

Audit Certificate

To the House of Assembly of the Turks and Caicos Islands

The Auditor General is legally required to examine, audit and certify, in accordance with internationally recognized auditing standards, where appropriate, whether or not the Government's annual public accounts and statements presented by the Accountant General conform to the requirements of the Public Financial Management Ordinance (PFMO) (and any framework document prepared thereunder), represent fairly its financial performance and financial position and that the financial affairs have been conducted with regularity and propriety.

Furthermore, the Auditor General must ensure that reasonable precautions have been taken to safeguard the proper collection of monies and for the receipt, custody, issue of and accounting for assets, to ensure that all receipts, assets, expenditure and other transactions to which such examination and audit relate have been lawfully incurred and that the law has been duly observed.

The Auditor General is also required to certify that the internal control system and provision of internal audit services is adequate and complies with any instructions issued by the Permanent Secretary, Finance and that satisfactory management measures have been taken to ensure that public or other resources are procured economically and utilized efficiently and effectively.

Management Responsibility for the Financial Statements

Management is responsible for ensuring that the financial position and performance of the Government is fully disclosed to the House of Assembly. Management is also responsible for the preparation and fair presentation of the annual statement of public accounts enumerated in Schedule 2 of the Public Finance Management Ordinance & Regulations (PFMO & PFMR) including any amendments and in accordance with generally accepted accounting practice (GAAP), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In this regard, management is responsible for ensuring transactions are recorded properly in the accounting system and for establishing and maintaining an internal control system sufficient to permit the preparation of the annual statement of public accounts in conformity with GAAP and the law. This audit of the annual statement of public accounts does not relieve management of this responsibility. Management is also responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us;

- about all known or suspected fraud affecting Government involving management, employees who have significant roles over financial reporting and others where fraud could have a material effect on the financial statements; and
- of its knowledge of any allegations of fraud or suspected fraud affecting Government received in communications from current employees, former employees, the public, or others; and
- of all significant deficiencies in the design or operation of internal controls over financial reporting that are reasonably likely to adversely affect the ability to record, process, summarize and report financial data externally on a reliable basis; and
- of any non-compliance with the laws and regulations applicable to its activities.

Auditor's Responsibility

My responsibility is to express an opinion on these statements based on my audit. An audit involves performing procedures to obtain evidence about the amounts and disclosures in the annual statement of public accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual statement of public accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual statement of public accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. However, under the laws I am required to conduct sufficient work to provide reasonable assurance on it. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Basis for Adverse Opinion

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

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

- i. For example the \$897 million healthcare cost is treated as a commitment. For all intents and purposes, it is a liability, resulting in an understatement of the Liabilities in the Statement of Assets and Liabilities. (Note 3.2)
- ii. \$408.5 million of Assets is not accounted for and/or disclosed properly in the Financial Statements. There is no clear disclosure for these amounts. This also implies that there is a high risk that assets could be exposed to misappropriation. This results in an understatement of the Assets in the Statement of Assets and Liabilities. (Note 3.3)
- iii. The Consolidated Fund (CF) does not tie back based on the financial statements received for audit. In the Annual Statement of Public Accounts (ASPA) Supplementary Note 9 "Statement of Assets and Liabilities" the CF balance was - \$16.491 million and in the ASPA Supplementary Note 10.2 "Statement of Cash Flows", the CF balance was \$38.318 million. The CF is materially misstated. (Note 3.4)
- iv. A key provision, Section 5 (3) of the PFMO states that the Development Fund (DF) shall not form part of the Consolidated Fund and shall be kept in a separate account by the Accountant General. The DF has not been managed in accordance with the legislation authorizing it as provided for under the PFMO. As the DF balances were co-mingled with the Consolidated Fund Balances (CFB), it also implies that the CFB is also incorrect, lending further support to the problem with the CF outlined in (iii) above. DF and CF amounts ideally should not be commingled as there are specific requirements in how the DF account is used and there are specific accountability requirements in regards to the lenders/grantors/foreign donors. The DF was also intended to be separate from the CF, so that it could at least identify clearly what expenditure was incurred for infrastructure, land purchases, buildings, boats, vehicles, furniture, equipment, computers and other fixed assets, the costs of which increases the service potential or useful life of the assets. While it may be possible to extract these figures, it is difficult to establish whether or not the funds allocated for development was legally spent on what it was supposed to be spent on. The separate tracking and legal separation of these two major accounts would also serve as a clear control of knowing what assets TCIG owns in order to limit misappropriation. The controls are weak or ineffective. The DF balance is materially misstated. (Note 3.5)
- v. Consolidated pension liabilities total \$584.3 million. The \$489.9 million (unaudited) in pension liabilities at the NIB and the \$94.4 million in TCIG pension liabilities must be treated with in TCIG's Accounts. NIB reserves are approximately \$252 million while it is not clear as to what funding is available to address the TCIG pension liabilities. This results in a consolidated unfunded pension liability of \$332.2 million (\$584.3 - \$489.9 -

\$94.4 [amounts in millions]). These have not been properly included in the Financial Statements of TCIG. It is also uncertain as to what are the estimates of post-employment healthcare liabilities. Pension liabilities and post-employment health care liabilities are significant long term liabilities that directly impact the vast majority of contributors. (Note 3.6)

- vi. \$55.7 million in arrears (made up of arrears and penalty) were not collected for various reasons and were not included in the Financial Statements. The arrears amounts cannot be assured as the notes are insufficient, back-up documentation is inadequate and this has been a repeat audit finding. Previously there was a \$12.6 million write-off which adds further concerns around the effectiveness in collections. There are specific requirements that must be met under the PFMO prior to write-off of these large sums, recognizing some of the historical financial challenges. (Note 3.7)
- vii. From our review of the \$8.4 million loans listing for the assets taken over from TC Invest, we noted that some assets did not incur any movement during the year. There was no interest income accrued on these assets and no payments made out. The biggest portion of the assets did not have any recoveries during the year. We did not obtain any evidence of follow-up or alternative actions taken regarding the non-performing loans. There is no evidence that a physical verification of the mortgaged assets is/was performed. The assets are not verified by the board of surveys as part of their annual verification. We therefore could not ascertain the existence and current condition of these assets. (Note 3.8)
- viii. The Statement of Assets and Liabilities had a total of \$2.7 million for advances of which \$2.6 million is to be written-off. The PFMO states that all advances shall be retired in the year made, so the balance on all advance accounts should be zero. (Note 3.9)
- ix. Vouching of the items on the Statement of Commitment (Note 18 of the Financial Statements) to the Ministry's Reported Statement of Commitments revealed differences totaling approximately \$2.2 million. (Note 3.10)
- x. Within the financial statements is a \$0.8 million amount related to stale dated cheques. These cheques were reclassified from cash balances into payables as they had been long outstanding. Through our inquiries with management, we were informed that management is still following up on why the payees did not cash their cheques. We could not verify whether these cheques were actually delivered to the payees. It is management's responsibility to settle these obligations as they have been outstanding for a period beyond one year. (Note 3.11)

- xi. There were no recording of guarantees in the financial statements. For example if there is any temporary insufficiency in the assets of the NIB Pension Fund to meet the liabilities of the same fund, it shall be met by TCIG. Currently the NIB Pension Fund liabilities are estimated at approximately \$489.9 million. TCIG also may be the loan guarantor for some loans between NIB and the old TC Invest and TCI Bank that are not reflected in TCIG's note disclosures. (Note 3.12)
- xii. Previous year balances totalling \$210,000 for the Ministry of Education and Ministry of Tourism were not included in the statements. There were no write-offs for the year ended 31 March 2017. There was also a loss of cash totalling \$22,616.30 at the Judiciary that was not included in the financial statement for the years ended 31 March 2016 and 31 March 2017. There was also an amount on the statements for Ministry of Border of Control for residence permit which was omitted from the financial statements resulting in an understatement of \$128,700. (Note 3.13, 3.14)

3. Revenue & Expenditures are materially misstated

- i. The NAO was unable to audit the IT systems and controls upon which the financial statements are prepared. However, a spot check review of payments made revealed that there were 795 cheques totalling \$7.0 million that were cancelled during the period under audit. According to Treasury, this occurred mainly as a result of a system error in SmartStream. There is a risk that duplicate payments may not be captured or reversed resulting in an overpayment of expenditures. This also implies that there may be other systemic issues with the IT System that have not yet been discovered or known. These systems have not been substantially audited for a substantially long period of time. Smartstream is the main accounting software used to manage TCIG's finances. It is the primary source for accurate recording of transactions of Government. We are unable to assure the accuracy or reliability of the financial information generated from Smartstream, at least until an IT audit is performed. This issue has the potential to affect a multiplicity of accounts if there are this many system errors at this high value amount. (Note 3.15)
- ii. TCIG has not recorded amounts from a few Statutory Bodies as a control to ensure that they receive the funds due to TCIG. During our audit of the statutory bodies, for example the Telecom Commission had an amount due to TCIG of approx. \$1.6 million (Telecom's 2017 Audited Fin. Stats), Airports Authority of \$0.5 million (2015 audited fin. Stats.), Civil Aviation of \$0.5 million (2015 Audited Fin. Stats.), FSC of \$2.9 million (FSC's 2017 Audited Fin. Stats.). These total approx. \$5.5 million and are not reflected in TCIG's accounts implying that there are no controls to ensure that these amounts are actually received from the Statutory Bodies. During the reporting process, these figures

may not all be captured resulting in an understatement of Revenues. There may be more that is due to TCIG that has not yet been collected and/or accounted for. These have far reaching implications for budget decisions. (Note 3.16)

- iii. In the Financial Statements, Note 4.1, the Communications Tax and Gaming Machine tax are both \$5.666 million. The Seaport Departure Tax, Stamp Duty-Vehicle Hire and Insurance Premium tax are all \$1.424 million. These appear to be errors. This impacts the accuracy and reliability of the reported Revenues. (Note 3.17)
 - iv. There were several overstatements which impact the accuracy of the financial statements. For example the costs for Medical Treatment – Transfers to NHIB were overstated by \$226,987.82 due to other vendors' costs being included in this figure. The costs for rental of assets were overstated by \$221,889.53 due to incorrect classification of expenses. Expenses such as housing allowance, office supplies and catering were posted to the rental of building account. Also there were claims against the Government account which were overstated by \$60,000 due to incorrect classification of expenses with respect to a refund of \$50,000 for a Casino Licence and Professional and Consultancy costs of \$10,000 for services relating to credit facility agreement for TCIG. (Note 3.18)
 - v. All manual journals/entries require approval by an authorised official prior to posting to the General Ledger. We extracted a sample of manual journals of the sample of 48 journals totaling \$4,299,073.99, 10 journals totaling \$288,341.20 were not authorised. The lack of authorization of manual journals shows a weakness in internal controls and poses a risk for potential management override of controls. This was also discovered in a previous audit. (Note 3.19)
4. Government and Statutory Bodies apply different bases of accounting making it difficult for Central Government to consolidate their accounts. While the Cash Flow Statement can be consolidated, income statements and balance sheets are not. The bases of accounting range from cash accounting, modified-cash and accruals. These need to be aligned properly. These create financial reporting discrepancies. The 2012 new laws provided for the Accountant General to set the basis of accounting across the Whole of Government which includes Statutory Entities. (Note 3.20)
5. Certain information (documentation and/or explanations) were not received. Some requests for information were not received or could not be provided by the timeline due mainly to unforeseen circumstances such as the hurricane. These were the report of the healthcare reconciliation costs, support documents and reference numbers from Customs Department for transactions relating to Concessions granted and fees received relating to Import Duties, Fuel tax, Customs Processing Fee, Warehouse Rents, and Sale of confiscated Goods. We did not receive the support documents or reference numbers in order to conduct our testing. We were informed that

due to the Department having to move from its previous location the information was not able to be compiled and would be provided at a later date. Therefore we would not be able to assure the accuracy or reliability of the Revenues.

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

Audit Findings supporting the Adverse Opinion are detailed in the audit report attached.

Adverse Opinion

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

Our audit was based on the financial statements submitted for audit on July 31, 2017. The TCIG submitted revised financial statements on March 14, 2018. We were not able to audit this revised set of financials and place no assurance on either set of reports.

I place no reliance on management's representation letter outlined in the financial statements as the evidence obtained contradicts the representations made in the letter.



Anand Heeraman

Auditor General – March 15, 2018