Appendix B forms are submitted to Treasury within the required timeframe for processing in the relevant pay period;
e) All payroll for staff leavers is ceased promptly on the correct date;
f) New employees are set up in the payroll system within the timeframe to ensure they are included in the payroll run;
g) All changes to payroll input data is checked and authorized, through use of Appendix B form;
h) Spot checks are made on payroll items to ensure that input data is accurate. Items within output reports should be checked (on sample basis) in comparison with the authorized data submitted and prime documentation, including spot checks by staff independent of the original preparation of data for submission;
i) Access to the payroll system is suitably controlled by password and security grouping (or user profiles);
j) Only authorized treasury & HRMD staff should have access to the payroll system at the levels associate with their position;
k) Payroll Control Account is maintained and reviewed after each pay-run- the Net Pay generated from payroll is reconciled to the bank credits & cheques in the general ledger through the use of suitable control account (Payroll Clearing Account – Accounts Code 74003);
l) The Payroll control account is reconciled at the end of each month and a reconciliation analysis prepared with appropriate action taken to ensure any balance is identified and

cleared out.

Condition

(i) Payroll variances are not reviewed by Management

The NAO reviewed the payroll reconciliations for the FY 2017/18 and noted that the reconciliations were not signed off as being reviewed. The most significant variance each noted in each month is salary.

Table 42 - Analysis of Payroll Variances

Months	Year	Current Pay Period	Last Pay period	Total	Variance
April	2017	6,117,107.62	6,222,307.73	12,339,415.35	105,200.11
May	2017	6,171,004.09	6,117,107.62	12,288,111.71	(53,896.47)
June	2017	6,197,415.08	6,171,004.09	12,368,419.17	(26,410.99)
July	2017	6,358,598.56	6,197,415.08	12,556,013.64	(161,183.48)
August	2017	6,197,415.08	6,358,598.56	12,556,013.64	161,183.48
September	2017	6,222,108.60	6,197,415.08	12,419,523.68	(24,693.52)
October	2017	6,574,645.46	6,222,108.60	12,796,754.06	(352,536.86)
November	2017	6,423,937.66	6,574,645.46	12,998,583.12	150,707.80
December	2017	6,475,391.05	6,423,937.66	12,899,328.71	(51,453.39)
January	2018	6,380,861.81	6,475,391.05	12,856,252.86	94,529.24
February	2018	6,550,383.99	6,380,861.81	12,931,245.80	(169,522.18)
March	2018	6,731,908.78	6,550,383.99	13,282,292.77	(181,524.79)
***Total Variances**					**1,532,842.31**
****Net effect of Variances**					**(509,601.05)**

***Total absolute variances** (i.e. ignoring the net effect of positive and negative variances)

** **Net effect of variances** (i.e. positive and negative)

Management has stated that in reconciling the salaries each month all employee files are reviewed and the Appendix B forms checked against their monthly salary to ensure that changes have been reflected. It was stated that any change in the Appendix B form would be reflective of the overall variance identified from the payroll computation. The NAO has assessed this as an inadequate review of the reconciling amounts as the work done from reviewing the Appendix B is not recorded and reconciled against the actual variance computed between current and previous month. Based on the current methodology the variances computed have not been fully verified as differences in salary not associated with an Appendix B Form would not have been identified and investigated. The lack of this control increases the risk of fraud and inappropriate payments in salary.

Recommendation

It is recommended that Management implement a reconciliation that effectively reflects that there are no reconciling items in the payroll. All variances should be investigated, followed up and adequately supported. The reconciliation should be subjected to a review by a supervisor or Manager to ensure that it was properly completed.

Management Response 2017/18

HRD Responses

With respect to these observations, as discussed at our meeting on many of these payments are unrecoverable as the persons will have left the country.

These letters have gone to the personnel file for the now ex-employee, and should they ever be appointed to a position in TCIG again, these amounts may be recovered.

Regarding a lack of resignation letter, and poor notification of departure date and resignation by the Department this is indeed due to the fact that one was never sent by the Department (or the employee) and HR only received notice of resignation from The Department and the employee was terminated accordingly. HR relies on Departments for the Supply of documentation in this regard. We cannot terminate someone if we do not know that they have left.

Unlike salary, changes to wage employees are sent as one document which is filed with other documents e.g. Allowance and Deduction report for the pay period. This has been the norm because there are rarely any changes to employee wages. Previously wage employees had separate files, which was a waste of scarce resources because they never had any changes to place on their file.

4.12 Overpayment and incorrect payment in pensions or allowances - HR

A. Over-payment in pension

Criteria

Pensions Ordinance 2014 - Suspension of pension on re-employment

10. (1) If a person to whom a pension has been granted under this Ordinance is appointed to an office in the public service, the payment of his pension shall be suspended during the period of his re-employment.

(2) Nothing in subsection (1) shall affect the pensions granted to any persons who have been re-employed in the public service before the coming into operation of this section and is in receipt of both pension and salary. (Substituted by Ord. 9 of 2012).

Condition

The list of persons receiving pensions was compared with those receiving salary from TCIG. There were three instances where persons received pension and salary. The total pension amount paid to these individuals was $106,906.32 and the total amount of salary paid was $197,940.48. Based on the above stated criteria, Pension Ordinance section 10 (1), these persons should not have received pension payments during employment with TCIG. As a result, these individuals were overpaid $106,906.32.

It was noted that two of these individuals had two employee IDs on the payroll system, one for salary and another for pension. Another ID was granted to the TCIG pensioners upon their reemployment to TCIG. In both of the above cases, pensions started after 2014, therefore part 2 of the Ordinance mentioned above does not apply.

Additionally, an employee was paid salary via a vendor ID instead of an ID number that is usually assigned to employees. The employee should not have been given a vendor ID for salary payment as this was not a transaction with a vendor.

The root cause of the above issues is as a result of inadequate review when pensioners are rehired. This has resulted in the assignment of multiple Smart Stream ID's for one person. This is a direct non-compliance with the Ordinance. The breakdown in the controls resulted in the individuals being overpaid and receiving duplicate benefits from TCIG.

B. Overpayment in Legislative Member Retirement Allowances

Criteria

Retiring Allowances 31 December 2014 - SCHEDULE Retiring Allowance, Section 3(1)

The effective date of qualification for receipt of the increase in retiring allowance is prior to 1995.

OFFICE	NEW ALLOWANCE PER ANNUM $
(a) Chief Minister	46,900
(b) Deputy Chief Minister and Minister	22,400
(c) Speaker	10,677
(d) Leader of the Opposition	8,800
(e) Elected Member	8,000

(f) Nominated Member	5,280

Rate of retiring allowance 5.

(1) The retiring allowance payable— *(a)* to any person, shall be at an annual rate equal to two-thirds of the highest annual rate of basic salary payable at any time to that person as a legislator; *(b)* to a person referred to in section 3(5), shall be at an annual rate equal to two-thirds of the highest annual rate of basic salary payable to a legislator at the date when that person attains the age of fifty years; *(c)* to a member who has held the office of Chief Minister or Premier, shall be two-thirds of the rate of salary payable to the current holder of that office on the date on which he becomes entitled to receive a retiring allowance. *(Inserted by Ord. 28 of 2004)*

(2) The retiring allowance payable to any person under this section or under section 7— *a)* shall be paid with effect from the date on which that person becomes entitled thereto pursuant to section 3 and, subject to the provisions of this Ordinance, shall continue to be paid during the lifetime of that person; and *(b)* shall be paid monthly in arrears in equal instalments as far as possible.

Retirement Allowance Ordinance 2016 - Schedule, Retiring Allowance

The effective date of qualification for receipt of the increase in retiring allowance is retirement prior to 2004

(a) Chief Minister	60,000
(b) Minister	36,000
(c) Speaker	36,000
(d) Elected Member	18,000
(e) Appointed Member	18,000

<u>Condition</u>

Retirement allowance calculation for a sample of nine retired members of the House of Assembly ('HOA') was reviewed. This represented 52% of the former members of the HOA. From the review we noted that one person was overpaid an amount of $2,170.68 during the FY 2017/18. See next table.

Table 43 – Overpayment of Retirement Allowance to HOA Member

# of Persons	Pension Audit Calculation($)	Treasury Total ($)	Difference ($)	% difference
1	36,000.00	38,170.68	(2,170.68)	-6%

Additionally, the Human Resource Management Directorate did not provide the NAO with supporting documents for one of the samples selected for review. The risk of inaccurate calculation of allowances could result in the over and/or underpayment of benefits and statutory deductions required by the Ordinances may not be applied.

C. Incorrect Computation of Pension and Salary

Criteria

PFMR 2014, PART XVIII - SALARIES AND WAGES - Payment of salaries, etc. in the Public Service

86. (1) Subject to the Public Service Regulations, this Regulation shall apply to payment of salaries, allowances and wages.

(2) It is a fundamental principle for the management of personal emoluments that activities relating to the authorization of appointments, the authorization of payments and the recording of those payments shall not be performed by the same person.

(3) Accounting Officers are responsible for ensuring that personal emolument records maintained for all of the permanent staff within their Ministries and Departments are correct, and that all changes and variations in applicable rates are duly notified to the Accountant General.

Condition

Salary and pension was incorrectly calculated for one TCIG pensioner (employee ID# 10407), rehired temporarily on three occasions with TCIG during the FY.

There were inconsistencies noted with the salary paid and the dates of service during the review. The Treasury Department did not accurately determine the periods of TCIG employment or the periods the individual was a pensioner. There was also a failure to reinstate the pension payments once the temporary employment was completed. These inconsistencies resulted in the pension, salary and allowances being incorrectly calculated for the individual. The individual was overpaid an amount $1,381.72 as a result of these inaccuracies.

Additionally, the employee's salary payments were incorrectly classified and posted to the pension account in the general ledger resulting in an overstatement of pensions account and an understatement of salaries account. See next table showing what the breakdown in salary and Pensions should be.

Table 44 – Breakdown of salary and pensions

Smart Stream Records				Audit Calculation			
Salary	**Pension**	**Allowance**	**Total**	**Salary**	**Pension**	**Allowance (tele & on call)**	**Total**
$21,644.47	$1,260	$ 1,027.42	$23,931.89	$8,346.68	$12,603.99	$599.49	$21,550.17

Total Overpayment: $23,931.89 - $21,550.17 = **$1,381.72**

Recommendation

Management should implement appropriate controls to ensure that there is compliance with the Pensions Ordinance, the Public Service Hand Book and the NAO Ordinance. Management should implement controls that ensure that rehired pensioners in receipt of salary after Pensions Ordinance 2014 10(1) only have one ID number. Pension and salary calculation should be subjected to adequate review by a supervisor prior to payment to verify the accuracy and applicability of the calculations. It is also recommended that when pensioners are rehired adequate review should be done to ensure that pension ceases and salary is paid in accordance with the stated start day. The Treasury Department should ensure that the records maintained are used in the determination of these individuals' salaries. Staff should also be kept up to date on any amendments and/or changes to the Pensions Ordinance and other applicable laws and/or regulations. The controls recommended would assist management in mitigating the risk of over payment.

D. Increase in Pension and Retirement Allowance Increase without Amendments to Ordinance

Criteria

PENSIONS ORDINANCE 2014 - PART IV GENERAL

General rules as to qualifying service and pensionable service

13. (1) Subject to these Regulations, qualifying service shall be the inclusive period between the date on which an officer begins to draw salary in respect of public service and the date of his leaving the public service without deduction of any period during which he has been absent on leave.

(2) No period which is not qualifying service by virtue of the foregoing paragraph shall be taken into account as pensionable service.

(3) No period during which the officer was not in public service shall be taken into account as qualifying service or as pensionable service.

Continuity of service

14. (1) Except as otherwise provided in these Regulations, only continuous public service shall be taken into account as qualifying service or as pensionable service:

Provided that any break in service caused by temporary suspension of employment in the public service not arising from misconduct or voluntary resignation shall be disregarded for the purposes of this paragraph:

Condition

The Pensions Ordinance, Retirement Allowance and Legislative Service Ordinances state the rates that pensioners and retired members of the HOA and former Legislators should be paid. During the review of Pensions, at least three increases in pension rates were noted during the period 2004 to 2017. In the 2016/17 FY, four former members of the HOA received an increase of 2.5% during the last salary increase for Civil Servants. This resulted in an overpayment in Retirement Allowance of $5,587.320. These increases were made during and in line with the Civil Service salary increases. Pensions, Retirement Allowances and HOA member's retirement allowance should not be increased based on TCIG civil servant's new salary rates. This is in direct conflict with what the ordinance states, that no period during which the officer was not in public service shall be taken into account as qualifying service or as pensionable service. If the new salary scale was not in place during the pensioners' employment period, in order to increase a pensioner's pension, the Ordinances would have to be amended to show that pensioners and Legislators were granted a rate increase.

Recommendation

Management should ensure that any changes to the pension rates and retirement allowances are in accordance with amendments made to the Pension, Retirement Allowance and the Legislature Service Ordinances. Additionally, during the period where there is an increase in salary to TCIG employee and they become pensionable in the said year, the increase cannot be reflected on pensionable earnings. The increase instead has to be reflected on the salaries prior to determining the pensionable amount.

E. Lack of Support Documentation for Audit of Pensioners and their Allowances ***(See Also Issue 4.13 for additional similar issues)***

Criteria

The National Audit Office Ordinance ('NAO Ordinance') 2012, Section 21 (1) and 30(1)(a)(b) and Section 30(2)

21(1) When performing his or her duties in terms of this Ordinance –

(a) The Auditor General may, in writing, require form any person in the employment of any office, ministry, agency or statutory body such information and explanations as are necessary for the purposes of an examination, inquiry and audit in terms of this Ordinance;

(b) The Auditor General or any staff member of the National Audit Office authorized by him or her or any person appointed under subsection (2) –

   (i) Has access at all reasonable times to any records, books, vouchers, other documents, moneys, stamps, securities, stores, equipment and other property of the Government or a statutory body in the possession or under the control of any person and which are necessary for the purposes of an examination, inquiry and audit in terms of this Ordinance;

(ii) May, without payment of any fee, examine and make copies of or extracts from any record, book, document or other information of an office, ministry, agency or statutory body whose accounts are being examined and audited by him or her.

PFMR 2014 - SCHEDULE 1 (Regulations 91 and 98)

Documents Retention Schedule

Type of Record	*Retention Period - Manual Records*	*Retention Period - Electronic Records*
Payroll Cards and Register	*45 years*	*60 years*
Payroll support documents (time sheets, deduction order, etc.)	*5 years*	*5 years*

Public Service Handbook – Handling Official Information

2.7.4 All officers will keep adequate files and documents of their work as appropriate. Heads of Departments will provide a set of instructions for officers in their Department on procedures and rules for storage of information for that Department. This may include requirements for:

(i) Electronic scanning and storage of files and documents;

(ii) Back up of electronic material and storage of back up

2.7.5 The preservation and destruction of Government documents are regulated by the following:

- **i.** Correspondence, documents or computer files will be destroyed only after five years, except documents where other arrangements apply as below;
- **ii.** Any file over five years' old that is to be retained will be noted that it will be preserved because of its continuing value to Government;
- **iii.** Preserved files will be kept for fifteen years from the date of its opening and will then be considered by the Deputy Governor for destruction or for further retention;
- **iv.** A record will be kept of all documents and files destroyed and the date on which they were destroyed;
- **v.** Certain documents are required to be kept for specific time periods for internal audit purposes and such documents are set out in the Internal Audit Manual;
- **vi.** The following documents will not be destroyed:
- **vii.** Those required by law or regulation to be preserved;
- **viii.** Documents of historical or other interest, particularly those relating to the history of the Islands or the West Indies;
- **ix.** Documents relating to land and the ownership thereof, and the value of land and property, especially Crown lands;
- **x.** Documents relating to any form of official registration;

xi. documents that are more than fifty years old unless, they only cover matters of a routine nature;

xii. Court and legal documents; and

xiii. The personnel files of current officers.

The personnel files of officers who are no longer employed will be kept for a period of two years in the Human Resources Management Directorate, and then will be archived for at least ten years;

Condition

In auditing TCIG pension and gratuities, the NAO requested 30 personnel files from the Human Resource Directorate ('HR') in order to review the terms and conditions of employment for those employees and pensioners. HR provided ten files for review, as a result the NAO was only able to test 33% of the samples requested. Additionally, 40 personnel files were requested from the Treasury department, 13 of which were provided. The samples requested included pensions calculation information for the initial 30 personnel files requested from HR and ten additional files for Legislative Members.

On follow up of the outstanding information, the NAO was informed that the records were unable to be located.

This indicates that HR and the Treasury Department are not in compliance with the retention requirements as stated in the PFMR and the Public Service Handbook. It's incumbent upon the departments to ensure that their records are maintained and safely stored in the event that information is needed to evidence a process, event or transaction. Poor record management may also result in the following:

(i) Inefficiencies in payroll and budgeting;

(ii) Lost files;

(iii) Legal implications in the event of a litigation;

(iv) Poor organization and clutter;

(v) Risk of being non-compliant with the NAO Ordinance Section 21(1) and 30(1).

The NAO had a limitation in the scope of the review performed as 67% of the samples were not reviewed due to a lack of supporting documents being provided for the samples requested. The NAO was therefore unable to deduce the pervasiveness of the issues identified.

Recommendation

Management should implement the controls and systems that will ensure that they have proper record management so that they can be in compliance with the requirements of the PFMR, NAO Ordinance and the Public Service Handbook. The implementation of a proper record management system will ensure that records can be readily located and safely stored. Controls to implement may include but not limited to having the data in digital format and backing up electronic files regularly.

Management Response 2017/18

Controls have been put in place to ensure there are complete records for TCIG employees. The information requested but not provided relates to persons who have retired or receiving pension before implementation of better record keeping.

4.13 Lack of support documentation for Audit of Pensioners and their allowances - HR

Criteria

NAO Ordinance 2012, Section 21 (1) and 30(1)(a)(b) and Section 30(2) states:

21(1) When performing his or her duties in terms of this Ordinance –

a) The Auditor General may, in writing, require form any person in the employment of any office, ministry, agency or statutory body such information and explanations as are necessary for the purposes of an examination, inquiry and audit in terms of this Ordinance;

b) The Auditor General or any staff member of the National Audit Office authorized by him or her or any person appointed under subsection (2) –

   i. Has access at all reasonable times to any records, books, vouchers, other documents, moneys, stamps, securities, stores, equipment and other property of the Government or a statutory body in the possession or under the control of any person and which are necessary for the purposes of an examination, inquiry and audit in terms of this Ordinance;
   ii. May, without payment of any fee, examine and make copies of or extracts from any record, book, document or other information of an office, ministry, agency or statutory body whose accounts are being examined and audited by him or her.

30(1) A person commits an offence if that person –

a) Without reasonable excuse and contrary to section 21 (1)(a), fails to provide the Auditor General or a person authorized by him or her with all such explanation and information as the Auditor General or that person may reasonably require;
b) Without reasonable cause fails to provide, or wilfully obstructs access to, any item as required by of section 21(1)(b);

(2) A person convicted of an offence under subsection (1) shall be liable to a fine not exceeding $20,000 or imprisonment for two years or both.

Public Service Handbook 4.1 Staffing Records and Documentation

4.1.1 There will be an official personnel file for each officer that is maintained in the Human Resources Management Directorate. This may be in hard copy or electronic format.

4.1.2 Ministries and Departments may keep their own files for staff, however, this will not be the official file. Delegated managers will ensure that any official staffing documentation,

including but not limited to the following, will be provided to the Human Resources Management Directorate for the official personnel file, and the

Human Resources Management Directorate will ensure that official personnel files are kept up to date:

Public Financial Management Regulations 2014

SCHEDULE 1

(Regulations 91and 98)

Table 45 – Documents Retention Schedule

Type of Record	Retention Period - Manual Records	Retention Period - Electronic Records
Purchase orders	5 years after date of purchase order	10 years after date of purchase order
Tenders, bids, proposals	5 years after completion of contract	10 years after completion of contract
Tax refund claims	2 years after refund	5 years after refund
Tax notices	2 years after notice	5 years after notice
Custom entries	20 years	20 years
Invoices, statements, bills	7 years after payment	7 years after payment
Receipts	7 years	7 years
Journals	5 years	5 years
Vouchers	5 years	5 years
General Ledger	7 years	10 years
Subsidiary Expenditure Ledger	7 years	10 years
Subsidiary Revenue Ledger	7 years	10 years
Bank Statements and Cheques	5 years	5 years
Payroll Cards and Register	45 years	60 years
Payroll support documents (time sheets, deduction order, etc.)	5 years	5 years
Credit Card Statement	3 years	5 years
Registers	7 years	7 years
Procurement Contracts	15 years	15 years

Condition

i. **Pension and Payroll Document not submitted to the NAO**

In auditing TCIG pension and gratuities, the NAO requested 30 personnel files from the Human Resource Directorate ('HR') in order to review the terms and conditions of employment for those employees and pensioners. HR provided ten files for review, as a result the NAO was only able to test 33% of the samples requested. Additionally, 40 personnel files were requested from the Treasury department, 13 of which were provided. The samples requested included pensions calculation information for the initial 30 personnel files requested from HR and ten additional files for Legislative Members.

On follow up of the outstanding information, the NAO was informed that the records were unable to be located.

In addition to the above, the Ministries below did not provide the NAO with the following payroll information, salary spreadsheet, list of new employees, list of exiting employees, list of acting positions and overtime.

- Ministry of Education
- Office of the Director Public Prosecution
- House of Assembly
- Premier's Office

ii. **Revenue support documents not provided to the NAO**

Accounting Officers and Heads of Department of Ministries and Departments were requested to provide support documents in order for the NAO to verify revenue figures disclosed for the period ended 31 March 2018. The following documents were not provided.

- Cash reconciliations for various dates – Accountant General Department
- Customs information to support duties received and concessions granted during the period – Customs Dept.
- Aged Debtors Listing

Due to these documents not being provided the National Audit Office was not able to conduct testing to verify the correctness of disclosures relating to these areas.

The Ministries and Departments are not in compliance with retention requirements of the PFMR and the Public Service Handbook. It's incumbent upon the Ministries and Departments to ensure that their records are maintained and safely stored in the event that information is needed to evidence a process, event or a transaction. Poor record management will also result in following;

i. Inefficiencies in payroll and budgeting
ii. Lost files
iii. Legal implications in the event of a litigation
iv. Poor organization and clutter
v. Risk of being non-compliant with the NAO Ordinance Section 21(1) and 30(1)

The NAO had a limitation in the scope of the review of the above mentioned areas as result of the lack of support documents for the samples requested. The NAO was therefore unable deduce how pervasive were the issues identified in these areas.

Recommendation

Management should implement the controls and systems that will ensure that they have proper record management so that they can be in compliance with the requirements of the PFMR, NAO Ordinance and the Public Services Handbook. The implementation of a proper record management system will ensure that records can be readily located and safely stored. Controls to implement may include but not limited to having the data in digital format and backing up electronic files regularly.

Management Response 2017/18

Controls have been put in place to ensure there are complete records for TCIG employees. The information requested but not provided relates to persons who have retired or receiving pension before implementation of better record keeping.

4.14 Material Differences identified between financial statements and schedules obtained from ministries - 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;

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 provided within the Annual Statements (note 18) to the Statement of Commitments maintained by the various Ministries within TCIG, revealed the following differences:

Table 46 – Differences between Fin Stats and Ministry Schedules

Area of Anomaly	Amount recorded by Ministries ($)	Amount recorded in Annual Statement ($)	Difference ($)	Comments
Contingent Liability,	14,599,465	441,904,000	427,304,534	Includes statutory charges of $426,700 therefore actual difference is $604,534
Commitments	799,745,452	1,483,000	798,262,452	Includes Long-term Commitments for Interhealth for $795,329. The actual difference is $2,933,452
Losses of Public Money and Stores	296,838	244,000	52,838	
Loss Register	421,811	-	421,811	
Stores and Other Assets	3,758,346	4,399,000	(640,653)	
Government Leases	698,759	700,000	(1,241)	
Properties Rented	500,832	611,000	(110,167)	
External Assistance	2,471,539	2,500,000	(28,460)	
Total	**807,893,577**	**9,937,000**	**797,956,580**	

In instances where significant differences may have resulted from the inclusion of statutory bodies information this should be indicated in the notes related to the commitment to ensure that there is full disclosure and clarity. For example, the "Commitments amount of $798,262,452 includes the "Long term commitments" of $795,329,000 for Hospital Contract Cost and "Contingent Liabilities" includes statutory charges of $426,700 (i.e. liability for providing pension benefits and unfunded pension liability).

These inaccuracies and inconsistencies in the Statement of Commitments will result in user's loss of confidence in the information provided as there will be doubt in the adequacy of the work being performed to determine its accuracy. This is a repeat issue from the prior year.

Management Action to Remediate Prior Year Issue

Management has stated that training was provided to sensitise Accounting Officers on how to properly identify and record commitments.

Auditor General's Response to Management Action to Remediate Issue

Based on the reoccurrence of the issue it would appear that adequate training was not provided and that all persons who should have been subjected to the training were not targeted. 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. When inaccuracies are identified in the statements and there is a revision of the figures by the Accountant General this should be communicated to the relevant Ministries so as to ensure consistency in the record keeping and promote understanding in the preparation of the statement. The Accountant General should also conduct training with the Accounting Officers and preparers of the Statement of Commitment.

Management Response 2017/18

The Auditor General's comments are noted. The department continues sensitize officers on properly identifying and recording commitments. We also carried out recent endeavours through the use of Finance Managers and The Training Unit to provide training on many of these issues and hope to continue this throughout the year. Ministries are also require now to submit this information on a monthly basis so that many of these issues highlighted in the audit may be identified and communicated to the Accounting Officers sooner. While we have yet to achieve 100% compliance with this directive it hoped that by the end of the current financial year it would have been achieved.

4.15 Risk of Misappropriation - HR

Condition

80% of fraud takes place via misappropriation of assets. ***Assets are still not properly accounted for*** and/or disclosed in the financial statements. Many land acquisitions and/or property acquisitions are noted. How does the MoF 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 financial statements. 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

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

Management Response 2016/17

Many land and/or property acquisitions are noted. How does the MoF 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.

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.

Management Response 2017/18

Management accepts the recommendation made by the Auditor General. Once the department is resourced with a Fixed Asset Management System and Unit we will be in a better account for, and monitor TCIG's assets. The recognition of many these assets on TCIG's books will require valuations to take place and this will be done in a phased approach. Preliminary procurement work has already begun for the first valuation to be conducted. In the Interim, we do require All Ministries and Departments to Maintain an Asset Register.

4.16 Insufficient risk management and internal control procedures in place - HR

Criteria

Good governance practices require those charged with governance 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; and;
- 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, 2018. 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. This is a repeat issue from the prior year.

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 Action to Remediate Prior Year Issue

The recommendation of the Auditor General is accepted.

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

Criteria

Best practice requires that management draft and get 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. This is a repeat issue from the prior year.

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 2016/17

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 to Management Action to Remediated Issue

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.

Management Response 2017/18

Management accepts and agrees that we need to finalize in some instances and develop in other, detailed manuals. These procedures will encompass all standard operating procedures for financial management. The procedures will be used for re-training and establishing accountability for existing staff, as well as an on-the-job manual for new employees. We expect to finalize those that already in progress during financial Year 2018-19.

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

Condition

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. This is a repeat issue from the prior year.

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 Action to Remediate Prior Year Issue

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

4.19 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 (Smart Stream) 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 Action to Remediate Prior Year Issue

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 Smart Stream upgrade, the manual needs to incorporate the relevant changes.

Management response above is same as last year.

4.20 Weaknesses in bank reconciliation process - HR

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

Bank reconciliation statements are not being evidenced as reviewed and reconciling items are not being adequately followed up to resolution and aged.

The following was noted from the review of the reconciliations:

- **(i)** For the main Scotia Bank account, account Code 52017 there were 50 cheques valuing $412,375.81 that had reconciling items. Reconciling items and outstanding cheques were not aged and there was a lack of supporting documentation to evidence that reconciling items were being adequately tracked to ensure their resolution;
- **(ii)** A $45,000 difference exists between Scotia bank account (i.e. Account code 52017) and the balance noted in the trial balance;
- **(iii)** Bank reconciliation Statements were not signed off as being reviewed by either the Accountant General and/or Deputy Accountant General. This was noted for the following accounts:

1) Account Code 52016, FCIB main account: 1575027
2) Account Code 52020, FCIB Special (NFF) ACCOUNT:10531279
3) Account Code 52028, FCIB SIPT account#: 10516972
4) Account Code 52023, FCIB main account: 1600196
5) Account Code 52003, FCIB account UK Development Aid 10442797
6) Account Code 52017, Scotia: 754415
7) Account Code 52018, Scotia Bank Money Master Account:754822
8) Account Code 52021, Scotia Bank:755112
9) Account Code 52026, Scotia Main Account#:10032
10) Account Code 52022, Scotia Bank Account:755111
11) Account Code 52009, Crown Agent UK 338880050

In addition, it was noted that Account Code 52010, Crown Agents USD was not reconciled. The account had a balance of $6,295.87.

It is critical that the bank accounts are subjected to review as this will ensure the accuracy of the balances shown by the bank account and Smart Stream. It provides a check on the accuracy of entries made in both the books. It also helps to detect and rectify any error committed in both the books. The reconciliation and review of the bank accounts also assist management in detecting irregularities that maybe fraudulent.

<u>Recommendation</u>

Management should ensure that reconciliations are reviewed and signed off to evidence their review. The reconciliation should evidence that reconciling items are timely investigated, aged and followed up to resolution.

<u>Remediation of prior Year Issue</u>

In the prior year Auditor General's report, it was observed that there were outstanding deposits existing for a long period. The issue however seems to be remediated as there were no long outstanding balances noted from the review of the reconciliations.

Management Response 2017/18

Managements notes and accepts the recommendations of the Auditor General. We will begin aging reconciling items and are working with the banks to ensure that these items are addressed in a timely manner. All bank accounts were reconciled and reviewed by management however that account was mistakenly overlooked when forwarding the files to the NAO. $45,000 is relation to the resolution of a reconciling item which was not updated on the actual statement.

4.21 Limited oversight for Lottery Operator for the period - HR

Criteria

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

Condition

There were 13 lottery payments totalling $252,916.21 that were paid into the Treasury during the FY 2017/18. The following was noted from the review:

i. Lottery payments to TCIG were not supported with the lottery providers audited financial statements. The financial statements are required so that TCIG can verify the accuracy of the calculated amounts paid. The Gaming Department provided letters from the Lottery Company's accounting firm stating how the payments were calculated. These letters are unacceptable and should not be accepted as final and conclusive as they are not in compliance with the Ordinance that requires audited financial statements to be submitted to support the calculation of the payments. Lack of the appropriate support documents to substantiate the accuracy of the payments can result in incorrect calculation and understatement of the revenue received from the lottery operations.

ii. A Board was not appointed to oversee the functions of the entity. The implementation of a Board ensures the operations of the entity is subjected to the appropriate oversight and mitigates the risk of the entity operating outside the terms and conditions of the Ordinance or any agreements. This oversight is critical as TCIG may enter into agreements that are not beneficial to TCI and may also expose them to lawsuits due to the nature of the agreements signed off on without oversight.

Recommendation

Management should ensure that lottery payments are supported with the documents prescribed in the Ordinance.

A Board should be established for the lottery operations to ensure that there is compliance with the Ordinance and the necessary oversight of the operations is in place.

Management Response to Remediate Prior Year Issue

The Accountant General had stated that upon the establishment of the new Lottery Ordinance a Board will be appointed.

Auditor's Response to Management Action to Remediate Issue

There has been no action taken to remediate the issue. In accordance with the current Lottery Ordinance the Accountant General should implement a Board and ensure that there is oversight over the lottery operations. Also in the interim until the new Ordinance is established returns should be submitted in accordance with the current Lottery Ordinance.

Management Response 2017/18

This observation was forwarded to the PS Ministry of Tourism, Cheryl Ann Jones and the Acting Director for Gaming, Mr. Henry W. Higgs for response to the observation. See below their response to the current issue;

Please note that The Gaming Inspectorate has never had the responsibility for the National lottery, the tax revenue from lottery activity is actually on the gaming account but Gaming has No powers over the National Lottery. Because the lottery staff recognized that this office is in fact in charge of the Gaming Industry they are always willing to assist in providing any documents requested. Under the New Gaming Control Ordinance 2018 the commission will have full control over lottery and all other gaming ventures, this will be enforced in the first rollout early January 2019.

After the passing of the Board Chairman, some years ago there has been no appointment of a new Board Chairman or was any other board put in place, hence it was assumed that the National Lottery fall directly under the Gaming Inspectorate. Whilst not having the powers to control the lottery we managed to work well with the lottery staff. This office will indeed have the control and power of all gaming activity within the TCI under the Gaming Control Ordinance 2018.

4.22 Inconsistencies and inaccuracies in the financial statements presented for audit - HR

Criteria

Annual Statement of public accounts 34. (1)

The Accountant General shall, within the period of four months after closure of the public accounts at the end of each financial year, prepare, sign and submit to the Auditor General through the Permanent Secretary Finance, the annual statement of public accounts set out in paragraph 1 of Schedule 2.

Condition

The TCIG financial statements presented to the Auditor General on July 31, 2018 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 weaknesses and point to a lack of a proper quality review of the financial statements 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 FY end reporting process.* Apart from the CF 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.

It is not the responsibility of the Auditor General to identify the errors/omissions. 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.

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 financial statements that many users of the financial statements place heavy reliance on.

There are several errors and omissions in the unaudited financial statements. This has been included as an issue however given materiality and frequency of the errors and/or omissions. Examples of these errors and omissions are noted below:

i. Table of content not properly tabulated example;

   - Note 4.5, 'Transfers from Controlled Entities" is missing from the Table of Content;
   - Note 4.7 "External Assistance" is missing from the Table of Content;
   - Note 9, Statement of Financial Position" missing from the Table of content;
   - Statement of Cash receipts and payments not identified in the Table of Content. This is a critical statement.

ii. Explanation and disclosure not provided for revised figures in the financial statements.

iii. Undrawn Borrowing Facilities" -at Note 3 stated as undrawn borrowing facilities prior year amount was $15M in 17/18 Annual Statement however there was no undrawn facilities as per 16/17 Annual Statement.

iv. At Note 17 page 18 it was stated that "No new borrowings were negotiated or drawn down during this financial year" however at Note 3 it was stated that TCIG has approved undrawn facilities of 15.4M.

v. Page 42 is missing from Annual Financial Statement.

vi. Date on the management representation letter was incorrect.

vii. In Note 6.3 "Office of the Governor's" the budgeted receipts were incorrectly stated as $1,193,528,000 instead of 1,193,528 as stated in TCIG Budget.

viii. Subventions (note 5.4 A note should be added to the "Subvention" in the Annual Statement to state that the NAO is no longer a part of the subventions. This is as result of the NAO being established under the Governor's Office.

   - NHIB is not reported in the subvention. TCIG provides financial support to NHIB;
   - The pending writes off for Business licenses in arrears amounting to $48,481,107.78 was not disclosed in the Annual Statement.

ix. Recurrent Revenue -The amount $111.4 million stated in the narrative at page 12 for total duties need to be clearly stated, as it currently does not correspond with the computation of total duties, see below.

- Import duty-$67,935,000
- Custom Processing Fees-$33,464,000

x. The total of the above was $101.4M. Any change total duties would result in a change in the amount recorded in the narrative for marginal increase stated for total duties.

xi. Bonds Repurchase Program, Note 13.2 had information on bonds that were already matured. See next table.

Table 47 – Bond Repurchase

#	Bond Purchasers	Maturity Date	Current Value ($)
1	NIS Barbados	Jan 29, 2014	0.00
2	United Reinsurance	April 29, 2014	0.00
3	United Reinsurance	Aug 2, 2016	896,000

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 to remediate prior year issue

The Accountant General stated that action had been taken to close the issue

Auditor General's response to remediate the issue

The action taken to remediate the issue was inadequate as it has reoccurred. Management should implement controls to verify the accuracy of the financial statements in order to reduce the number of errors and omissions.

Management Response 2017/18

Management notes the recommendations of the Auditor General. There is continuous effort to improve upon the presentation of the financial statements however, as all of our compilation is manual, we are unfortunately prone to human error. We will continue work to improve upon the review processes until we are equipped with a system that will enable us to be less susceptible to these errors.

Management also recognises the need to include more detailed explanations and disclosures as noted by the Auditor General. In the Case of the Figure Noted for Duties, it represents the Total revenue collected, while highlighting the major contributors which were Import Duties & Customs processing fees; however, these are not the only duty related revenue.

4.23 Revenue Arrears Returns submitted after the required date - MR

Criteria

PFMR

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

Twenty-seven returns submitted by Ministries and Departments were reviewed. It was found that the returns were submitted after the required date. Of this, three submissions were not in compliance with the PFMR. One in August 2017 and two in July 2017. The timeliness of the presentation of disclosures to the Accountant General for revenue arrears is essential for reporting purposes. By not providing the returns within the timeframe required, information might be excluded from the statement. This is a repeat issue from prior year.

Recommendation

Accounting Officers must ensure that Arrears of Revenue returns are submitted by the deadline stated in the Public Finance Management Regulations. The Account General should send out reminders to the Accounting Officers to prepare their returns prior to the due date.

Management Action to Remediate Prior Year Issue

Accountant General stated that a directive was issued to the Accounting Officers to submit their returns timely.

Auditor’s Response to Management Action to Remediate Prior Year Issue

Management action to address the issue appears not to have adequate as the issue has reoccurred.

Management Response 2017/18

Accountant General stated that a directive was issued to the Accounting Officers to submit their returns timely.

4.24 Dishonoured and Stop Cheque Listing were not Updated- MR

Criteria

PFMR Section 58 (3) – (4)

58 (3) In any case where a cheque is dishonored, recovery measures shall be instituted immediately by the Accounting Officer; and all instances of dishonored cheques shall be brought to the immediate attention of the Accountant General.

(4) All original dishonored cheques shall be retained and kept in safe custody; this is because such cheques represent important prima facie evidence of a debt due to Government and may be used in any legal action which may be taken to recover the amount due and any incidental expenses that may have been incurred.

Condition

A. Dishonored Cheque listing was not up to date

The Dishonored cheque Listing was not up to date for the FY 2017/18. We noted that returned cheques processed through the system for KR Logistics was not included in the dishonored cheque listing as having been returned by the Bank. The Listing was subsequently updated, after this was brought to the attention of the responsible officers.

B. Stop Cheque listing was not up to date

Not all names listed in the dishonored cheque listing were noted on the Stop Cheque Listing. The listing was subsequently updated to reflect the names identified as a result of the audit.

There is no clear process showing that these reports are reviewed and approved by the Accountant General or a Responsible Officer.

An updated Dishonoured Cheque Register and Stop Cheque Listing must be maintained, if not there is a risk of collecting cheque payments from persons who are repeated defaulters. This a repeat issue from Auditor General's report 2015/16.

Recommendation

The Accountant General must ensure that these listings are up to date and reflect all cheques returned by the Bank to the Treasury. The reports should be reviewed and approved when completed so that any discrepancies could be detected and corrected in a reasonable time.

Management Response 2017/18

The recommendation of the Auditor General is accepted.

4.25 Concessions Overstated by $0.14 million - MR

Criteria

Disclosure of concessions granted, provided or allowed by Ministries/departments in a Statement of Concessions.

Condition

The Ministry of Education reported concessions for the FY 2017/18 in the amount of $139,909.70 which relate to concessions received when items were purchased and cleared through TCIG Customs. These amounts would have already been captured in the concessions statement provided by the Customs Department. This action resulted in a duplication of the entry and overstatement of the concessions.

By providing information that is erroneous for inclusion in the statement of concessions this can result in misleading information being conveyed to the users of the financial statements, and the statement would therefore be overstated.

Recommendation

Management should correct the Statement of Concessions to reflect the correct totals for the FY 2017/18. The Accountant General and Staff must ensure that returns are properly scrutinized to ensure that correct information is recorded in the Notes to the Financial Statements.

Management Response 2017/18

Director of Education:
Kindly note that the declarations on the Statement of Concession with entries from the H J Robinson High School, the Marjorie Basden High School and Library Services represent their requests for concessions from Customs for imported or donated goods and services.

I asked the schools and Library to forward copies of the Concession letters from Customs for my attention. I will forward these to you, under separate cover, as I receive them. As you indicated though, Customs would have already declared this information to your office. Even so, you will have it for verification purposes. (Director of Education).

5. NAO Report

A. High Level Audit Status

The high level objectives of public sector auditing are to examine and report on (i) the proper and effective use of public funds, (ii) prudent financial management and (iii) proper execution of administrative activities. In seeking to achieve those objectives, the 2018/19 Audit plan focuses on several audits spread across the Whole of Government covering statutory financials, value for money, compliance, controls, risk management and governance.

The NAO been able to improve audit quality and increase audit coverage despite is limited resources. Work has also been undertaken in increasing substantive value for money audit work and this is currently underway. It is hoped that more value for money audit work can be completed within the next period. The backlog of audits have been reduced significantly and given the current trajectory, it is anticipated that any remaining backlog will be addressed within the next year. We continue to conduct our work within our overall budget and anticipate being within budget at the end of this fiscal year.

Appropriate capacity and resources are required to enable the NAO to conduct its work. Audit detection risks remain an issue due to capacity constraints. A proposal has been put forward to reduce audit firm outsourcing and increase the capacity of the NAO while at the same time saving on costs. The NAO is in a position now to retain a few more seasoned audit professionals and undertake the larger audits which can save substantial amounts and at the same time further improve audit quality, coverage and depth of these audits.

Audit interference remains a concern with the NAO and these have been documented in sufficient detail. While these issues have been opined on by Chambers, there appear to be little or no consequence for these acts. These are matters that must be improved in order to support proper governance and accountability.

The Accounting/Auditing profession is currently being challenged by international regulators and has fined Big 4 auditors for various reasons. ***The regulator has said that "auditors…….don't challenge management enough, aren't sufficiently skeptical etc."*** The NAO Ordinance requires coverage of significant areas in order to assure proper accountability and transparency and it is finding several issues that were not detected before. The NAO has had to exercise proper audit judgment in key audit matters that is complex even if it meant not concurring with the opinion of the audit firms. The NAO is also not without its risks as quality audit work is also a high risk area and needs to be addressed especially with respect to staff capacity.

Training and Development initiatives continue with several programs in financial reporting standards, audit standards, audit software technology and attendance at regional and international conferences for staff development. Most staff are also enrolled in a professional accounting program. The TCI NAO has also partnered with the UK Overseas Territories Project and UK NAO in providing specialist/performance audit support over the next year for a few projects as part of an overall training and development exercise.

A new Senior Financial Audit Manager (SFAM) joined the Grand Turk Office in late February 2018. The positions of Deputy Auditor General and Auditor General are to be filled as my tenure ends in December 2018. The NAO requested 1 Audit Senior for the Provo Office to assist with much of the non-financial audits. However, this was not approved. Our last budget was also reduced by approximately $81,000 which was sufficient to allow for an Audit Senior. Overall we have a complement of 8 auditors, 3 of which are professionally qualified. Bermuda's Audit Office has approx. 25 staff members and Cayman approx. 19. The NAO remains challenged with attracting and retaining professionally qualified and experienced personnel. ***Audit detection risks are considered to be moderate to high given the limited resource capacity.*** While we have assistance from the audit firms, it is not economical to do so. Reliance on audit firms to support the NAO can be reduced to an optimal level and I have made those proposals.

Accounting and financial transactions are increasing, creation of new laws gives rise to additional controls which must be assessed, the existing laws demand much more than financial audits, increased Government spending in particular capital projects require substantive testing etc. Overall complexity of the work is increasing across the board. Audit work will increase as the level of assurance increases in tandem with increased Government tasks, activities, projects etc. Development of an investigative arm to cover suspected irregularities, fraud, wastage and abuse is important.

The audit statuses are as follows;

Audit Area/Client	**Period under audit**	**% Complete**	**Status as at November 2018**	**Estimated Completion Date**
Capital Projects	2016-2018	**70%**	The fieldwork is completed and the auditor is at the draft report stage. The continuous delays in the acquisition of supporting documents have impacted the timeline of the audit.	December 2018
Scholarship Funding	2016-2018	**85%**	The field work for the audit has been completed and working papers and draft report are being reviewed.	November 2018
Revenue Arrears	2016-2018	**70%**	The review of revenue in arrears involves the review of support documents from several government departments/entities. The response time by these entities in making the support documents available varied and was not timely. The above delays have contributed to the timely delivery of the audit.	December 2018
Transfer Treatment	2016-2018	**80%**	The fieldwork is completed and working	November 2018

Audit Area/Client	Period under audit	% Complete	Status as at November 2018	Estimated Completion Date
abroad			papers and 1st draft report is being reviewed. This may be merged with the upcoming financial audit.	
Crown Lands	2016-2018	**20%**	The fieldwork for this audit is scheduled to start in December 2018. This primarily due to the priority to complete the TCIG audit.	January 2019
House Assembly Allowances	2016-2018	**85%**	The fieldwork is completed and working papers and 1st draft report is being reviewed.	November 2018
Information Security Review of the Accountant General's Department	2018	**100%**	This is completed. Management responses were not received up to Nov 22, 2018. An upgrade of Smartstream is expected in Feb 2019. It is recommended a detailed systems review of Smartsream is done.	November 2018
National Insurance Board	2016-2017 2018	**0%**	Financial audits for 2016 and 2017 were sent to the Governor and to the clerk to the HoA on 1 November 2018. Qualified audit opinions were issued in both reports. The Auditor General issued a letter of ***non-concurrence*** with the audit opinion as a result of differences in treatment of promised retirement benefits. Delays in completion were due to interference by the previous NIB board, as well as staff resource limitations at NIB to assist with the audit. The audit for 2018 is scheduled to begin in December. The NAO plans to perform a review of risk, compliance and governance and other control requirements of the section 18 of the NAO ordinance (2012) in March 2019. (NAO also offered input on section 18 VFM and PPO issues identified into the KPMG management letter)	2016 and 2017 Completed end Oct 2018 2018 – March 2019
Tourist Board	2018	**60%**	NAO completed the audits for the years 2007 to 2012 and the financial statements were signed off on 19 September 2018. Disclaimers of opinion were issued in all the periods audited due to insufficient	March 2019

Audit Area/Client	Period under audit	% Complete	Status as at November 2018	Estimated Completion Date
			documents in place. This is significant as it means that there are significant control weaknesses. The NAO is also concerned that there may be fraud related matters that have not been brought out due to the lack of documentary evidence. KPMG completed the audits for the years 2013 to 2017. Disclaimers of opinion were also issued for this period as TCITB management stated that the documentation was destroyed in the September 2017 hurricanes. We are finalizing the Management Letter and the Agreed upon procedures with KPMG, covering requirements of Section 18 of the NAO Ordinance. WB Financial Group has been appointed by the NAO to audit the Tourist Board for the period 2018-2022 and they will commence the 2018 audit in January 2019 when the prior year audits are finalised.	
Airports Authority	2017 - 2018	**85% since March 2018**	KPMG was appointed by the NAO in August 2017 to perform the TCIAA audit for 2016/17. At a meeting in October 2017, KPMG/NAO outlined to the TCIAA that a clear position on the legality of the 2015/16 audit is a pre-requisite for reaching an opinion on the 2017 financial statements. The Attorney General had deemed the 2015/16 audit between the TCIAA and PwC invalid as it was conducted without the involvement of the Auditor General (likely in contravention of the Constitution). TCIAA and PwC need to provide their positions regarding the 2015/16 audit. In addition the audit was not tendered for as required by the PPO. International Standard on Auditing (ISA) 510, Initial Audit Engagements – Opening Balances, deals with auditor's responsibilities relating to opening balances on an initial audit engagement. For the 2016/17 audit, the relevant opening balances would be the balances reported at March 31, 2016. Due to the legal position outlined above KPMG is not able to comply	TBD

Audit Area/Client	Period under audit	% Complete	Status as at November 2018	Estimated Completion Date
			with ISA 510. This potentially has important implications for the audit and our audit opinion. KPMG requires a definitive position from PwC, the previous auditors. PwC claims that they were engaged for a specific purpose i.e. to satisfy the provisions of the loan covenants (agreement between TCIAA and FCIB). ***We do not accept this argument as the TCIAA's board minutes point to engaging the audit firm for the "external audit" which refers to the statutory audit.*** However, the audit opinion was also issued for use by Government. The audit opinion provided contradicts the engagement objectives. Several questions still remain to be answered by PwC in order to conclude the audit. In late June 2018, PwC informed the NAO that they are currently consulting with their legal counsel before they can respond on the matter. Over 5 months have elapsed and the NAO has not received a clear position. ***Therefore KPMG is unable to conclude the audit until this position is received.*** ***The statutorily required audits for 2016, 2017 and now 2018 have not been done due to the time wasted by the TCIAA and PwC. This has been referred to the Attorney General and Governor for possible breaches of the NAO and PFM Ordinances.*** ***A forensic audit is strongly recommended on several aspects of the TCIAA.***	
Financial Services Commission	2018	**100%**	The audit for 2018 was completed in November 2018 and an unqualified audit opinion was issued. The report is due for circulation by 30 November 2018.The NAO plans to perform a review of risk, compliance and governance and other control requirements of the section 18 of the NAO ordinance (2012) in April 2019	Completed
Integrity Commission	2018	**80%**	The audit for 2018 is ongoing and is due for completion in December 2018. The NAO plans to perform a review of risk,	December 2018

Audit Area/Client	Period under audit	% Complete	Status as at November 2018	Estimated Completion Date
			compliance and governance and other control requirements of the section 18 of the NAO ordinance (2012) in May 2019	
Civil Aviation Authority	2017 - 2018	**85%**	The audit of 2017 financial year is nearing completion (status is estimated at 85%). Delays were due to slow information flow from the entity. The 2018 audit will commence in January 2019. The NAO plans to perform a review of risk, compliance and governance and other control requirements of the section 18 of the NAO ordinance (2012) in May 2019	2017 audit (December 2018) 2018 Audit (April 2019)
Telecommunications Commission	2018	**100%**	The audit for 2018 was completed in November 2018 and an unqualified audit opinion was issued. The report is due for circulation by 30 November 2018.	Completed
National Health Insurance Board	2016 - 2018	**0%**	KPMG was appointed by the NAO after public tender to perform the audits of NHIP for the years 2016-2018. The engagement is scheduled to start in November. The new NHIP CFO has indicated to KPMG that there may be a need to delay fieldwork until mid-January 2019 to give him an opportunity to prepare all audit schedules and records. Based on the current information, KPMG has indicated a high likelihood on a disclaimer of opinion due to current use of an un-recognised accounting framework. The last audit report (2015) was heavily qualified. The new auditor has indicated that they will place no reliance on the 2015 report.	May 2019
Ports Authority	2016 - 2018	**5%**	KPMG was appointed by the NAO after public tender to perform the audits of the TCI Ports Authority for the years 2016-2018. The engagement is scheduled to start in November and we anticipate it will be completed in January 2019. The NAO plans to perform a review of risk, compliance and governance and other control requirements of the section 18 of the NAO ordinance (2012) in June 2019	February 2019
Invest TC	2016 - 2018	**40%**	The audits for 2016 to 2018 a currently ongoing. We anticipate that these audits will be completed in January 2019	January 2019

Audit Area/Client	Period under audit	% Complete	Status as at November 2018	Estimated Completion Date
National Trust	2014 - 2018	**0%**	The audits for the TCI National Trust for 2014 to 2018 will be performed by the NAO in March 2019 once an audit principal is recruited and settles in	May 2019
Community College	2009-2018	**50%**	SNG were contracted in 2016 to perform the audit of the TCI Community College for 2009 to 2015. Despite constant follow-up by the NAO, we were unable to get responses from the audit firm on the progress of these audits for almost two years. The matter was referred to the Attorney General. The auditor SNG recently committed to complete the audit by the end of the year and has sent a schedule of proposed adjustment as well as an issues report for management comments to TCICC. The 2016 and 2017 Section 18 report has been prepared by NAO and is currently under review. WB Financial group was awarded section 18 and Financial Audit for TCICC for the 2016-2020. These audits will commence once the prior year audits are finalized by SNG.	2009-2015 audit (December 2018) 2016-2018 audit (TBD)
Financial Intelligence Agency	2016 - 2018	**0%**	The audits for the TCI National Trust for 2016 to 2018 will be performed by the NAO in April 2019 once an audit principal is recruited.	June 2019
Elections Office	2014 - 2018	**5%**	The transactions of the Electoral office are currently reviewed by the NAO as part of the TCIG audit. Separate audits for the Elections Office for 2014 to 2018 will however be performed by the NAO in March 2019 once an audit principal is recruited.	May 2019
Human Rights Commission	2016-2018	**50%**	NAO had a planning meeting with the entity. We informed the HRC that we cannot undertake the pending audits before the board approved the 2014 and 2015 audits which were completed but never signed off. Notice of Audit and information list to be sent out. NAO performed an audit of section 18 NAO ordinance requirements for 2017 and a draft report is under review.	TBD

Audit Area/Client	Period under audit	% Complete	Status as at November 2018	Estimated Completion Date
Complaints Commission	2014 - 2018	**50%**	The transactions of the Electoral office are currently reviewed by the NAO as part of the TCIG audit. Separate audits for the elections office for 2014 to 2018 will however be performed by the NAO in April 2019 once an audit principal is recruited .NAO performed an audit of section 18 NAO ordinance requirements for 2017 and a draft report is under review.	June 2019

B. Proposal to reduce audit fees

I outlined a proposal to expand the auditors (by 3 senior auditors) at the NAO and reduce audit firm reliance, the net effect will be savings to TCIG of approximately $90K per annum in the first year and this savings can increase further from year 2.

Next year presents an opportunity for the NAO to assume some statutory body audits as those audits have to either be tendered or auditors rotated out. NIB, for example, costs approximately $160K while the NHIB audit costs around the same, $160K, both of which can be assumed by the NAO should the NAO receive funding to recruit 3 additional Audit Seniors (costs likely around $70K for each audit senior, total $210K).

The two major areas the NAO covers are Central Government (Grand Turk) and Statutory Bodies (Provo). By filling these 3 Audit Seniors in Provo together with the existing staff, will make way for the NAO to conduct the audits of both NIB and NHIB and remove the need for engaging audit firms. There is also the potential to audit other statutory body audits that are due to come up for tender and can be done by the NAO such as the Ports Authority which is an additional $20K annual savings.

This should be considered in the next fiscal year.

C. Areas for development of the NAO

There are a few areas in which the NAO needs to develop. Further adherence to international audit standards such as the ISSAI's needs to be advanced. Audit detection risks need to be reduced by improving training, retaining more professionally qualified auditors and ensuring that existing auditors qualify. This will improve overall audit quality. ***In addition we believe strongly that the Internal Audit Department needs to be provided with adequate resources to enable it to increase its coverage***. Efforts should now be made to begin sanitizing the audit reports for placing on the website so that these reports are available to the public. The NAO has to have the autonomy to recruit its own staff without HR involvement as HR is a client of the NAO and there is an obvious conflict of interest in respect of how audit staff are recruited. Both Cayman Islands and Bermuda's Audit Offices, do not involve the HR

Department of Government, even though Government policies and procedures are adhered to by those offices, which is an accepted practice. Compensation packages also need to be able to be improved in order to ensure that the appropriate skills are retained.

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, 2018, 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.

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 recognized 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 authorizing 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 utilization 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.

Appendix 2 – Project Considered to be Recurrent in Nature and/or unclear in its description

MIN./DEPT.	PROJECT #	PROJECT DESCRIPTION	AMOUNT
05 - 013	5247	Equipment for Judiciary	76,824.75
16 - 062	4973	National Skills Audit	63,474.96
54 - 111	4838	Provision for CDB Shares	79,000.00 **Est.**
54 - 111	4936	CDB Capital Payment	272.00
54 - 111	4986	International Finance, Marketing and Promotion	70,342.63
54 - 111	5154	Strengthening of Investments	66,000.00
54 - 111	5230	Turks and Caicos Islands Airport Authority Master Plan	90.00
54 - 018	5231	Counter – Part Contribution for BNTF 8	10,000.00 **Est.**
54 - 018	4935	Counter – Part Contribution for BNTF 7	48.00
54 - 111	5281	Hosting of CDB Board of Governors Meeting	628,775.97
57 - 033	5132	Downtown Ball Park Lights	87,901.16
57 - 033	5293	Project Management EDF – 11	130,000.00 **Est.**
60 - 077	5178	Petroleum Sector Risk Assessment and Legislative Upgrade	18,435.00
01 - 098	5465	Special Project	225,000.00 **Est.**

Appendix 3 – Projects with no Actual Amount

MIN.	DEPT.	PROJ. #	PROJECT DESCRIPTION	ESTIMATED AMOUNT $
16	096	5127	Border Control Management Information System Phase 2	155,000.00
54	018	5231	Counter-Part Contribution for BNTF 8	10,000.00
54	111	4838	Provision for CDB Shares	79,000.00
57	033	5293	Project Management EDF-11	130,000.00
59	048	5256	Post Office Redevelopment	900,000.00
62	072	5268	Wellness Centre Phase II	816,691.00
01	098	5465	Special Project	225,000.00
54	111	5300	Sea Defense	300,000.00
57	033	5042	Construction of New Primary Schools in PLS	3,250,000.00
57	033	5385	Electronic Teaching Aid and Software	50,000.00
57	033	5466	Schools Infrastructure Recovery Project	1,750,000.00
57	034	5372	Eliza Simons Primary School Furniture and Equipment	200,000.00
60	043	5425	Road Development Phase 3	700,000.00
60	043	5283	Government Office Block - XSC	200,000.00
60	055	4972	National Physical Development Plan	500,000.00
60	077	5330	Review of PLS Water Company	70,000.00
62	072	5332	Furniture and Equipment for Morgue	100,000.00
TOTAL				**9,435,691.00**