

1. EXECUTIVE SUMMARY

The Auditor General is required under the law to provide reasonable, not absolute, assurance on the financial statements, effectiveness of internal controls, compliance with laws and regulations, regularity, propriety and value for money. Additionally, the Auditor General is required to bring to the attention of those charged with governance, any possible fraud and abuse it discovered during its work. These requirements are to be met through the application of internationally recognized auditing standards. A fundamental requirement is to certify whether the accounts represent fairly the financial position of Government and that this is fully disclosed to the House of Assembly.

Some significant conclusions were arrived in completing this audit;

1. There has been measured improvement in financial recording of cash receipts, payments and notes to these statements which are in conformance with International Public Sector Accounting Standards (IPSAS) - Financial Reporting under the Cash Basis of Accounting and the Ministry of Finance must be applauded for achieving this objective. It must be noted that the Ministry of Finance has developed a road map to transition to full accruals accounting;
2. Weaknesses still exist, and significant improvements are required, in meeting statutory requirements to account for all assets, liabilities, commitments, guarantees, losses and contingent liabilities and to ensure that they are properly disclosed in accordance with Generally Accepted Accounting Practice (GAAP);
3. Internal control systems including IT systems require significant improvement according to a report from the Audit Committee and based also on the NAO's own work around controls and compliance and;
4. Consolidation may be required to ensure a fair presentation of the annual statements of public accounts under any basis of accounting adopted.

AUDIT OPINIONS¹

Four modified audit opinions were provided covering the annual statements of public accounts under two financial reporting frameworks. This was necessary as I believe that Government needs to be recognized for its work in bringing the accounts up to international standards on the cash basis of accounting.

¹ *There are 4 audit opinions that can be provided. An unqualified opinion means that the financial information is fairly presented. A qualified opinion means that the financial information is fairly presented, except in one or a few areas where the auditor cannot or does not want to provide any reasonable assurance. An adverse opinion means the auditor has concluded that the audited financial statements do not fairly represent the entity's financial position or financial performance. A disclaimer of opinion occurs when the auditor has chosen not to issue an opinion because the auditor is not fully independent or there is a limitation in scope or there are significant uncertainties regarding the appropriateness of parts or all of the financial reports.*

1. On an unconsolidated basis under the International Public Sector Accounting Standards (IPSAS) – Cash Basis of Accounting, being the GAAP adopted by Government in which, except for the weaknesses in controls and several repeat audit findings, the Statement of Cash Receipts and Payments, Statement of Comparison of Budget and Actual Amounts, and Notes to the Public Accounts present fairly, in all material respects, the cash position of Government for the year ended 31 March, 2015 resulting in a **qualified opinion**.
2. However, under the same GAAP, consolidation of controlled entities is currently required. Government has not consolidated its controlled entities, including statutory bodies, commissions and other public bodies. This is therefore a departure from IPSAS – Cash Basis of Accounting adopted resulting in an **adverse opinion**.
3. Under the National Framework, much work is required to provide fair presentation mandated under Schedule 2 of the PFMO and/or Schedule C of the PFMR. Fair presentation of assets and liabilities are a legal and regulatory requirement. A number of assets presented are reported at carrying values seemingly significantly above their recoverable amounts. In addition, there are also significant assets which were not presented on the statement of assets and liabilities such as non-current assets, and include furniture and fixtures, vehicles, equipment, plant, machinery, vessels and boats, office equipment, computer hardware, computer software, land, building and infrastructure. Government does not include these items as assets on its statement of assets and liabilities. Development fund expenditure is expensed as incurred, a high proportion of which would likely meet the definition of a non-current asset. In addition, Government also does not include other assets, such as inventory and revenue arrears for example, on its statement of assets and liabilities. Given the above, the assets presented on the statement of assets and liabilities are not considered to be an accurate representation of Government's total asset position. TCIG also does not include a number of significant liabilities, Public Private Partnerships (subject to an accounting opinion), amounts due under financing transactions, repatriation deposits payable, expenditure arrears etc. for example, on its statement of assets and liabilities. In addition some of the liabilities may not be properly estimated due to the underlying recording such as pensions' liabilities. The liabilities presented on the statement of assets and liabilities are not, therefore, considered to be an accurate representation of TCIG's total liability position. These comments are valid on both a consolidated and non-consolidated basis. On an unconsolidated basis, it has resulted in an **adverse opinion**.
4. The law needs to be clarified as to whether or not consolidation is required under the PFMO. However, in my opinion, to achieve fair presentation and full disclosure to the

House of Assembly, it is highly recommended that consolidation is done. The comments in 3 above are valid on a consolidated basis resulting in an **adverse opinion**.

Following are the opinions provided;

Annual Statements of Public Accounts	Frameworks	
	Fair Presentation Framework – IPSAS - Financial Reporting under the Cash Basis of Accounting	National Framework - Schedule 2 PFMO, Schedule C PFMR (Amendment)
Not consolidated with statutory bodies, commissions and other public bodies	<u>Qualified</u> – In my opinion, except for the weaknesses in controls and several repeat audit findings, the Statement of Cash Receipts and Payments, Statement of Comparison of Budget and Actual Amounts, and Notes to the Public Accounts present fairly, in all material respects, the cash position of Government for the year ended 31 March, 2015 in accordance with the IPSAS – Cash Basis of Accounting Framework. <i>The opinion for Schedule 2 of the PFMO and/or Schedule C of the PFMR is covered under the National Framework.</i>	<u>Adverse</u> – In my opinion, the annual statement of public accounts as required under Schedule 2 of the PFMO and/or Schedule C of the PFMR do not present fairly the financial position of Government as at March 31, 2015. Assets, liabilities, commitments, contingent liabilities, losses and other statements may be materially misstated and likely impact other statements.
Consolidated with statutory bodies, commissions and other public bodies	<u>Adverse</u> – In my opinion, the Statement of Cash Receipts and Payments, Statement of Comparison of Budget and Actual Amounts, and Notes to the Public Accounts do not present fairly the consolidated cash position of Government for the year ended 31 March, 2015 in accordance with the IPSAS – Cash Basis of Accounting Framework as the accounts have not been consolidated for the “Whole of Government”.	<u>Adverse</u> – In my opinion, the annual statement of public accounts as required under Schedule 2 of the PFMO and/or Schedule C of the PFMR do not present fairly the consolidated financial position of Government as at March 31, 2015. Assets, liabilities, commitments, contingent liabilities, losses and other statements may be materially misstated and likely impact other statements.

It is also important to draw to the reader's attention that the financial statements as at, and for the year ended, March 31, 2014 was disclaimed on the comparative balances reported.

The period under audit has seen measured improvement in the financial accounting and reporting activities. However, there still remain issues identified in the last audit, in which it has been recognized that work is required to improve the systems, controls and compliance. The public finance management laws and regulations need to be properly supported by strong underlying systems and controls. Legislation has increased extensively which dramatically increases the work demands. Accordingly, there still remains a gap between the intention of the finance laws and their implementation which has also been echoed by the TCI Audit Committee in their 2015 Annual Report. Some of these weaknesses identified by the TCI Audit Committee included absence of a risk management process, inadequate asset and liability management, no controls in place to ensure the reliability of financial information being reported, absence of documented policies and procedures to guide the operations, inadequate filing and storage of financial records and transaction documents, absence of supervisory review and management approval for transactions, inadequate documentation and inaccurate recording of inventory items and no systems in place to ensure compliance with applicable Ordinances and Regulations. The associated risks identified were theft, misuse and loss of inventory items, inaccurate reporting of financial accounts and inventory balances, tedious and time consuming efforts to retrieve documents and reconcile account balances, no existence of an audit trail to trace the activities in the processing of transactions, inability to produce management reports for transactions processed. The NAO also discovered several weaknesses in the financial reporting systems related to expenditure and these weaknesses need to be improved considerably.

Value for money risk remains high as the NAO has not been able to conduct many performance audits due to its chronic shortage of staff. Compliance risk is high and controls at the activity level need significant improvement. However, overall, financial governance risk is moderate and, while there has been measured improvement, work still needs to be done to strengthen its controls and compliance as this can have an impact on the reliability of the financial statements if not addressed. I was therefore unable to provide an opinion on the effectiveness of internal controls or on whether value for money has been achieved as this requires significant audit work beyond that of an audit of the financial statements. The lack of sufficient capacity within the NAO has been raised since early 2013 to the Governor's Office and the Public Accounts Committee. The NAO is required to operate under international standards and the NAO needs to be fully independent of the entities it audits, in particular, when conducting forensic and fraud audits. In the upcoming year, the NAO is hoping to increase its staffing, strengthen its processes, systems and capabilities, continue with its 2014/15 audit plan and initiate new audits in areas of information technology, capital expenditure projects, the effectiveness/enforcement of the Code of Conduct, management override of

controls/compliance and several other high risk areas. In addition, priority is to be given to dealing with accounting, administrative and long-term development matters at the NAO.

CONCLUSION

Government's financial statements are required to follow both GAAP **and** statutory requirements. Whilst a recognised GAAP has been adopted a current key requirement of that GAAP has not been adopted as there has been no consolidation of controlled entities. A key disclosure for any entity, the statement of assets and liabilities, is not complete, accurate or as informative to the users of the financial statements as it should be, which also materially impacts several other required statements. I provide no assurance on the effectiveness of internal controls, no assurance on whether value for money has been achieved, and no assurance on whether fraud risks are mitigated. To provide these assurances would require significant audit work beyond that of a financial audit for which the NAO currently does not have sufficient and appropriate resources. Overall, cash flow reporting statements are fairly presented in all material respects on an unconsolidated basis, however, work needs to be done to improve reporting of the financial position of Government on an unconsolidated basis and highly recommended to be done on a consolidated basis in achieving fair presentation to encompass the "Whole of Government".



Anand Heeraman FCCA, CGA, CPA CFE Auditor General – 30 November, 2015