



# 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 2016**

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## 1. Executive Summary

The National Audit Office (NAO) concluded several aspects of its audit of the TCIG's financial statements for the 2015/16 fiscal period submitted on July 31, 2016. However, we were not able to complete other aspects of the audit, in particular the IT Financial Controls and Systems, resulting in a limitation in scope. The Ministry of Finance submitted incomplete financials on July 31, 2016 and resubmitted revised financials on February 6, 2017 that were adjusted for the many errors and omissions identified in this audit report. Given the lateness of these financials and management responses, the NAO could not assure the accuracy or sufficiency of the revised financials and some management responses that would have required further audit work. Despite the revised financials that corrected many of the errors, the audit opinion has not changed. Resubmission of financials has been a feature for the last several years and is a noticeable reminder that, for information to be useful it must be timely.

NOTE: ***The NAO are not the ones who create the audit issues, we simply report them.***

Despite resource challenges, many Accounting Officers have sought to improve financial reporting systems. I have in many instances accepted the Accounting Officers' representations and in some cases, I have not, and for good reason. I have advised them to manage some of the issues internally for continuous improvement.

However, of critical importance is that the TCIG needs to make significant progress in several other areas outlined in this audit to be able to achieve fair presentation, a principle that underpins integrity and reliability in financial reporting presented to the Public.

### **Disclaimer of Opinion**<sup>1</sup>

**I was not able to obtain sufficient appropriate audit evidence to form an opinion on the TCIG Financial Statements for 2015/16 as a whole. I also do not provide any assurance on the internal controls, risk management including fraud risk management and value for money.**

The key sections, **Section 1** provides an outline of the key issues and concerns arising from this audit. **Section 2** expands on the issues highlighted in this Executive Summary and would be useful to readers to obtain a general understanding of the significant issues and development areas that management and those charged with governance need to focus on. **Section 3** shows in tabular format a risk assessment model used to assess the risks. **Section 4** details the key audit findings based on the fieldwork conducted up to the point in time when the disclaimer opinion was arrived at in mid-November 2016.

*While one or two of the findings/issues, in isolation, can lead an auditor to express an adverse opinion, I considered all findings in combination before arriving at a disclaimer of opinion on the*

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<sup>1</sup>There are 4 audit opinions that can be provided. An unqualified opinion means that the financial information is fairly presented.

TCIG 2015/16 Financial Statements submitted on 31 July, 2016. As a result of a limitation of scope no further detailed audit work was done, but management comments were included and the report adjusted to the extent that management responses were accepted.

**Key issues are as follows:**

### **Limitation in scope**

1. There was a **limitation in scope due to the inability to recruit staff through the Public Service and also limitation in scope by not being able to retain audit firms** brought about by a legal matter that was under review. As a result I have also been unable to fully audit the IT systems and controls upon which the financial statements are prepared. These systems have not been audited for the last 4 years or possibly more. No contracts have been entered into until this issue is addressed. Operational constraints **must** be removed to enable the NAO to conduct its' audits so that I can effectively assume responsibility for any resulting audit reports sent to the House of Assembly and as required under the TCI Constitution.
2. There are material financial and other impacts between the TCIG and Statutory Bodies which require review as part of the TCIG Audit. Due to the NAO's inability to engage audit firms to conduct audits on several of the larger statutory bodies, the NAO was unable verify several of those transactions, decisions or impacts occurring between the TCIG and Statutory Bodies.

### **Consolidated Fund Balances**

3. There is **nowhere** in the Financial Statements submitted on 31 July, 2016 for audit that identifies the Consolidated Fund Balance. The Annual Statement of Public Accounts does not identify what is the financial position of TCIG. This is a fundamental requirement. There is an operating annual surplus, however there is **NO** accumulated consolidated fund balance reported. For financial statements to be useful a financial position **MUST** be included in the financial statements whether on a cash basis or accruals basis. **There is therefore no way to inform users of the financial statements whether the financial position is in a surplus or deficit.** *Authorizations are made from the Consolidated Fund and funds are paid into the Consolidated Fund, yet we have no Consolidated Fund Balance presented in the Financial Statements as at March 31, 2016. According to Section 18 of the NAO Ordinance, the Auditor General is required to report on the financial position (which includes the financial performance) of the TCIG's Accounts. A revised set of Financial Statements was submitted on February 6, 2017 which included a consolidated fund balance. The NAO's concerns still hold that the balance reported is inaccurate. [Issue 4.1]*
4. The TCI Constitution mandates reporting of the activities and balances of a Consolidated Fund. The Consolidated Fund, **TCIG's Main Account, is however, materially misstated for the current year. As they are misstated for the current year, prior years will also be misstated.** What is

recorded in the general ledger consolidated fund account and what is presented in the financial statements do not agree. **Smartstream is the main accounting software used to manage TCIG's finances. It is the primary source for accurate recording of transactions of Government.** No reconciliation was outlined in the financial statements submitted on July 31, 2016. Management responses received on February 1, 2017 did provide a reconciliation which also contained unexplained and unsupported differences. Other accounts and/or disclosures may also be materially misstated. **[Issue 4.1]**

#### **Outstanding Lease Commitments**

5. Commitments and liabilities are required to be reported under Schedule 2 of the PFMO and needs to be presented in the disclosures to ensure a true and fair view. In discussions with management during the last audit, outstanding lease commitments were noted to be around \$14.2 million. This figure has not been validated, but there will be a material misstatement if outstanding lease commitments are in this range. Management does not acknowledge this figure. However, there is a potential for misstatement of the financial statements if this amount is validated. **[Issue 4.2]**

#### **Pension Actuarial Valuation**

6. Section 111 of the TCI Constitution states that the Minister of Finance shall ensure that all contingent liabilities of the Government, including pension and healthcare liabilities, are subjected to independent actuarial assessment at least every two years, and shall report the information provided by any such assessment to the House of Assembly within two months of receiving it. No actuarial valuation on pensions was done to obtain an independent assessment of these contingent liabilities for inclusion in the financial statements within the timeframe required. **Without the actuarial valuation completed, the amounts disclosed in the financial statements may not be accurate.** TCIG is responsible for various long-term liabilities to its current and former employees, including House of Assembly members. The TCIG is required by the Public Financial Management Framework to make contingent and actual liabilities, including (but not limited to) pensions and healthcare schemes, subject to actuarial assessments at least every two years. Actuarial assessments will be published within three months of receipt. The Government will publish its proposals to address the results of the assessments no later than the budget following the receipt of the actuarial assessment. **Pension and gratuities reported as at March 31, 2016 were \$75.8M.** The last actuarial valuation was performed as at 31 March 2014 by an external consultant. Management did not carry out a valuation to establish the pension liability position as at 31 March 2016 for Government. **[Issue 4.3]**

#### **Amendments to PFM Ordinance**

7. **Pre-2012 and Post-2012 financial laws all had a requirement for a balance sheet and to report on the Consolidated Fund, until amendments to the PFMO were made to specifically comply with the IPSAS Cash Basis Accounting Standard in March 2016.** However, in doing so the change did not take into account references to other parts of the Ordinance and Regulations which refer to assets, resources, public property etc. There is also a constitutional requirement to report on the Consolidated Fund and not just report on “general purpose financial statements”. It is also unclear why would there be an amendment to specifically require reporting to IPSAS Cash when the laws already provide for reporting in accordance with Generally Accepted Accounting Practice (GAAP). The Public Finance Management Ordinance (PFMO) requires that TCIG adopt best practice i.e. GAAP with regard to international accounting standards **but** this should be done so as long as the explicit reporting requirements of the Ordinance are also undertaken. The amendments made therefore are inconsistent with other parts of the PFMO. If this change is to occur there would need to be other changes to the PFMO, Public Procurement Ordinance (PPO) and Public Finance Management Regulations (PFMR). As of February 6, 2017 the MoF included a balance sheet in the revised financial statements submitted. It does not change the overall position that the amendments made are inconsistent with other parts of the laws, especially where the laws already have provided for reporting in accordance with GAAP. **[Issue 4.4]**

**NOTE:**

A 2003 Audit Report stated that the Finance and Audit Ordinance requires that TCIG adopt best practice with regard to international accounting standards, as long as the explicit reporting requirements of the Ordinance are also undertaken. This is no different under the PFM Ordinance. The 2003 Audit Report also recommended that TCIG consider compliance with IPSAS, specifically referring to IPSAS Cash but it does not mean that if you report on a cash basis that you ignore other requirements under the law.

**Capital Assets**

8. TCIG does not report its capital assets including land within the financial statements. At the very minimum, a list of the capital assets should be categorized and disclosed in the financial statements. The 2013/14 audit reported 169 buildings owned by TCIG. According to a 2005/6 audit report, a 2004 asset inventory and condition survey was undertaken by a private firm of consultants which estimated government assets (i.e. owned buildings, standby power, airfield and facilities, water supply) to be worth approximately \$111 million. It did not include monetary amounts for contents and equipment (e.g. medical and other electronic equipment) or new assets either constructed or acquired. Between 2000 and 2016 capital development expenditure totalled \$387.7 million. Resources include vehicles and heavy equipment, plant machinery and equipment, vessels and boats, furniture and fixtures, office equipment, computer hardware and equipment and computer software. It also includes capital developments such as land, building and infrastructure. **With inadequate controls over Assets, it is difficult to assure that the capital spending on Assets is delivering value for money or that**

they are properly accounted for, safeguarded and maintained and are not prone to theft, loss or other misappropriation. This approach of “if it’s not in the accounting standard, then it’s not required” is clearly inconsistent with the Public Financial Management Framework, which is part of the TCI Constitution. *This recommendation is made in reference to International Standards for Supreme Audit Institutions (ISSAI) 9160 – Enhancing Good Governance for Public Assets.*

**[Issue 4.4]**

**NOTE:**

A 2002 audit report recommended a partial accruals basis of reporting “at least in terms of reporting government owned assets”. The report went on to state that “*at some stage in the future TCIG will have to give serious consideration to implementing an accruals based system of accounting. The implementation of Smart Stream now makes this more achievable. If this was undertaken it would make the task of preparing consolidated accounts more practicable.*” It is quite possible that there would have been practical limitations in the implementation process over time, however, it is quite concerning that after approximately 15 years that the MoF has only now begun the process stating that adoption of the IPSAS Cash Basis Standard is the first step in providing comprehensive and accurate information in the Annual Accounts” (perhaps towards accruals accounting).

**NOTE:**

In a 2006 Audit Report, the report made specific recommendations pertaining to the valuation of assets. The report recommended a risk management advisory committee be set up to develop an overall insurance strategy. It stated that the government must take overall responsibility and approve the level of risk it is willing to take; this can be done through a documented risk assessment process with complete and up-to-date information on value of assets (i.e. properties, contents, equipment etc.). It is not clear the extent to which any valuation has been done, but this finding is consistent with the key weaknesses in risk management outlined in this audit report and the repeated recommendations of accounting for public assets.

**Inaccurate and Incomplete financial statements presented for audit**

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

numerous repeat audit findings that occur year over year remaining incomplete, the House of Assembly **will not** get an accurate picture of the overall financial health for the Whole of Government. Because of the combination of impact and severity of the audit findings, (i.e. risk) and several years of predominantly disclaimers or adverse audit opinions, accountability and responsibility comes in to question. It is clear, that significant improvement is required. **The MoF had 4 months to prepare the financials for audit, the MoF were provided with the issues as they became available throughout the 4 month audit, had close to a month to respond to the issues at the end of the audit cycle, and even had an additional 2 months to respond to the audit issues.**  
**[Issue 4.5, 4.6]**

### **Healthcare Liabilities**

10. In discussions with the Health Contracts Management Team, commitments or liabilities may not be accurate as the Team has indicated that the figures in the Financial Statements regarding the commitments for healthcare costs are **quite probably less** (meeting held with 2 members of the Contracts Management Team on September 16, 2016). I indicated to both the Team and MoF seek to correct the figures as it may be materially misstated and needed to be corrected. At this time we cannot ascertain how much the difference may be, but given that the initial costs were \$118 million and the projected costs were in the vicinity of \$1 billion, the potential misstatement is estimated to be material. **[Issue 4.6 (point 10)]**

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

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

#### **NOTE:**

**A 2002** Audit Report stated that *“in part because of technical difficulties posed by the TCIG accounts being prepared on a cash basis the accounts of government do not incorporate the financial statements of public sector bodies such as the statutory bodies. In this respect the statements as presented do not present a complete picture of TCIG financial activity, and are in contravention of the forthcoming International Public Sector Standards. At some stage in the future TCIG will have to give serious consideration to implementing an accruals based*

*system of accounting. The implementation of Smart Stream now makes this more achievable. If this was undertaken it would make the task of preparing consolidated accounts more practicable.”*

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

Again, it is unclear why these previous audit recommendations have taken this long to begin implementation. The cash basis of accounting is inadequate for some of the classes of transactions and disclosure requirements under the TCI Laws. **[Issue 4.7]**

### **Control Environment**

**12. The internal control environment is weak.** At a high level, and in many instances, the new laws and regulations are more than adequate. However at the task or transaction level, there are insufficient risk management and internal control procedures in place, inadequate fraud risk management mechanisms in place, inadequate system in place to address related party transactions and/or events, management override of controls, control gaps in the preparation, review and approval process of adjusting journal entries, ineffective controls around review of exposures arising from financial instruments held, repeat audit findings, incomplete audit recommendations, lack of up to date approved manuals and operating procedures, control gaps around the preparation and review of bank reconciliations, control gaps over completeness, accuracy and recoverability of arrears. **[Issue 4.8 - 4.22]**

### **Greater attention needs to be paid to the financial reporting system**

**13. The MoF needs take responsibility for the TCIG financial reporting system.**

- I. Appropriate action is needed to correct this trend of disclaimers and adverse opinions and seek to implement the audit recommendations that have been repeated year after year.**
- II. Incorrect financial positions and/or transactions in the Consolidated Fund need to be corrected and it is also quite likely that your Development Fund balances may also be incorrect (this is currently being reviewed to confirm or reject).**
- III. At a minimum ALL ASSETS must be recorded even if some of the Capital Assets are not included in the financial statements. While various standards may dictate different reporting requirements, it is incumbent on the MoF to ensure that you keep proper records of all of TCIG's Assets, otherwise you cannot protect them from theft, loss or other misappropriation methods.**

- IV. More detailed disclosures are required in several areas mandated under law and these disclosures must meet GAAP requirements even though not required under the Cash Basis IPSAS.
- V. The accounting software used to record and process transactions need to be audited to understand if the controls are adequate to ensure that all transactions are captured and accounted for.
- VI. Significant improvement is required in the quality review process so as to reduce the amount of errors and omissions.
- VII. Strengthen the internal control and risk management environment including fraud risk management, minimize discretion for determining the accounting policies.
- VIII. Just because the IPSAS Cash Basis does not mandate reporting of capital assets, does not mean that it is not required under the TCI Laws. The application of international standards should be done in the context of what is required under TCI Laws and Regulations, not amend the laws to allow discretion in financial reporting.

#### **Inadequacy of the cash basis of accounting**

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

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#### **AUDITING IS A REGULATED PROFESSION**

**Auditing is a regulated profession and the NAO must have the appropriate resources to conduct its audits.** *I do not expect that all resources would be provided, far from it.* However, I do expect that there be little operational constraints, which interfere with my independence in the execution of those duties. The NAO must be able to be financially and operationally independent from the entities it audits. There are several risks such as resource risks, independence risks, quality and detection risks, confidentiality risks, IT risks, among others. Without these risks being addressed, its work will continuously be interfered with and the Office will not develop the way it should.

Prior to my appointment, I was advised by senior officials that the NAO was an independent body and to achieve that independence, it was legally a Statutory Body. Four months into my appointment, it was indicated to me that this was not the case as, under the Constitution, it was a public office and there were conflicts with the NAO Ordinance and the Constitution which had to be

remedied by amendment to the law. This meant that the NAO had to comply with the rules and regulations of the Public Service. The NAO has little concern with complying with these rules and regulations, to the extent that it is consistent with the international standards and in most cases they are. However, in complying with some of them, it limits the ability of the NAO to effectively make staffing decisions. I do believe there has been a good balance struck between the Public Service Commission, HR Department and my Office in recruitment, but some concerns remain.

Another issue arising out of the advice that the NAO was not a statutory body was that there was no need for a bank account. By not having a bank account to pay auditors has now resulted in a gridlock of the entire audit process for a few of the statutory bodies and has interfered with the proper functioning of the NAO, an issue which is being addressed.

A third issue was with regards to the audit of the NAO's accounts which would now be rolled in with the TCIG Accounts for audit. Independent financial statements generated from the NAO was also not required. The NAO still went ahead and prepared financial statements but clarity is required in many of these areas.

It remains extremely concerning however, that this issue of the independence of the Office to be able to recruit, appoint, compensate or promote staff could not be resolved by amending the Public Service Ordinance to allow an institution protecting good governance (a "non-applicability of part" clause that is applied) to manage its staffing matters and not have the audit clients (e.g. HR) deal with staffing matters on behalf of the NAO. Perhaps there is good reason that Part VI of the Public Service Ordinance 2012 - Discipline, Termination and Removal does not apply to an office that is an institution protecting good governance. However, Part V – Recruitment, Appointments, Promotions and Transfers could be amended to add the NAO as an institution protecting good governance. After all, the Auditor General is already included in this "non-applicability of part" of the Public Service Ordinance.

Overall the NAO, as an institution protecting good governance, should not have to depend on an audit client to make decisions about its staff including compensation, promotion, appointment etc., that should be the purview only of the NAO and those administratively responsible for governance. As long as this continues, the Office will never be independent of its audit clients, especially in a small environment.

#### **AUDITS MUST BE LED BY THIS OFFICE**

I do not intend to automatically endorse audits conducted by audit firms without adequate consideration by my Office. That is not what the TCI Constitution or the NAO Ordinance intended for the role of Auditor General. As it stands, neither the NAO nor the statutory bodies can engage audit firms to audit the statutory bodies' accounts. The authority to audit resides with the NAO and the authority to pay resides with the Statutory Body. ***This impacts the Statutory Bodies' operations***

*and it is neither in the interest of the Statutory Body nor the NAO, to let this approach continue. It must be also stated that no Statutory Body or other public entity should engage auditors to audit themselves, although it is understood that one or two bodies either have engaged auditors without the Auditor General's approval or have attempted to do so. Further, no public entity should be entering into the conduct of audits outside of the NAO Ordinance as the resulting audit reports will be invalid in its intended purpose. This issue is being addressed.* Until such time as this issue is resolved, any audit that is not led by this Office, I assume NO responsibility for the resulting reports. Audits should not be laid in the House without the full review and sign-off of the Auditor General. It should ideally only be sent from the NAO, not from any other third-party. Further, the financial audits conducted by the audit firms are only part of the audit reporting requirements.

It serves no purpose to have a Constitutional Office devoid of resources where the audit fees are budgeted for in the audit clients' books. This has been so for the last 4 years. The NAO intends to increase audit oversight of the Statutory Bodies and ensure, where appropriate, several audit procedures are conducted in conjunction with the financial statement audits, which include compliance with laws and regulations, propriety, internal controls, risk management, governance, propriety and value for money. Financial audits conducted by the firms are insufficient to provide the level of assurances needed in some of these areas noted.

#### **INTERFERENCE IN THE OPERATIONS OF THE NATIONAL AUDIT OFFICE**

The [United Nations General Assembly](#) adopted Resolutions A66/209 (Dec 2011) and A69/228 (Dec 2014) in promoting and fostering the efficiency, accountability, effectiveness and transparency of public administration by **strengthening Supreme Audit Institutions in its independence and capacity building**. Section 97 of the TCI Constitution, states that in the exercise of the NAO's functions, it shall not be subject to the direction or control of any other person or authority. In carrying out the functions of the NAO, the NAO Ordinance states that the Auditor General **shall** perform his functions through the application of internationally recognized auditing standards (Section 7(2) and 19 (1) of the NAO Ordinance). **It is an offence to interfere with or exert undue influence on the NAO in the exercise of their powers or in the performance of their professional functions. A person convicted of an offence shall be liable to a fine not exceeding \$20,000 or imprisonment for two years or both.**

Examples of circumstances that may create undue influence threats for an auditor or audit organization as extracted from **Government Auditing Standards** include existence of, but are not be limited to:

- External interference or influence that could improperly limit or modify the scope of an audit or threaten to do so, including exerting pressure to inappropriately reduce the extent of work performed,

- External interference with the selection or application of audit procedures or in the selection of transactions to be examined,
- Unreasonable restrictions on the time allowed to complete an audit or issue the report,
- External interference over the assignment, appointment, compensation, and promotion of audit personnel,
- Authority to overrule or to inappropriately influence the auditors' judgment as to the appropriate content of the report,
- Restrictions on funds or other resources provided to the audit organization that adversely affect the audit organization's ability to carry out its responsibilities,
- Threat of replacing the auditors over a disagreement with the contents of an auditors' report, the auditors' conclusions, or the application of an accounting principle or other criteria,
- Influences which seek to jeopardize the auditors' continued employment other than for incompetence or misconduct.

Where any one or a combination of the above occurs, independence may be compromised and the quality of the audit report will be impacted. There have been several instances of interference in the operations of the NAO. ***At this time, active measures are being taken by those charged with governance to address. I have no issues whatsoever in reporting these interferences fully to the House of Assembly and the Public should these issues remain and I also have no issues in taking action under the NAO Ordinance against those who continue to interfere with the work of the NAO.***

## **CONCLUSION**

Moving forward for 2017, the NAO plans on auditing governance aspects over Public Assets and Capital Expenditures of TCIG, one aspect of it being to determine whether the Development Fund balance reported in the financial statements are correct. An audit examination on propriety is long overdue and this will be done in conjunction with a management override of controls audit as long as the resources provided match the exercise to be undertaken. An audit over the IT Systems and Controls is also high priority. We will also be focused on several statutory body audits.

This audit report was delivered beyond the reporting deadline of November 30, 2016 due to the lengthy delay of the MoF in responding to these issues. Several meetings were conducted and communications and updates provided throughout the audit. Key dates are outlined below;

On **August 12, 2016** emerging issues to this date were provided to the MoF.

On **October 6, 2016** a meeting was held to review in detail, emerging findings to this date and other issues. Many of the accounting officers provided their management responses. However, the key area of the financial statements still had outstanding matters to be dealt with. Further information

was requested, some of which were not received from the original request sent end July/beginning August 2016 for example the bank reconciliations and statements.

On **November 24, 2016** another key meeting was held and some additional time was provided to the MoF to consider whether or not it could correct the material errors as it not only impacted the current year but also prior years.

Another meeting was held on **December 2, 2016** to go through the key problematic areas which would cause a disclaimer or adverse opinion and time was provided again to respond regarding the path forward.

On **December 11, 2016** we received a revised set of financial statements, however, it did not address the fundamental issues the NAO raised.

On **December 12, 2016** I outlined the key issues again to the PS Finance and Accountant General.

On **December 20, 2016** I sent a final draft of the report and provided another window of 15 working days (approximately to January 13, 2017).

I followed up on the progress on **January 12, 2017** and the indication was that it will not be complete by January 13, 2017 as it is a lot.

On **January 12, 2017**, I then suggested that perhaps responses be provided for just the key findings. Given that they were not able to provide the responses even to the key issues, and significant time had elapsed, on **January 16, 2017** I advised that the audit report will be finalized and a disclaimer is to be dated on **January 17, 2017**.

In the process of distributing the audit report, a response had reached me on the evening of the **January 23, 2017**.

On **January 24, 2017** the Audit Report was amended to include management responses, auditor comments and a revised set of financial statements in which some errors that could be corrected, were corrected.

On **January 27, 2017**, additional time was allowed **again** until **February 10, 2017** to provide further management responses as the MoF explained that it was constrained for time.

On **February 1, 2017** we received responses in advance of the prior deadline of February 10, 2017. Where management responses were accepted, the audit report was amended as far as possible, if it was accepted.

On **February 6, 2017** we received revised audited financials again to include in the report to send to the House of Assembly. The deadline provided previously was to provide responses to management comments and I also advised that the amended financials be submitted but I make no assurances as to the sufficiency or accuracy of the revisions to the financial statements.

During **February 7 to February 10, 2017**, further revisions were made to take account as far as possible of management responses.

The audit report will be dated as at February 10, 2017. However, detailed audit work was completed in mid-late November, 2016 and amendments to the report related to the management responses.

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

## 2. Key Issues

This Section 2 describes the main issues affecting the audit opinion.

### **Annual Statement of Public Accounts (Financial Statements)**

2.1. The Consolidated Fund is the general operating fund of the TCIG, which records the financial transactions of the House of Assembly, all Ministries and departments, other Offices, Courts etc. 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. Further, the laws clearly mandate defined requirements of accountability for the Consolidated Fund, Development Fund and other funds. Specific legal guidelines in the Consolidated Fund's use are set out in the TCI Constitution and accountability requirements are outlined in the PFMO because the Consolidated Fund is TCIG's most important account through which all transactions are entered.

*The Consolidated Fund, TCIG's Main Account, is materially misstated for current and prior years.*

*It is possible that other accounts may also be materially misstated.*

*The prior year audit opinion has been revised to a disclaimer.*

In **all** instances between 2007 and 2016 the Consolidated Fund Accumulated Deficit (CFAD) in the **general ledger** account No. 91001 and the figures represented to the Public in the Annual Statement of Public Accounts (ASPA) were materially different. For example;

- i. In 2011 the CFAD figure was \$22.3 million while the ASPA for the same period was \$183.7 million.
- ii. In 2014, the CFAD was \$132.2 million while the ASPA figure was \$180.4 million.
- iii. In 2016, the CFAD was either \$76.4 million or \$66.7 million while the ASPA was an imputed \$10.9 million.

Further, **there is no reported financial position in the ASPA** submitted for audit on July 31, 2016 for audit. This was revised in the updated financial statements submitted on February 6, 2017. A further review was conducted.

- i. For 2006/07 the Consolidated Fund (CF) Balance generated from the Trial Balance (TB) through IDEA (audit analysis software) was (\$776,569) while the Fin Stats for the same period was (\$77.5 million) [brackets are denoted as deficits].
- ii. For 2007/08 the CF was (\$24.5 million) while the Fin Stats presented was (\$98.2 million).

- iii. For 2008/09 the CF was same as ii above while the Fin Stats presented was (\$98.3 million).
- iv. For 2009/10 the CF was same as ii above while the Fin Stats presented was (\$118.5 million).
- v. For 2010/11 the CF was (\$22.0 million) while the Fin Stats presented (\$183.7 million).

I also noted the Consolidated Fund balance reported from 4 sources for the year ended March 31, 2012 are noticeably different.

- i. In a statement (submitted on Feb 1, 2017) for the year ended March 31, 2012 there was a deficit of \$205.8 million (but no TB data was provided). The TB pulled from IDEA was checked which shows for the same period a deficit of \$183.4 million.
- ii. The Financial Statements presented for that same period showed a deficit of \$186.6 million.
- iii. The Financial Statements presented for the year ended March 31, 2013 showed a comparative of \$205.8 million as different from the \$186.6 million when the 2011/12 financials were presented.

There are also two figures referred to as "Changes in Net Assets/Fund Balances" For the financial year ended 31 March, 2015 it is a negative figure of \$8.416 million and for 31 March 2016 it is negative \$11.13 million. It is perhaps capital expenditure, but this requires clarification from the MoF.

In addition;

- i. Comparative figures in the 2012/13 fin stat for the 2011/12 column was - \$205,763,848 which is different from the 2011/12 fin stats reported a year earlier.
- ii. The comparative figures in the 2013/14 fin stats for 2012/13 column was -\$188,837,519 which is different from the fin stats presented in 2012/13.
- iii. The comparative figures in the 2014/15 fin stats for 2013/14 column showed - \$180,403,000 (rounded) which is different from the fin states presented in 2013/14.

The MoF explained that the \$66. 7 million is the pre incorporation of the net surplus for the year.

Given the inconsistencies in the reported consolidated fund balance for several periods, I am not confident that the CF balance provided for the year ended March 31, 2016 is accurate.

2.2. Several legal amendments of the PFMO were passed on/about 24 March, 2016. Key among those was to the requirements under Schedule 2 of the PFMO “Provision for the Submission of Accounts” to the Auditor General for audit. Requirements for (a) a consolidated cash flow statement for all public funds showing the revenues, expenditures and financing for the year, (b) a balance sheet showing the assets and liabilities of the Consolidated Fund and (c) a cash flow statement for the Consolidated Fund showing the revenues, expenditures and financing of the fund for the year, were replaced with general purpose financial statements in the form and layout of the International Public Sector Accounting Standards (IPSAS) adopted at the time of preparation under the Cash Basis of Accounting (CBoA). In particular, it must be noted that the IPSAS CBoA does not mandate a balance sheet showing the statement of assets and liabilities. Other sections of the PFMO and PFM Regulations (PFMR) references “assets” and which mandate public accountability for these “assets”. 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 financial laws all had a requirement for a balance sheet. This was pointed out to the MoF and subsequently agreed to include this in the financial statements. However, given the lateness of the inclusion this could not be fully audited.

*The MoF sought to comply to IPSAS Cash, however, IPSAS Cash does not require a balance sheet. After indicating to them that this would restrict transparency, this was subsequently included in the financial statements submitted on Feb 6, 2017.*

2.3. Fixed Assets were not disclosed on in the Financial Statements as at July 31, 2016. A revised version was submitted by the MoF on February 6, 2017 which included certain assets. In our 2013/14 audit we identified 169 buildings which were not properly accounted for and the NAO pulled via its data analysis software, capital development projects spent of \$387.7 million from 2000 to the year ended March 31, 2016, most of which would have been expended in relation to assets with an estimated service potential of more than one year. 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. A 2005/06 Audit Report made specific

*The 2013/14 audit reported 169 buildings owned by TCIG.*

*Between 2000 and 2016 capital development expenditure totalled \$387.7 million.*

*A 2004 Asset Inventory & Condition Survey reported that owned buildings, standby power, airfield and facilities, water supply to be worth \$111 million.*

*It is important to have adequate controls over Assets for accuracy, ownership, existence and also to ensure value for money for in the use of those resources.*

recommendations pertaining to the valuation of assets. The report recommended a risk management advisory committee be set up to develop an overall insurance strategy. It stated that the government must take overall responsibility and approve the level of risk it is willing to take; this can be done through a documented risk assessment process with complete and up-to-date information on value of assets (i.e. properties, contents, equipment etc.). Capital Expenditure means the acquisition, construction or development of any tangible capital asset 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. There have been issues around the accuracy of the inventory (another asset) balances as well. Crown Land leases and grants are also not disclosed in the financial statements as this is an extremely valuable finite resource (asset) and proper disclosures are required in the financials. There is a material weakness in the process of tracking, recording, and accounting for all assets and capital costs expended to enhance the service potential of these and other assets. Given that there are inadequate controls over TCIG's Assets, they therefore cannot be verified for accuracy, completeness and ownership. The Capital Expenditures also cannot be verified for accuracy, completeness, occurrence, classifications, in particular for land, building and infrastructure. The dollar value of Assets and Capital Expenditure including land, building, infrastructure, vehicles and heavy equipment, plant machinery and equipment, vessels and boats, furniture and fixtures, office equipment, computer hardware and equipment and computer software are in the hundreds of millions of dollars, for which TCIG has no way of assuring the public that they have safely accounted for. There is also no way to assure the public that capital spending has been efficiently, effectively and economically utilized. In addition, due to the NAO's inability to verify the accuracy, completeness and ownership of these assets, the financial statements presented for audit for 2015/16 do not achieve fair presentation. In a 2005/06 Audit Report, the report made specific recommendations pertaining to the valuation of assets. It is not clear the extent to which any valuation has been done, but this finding is consistent with the key weaknesses in risk management outlined in this audit report and the repeated requirements of accounting and good governance for public assets.

2.4. The NAO has received inaccurate and incomplete financial statements for the last four audits and transactions or events are not recorded or not disclosed appropriately in the Financial Statements. In all four submissions there were typographical errors, omission errors, casting errors, incomplete, inaccurate, inappropriate or inadequate disclosures/explanations, overstatements and understatements. For example net cash receipts in the statements are not reconciled by \$2.2 million, lease commitments possibly ranging around \$14 million are not disclosed, the actuarial assessment of the pension liabilities were not completed in time and the last actuarial assessment indicated an unfunded pension liability of \$85 million while the National Insurance Board (NIB) has an unfunded pension liability of approximately \$235 million for which the TCIG will likely have to fund should there be any temporary insufficiency to meet any pensionable payments at any time in the future. According to the Health Contracts Management senior officers, the commitments and liabilities for the hospitals which are recorded as close to \$1 billion are not accurate. They have indicated it should be less. As consolidation is not performed, the combined true operating cost of the hospitals are not accurately represented, the TCIG may not be aware of the impact on TCIG's finances of such pensions or healthcare liabilities, treasury management strategies may not be effective where TCIG can possibly use surplus cash to pay off high-interest debt which can reduce overall interest costs etc. As a consequence of several of these issues, the financial statements presented for audit for 2015/16 do not achieve fair presentation.

*Net cash receipts not reconciled by \$2.2 million.*

*Lease commitments may be approx. \$14 million that are not disclosed.*

*As consolidation is not performed, the House may not get an accurate picture of the overall financial health for the Whole of Government.*

*\$85 million unfunded pension liabilities for TCIG Public Service*

*\$235 million unfunded pension liabilities at the NIB as at 31 March, 2015.*

*The combined true healthcare costs are not accurately represented or assured.*

2.5. Financial statements should give a true and fair view of the financial performance and financial position of the TCIG. The internal controls employed in the preparation and financial reporting processes are equally as important in assuring the integrity (reliability, accuracy, completeness etc.) of the financial statements. There have been several years of audit disclaimers or adverse opinions. TCIG should review findings and recommendations from the prior years and current year audits in order to address the continuing weaknesses over the last several years especially where ALL years have had to be reviewed for quality, post-issuance to the NAO and subsequent changes made due to errors, omissions and/or a lack of management review of the financial statements. As a consequence

*The Control Environment remains weak. TCIG should implement the audit recommendations of prior and current years.*

of the weak control environment, the financial statements presented for audit for 2015/16 do not achieve fair presentation.

### **Risk Management & Internal Controls**

2.6. There are several control deficiencies and material weaknesses such as in the completeness/accuracy/recoverability of revenue arrears, inadequate accounting policies, ineffective controls around review of exposures arising from financial instruments (e.g. credit risk, interest rate risk, liquidity risk), consolidation of controlled entities are not performed, a lack of up to date approved manuals and operating procedures, overstatements and understatements of material figures etc. There are ineffective aspects of the control environment which imply that significant transactions within the financial statements in which management should be financially interested are not being appropriately scrutinized. 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 and accuracy, for example, the failure to prepare timely and accurate statements. In general, enterprise wide risk management is weak and in particular fraud risk management is also weak and related party transactions and/or events, which pertain to those who control or have significant influence over the financial and operating policies is not fully disclosed or accounted for to prevent abuse and management override of the controls. As a consequence of the weak control environment, the financial statements presented for audit for 2015/16 do not achieve fair presentation.

*Risk Management and the Internal Control system are inadequate such that there is a reasonable possibility that a material misstatement of the TCIG's financial statements will not be prevented, or detected and corrected on a timely basis.*

### **Limitation in Scope**

2.7. The NAO can retain auditors by either recruitment or by contracting and both processes are set out in law. As recruitment has been a challenge the NAO had utilized the short-term contracting option to supplement existing internal limited capacity as in carrying out my functions, I shall do so through the application of internationally recognized auditing standards (Section 7 (1) and (2) of the National Audit Office Ordinance (NAOO)). Two international audit standards, the International Standard on Auditing (ISA) Section 220.14 and International Standard for Quality Control (ISQC) Section 1.29 to 1.31 require that the team have the necessary capacity to conduct the audit to international standards. **Auditing is a regulated profession.**

*At the time of the audit, the NAO was unable to supplement existing limited capacity due to a legal issue raised as to whether or not a tri-party letter of engagement is legally authorized under TCI Law. Advice and intervention was sought in this matter and no new letters of engagements were entered into and several audits remained outstanding. In addition, as a result of this the NAO was not able to engage audit firms to assist in conducting the IT portion of the audit.*

Since the NAO does not have an adequate complement of internal capacity due to recruitment challenges, the other option was to supplement existing capacity with short-term contract auditors from the audit firms in order to fulfill my functions as Auditor General. However, in July 2016 the NIB Chair claimed (a) that the process used to engage the audit firms to conduct audits via a three-way letter of engagement (sanctioned and agreed to by the Auditor General) was not legally authorized, (b) that the process was in contravention of several of the TCI laws, (c) that there is no provision in the relevant ordinances for the NIB to pay a third party audit firm to conduct the audit of NIB and that no agreement between the parties as to that procedure can override or take precedence over statute and (d) that there may be perceived a conflict of interest between the Auditor General and the NIB's appointed auditors. These issues would apply not only to the audit of the NIB but to all other audits, including the TCIG audit. The NIB Chair did not authorize payment to the audit firm directly to conduct the audit on behalf of the Auditor General, in full knowledge that the funds were budgeted in the NIB's books, not the NAO's books. Pending any future engagement with any audit firms therefore, I have requested that the relevant authorities advise as to whether the form of an engagement letter is legally authorized and if not authorized, what is the legal process to engage the auditors and at the same time determine the legal process to avoid any perception of a conflict of interest. Since there has been no resolution to these matters, the NAO was not able to engage the audit firms to supplement existing internal capacity to audit the TCIG 2015/16 financial statements and as a result we have not been able to conduct our audit examinations around critical areas such as the internal controls within the Information Technology (IT) Systems that are used to generate financial reports. An IT audit has not been conducted for the last four years, perhaps more. Given that I was not able to supplement the existing capacity for this audit either by recruitment or by retaining contracted audit firms, I was unable to obtain sufficient appropriate audit evidence to form an opinion on the TCIG's financial statements and on TCIG's internal control environment, in particular its IT Systems which generate the financial reports used to prepare the financial statements presented to the Public. I was also unable to ensure that the audit work conducted was subject to a proper quality review.

- 2.8. There are material transactions entered into between the TCIG and Statutory Bodies which may have certain financial and other impacts. Due to the NAO's inability to engage audit firms to conduct audits on several of the larger statutory bodies, we were unable employ a few basic audit procedures to confirm that the transactions represented on the TCIG accounts were reflected in a few of the Statutory Bodies' financial statements, among other procedures. Given that I

*The NAO was unable to complete some basic audit checks to verify transactions between TCIG and the Statutory Bodies were correctly reflected in both entities' accounts.*

was not able to obtain sufficient evidence on the accuracy, completeness and occurrence of various inter-governmental transactions, I was unable to form an opinion on the TCIG's financial statements.

### **Fraud Risk Assessment**

- 2.9. 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. 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, abuse or management override in the entity and the internal control that have been established to mitigate these risks. Management must ensure the establishment of a system of internal controls that safeguard assets from inappropriate use and loss from fraud or error, abuse, management override, wastage and other forms of misappropriation.

*Inadequate fraud risk management coupled with weaknesses in internal controls, inadequate financial reporting process, material misstatements etc., increases the risk of financial misstatements including errors and omissions.*

*Management are the ones responsible for fraud prevention, not the NAO.*

A high-quality audit requires the exercise of professional judgment by the auditor and a mindset of professional skepticism. Professional skepticism is necessary to the critical assessment of audit evidence. Audit inspectors throughout the world have expressed concern about whether professional skepticism is being applied properly in practice. For example, they have commented that some auditors have:

- not responded appropriately in circumstances when inconsistent or contradictory audit evidence was obtained;
- been over-reliant on management representations;
- sought audit evidence to corroborate rather than challenge management's assertions; or
- accepted unreliable audit evidence as being sufficient and appropriate

While the Ministry of Finance reports certain suspected cases of fraud to the relevant authorities, we noted that Management does not have in place robust mechanisms for identifying and responding to fraud risk factors.

Key gaps and risk factors include:

- Repeat audit findings,

- Several years of audit disclaimers or adverse audit opinions,
- A lack of an anti-fraud policy,
- A lack of regular anti-fraud training for staff,
- Inadequate records of assets and weak controls leave assets susceptible to misappropriation,
- A lack of a proper control environment,
- Inadequate systems to capture related party transactions or events in areas such as governing of the financial and operating policies or having significant influence over them,
- Inadequate accounting policies,
- Management override of controls,
- There are sanctions and penalties for non-compliance, but it may also encourage material non-disclosures and inappropriate accounting treatment of transactions including management override of controls,
- Significant internal control deficiencies contributing to material weaknesses,
- Inadequate control over all resources which not only includes cash, but uses of non-cash economic resources such as awarding of subsidies, grants, concessions, guarantees etc.

Given that I was not able to supplement the existing capacity for this audit either by recruitment or by retaining contracted audit firms, I was unable to obtain sufficient appropriate audit evidence to provide some level of assurance on propriety over TCIG's operations.

### **Operating Expenditures**

2.10. There are some noted improvements in isolated areas over expenditure administration. Given the improvements and that these issues have been sufficiently addressed at the Public Accounts Committee meetings, some of the issues were summarized in this 2.10 Issue. It is recommended that the Ministries manage these issues for continuous improvement.

There were 591 transactions sampled for testing totalling \$41.6 million. Of those, 59% of exceptions or 348 transactions totalling \$13.3 million (32%) were noted due to a number of issues. *For example vendor invoices were not approved for payment totaling \$3.8 million. SmartStream invoices with insufficient supporting documents of approximately \$1.5 million. Payments were not certified totalling \$1.5 million. Payments were made without obtaining Chief Financial Officer's approval of approximately \$1.3 million. Excess expenditure totalled approximately \$1.2 million. There was no monitoring of contracts of approximately \$1 million. Some*

*While there are some improvements in isolated areas in expenditure administration, it is recommended that Ministries & Departments manage for continuous improvement as these have been sufficiently dealt with at the PAC meetings.*

*Approximately 80 of these issues have been collapsed into one major issue. The NAO will follow-up on this in the next audit cycle. If issues persist, the NAO will be hard-pressed not to report these issues in detail in the next audit cycle.*

expenditures were posted to the incorrect financial year of approximately \$0.9 million. *There were no contracts for expenditures of approximately \$0.7 million. There were some instances where purchase orders were not used to request good and services of approximately \$0.6 million and contracts were not tendered for expenditures of approximately \$0.6 million. Leases were not provided for payments of approximately \$2.3 million.*

Despite these exceptions, based on my judgment and the Accounting Officers' management representations in some areas, I can provide limited assurance on some areas of operating expenditure administration. I have therefore removed many of these issues for management internally but summarized them in this finding. The next audit will cover these issues again in hope that it is reduced further or eliminated altogether. We will still include a follow-up on audit implementation report in the next audit cycle. However, if these issues continue into the next audit cycle we will report them fully.

- 2.11. A mandatory requirement of the IPSAS Cash Basis Standard is that accounts must be consolidated. The TCIG Financial Statements do not include Statutory Bodies and other public entities. A note in the financial statements identifying the statutory bodies and the level of control is insufficient for accounting purposes. IPSAS Cash Basis Standard 1.3.35 – states that *“inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material”*. In addition, financial statements should be described as complying with IPSAS Cash *only* if they comply with *all* the requirements of Part 1 of the IPSAS [page 1 of the IPSAS Cash Basis Standard]. Until such time as the IPSAS Cash Basis Standard is changed, the current standard must be complied with (in conjunction with the laws).

*Consolidation of Central Government and all other Public Bodies including Statutory Bodies is required under the IPSAS Cash Basis Standard. As it stands this is not done. This is currently under review by the International Federation of Accountants and if made optional is likely to be relevant to financial reporting periods from January 2019. In the meantime, compliance with this requirement is mandatory.*

### 3. Risk Assessment Model

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

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

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

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

LR – Low Risk

MR – Moderate Risk

HR – High Risk

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

## 4. Detailed Findings and Recommendations

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

#### Criteria

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

#### Condition

We reviewed the Consolidated Fund General Ledger Account for 2016 and noted a significant variance between the closing balance as per the trial balance (Smart Stream) and the amounts shown in the financial statements.

As seen in Table 2, the 2015/16 Annual Statement of Public Accounts, shows a CF accumulated deficit of \$76.4 million while the recomputed figure to be presented would have been a CF accumulated deficit of \$10.9 million. Upon further examination, we also noted that this figure has not been reconciled correctly in the prior years with significant differences. Due to this, there are adjustments in the prior years that affect the opening balances, and these have not been sufficiently explained by management.

Our further concern is that the amounts presented to the public in the Annual Statement of Public Accounts are NOT generated from the Smartstream Accounting System. These figures are arrived at by adjusting them in a spreadsheet. While there will be adjustments, these are expected to be via properly approved journals **WITHIN** the accounting system with sufficiently supported documentation, in particular when the differences reported are in the millions of dollars.

Using the Trial Balance generated and recomputing a balance sheet showed that the Net Assets surplus would be \$6.0 million while the *balancing* figure of the Consolidated Fund \$10.9 million would be presented to the public but the Consolidated fund balance in the Trial Balance would actually be either a \$66.7 million deficit or a \$76.4 million deficit.

There are **different** figures computed/presented/generated/shown/derived from different sections of the overall financial operations. For example;

- i. The CF Account in the Trial Balance generated from Smartstream is a \$66.7 million accumulated deficit,

- ii. There is also another CF Account which has a deficit of \$9.7 million which was discovered in Smartstream but according to the MoF does not form part of the Consolidated Fund balance for TCIG and,
- iii. The Net Assets position of TCIG in a recomputed Balance Sheet with balances taken from the Trial Balance of Assets less Liabilities shows a \$6.0 million accumulated surplus,
- iv. Prior years' differences between Smartstream and what is presented to the public occurred in all instances.

There are therefore transactions that, in all likelihood, will impact other accounts. However, at this time we are unable to obtain sufficient evidence to determine whether or not other accounts and statements may also be materially misstated. There is a certain amount of reliance placed on the integrity of the transactions entered into and processed within the accounting system to avoid manual adjustments as far as possible. There is also the challenge that previous years have also been disclaimed and therefore the financial statements presented in the past cannot be relied upon. In order to do so, this will require an audit over internal control over financial reporting which will also have to trace the transactions throughout Smartstream.

A	B	C	D
Year (effective date)	Consolidated Fund Accumulated Surplus/(Deficit) identified in General Ledger Account 91001 Generated From the data analysis software as at	Accummulated Deficit presented in the Annual Statement of Public Accounts as at	Difference between GL and Statement of Assets & Liabilities
2003	(3,230,774)	Not available	Not available
2004	1,721,945	-s/a-	-s/a-
2005	8,258,779	-s/a-	-s/a-
2006	690,307	-s/a-	-s/a-
2007	(1,100,578)	(77,487,361)	(76,386,782.43)
2008	(24,843,073)	(98,172,270)	(73,329,197.17)
2009	(24,843,073)	(98,260,366)	(73,417,292.51)
2010	(24,843,073)	(118,459,044)	(93,615,970.94)
2011	(22,290,894)	(183,747,305)	(161,456,411.58)
2012	(193,032,928)	(186,619,438)	6,413,489.65
2013	(201,404,698)	(186,366,409)	15,038,288.69
2014	(132,201,555)	(180,428,005)	(48,226,449.86)
2015	(178,639,283)	(169,581,000)	9,058,283.40
2016	(76,355,405)	(10,918,000)	65,437,404.62

Deficit from 08-021-91001	(9,673,938)
Deficit from 54-021-91001	(66,681,467)
Deficit in GL A/C	(76,355,405)

**Table 2 – Consolidated Fund differences**

## **Recommendation**

Management should review the consolidated fund account and provide explanations for unexplained journals posted. They should also correct differences identified, and explain the root cause of these differences. Management should ensure that a regular reconciliation of the consolidated fund account is performed to detect and correct potential misstatements due to error and fraud. They should not seek to manipulate or adjust figures that come from Smartstream as this is the accounting software that generates the accounts of Government.

## **Management Response provided January 23 and February 1, 2017**

*As the auditor's are aware, Smartstream (SS) does not have a reporting module that allows the reports to be created within the software. The data is extracted using a compatible reporting tool from the software developers (Q&A) and then compiled for presentation purposes. All balances are traceable to and agree with the trial balance. An upgrade of the current software is currently being implemented. It is expected that this will address some of the difficulties being experienced with the software.*

*The recomputation above does not seem correct. Firstly, it includes the NFF bank account which is not a part of the Consolidated Fund. Secondly the auditors have not recognised that because the figures are taken from the trial balance, the net surplus would not be reflected in the Consolidated Fund account. Additionally the "recomputed" CF balance as shown in Appendix I shows the value of the CF at March 31, 2016 and agrees to the Statement of Assets and Liabilities which is now included in the Annual Accounts.*

i. The CF Account in the Trial Balance generated from Smartstream is a \$66.7 million accumulated deficit,

*As explained above, this is pre incorporation of the net surplus for the year.*

ii. There is also another CF Account which has a deficit of \$9.7 million which was discovered in Smartstream but according to the MoF does not form part of the Consolidated Fund balance for TCIG and,

*It was already explained to the auditors that this figure was not "discovered" as it related to a previous version of SS (T) which was upgraded in 2012. The figure was consolidated in the opening balance of the CF in the new "TCIG" (upgrade) for that year. Therefore to adjust the current balance with the amount results in duplication. See also iv. below.*

iii. The Net Assets position of TCIG in a recomputed Balance Sheet with balances taken from the Trial Balance of Assets less Liabilities shows a \$6.0 million accumulated surplus,

*Agreed. However, in considering the CF balance, additional adjustments are required to disaggregate amounts which are not a part of the CF. See explanation above which indicates that it includes NFF bank account, but excludes the net surplus for the year as well as expenditure to date on the Development Fund.*

*Of the net assets of \$6.0 million above, the auditors have been provided with confirmations/reconciliations of balances on the Trial Balance totalling \$4.9 million as under:*

Assets	\$
Cash and cash equivalents	37,695
Receivables from exchange transaction	2,731
Financial asset - investments	3,438
Tolco Portfolio	5,334
	49,198
Current portion of borrowings	(11,857)
Borrowings	(32,423)
	<u>4,918</u>

iv. Deficit in GL A/C (\$76,355,405)

*The deficit as shown above is incorrect. The auditors were advised about the system upgrade for SS but they appear not to accept the existence of two SS files even though one has an organisation code of “T” and the other “TCIG”. Both files have to be retained as details of the annual transactions up to 2011 are in “T” while all subsequent transactions are in “TCIG” This information may be verified at anytime by testing the system; in the former, the ministry code is “08” while in the latter it is “54”. (This distinction is readily seen in the analysis provided by the auditors at the bottom of Table 2). However, because the auditors have used their data analysis tool they will access both years as they are accessing on account numbers, in this case “91001”.*

*The information below shows the composition of all the Fund Balances operated by TCIG. If the auditors are not in agreement with the adjustments to the CF representing PY transactions, this should be advised. It should be further noted that where adjustments are identified after that year’s accounts are completed, the adjustments are made in the current year but shown as Prior Year adjustments and disclosed accordingly in the Annual Accounts.*

GOVERNMENT OF THE TURKS AND CAICOS ISLANDS STATEMENT OF CHANGES IN NET ASSETS/FUND BALANCES For the Financial Year ended 31 March 2016						PER SMART STREAM					
	Consolidated Fund US \$	Development Fund US \$	Sinking Fund US \$	National Forfeiture Fund US \$	Total Net Assets/Fund Balances US \$	Consolidated Fund US \$	Development Fund US \$	Sinking Fund US \$	National Forfeiture Fund US \$	Total Net Assets/Fund Balances US \$	
Balance as at 1st April 2012	(205,763,848)	605,905	-	1,280,953	#####						
Changes in Net Assets/Fund Balances for the financial year ended 31st March 2013											
TC Invest - opening balances brought in	4,228,744	-	-	-	4,228,744						
Surplus for the year - Statement of Financial Performance	67,795,386	(13,549,633)	42,547	2,000,000	56,288,300						
Transfer to Development Fund	(14,211,943)	14,211,943	-	-	-						
Transfer to Sinking Fund	(40,966,801)	-	40,966,801	-	-						
	16,845,386	662,310	41,009,348	2,000,000	60,517,044						
Balance as at 31st March 2013	(188,918,462)	1,268,215	41,009,348	3,280,953	#####	(188,918,462)	1,268,215	41,009,348	3,280,953	(143,359,946)	
Other Prior Year Adjustments	80,943	-	-	-	80,943						
Restated Balance	(188,837,519)	1,268,215	41,009,348	3,280,953	#####						
EIB Loan (See Prior Period Adjustment March 2015)	25,000	-	-	-	25,000						
Further Restated Balance @ March 2015	(188,812,519)	1,268,215	41,009,348	3,280,953	#####	(105,943)	(188,918,462)	1,268,215	41,009,348	(143,359,946)	
Changes in Net Assets/Fund Balances for the financial year ended 31st March 2014											
Surplus for the year - Statement of Financial Performance (as per Annual Statements)	30,078,266	(9,652,109)	177,978	3,394,360	23,998,495						
Transfer to Development Fund	(8,536,103)	8,536,103	-	-	-	24,021,161		177,978	3,394,360	27,593,499	
Transfer from NFF	3,860,290	815,000	-	(4,675,290)	-			-	(4,675,290)	(4,675,290)	
Transfer to Sinking Fund	(16,992,939)	-	16,992,939	-	-			16,992,933	-	16,992,933	
	8,409,514	(301,006)	17,170,917	(1,280,930)	23,998,495			17,170,911	(1,280,930)	24,102,102	
Balance as at 31st March 2014	(180,403,006)	967,209	58,180,265	2,000,023	#####	303,335.52	(180,706,341)	1,268,215	58,180,259	(119,257,844)	
Changes in Net Assets/Fund Balances for the financial year ended 31st March 2015											
Surplus for the year - Statement of Financial Performance (as per Annual Statements)	77,532,675	-	-	-	77,532,675						
Transfer to Development Fund	(6,635,807)	6,635,807	-	-	-	69,632,392				69,632,392	
Transfer from NFF	187,000	-	-	(187,000)	-	(5,729,801)	5,729,801			-	
Transfer to Sinking Fund	(51,845,859)	-	51,845,859	-	-				(187,596)	(187,596)	
	10,822,009	6,635,807	51,845,859	(187,000)	69,116,675				(187,596)	(187,596)	
Balance as at 31st March 2015	(169,580,997)	7,603,016	110,026,124	1,813,023	(50,138,834)	603,882	(168,977,115)	6,998,016	110,026,136	(50,140,536)	
Changes in Net Assets/Fund Balances for the financial year ended 31st March 2016											
Surplus for the year - Statement of Financial Performance (as per Annual Statements)	66,586,525	-	-	716,000	67,302,525	300,546.00	15,930	-872.91		15,057	
Transfer to Development Fund	(7,394,015)	7,394,015	-	-	-						
Transfer from NFF	575,000	-	-	(575,000)	-						
Transfer from Sinking Fund	110,026,124	-	(110,026,124)	-	-						
	158,663,633	7,394,015	(110,026,124)	141,000	56,172,525						
Balance as at 31st March 2016	(10,917,363)	14,997,031	(0)	1,954,023	6,033,691	As shown in Trial Balance	(66,681,468)	14,997,004	(0)	1,953,632	(49,730,832)
Transactions Not yet Brought to A/C											
Period 15 transaction on close											
Surplus for year					67,302,525					67,302,525	
Cap Ex					(11,538,981)					(11,538,981)	
Bal at 31st March after close						(10,917,924)	14,997,004	(0)	1,953,632	6,032,712	

### Auditor General's position

The question is not whether it is traceable, but whether if the data provided is supportable. I submit that, in the main, it is not supportable. Further, given that the CF Account is incorrect, it will impact other accounts. ***Smartstream is the main accounting software used to manage TCIG's finances. It is the primary source for accurate recording of transactions of Government.*** Even if one were to accept that there is one code, the prior year figures are still wrong in all instances. No one has been able to tell me what is the correct figure for each of the years. For example in 2008, 2009 and 2010 the Smartstream balance shows a deficit of \$24.8 million each year. Does this mean that TCIG the receipts and payments for each of the 3 years were exactly the same? Another example is the Belize Bank balance for \$2.5 million was directly posted to the Consolidated Fund Account as a "prior year adjustment". Should this not have been written off with approval from the House of Assembly instead of it being simply posted to the Consolidated Fund Account?

Transactions are included in the CF account that do not have proper supporting documents (See Finding 5.16 - Control gaps in the preparation, review and approval process of adjusting journal entries).

The bottom line is what is the Government's Financial Position as at the end of March 31, 2016? Is it a \$76.4 million deficit, a \$66.7 million deficit or a \$10.9 million deficit or a \$ 6 million surplus? Finally given that there were disclaimers for prior years, it is highly probably that there will be material misstatements, not only of the CF Account but also of other Accounts.

The purpose of allowing additional time was for the MOF to seek to provide substantive evidence as to what is the correct CF balance for each of the years. If it was "traceable" then one should provide the supporting evidence. The MOF can let me know what they believe is the CF Balance for each of the years, if the ones identified in the any of the columns are incorrect, I will change or remove this issue entirely. Given the quality of the financials presented for audit and the numerous significant deficiencies identified in this and previous audits, coupled with the years of disclaimers, my position is that the Consolidated Fund balances remain incorrect for all years.

**There is NOWHERE in the Financial Statements submitted on 31 July, 2016 which shows what is the Consolidated Fund Balance. The TCI Constitution requires a Consolidated Fund that states in Section 112 (1) "There shall be a Consolidated Fund.....". It is bewildering to me that authorizations are made from the Consolidated Fund and funds are paid into the Consolidated Fund, yet we have no Consolidated Fund Balance presented in the Financial Statements as at the 31 March, 2016. My further concern is that we are reconciling to a bank account when the MoF should have confidence in its own controls, and only use the bank account to confirm the amounts and where there is a discrepancy it should be investigated, NOT to seek to adjust your accounts to mirror what the bank represents it is.**

See extract from a 2003 Audit Report which recommended an automated report writing solution:

*7. The lack of a satisfactory report writer function within Smart Stream has also hampered Treasury's ability to efficiently produce trial balance, budget, and final statement reports. The Audit Office and Treasury have worked together to develop a workable alternative means of generating such financial information. Nevertheless, an automated report writing solution is still needed, and whilst there will be cost implications this must be a priority for TCIG in 2003/04.*

It indicates that the Audit Office and Treasury have worked together to develop a workable alternative means of generating such financial information. Nevertheless, an automated reporting writing solution is still needed and whilst there will be cost implications this must be a priority for TCIG in 2003/2004.

*In 2000 the TCI made the transition from a DOS system to Smart Stream to record and maintain its financial transactions and data. The transition to Smartstream was implemented throughout the Caribbean and is still being successfully used by many countries, namely Barbados, Belize, Anguilla today. The implementation of Smartstream was due to financial constraints and also to assist in standardizing the accounting systems within the Caribbean. During that time TCI partnered with Monserrat and Belize to procure and implement the Smart Stream system in 2000.*

*It should be noted that Smartstream does not include built in modules for an income statement, cashflow or balance sheet. However in 2010 the TCI purchased parallel software "Q &A" which allowed TCIG to*

design and produce statements such as the Cashflow statement, Balance Sheet etc. This software allows TCIG to extract information from Smartstream and places it in the desired format eg. Balance Sheet, Trial balance etc.

Year	Balance in statement submitted on Feb 1, 2017	Balances generated from IDEA	Balance Fin Stats as at	Comments
2006/07		(776,569.15)	(77,487,361.00)	Different due to restatement, TB should reflect Fin Stats
2007/08		(24,519,064.01)	(98,172,270.00)	"
2008/09		(24,519,064.01)	(98,260,366.00)	"
2009/10		(24,519,064.01)	(118,459,044.00)	"
2010/11		(21,966,884.56)	(183,747,905.00)	"
2011/12	(205,763,848.00)	(183,358,990.16)	(186,619,439.00)	"
2012/13	(188,918,462.00)	(188,918,462.00)	(188,918,462.00)	The comparative in this 2012/13 fin stat for the 2011/12 column was - 205,763,848
2013/14	(180,403,006.00)	(180,706,340.88)	(180,428,005.00)	Different. Also the comparative in this 2013/14 fin stats for 2012/13 column was -188,837,519
2014/15	(169,580,997.00)	(168,977,114.74)	(169,580,997.00)	Different. The comparative in this 2014/15 fin stats for 2013/14 column showed - 180,403,000 (rounded)
2015/16	(10,917,363.00)	(66,681,466.81)	(10,917,363.00)	Different. MoF explained this is pre incorporation of the net surplus for the year [unclear about this]

Changes in Net Assets/Fund Balances for the financial year ended

31-Mar-15 (8,416,000.00) [UNCLEAR]

31-Mar-16 (11,130,000.00) [UNCLEAR]

Audit report 2006/7 had a CF balance surplus for 2005/6 of 1,014,316 pg 24 of 53 dd Sept 23, 2010

Audit Report 2006/7 had a CF balance surplus of 3,930,720 pg 24 of 53

**I will respond fully to this at the Public Accounts Committee Meeting.**

## 4.2 Outstanding lease commitments not disclosed – HR

### Criteria

Commitments are reported under Schedule 2 of the PFMO and where the IPSAS Cash Basis Standard does not require it, it still needs to be presented in accordance with a relevant GAAP in the disclosures to ensure a true and fair view of the transactions and events that commits public funds now and in the future.

### Condition

Leases and their resulting commitments entered into by TCIG should be disclosed. Those containing concessions should be separately disclosed as part of the concessions disclosures. It is recommended that an appropriate GAAP be used to determine the disclosure requirements of lease incentives and how the leases themselves are presented in the financials. Leases at “peppercorn” rents, or below market value, are revenues foregone and should be accounted for in accordance with GAAP as provided for in Section 35 of the PFMO.

In discussions with management during the last audit, outstanding lease commitments were noted to be around \$14.2 million. This figure has not been validated, but there will be a material misstatement if outstanding lease commitments are in this range. Table 3 shows a breakdown of 2014 and 2015 outstanding lease commitments which were provided by the former Accountant General but were not able to be finalized into the 2014/15 financial statements.

	31-Mar-15 US\$'000	31-Mar-14 US\$'000
<b>Lease of Government Properties</b>		
Rental of government property recognised as receipt during the year	625	720
<b>Outstanding Lease Commitments</b>		
Outstanding commitments under non-cancellable operating leases:		
· Not later than 12 months	2,000	1,001
· Between 12 months and 5 years	1,300	1,400
· Greater than 5 years	10,890	14,000
Total outstanding lease commitments	14,190	16,401

**Table 3 – Outstanding lease commitments prepared for 2013/14 and 2014/15**

### **Recommendation**

Management should review the lease commitments and ensure that there are sufficient controls in place to capture these amounts and have them disclosed appropriately in the financial statements. This can help management in forecasting and liquidity administration.

### **Management Response on February 1, 2017**

*Refer to Note 26 “Schedule of Government Leases”. Because the note was not originally in the accounts submitted to the Auditors on the 31st July 2016, the information is not acknowledged.*

### **Auditor General’s position**

Note 26 refers to only lease receipts. In order to give a true and fair view of the financial performance and position, long term leases should be disclosed.

A more appropriate position would be to acknowledge that there may be an issue with the accuracy of leases reporting and seek to confirm, reject or amend the figures I have forwarded from the last Accountant General.

**IPSAS Cash 1.3.35 - Inappropriate accounting treatments are not rectified either by disclosure of the accounting policies used, or by notes or explanatory material.**

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### **4.3      Unfunded pension liabilities may be materially misstated - HR**

#### **Criteria**

TCIG is responsible for various long-term liabilities to its current and former employees, including House of Assembly members. The PFMO Section 13 (3) states that 'The Minister shall ensure that all contingent liabilities of the Government, including pension and healthcare liabilities, are subjected to independent actuarial assessment at least every two years, and shall report the information provided by any such assessment to the House of Assembly within two months of receiving it'. The TCIG is required by the Public Financial Management Framework to make contingent and actual liabilities, including (but not limited to) pensions and healthcare schemes, subject to actuarial assessments at least every two years. Actuarial assessments will be published within three months of receipt. The Government will publish its proposals to address the results of the assessments no later than the budget following the receipt of the actuarial assessment.

#### **Condition**

Pension and gratuities reported as at March 31, 2016 were \$75.8M. The last actuarial valuation was performed as at 31 March 2014 by an external consultant. Management did not carry out a valuation to establish the pension liability position as at 31 March 2016 for Government.

TCIG is responsible for various long-term liabilities to its current and former employees, including House of Assembly members. Pension and gratuities paid in the year ended March 31, 2014 were \$4.9M of which pensions represented just under \$4M. Per the PFMO, TCIG is required to ensure independent actuarial assessments of contingent liabilities, including pension and healthcare liabilities are conducted every two years, and the results are reported to the House of Assembly within two months. It is unclear whether the law refers "every two years" as being every two years from the date of the last actuarial valuation or every two "fiscal" years. I would suggest the latter.

While the future pension liabilities of TCIG were reduced with the introduction of the NIB in the early 1990s, there remained a high probability that the actuarial present value of its obligations was still a very significant amount based on the current pension expense of just under US\$4M per annum and also continuing obligations. It was understood that disclosure of the type of scheme (defined benefit or defined contribution) together with a breakdown of the short, long, medical, retirement and termination benefits was to be done. Not including pension liabilities on the statement of financial position also impact the amount expensed.

The actuarial valuation was prepared as at March 31, 2014 and the report covering letter stated clearly that the next valuation was due as of March 31, 2016. Page 6 of the report noted that overall the data seemed credible and the main deficiency where 81 employees or 66% of the active employees seemed to have a questionable date of hire of January 1<sup>st</sup>, 1990 – the Actuary made no adjustments to these dates. The report goes on to state that the overall liability results are not

expected to be significantly affected by the deficiency but it was recommended by the Actuary that every effort be made to verify the accuracy of all the dates for future valuations.

In respect of Retiree Data Issues and Resolutions on Page 7 of the report the most significant data was the dates of birth submitted. The report states that there were approximately ½ or 158 of the Pensioners had submitted a date of birth of December 31, 2999, which clearly is inaccurate. The Actuary adjusted the dates to October 22, 1956 which is the average date of birth of all Pensioners. In addition approximately ½ of the Pensioners had a questionable date of hire of January 1, 1990 and about 17% had a date of hire of Jan 1, 1960; however, for purposes of determining the liability values these dates are no longer relevant. It was strongly recommended by the Actuary that accurate dates of birth be sourced as it directly impacts the liability values.

The report noted on Page 8 that if the Public Service Pension Plan (PSPP) were to aim for full funding of benefits (as the current funding policy is Pay As You Go (PAYG)), the TCIG would have to contribute;

- Approximately 20% of payroll of each year for the future benefits (can vary); and
- A fixed amount of \$6.5 million for the next 20 years to fully amortize the initial Unfunded Actuarial Liability (UAL) of \$84.9 million by the time the last active employee retires.

PAYG funding method pays the benefit expenditure as it comes due and minimal or no funds are set aside for future payments.

### **Recommendation**

TCIG should comply with the PFMO and obtain regular actuarial valuations. At an absolute minimum the notes to the financial statements should include a full description of the pension obligations and the results of the last two actuarial reviews so that the users of the financial statements can understand the impact upon the financial performance and position of TCIG. Given the materiality of the amount, proper disclosures should be made in accordance with GAAP.

TCIG should also consider if the consolidation of other pension and healthcare liabilities of statutory bodies and other public entities should be included in a report to the House annually and establish a path for addressing this.

### **Management Response on January 23, 2017**

*It is acknowledged that the actuarial valuation was not completed as scheduled. It is expected that this will be done by March 31, 2017.*

### **Management Response on February 1, 2017**

*As the TCIG pension scheme was essentially closed to new employees from 1992, legislative provision was made for those in receipt of pensions between 1992 and 2010. There has been no new entrants from the date of the last valuation; therefore, the extent of the liability can only be lower.*

#### **Auditor General's position**

An actuarial valuation is mandatory under the TCI Constitution.

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## **4.4 Amendments to the PFMO may not be consistent with other parts of the Ordinance - HR**

### **Criteria**

Prior to the passing of the 2012 legislation, the Finance and Audit Ordinance (1998 revised in 2009) required a statement of assets and liabilities. Schedule 2(1) of the PFMO (pg.41) passed in 2012 and revised in 2014 headed "Provision for submission of Accounts" requires several statements to be provided to the Auditor General for audit, one of them being a **balance sheet showing the assets and liabilities** of the Consolidated Fund;

Further Section 121 (1) of the TCI Constitution states that the Minister of Finance shall provide the House of Assembly 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.

For the purposes of the full discharge of the duties under the PFM Ordinance, Section 10 states that the **Minister shall ensure transparent systems which provide a full account to the House of Assembly of the use of resources and public moneys**. Resources are defined in the PFM Ordinance as including moneys, stores, property, **assets**, loans and investments (Section 2, PFMO Revised 2014).

Other parts of the PFM Ordinance and Regulations make reference to assets;

- Section 4 (3)(e)(v) of the PFMO – The requirement is that the Minister will enable an accurate overall assessment to be made of the state of the finances of Government including indicators in respect of such **other assets and liabilities** that may be considered appropriate by the Minister.
- Section 128 – 135 of the PFMO - References are made to **non-current assets**.
- Section 35 (3) of the PFMR (Subsidiary Legislation)- The estimates shall be accompanied by a statement showing the **estimated assets and liabilities** of the Fund and the estimated balance at the commencement of the following financial year;

In addition, under Section 67 of the PFMO, "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. “High Value Procurement” means contracts that are deemed high risk and valued at \$75,000 or above or are funded from the Capital Programme.

A statement of assets and liabilities gives users an idea of the state of the public finances along with displaying what the TCIG owns and owes.

See additional references to laws and regulations<sup>2</sup>

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## <sup>2</sup> CONSTITUTION

### Financial control and accounts

121.—(1) The Minister of Finance shall provide the House of Assembly 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.

(3) An Ordinance shall make provision for the regular publication of accounts of the Consolidated Fund and any other public funds and for the laying of such accounts and any reports on them before the House of Assembly.

112 – There shall be a consolidated fund and 113 withdrawal from the Consolidated Fund

109 (2) (2) Public funds shall be managed according to established principles of value for money, affordability and regularity and the interests of long term financial stability.

109 (6) The Minister of Finance shall report to the House of Assembly at least every six months on— (a) the performance of the Government in implementing the framework document published under subsection (4) which is for the time being in effect; and (b) the state of the public finances and the state of the economy of the Islands.

### Accounting officers

123.—(1) There shall be an Accountant General of the Government, whose office shall be a public office.

(2) The Accountant General shall be responsible for the compilation and management of the accounts of the Government, and for the custody and safety of public money and other resources of the Government.

(3) The Governor, acting in his or her discretion, shall by directions in writing designate for each department of government and each institution protecting good governance an accounting officer who shall be responsible for the regularity and propriety of the expenditure, receipts and resources of that department or institution, and shall be accountable to the House of Assembly.

(4) For the purposes of subsection (3), “department of government” means any department of the Government by whatever name called and any other division of the administration of the Islands that the Governor, acting in his or her discretion, may designate by directions in writing.

## PFMO

10 (3) For the purposes of the full discharge of the duties under this Ordinance the Minister shall ensure transparent systems which—

(a) provide a full account to the House of Assembly of the use of resources and public moneys;

(b) ensure the exercise of regularity and propriety in the handling and expenditure of resources and public money and, in particular, that goods or services are procured in a fair, equitable, competitive and cost-effective manner; and

(c) ensure the efficient and cost effective management of the cash resources of the Consolidated Fund, any other fund established under this Ordinance and other public moneys.

## **Condition**

Taking into account that the Financial laws are relatively new and quite comprehensive we noted a few amendments made under Ordinance 9 of the PFM Amendment Ordinance 2016 that may not be consistent with other parts of the PFMO and PFMR. One amendment was to provide general-purpose financial statements in the form and layout of the International Public Sector Accounting Standards adopted at the time of preparation. The current basis of accounting is the cash basis of accounting.

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51. (1) The Minister may, if so authorised by a resolution of the House of Assembly, and to the extent specified in the resolution, abandon and remit any claims by or on behalf of the Government, or any service to the Government and write off losses of or deficiencies in public moneys or public resources.

“value for money” means the economic, efficient and effective utilisation of resources;

### **Responsibilities and powers of the Permanent Secretary, Finance**

11. (1) The Permanent Secretary, Finance may from time to time require an accounting officer, or the chief executive of any statutory body that manages an asset or liability of the Government, to supply any information in respect of any vote or statutory body under his or her control that it considers necessary for the purposes of sections 4 and 10 and sections 109 and 115 of the Constitution.

(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;

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

(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

(4) The Accountant General shall report annually to the Minister on the discharge of the Accountant General's duties under this Ordinance and shall identify—

(a) the basis of the public accounts standards required by section 35; and

(b) any defect, shortcoming or other factor which in his or her opinion has affected materially the Minister's responsibility under section 10.

(5) The Accountant General shall send a copy of any report issued under subsection (4) to the Auditor General.

## **PFMR**

### **Duties and responsibilities of the Minister**

8. (1) The Minister is responsible for—

(b) ensuring the House of Assembly is kept fully informed of the state of the economy of the Turks and Caicos Islands;

(c) enhancing the control of the House of Assembly over public moneys, public property and public resources; and

(d) the supervision, control and direction of all matters relating to the financial affairs of the Government.

9. (2) A Ministry or department referred to in subregulation (1) shall ensure that—

(a) all resources, including money, human capital and capital assets are allocated and deployed to best effect;

35. (3) The estimates shall be accompanied by a statement showing—

(a) the estimated assets and liabilities of the Fund and the estimated balance at the commencement of the following financial year; and

(b) the estimated total revenue accruing to and the estimated total expenditure from the Fund during such financial year.

Prior to this amendment, one of the principal requirements under the PFMO, is that a balance sheet showing the assets and liabilities of the Consolidated Fund was a requirement. It is not mandatory under the IPSAS Cash-Basis of Accounting (CBoA), although the IPSAS encourages it.

*Under internationally recognized audit standards (ISSAI 1700 – Forming an Opinion and reporting on the Financial Statements), the auditor is required to determine if the framework is a “fair presentation framework”. A 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.”*

If financial statements, prepared in accordance with the requirements of a fair presentation framework do not achieve fair presentation, the auditor shall discuss the matter with management and, depending on the requirements of the applicable financial reporting framework and how the matter is resolved, shall determine whether it is necessary to modify the opinion in the auditor’s report in accordance with ISA 705. (Ref: Para. A11)

The Cash Basis of Accounting has been used in the past, as far back as 2008 and perhaps before, with attempts to use a modified cash basis of accounting over 2008 to 2012/13, then changing the accounting policy again to the cash basis in 2013/14. **This inconsistency does not address the fundamental issue of ensuring that transactions need to be disclosed fully to ensure a true and fair view.** It is not only cash transactions that must be properly reported but also non-cash economic transactions and events that represent the economic substance over legal form. Several issues were identified that there were millions in arrears (business licence, scholarship fund and other revenue arrears) that were not properly accounted for or managed. Under the CBoA this is not recorded if not received. The actuarial liabilities, fixed assets, and other liabilities were also not properly recorded. There is a need to ensure that these items are properly recorded and disclosed. Even though it is not required under IPSAS Cash, it is encouraged. But more than that, it is a requirement under TCI Law. The hospital PPP is an off-balance sheet item, but must be disclosed. Although not required under IPSAS Cash, related party disclosures are extremely important in ensuring proper management of the code of conduct in financial transactions.

Overall, if the decision remains to remove the statement of assets and liabilities from the PFM Framework, then this will result in a modification in the audit opinion as the Financial Statements will not be in compliance with the overall intent of the PFM Framework including what is outlined in the Constitution. It is also a **strong control** measure to ensure that the Government’s Main Account, the Consolidated Fund balance is correct and that what portion of the consolidated funds are used in terms of resource allocation.

***Overall there are several areas of economic transactions that need to be reported on, in addition to being compliant with IPSAS Cash. Not reporting on these transactions, effectively reverts to a situation of not having controls over assets, revenue arrears, concessions, scholarship contributions, inventory, claims abandoned, write-offs, off-balance sheet transactions, netting of revenue and expenditures or netting of gains with losses on investments, guarantees, third party payments, external assistance, pensions, healthcare liabilities and other non-cash economic transactions, many of which have been identified as having weak or inadequate controls.***

In accordance with internationally recognized audit standards (ISSAI 1700), the auditor's evaluation of whether the financial statements achieve fair presentation in accordance with the applicable financial reporting framework requires consideration of;

- the overall presentation, structure and content of the financial statements (14 a);and
- whether the financial statements, including the related notes, represent the underlying transactions and events in a manner that achieves fair presentation (14 b).

See extract from a 2002 audit report which recommended a partial accruals basis of reporting “at least in terms of reporting government owned assets”.

Consideration needs to be given in future years to moving towards a partial accruals basis of reporting, at least in terms of reporting government owned assets more fully, including the joint venture company. In tandem with this, government liabilities should also be reported more fully (i.e. to include any liabilities arising from the joint venture company). This incremental approach towards the adoption of a full accruals basis of reporting is recommended by the new International Public Sector Accounting Standard.

See extract from a 2003 Audit Report:

#### **IPSAS International Public Sector Accounting Standards**

12. The Finance and Audit Ordinance requires that TCIG adopt best practice with regard to international accounting standards, as long as the explicit reporting requirements of the Ordinance are also undertaken.

13. The International Federation of Accountants has recently published a series of accounting standards specifically applicable to and addressed to the Public Sector. Whilst most of these statements relate to accounts presented on an accruals basis (as is recommended), a specific statement on ‘Financial Reporting Under the Cash Basis of Accounting’ was issued in January 2003, to take effect from periods beginning on or after 1<sup>st</sup> January 2004. This means that TCIG will have to consider compliance with this standard for its accounts for the year ended 31<sup>st</sup> March 2005.

See extract from a 2006 audit report.

- b) An asset inventory and condition survey was undertaken by a private firm of consultants, Construction Advisory Services Limited, and a report issued in June 2005. The consultants have estimated government assets (i.e. owned buildings, standby power, airfield and facilities, water supply) to be worth approximately \$111million in 2004. This, however, does not include monetary amounts for contents and equipment (e.g. medical, other electronic equipment, etc) or new assets either constructed or acquired, for example, the new legislative building in Grand Turk.

See extract from a 2005/06 Audit Report regarding inadequate risk valuation of assets.

We recommend that a (risk management advisory) committee be set up to develop an overall insurance strategy. 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).

**ON FEBRUARY 2, 2017 A BALANCE SHEET WAS INCLUDED IN THE TCIG'S FINANCIAL STATEMENTS. HOWEVER, GIVEN THE LATE TIMING OF THE PROVISION OF THIS, IT COULD NOT BE FULLY AUDITED.**

#### **Recommendation**

It is recommended that the statement of assets and liabilities be reinstated as a mandatory requirement to ensure consistency throughout the PFM Ordinance and not make it optional or discretionary. While the IPSAS acknowledges there be a period of transition, the fact that the MoF has been cash accounting since prior to 2008, it is unclear why assets were not accounted for properly.

The IPSAS Cash Basis Standard is a fair presentation framework. However, the requirements under the laws mandate that the resources to be regulated, controlled and supervised are to be fully disclosed to the House of Assembly. The IPSAS Cash Basis Standard encourages additional disclosures and under the PFM Framework a system of estimating/recognizing/accounting/recording/disclosing must be put in place to ensure the accurate and timely reporting of all resources, not only cash. A balance sheet of the statement of assets and liabilities should remain as a requirement consistent with the laws introduced in 2012. Or at a minimum, focus on assets as liabilities are reported elsewhere.

When this is coupled with the several years of disclaimers, inability to manage arrears owed to the TCIG in the past, among other issues, the CBoA is inadequate for the requirements under the PFM Framework which demands greater accountability and transparency.

Fiscal transparency is impaired if this is made optional rather than mandatory as required under the PFM Ordinance.

At a minimum, proper disclosures in accordance with a relevant GAAP for non-mandatory items under the Cash Basis IPSAS must be done.

See ISSAI 9160 – Enhancing Good Governance for Public Assets

As of February 1, 2017, 6 months after the original submissions, the MoF are in the process of updating the Annual Accounts to include the Statement of Assets and Liabilities. It is stated that it was prepared but it had not been included in the Accounts submitted in July. This is now being corrected and for the future will be included in the Accounts. You should further note that the responses reflect this inclusion subsequent to July 2016.

**Management Response on January 23 and February 1, 2017 combined**

*It is surprising that reference is made to the legislative amendment given that this was undertaken to comply with a previous audit recommendation, which highlighted that TCIG had not formally adopted any internationally recognised accounting standards. The audit recommendation also highlighted the disconnect between the legislation and standards which was addressed. It would be impossible to require the IPSASB to amend the international standards for TCI alone; therefore it was considered that the practical solution was to amend the law to bring it in line with the internationally recognised standard.*

*As indicated, the PFM Ordinance was amended to reflect the mandatory requirements under Cash Basis IPSAS. The Annual Accounts currently comply with the Ordinance, albeit that the Statement of Assets and Liabilities was not submitted on July 31, 2016. The auditor recognises that previously “attempts were made to use a modified cash basis of accounting” Recall that because the modified cash basis was not fully operative, the policy decision was made to fully adopt IPSAS Cash, and to ensure that this was properly operational before mandating additional disclosures. Concurrently a roadmap for the transition to accrual reporting in accordance with best practice has been developed.*

*It is refuted that the legislative amendment should contribute to the disclaimed opinion given that the approach and representation follows internationally recognised standards which as previously highlighted, produces a fair representation framework. IPSAS Cash indicates that the statement of assets and liabilities is encouraged and is not a mandatory disclosure. The comments included in the draft report indicate that whilst the operating practice is in compliance with both the law and standards that the standards are insufficient.*

*The prescribed process as set out in the Constitution and Standing Orders for legislative amendment is:*

- *A Cabinet Paper is prepared by the Ministry, endorsed by the Minister responsible for the particular area and submitted to the Cabinet Secretary.*
- *A draft Bill is also supplied.*
- *The Cabinet Secretary supplies the papers to the Governor who decides whether these should be included in the Cabinet agenda.*
- *The item is discussed and approved by Cabinet for onward transmission to the HoA.*
- *10 days notice is provided for items to be included in the Order of the House. This Order is published.*
- *The Bills are presented to the HoA by the appropriate Minister (or Attorney General) and is debated by the HoA. HoA meetings are broadcast on the radio. There are three readings of a Bill to take into account any changes required from the debate. The Bill is normally also published in the Gazette.*

- After the Bill is approved by the HoA the AG's Chambers prepare the Ordinance which is submitted to the Governor to be given assent.

*It is acknowledged that the Statement of Assets and Liabilities, while having been prepared was not submitted as a part of the Annual Accounts on July 31, 2016. This has since been corrected.*

### **Auditor General's position**

I have always stated that the IPSAS Cash Basis of Accounting is a fair presentation framework. I have also always stated that you need to comply with the financial laws, **not** to amend the laws to give discretion as to whether or not to report on assets which is inconsistent with other parts of the laws outlined under the "Criteria" above. My position is that any amendment of the financial laws must be consistent with the broader financial disclosure requirements under the TCI Constitution that calls for full disclosure to the House of Assembly. **The TCIG has also not demonstrated that with removal of the requirement for a balance sheet, how they plan to safeguard and account for the Assets of TCIG.** Further, past responses from the MoF has been that if it is not required under the cash basis of accounting, then it is not required to be reported (a level of discretion that places assets being susceptible to misappropriation). I think it is also important to point to the recent issue with NHIB on its cash accounting which resulted in a surprise payment to the tune of \$6.1 million.

Poor control over assets of TCIG has always been an issue and has been precisely the reason why there have been millions that have not been recovered and have to be written off and cannot be accounted for in the past (see 2013/14 Audit Report). The TCIG risks falling back into the same practices prior to the 2012 laws being introduced.

*Extract from my 2014/15 Audit Report headed Accounting Bases page 14*

*"The PFMO requires the financial statements to be prepared in accordance with GAAP. The accounting basis used by TCIG, the modified cash basis of accounting / cash basis as modified (modified cash basis), is not a recognised GAAP. The modified cash basis has significant limitations, not least the ability of accelerating/delaying payments or receipts to impact financial performance, the ability to discretionally modify the basis as the preparer sees fit, lack of comparability to other entities, exclusion of significant TCIG assets and liabilities, and the inability to make decisions based on accurate and reliable financial information. The cash basis of accounting is not adequate to meet the accounting requirements in the PFMO and PFMR. In reviewing the PFMO and PFMR, it appears the intention is not to report on a cash basis."(intention of the PFMO and PFMR).*

*Extract from my 2014/15 Audit Report Point 8.2 Page 57*

*"The cash basis of accounting is inadequate to deliver the minimum financial statements as per Schedule 2 of the PFMO and in accordance with Section 45 of the PFMO which requires*

*GAAP. Further the cash basis of accounting is not sufficient to meet the requirements under Schedule 2 of the PFMO which refers to assets, liabilities, commitments and contingent liabilities, arrears, advances etc. most of which would be non-cash type transactions. In addition the cash basis of accounting, by itself, would not give the users of the financial statements, including the House of Assembly, crucial information for evaluating the TCIG's financial position and performance as required under PFMR Section 52 (5)."*

The above two extracts, indicate that cash basis of accounting is inadequate. Why then would the laws be amended to comply with IPSAS Cash? If the answer is to "transition" to full accruals accounting, the MoF fails to demonstrate how would they assure the assets are safeguarded. We have almost \$400 million in assets and 169 buildings that are not accounted for.

I went even further and contacted officers to indicate to them what exactly I meant. My email sent on July 7, 2016 to the Attorney General, PS Finance and CFO subject "Re: Proposed change in PFM Bill – on Schedule 2 and the definition of IPSAS";

*"I am not disputing at all that the Cash Basis IPSAS is not a fair presentation framework. It is an accepted international standard and I have provided an opinion on it already in the past because it is an international standard....."*

*The concern is that there are other definitions throughout the PFMO and PFMR which refer to non-cash items. E.g. "non-current assets", capital expenditure which includes land and other assets, "public resources", etc. While you may not be required to report assets and liabilities as a result of the Cash Basis IPSAS, you will still have to do so under other parts of the laws and regulations as I will have to provide an opinion on them (Section 18 NAO which moves beyond just a financial audit)....."*

*The other thing is that I had also indicated in the past that "assets" should include material items like the land (not necessarily roads, and other infrastructure) but because land has been featured prominently in the TCI context."*

*[Please also refer to ISSAI 9160 – Enhancing Good Governance for Public Assets, in particular, 4.4.1 Irregularities in the Law-Making Process which states "Taking into account that loopholes or a lack of clarity in regulations and a lack of administrative rules may be the cause of irregularities, Supreme Audit Institutions should focus on the quality of legislation. Incomplete, imprecise or incongruent legislation may lead to excessive discretion in the interpretation of the binding regulations and in the behavior of public officials."](#)*

**Section 121 (1) of the TCI Constitution states that the Minister of Finance shall provide the House of Assembly 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. If it is believed safeguarding of Public Assets and accounting to the House of Assembly**

**on Public Assets and by extension the Public, is not a necessary part of the reporting on the finances of Government, then by all means, please continue to cash account.**

***The adoption of a recognized GAAP must fit generally within the PFM Framework, and specifically in accordance with the TCI Constitution. There is the Cash Basis and there is the Accruals Basis IPSAS. If the Cash Basis IPSAS is adopted, you must provide additional disclosures up to international standards in order to achieve fair presentation, certainly NOT to amend the laws to give discretion as to what is reported.<sup>3</sup>***

Cash basis of accounting started even before I recommended the adoption of a recognized GAAP in keeping with the laws so it is incorrect to say that this was done on my recommendation, even though it is a step in the right direction.

Why was the Balance Sheet not submitted? Was it because it was not required? If you have a statement that can enhance reporting, the logical thing would be to disclose it.

**I will respond fully to this at the Public Accounts Committee Meeting.**

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## **4.5 Inaccurate and incomplete financial statements presented for audit - HR**

### **Criteria**

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

### **Condition**

The TCIG financial statements presented to the Auditor General on July 31, 2016 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

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<sup>3</sup> IPSAS Cash Basis Standard Section 2.1.35 – “Entities that make such disclosures are encouraged to identify assets and liabilities by type, for example, by classifying: (a) Assets as receivables, investments or property plant and equipment; and (b) Liabilities as payables, borrowings by type or source and other liabilities. While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them. In order to comply with the requirements of paragraphs 1.3.5 and 1.3.37 of Part 1 of this Standard, these disclosures will need to comply with qualitative characteristics of financial information and should be clearly described and readily understood. Accrual basis IPSASs including IPSAS 13, “Leases,” IPSAS 17, “Property, Plant and Equipment” and IPSAS 19, “Provisions, Contingent Liabilities and Contingent Assets” can provide useful guidance to entities disclosing additional information about assets and liabilities.”

inadequate disclosures and omission of accounts specifically required under Schedule 2 of the PFMO. Some are as follows;

i) **Typographical errors.** For example the contingent liability relating to the hospital contract was written as \$965 instead of \$965,000 (Note that amounts are rounded to thousands in the financial statements). Transactions noted in the statements as being paid by TCIG to the Human Rights Commission and Complaints Commission were also incorrect.

ii) **Omission errors.** There were noted omissions relating to the following disclosures.

Title	2014/2015 disclosure	2015/2016 disclosure
Undrawn revolving Credit facility with Scotia bank	\$60,000,000 (note 4)	Omitted
Sinking fund	\$110,000,000 (note 13.4)	Omitted
Fixed assets	Omitted	Omitted

Stamp duty remissions on \$28 million loan facilities received from RBC Royal bank during the year have not been recognised within the concessions.

iii) **Casting errors.** The financial statements include arithmetic errors.

- a. The statement of cash receipts and payments has arithmetic errors as the subtotals added up do not come to the noted total.
- b. Note 27 schedule of development fund expenditure has items whose total does not add up to the noted total.
- c. Note 10.1 Statement has errors in amounts added up to derive the closing cash and cash equivalents as at 31 March 2016.
- d. Other notes that have rounding errors include note 21.1, note 16, note 14 among others.

iv) **Incomplete and / or inadequate disclosures** included within notes to the financial statements. Management needs to include further explanations on the following notes for the ease of users of the financial statements.

- a. Note 13.2 includes \$896,000 bond investments (Citi \$10m 8.75%) that matured during the year but are still reported as outstanding. Management should disclose why the bonds have not been liquidated and whether TCIG is still earning any return on this investment.
- b. Note 19 includes \$2,731,000 of outstanding advances. Schedule 2 (1(ii)) of the PFMO 2016 amended requires that a schedule of outstanding advances at the end of the financial year identifying those advances which are overdue and the trust, or officer responsible should be included in the financial statements. The disclosure in the

financial statement does not meet the requirements as it does not show the officers/trust responsible for the \$2,731,000.

- c. Note 18 includes \$10,232,000 commitments. This note should include further disclosure on what the commitments listed relate to and depending on the nature of these commitments when TCIG plans to fulfil these.
- v) Statement of comparison of budget and actual amounts is not complete. The statement has not included a budget comparison on cash flows relating to capital expenditure (development fund budget) as well as financing activities which are required under IPSAS cash basis.
- vi) **Note 27 Schedule of development fund expenditure.** This note contains several errors. There were duplicated items listed within the note. The items listed do not add up to the total shown in the financial statements (for both Actual and budget columns). The note also includes items that are not capital expenditure by nature.
- vii) Subventions were overstated by \$233,171.55 for expenditure incurred for contribution to local organizations such as churches and local festivals and events.
- viii) Subventions were also understated as it did not include the expenditure of \$271,074.52 for expenses incurred by the Human Rights Commission. The total expenditure recorded in the statements for the Office of the Governor has been overstated by \$271,074.52 as the expenditure for Human Rights Commission was included in the Governor's operating cost
- ix) Arrears of revenue not accurately stated due to inaccurate disclosure (Please note that this is a repeat finding from last financial year). The Ministry of Education reported a total Revenue Arrears as \$ 85,000 whereas the Financial Statements has their Revenue Arrears at \$178,000. This is a difference of \$93,000. The Attorney General's Chambers used the total Revenue Arrears for 2012/2013 (\$2,332,539.57) in the 2015/2016 Financial Statements instead of \$8,977,991.26 the actual revenue arrears for 2015/2016.
- x) The Statement of Loss of Public Money and Stores was understated by \$424,000.
- xi) Claims against government were understated by \$52,221.65 due to incorrect classification of expenditure.

***It is not the responsibility of the Auditor General to identify the issues highlighted above. Rather, it is the responsibility of the Auditor General to provide an opinion on the financial statements as presented. In the interest of providing more meaningful financial statements the Auditor General worked with the Accountant General's office in highlighting the above issues. 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 on January 23, 2017**

*It is unfortunate that the issues highlighted above were not corrected prior to the submission of the accounts to the auditors. However all the items have now been corrected.*

#### **Auditor General's position**

This has been a repeat issue for all the years I have audited. It is not relevant that it is now corrected, it is that there seems to be a more fundamental problem of quality assurance/quality control reviews being done to a report as such as this. Minor errors are acceptable, however, these are more substantial in nature and needs to be addressed.

**Bottom line, if your processing i.e. through Smartstream is debatable and your output is inaccurate (i.e. your financial statements), then your inputs into the financial statement preparation will quite likely be incomplete.**

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## **4.6 Transactions or events not recorded or disclosed appropriately in the Financial Statements - HR**

### **Criteria**

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.

### **Condition**

There are several transactions or events that may not have been recorded or disclosed appropriately.

For example;

1. In reviewing the balance in the Escrow Account, it is unclear why the credit balance exists and whether or not this has been properly classified. If the transactions executed through the Escrow account were held on behalf of another entity, then this should be properly classified and disclosed appropriately, possibly as a third party payment.
2. There is also an airline subsidy for Salt Cay in the amount of \$75,000 which should be properly classified and recorded, perhaps as a grant. The accounting policy should guide how these payments are classified, recorded and disclosed. This should be classified and disclosed properly in the financial statements. Where these transfers are made directly or indirectly, it is recommended that they be disclosed appropriately as a grant or subsidy. If they are made through another public entity, then it is recommended that this is accounted for under a third party payment.
3. The payment made to NHIB for Medical Transfers, is a payment through a public entity (i.e. the NHIB) to Interhealth Canada for \$19.5 million which should be shown on the face of the statement under "Transfers" or separately under another heading and not under "Other operating expenses".
4. Held-to-maturity assets recovered (\$110 million) should not be set off against capital expenditure (\$11 million). While offsetting is not material, this should be examined to determine whether or not this should be separately identified.
5. The MoF is required to maintain approved bank accounts through which the Consolidated Fund shall be operated. The CF balance brought forward is not reflected in the Receipts/Payments statement and therefore we are unable to tell what is the financial position of the TCIG as at the end of the financial year under the IPSAS Cash Basis Framework adopted.
6. The Funds of Controlled Entities – As an audit procedure, I was not able to review all the statutory body audits for the period and therefore I am not sure if all the controlled entities that transferred their funds to TCIG are actually recorded in TCIG's books. Disclosures should show all entities amounts paid over to TCIG and which statutory bodies are exempted from this requirement and if so, how much and for what reason.
7. There is no accounting policy regarding any guarantees that the MoF may make. The MoF should consider if an accounting policy is required to ensure adequate disclosure regarding their responsibility to fund any temporary insufficiencies in any of the public entities. Examples would exist where they may have to fund entities that have no cash available or to fund any temporary insufficiencies in the unfunded actuarial liabilities of the NIB or healthcare costs. Further healthcare liabilities and pension liabilities must be disclosed according to the Constitution.

8. The actuarial valuation for pension liabilities was not done to March 2016, therefore the amount represented in the financial statements may not be accurate.
9. Note 17 of the Contingent liabilities statement are clearly not accurate. For the year ended March 31, 2016 the contingent liabilities are \$87.5 million while the contingent liabilities for March 31, 2015 are \$1.1 billion.
10. In discussions with the Health Contracts Management Team commitments may not be accurate as the Team has indicated that the figures in the Financial Statements regarding the commitments for healthcare costs are quite probably less (meeting held with 2 members of the Contracts Management Team on September 16, 2016). I indicated to both the Team and MoF seek to correct the figures as it may be materially misstated.

We were unable to determine if transactions and events are accurate, have been properly classified and disclosed appropriately. The presentation of the financial statements must also ensure that transactions and events are appropriately aggregated or disaggregated and clearly described, and related disclosures are relevant and understandable in the context of the requirements of the applicable financial reporting framework.

#### **Management Response on January 23 and February 1, 2017 combined**

*Point 1 – The disclosure of the account details is correct; the information is shown as “Refundable deposits” and disclosed in Note 10 “Payables from Exchange Transactions”. It should be noted that the description in the SS Systems will be updated. This highlights one of the reasons why the Statement of Assets and Liabilities had not been presented for audit as there may be incorrect classification.*

*Point 2 - This is a policy decision which is the purview of the government.*

*Point 3- This is currently under discussion since for comparability purposes the current treatment continues. It should be noted that the arrangement with Interhealth was instituted by 2009. At that time the current practice of showing the costs as an operating expense continued, so that the full costs associated with human resources is evident.*

*Point 4 – Please explain. There is nowhere in the Annual Accounts where the amounts are being set off. If the auditors are referring to the disclosure in the Statement of Cash Flows, the investing activities are showing separate transactions.*

*Point 5 - The penultimate line of the Receipts and payments statement shows the opening cash and cash equivalents balance at the beginning of the year. It is therefore unclear to what the auditors are referring.*

*Point 6 - The auditors were provided with ALL bank reconciliations. If these were reviewed, it is unclear why the auditors are “not sure if all the controlled entities that transferred their funds to TCIG are actually recorded in TCIG’s books” Additionally, Associated Party transactions have been disclosed in Note 25.*

*Point 7 - This policy decision is the purview of the government. The auditors have noted that the reference is to guarantees which the MOF "MAY" make. If an accounting policy is required, representation will be made to Cabinet accordingly.*

*Point 9 - Note 17 above should be Note 18. The auditors have not recognised the changes which have been effected to show contingent and commitments separately in Notes 18 and 19 respectively. Additionally corrections which have been made to the Accounts subsequent to July 2016 have not been acknowledged.*

*Point 10 - A reconciliation is on-going. As soon as this is completed, any required amendments will be made.*

### **Auditor General's position**

Transactions and disclosures made should reflect the substance of the transactions and this has been an issue that has repeated itself over the last audits.

Disclosures of guarantees are mandatory under Schedule 2 of the PFMO, unless this has been amended as well. The NAO will not be able to tell if the transaction is proper or not where the transaction/event does not reflect the substance over form.

One key responsibility of an auditor includes evaluating the appropriateness of accounting policies used (Refer ISSAI 1210 – Agreeing the Terms of the Audit Engagement and ISSAI 1560 – Subsequent Events). This responsibility is also outlined in all Audit Certificates.

The bottom line is that anything charged on the Consolidated Fund or any transaction which cause an economic inflow/outflow must be properly disclosed through an appropriate accounting policy.

Bank reconciliations were provided late.

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

### **Criteria**

For the purposes of consolidation, Appendix 5, IPSAS Cash Basis Standard states that for the purposes of financial reporting, control stems from an entity's power to govern the financial and operating policies of another entity and does not necessarily require an entity to hold a majority shareholding or other equity interest in the other entity. The power to control must be presently exercisable. That is, the entity must already have had this power conferred upon it by legislation or some formal agreement.

In examining the relationship between two entities, control is presumed to exist when at least one of the following power conditions and one of the following benefit conditions exists, unless there is clear evidence of control being held by another entity.

*Power conditions*

- (a) The entity has, directly or indirectly through controlled entities, ownership of a majority voting interest in the other entity.
- (b) The entity has the power, either granted by or exercised within existing legislation, to appoint or remove a majority of the members of the governing body of the other entity.
- (c) The entity has the power to cast, or regulate the casting of, a majority of the votes that are likely to be cast at a general meeting of the other entity.
- (d) The entity has the power to cast the majority of votes at meetings of the board of directors or equivalent governing body.

*Benefit conditions*

- (a) The entity has the power to dissolve the other entity and obtain a significant level of the residual economic benefits or bear significant obligations. For example, the benefit condition may be met if an entity had responsibility for the residual liabilities of another entity.
- (b) The entity has the power to extract distributions of assets from the other entity, and/or may be liable for certain obligations of the other entity.

When one or more of the conditions listed above do not exist, the following factors are likely, either individually or collectively, to be indicative of the existence of control.

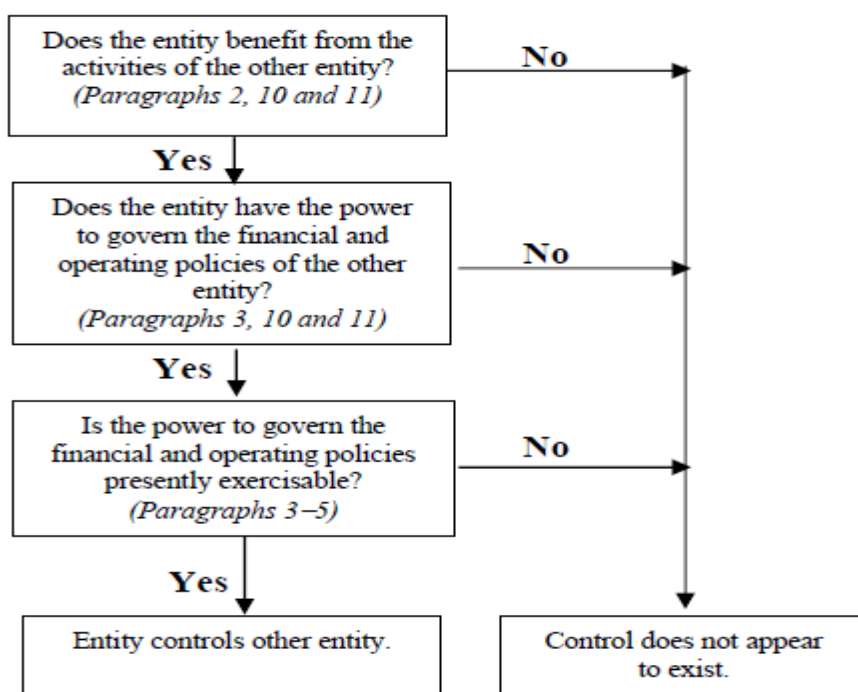
*Power indicators*

- (a) The entity has the ability to veto operating and capital budgets of the other entity.
- (b) The entity has the ability to veto, overrule, or modify governing body decisions of the other entity.
- (c) The entity has the ability to approve the hiring, reassignment and removal of key personnel of the other entity.
- (d) The mandate of the other entity is established and limited by legislation.
- (e) The entity holds a “golden share”<sup>1</sup> (or equivalent) in the other entity that confers rights to govern the financial and operating policies of that other entity.

*Benefit indicators*

- (a) The entity holds direct or indirect title to the net assets/equity of the other entity with an ongoing right to access these.
- (b) The entity has a right to a significant level of the net assets/equity of the other entity in the event of a liquidation or in a distribution other than a liquidation.
- (c) The entity is able to direct the other entity to co-operate with it in achieving its objectives.
- (d) The entity is exposed to the residual liabilities of the other entity.

### Establishing Control of another Entity for Financial Reporting Purposes



#### Condition

Users of the financial statements of a government or other public sector controlling entity are usually concerned with, and need to be informed about, the cash resources controlled by the economic entity as a whole. This need is served by consolidated financial statements that present financial information about the economic entity as a single entity, without regard for the legal boundaries of the separate legal entities.

For financial reporting purposes of TCIG, currently only Ministries are consolidated under Central Government. However, it does not include other entities such as the statutory bodies so as to provide Whole-of-Government Accounts. The current IPSAS Cash Basis Standard requires consolidation of entities meeting the definition of a controlled entity. There is currently an Exposure Draft (ED) 61, which seeks to make the consolidation process optional rather than mandatory under the Cash Basis IPSAS Framework. As it currently stands, consolidation is required under the IPSAS Cash Basis Standard. The accounts do not reflect the consolidated financial statements for the Whole of Government. Non-consolidation will result in a modification to the audit opinion.

TCIG does not currently have a complete overview of the Government's financial performance and position. At present, the best available information on the Government's financial position is provided by the annual financial statements of the Consolidated Fund, but these are incomplete. These statements only aggregate the operations of Government ministries. They do not incorporate the considerable operations of statutory bodies. A complete overview can only be achieved by

aggregating (consolidating) the financial statements of all Government's public funds and controlled organizations. TCIG's financial statements currently only include the financial performance and financial position of the Government and do not include the financial performance and financial position of all entities it potentially controls, either directly or indirectly. TCIG should examine whether it should include in its financial statements the financial position and financial performance of the statutory bodies and other entities controlled.

It is therefore currently extremely difficult for an interested party to understand the full extent of Government's revenues, expenses and its financial position of the Whole of Government.

Significant financial activities of Government occur outside the Consolidated Fund. TCIG could potentially take advantage of the non-consolidation by raising or reducing taxes/fees/charges via statutory bodies with no impact on revenues reported by TCIG as these are not currently reported in TCIG's financial statements. In addition, TCIG could use statutory bodies to make payments on behalf of TCIG without any proper disclosures of such payments via grants or subsidies.

TCIG should consider the benefits of a high level consolidation of cash, assets and liabilities (with loans separately identified)) as part of their standard reporting procedures.

### **Recommended**

Whether or not this ED 61 is implemented, TCIG must establish if there is value in having consolidated information for more informed decision-making. For example where there are free cash flow resources, this may serve to pay off debts of entities that pay a high interest thereby saving public funds.

Note: ED 61 has to be reviewed in relation to the responses received and might change dependent on the review of responses. If they are approved, the amendments will likely become effective in January 2019. In the meantime, the TCIG should comply with the IPSAS Cash Basis Standard and other GAAP (both mandatory and where appropriate, encouraged disclosures).

### **Management Response on February 1, 2017**

*Reference is made to Note 1.4 "Controlled entities" which indicates the reason for not consolidating as required by the IPSAS Cash Basis Standard.*

### **Auditor General's Position**

The IPSAS Cash Basis Standard requires consolidation. If you have not met this requirement, then you have not complied with IPSAS Cash. Financial statements should be described as complying with this IPSAS only if they comply with **all** the requirements of Part 1 of this IPSAS [page 1 of the IPSAS Cash Basis Standard].

Inappropriate accounting policies are not rectified either by disclosure of the accounting policies used or by notes or explanatory material [IPSAS Cash 1.3.35].

## **4.8 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
- Measures to prevent or mitigate impact of identified 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 Government's 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, 2016. The risk of misstatement owing to the possibility of transactions that are omitted from the financial statements in other accounts is high.

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

### **Recommendation**

Management should develop a risk management framework in order to define the risk strategy and oversight responsibilities for risk management to drive accountability across the government. Ministries

and departments should integrate risk management including the identification, assessment and analysis of risk within the ongoing business planning and performance management process. Coordinate the scope, people, processes and technology necessary to sustain optimally effective and efficient risk management and compliance activities. A framework shall enable TCIG to manage key risks with optimized processes and controls at the operational level, embedding consistent risk activities within existing processes.

**Management Response on February 1, 2017**

*A formal risk assessment framework is to be implemented as soon as the relevant resources are identified. In the interim, there will be continued reliance on strengthening the internal control environment.*

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## **4.9 Inadequate fraud risk management mechanism in place**

### **Criteria**

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

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

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

Chapter 2 (sections 12 to 19) of the Public Service Ordinance 2012 sets in place a mechanism for identifying and handling any suspected unethical behaviour by public servants. These include reporting allegations of unethical or otherwise improper conduct, reporting to the Integrity Commission and to

Head of Department or the Permanent Secretary of the Ministry in which the individual is employed and investigation of the matter and determination of an appropriate course of action.

### **Condition**

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

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

### **Physical Report/Complaints**

- (1) Reports or complaints can be received by any staff of the Commission or any Commissioner from any member of the public. Under the Whistle Blower Protection provisions, (sections 86-95), reports and complaints are also received anonymously.
- (2) Formal Reports and Complaints can be made and received by the Commission from within public service directly by the public servants.
- (3) The Governor can make or pass on reports and complaints to the Commission under section 13(3) of the Ordinance.

### **Virtual reports/ complaints:**

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

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

- 1) Lack of a fraud policy. As part of TCIG's governance structure, a fraud risk management program should be in place, including a written policy to convey the roles and expectations of appropriate bodies regarding the management of fraud risk.
- 2) Lack of regular anti-fraud training for staff. There was no evidence of any anti-fraud training conducted in the year ended 31 March 2016.
- 3) Even though persons can make reports to the Integrity Commission, a more robust reporting process should be in place in the public service to solicit input on potential fraud or unethical

conduct, and a coordinated approach to investigation and corrective action should be used to help ensure potential fraud is addressed appropriately and timely. In addition, there should be adequate mechanisms to protect those who report potentially illegal or unethical conduct from the risk of reprisals in order to allow witnesses to come forward.

- 4) There is no mandatory and frequent rotation/reassignment of employees who handle cash receipts and accounting duties. While it is understood that staffing is a problem, management should consider a rotation mechanism. This mechanism can reduce fraud by creating a periodic maker checker control hence ensuring a single employee does not have full control over a single process for a prolonged period.
- 5) There is an Internal Audit Function and Board of Survey reviews are conducted. It is recommended however, that surprise audits be conducted to test effectiveness of the control environment in averting potential fraud, if not done already. Fraud risk exposure should be assessed periodically by management to identify specific potential schemes and events that the entity needs to mitigate and prevention techniques to avoid potential key fraud risk events should be established, where feasible, to mitigate possible impacts on the entity. Detection techniques should be established to uncover fraud events when preventive measures fail or unmitigated risks are realized.
- 6) While persons do fill out declaration forms at the request of the Audit Office, this is not the NAO's responsibility. It is the responsibility of the MoF and other Ministries to ensure that an annual declaration form is done to capture any conflicts of interests up front. It is recognized that persons do declare any conflicts prior to meetings, however, it is a requirement under ISSAI 1550 that Related Parties are recorded and accounted for.
- 7) Employees did not sign off on a statement of compliance, pledging that they have read and understood the Code of Conduct, and their job descriptions, to affirm that they understand their roles and responsibilities and will adhere to the stipulations of the TCIG code of conduct. This can be combined with 6 above.
- 8) There is no system in place to reward or incentivize whistle blowers.
- 9) There is no evidence that a record of fraud or other breaches in the code of conduct is maintained within the Public Service, although the NAO has requested a business ethics compliance form be completed and this is done (although it is not the responsibility of the NAO to do this).

#### **Fraud Risk Factors extracted directly from the ISSAI 1240**

A high-quality audit requires the exercise of professional judgment by the auditor and a mindset of professional skepticism. The International Standards on Auditing (ISAs) note that professional

skepticism is necessary to the critical assessment of audit evidence. This includes questioning contradictory audit evidence and the reliability of documents and responses to inquiries and other information obtained from management and those charged with governance. It also includes consideration of the sufficiency and appropriateness of audit evidence obtained in light of the circumstances. Evidencing the exercise of professional skepticism is critical in demonstrating that the audit was planned and performed in accordance with international standards. Audit inspectors throughout the world have expressed concern about whether professional skepticism is being applied properly in practice. For example, they have commented that some auditors have:

- not responded appropriately in circumstances when inconsistent or contradictory audit evidence was obtained;
- been over-reliant on management representations;
- sought audit evidence to corroborate rather than challenge management's assertions; or
- accepted unreliable audit evidence as being sufficient and appropriate<sup>4</sup>

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 are new accounting, statutory, or regulatory requirements. Even though some of the laws and regulations are followed by the Accounting Officers, a number of key requirements under the new laws and regulations passed in 2012 have not been fully adhered to or implemented at the activity levels as identified in the previous and current audit reports. The lack of full implementation or non-compliance may expose TCIG to unnecessary fraud and other risks. Under-resourced governance entities, in particular, the NAO, will also not be able to detect error in the financial statements if the laws are not implemented in practice to ensure that the NAO can operate independently and without interference from the Audit Clients. The responsibility for fraud prevention lies with management.
- b) 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, it may also encourage material non-disclosures and inappropriate accounting treatment of transactions.
- c) 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

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<sup>4</sup> *Practical Ways to Improve the Exercise and Documentation of Professional Skepticism in an ISA Audit*

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 it is not “control” over those policies.

- d) There have been assets, liabilities, revenues, or expenses based on significant estimates that involve subjective judgments or uncertainties that are difficult to corroborate. Repeat audit findings have centered on a lack of controls, recording and disclosure of assets of TCIG. This is a significant weakness as over 80% of fraud occurs in the misappropriation of assets. Liabilities have not been accurately recorded for several years or may be classified or disclosed incorrectly. Findings in the current year’s audit report are also recorded, which impact the accuracy and reliability of the annual statement of public accounts. There have been almost 8 years of disclaimers of the financial accounts as far as I am aware.
- e) There have been significant, unusual, or highly complex transactions that pose difficult “substance over form” questions. A few instances of substance over form transactions do exist such as in the Public Private Partnership, contingent liabilities, non-cash economic items. Where there is more focus on how they are treated in the accounts rather than how they are treated on the economic substance of the transaction, raises concerns. For example, the inconsistent move from cash to modified-cash and then back to cash basis of accounting is questionable. While it may be a simpler reporting exercise, the fact that there is a requirement under the laws for a balance sheet which has been removed from the Public Financial Management Framework is concerning. There is a requirement for full disclosure to the House of Assembly and the financial performance and position of TCIG of the Consolidated and other Accounts should be fully presented.
- f) If there is a case for high turnover of senior officers this may be a cause for concern. While there is the general view that the recruitment environment is challenging, high turnover of public service officers are not necessarily a factor or condition where fraud may exist. However, if high turnover does in fact occur in high senior positions or in general, when combined with other aspects of the assessment of fraud in an audit of financial statements, a closer analysis is required to understand the cause for high turnover. A propriety audit will assist in this effort.
- g) Internal control components are deficient in several areas. There are identified deficiencies in internal control in several past audits as well as the current audit and are outlined throughout this audit report.

- h) Implementation of the entity's values or ethical standards by management (such as the Code of Conduct) may not be effective. While the laws have been passed, there are weaknesses at the implementation or activity level. Ethical conduct is promoted, however the Public Service needs to develop proper systems to ensure that these codes are adhered to and that ethical violations are reported and dealt with. The appointment of an Ethics Officer within the department may be a good start in developing activity level compliance and ethical guidelines that provide an avenue to advise persons of e.g. conflicts of interests and how to manage them appropriately. They must not report to anyone who is required to report into the Ethics Officer.
- i) There may be nonfinancial management's excessive participation in or preoccupation with the selection of accounting policies or the determination of significant estimates. Given the weaknesses in areas such as in a lack of a fraud policy, no process for declarations of conflicts annually, weak control systems, no grounded reporting system for ethical violations within the public service, increased public expectation to demonstrate improvement in the systems, there may exist a risk that there is participation or preoccupation with the accounting policies and estimates because of a lack of accountability. The removal of a critical statement of assets and liabilities from the PFM Framework is concerning. However, it is understood that this was done to comply with the IPSAS Cash Basis Standard but in doing so, it would have been inconsistent in other areas of the PFMO. There are several years of disclaimers and the accounts are, for the large part, not in proper order, in addition to a lack of a proper control environment to support accurate and reliable financial reporting.
- j) There is a known history of violations of laws and regulations, or claims against the entity, alleging fraud or violations of laws and regulations or other similar abuse. There have been repeat audit findings on compliance with laws and regulations. I have also noticed that a select few of the entities have not been exposed to any rigorous probing and investigation such as the old TC Invest failure and Tourist Board remains unaudited for over 8 years. While the old TC Invest was closed, no one has been brought to account for its failure, unlike the then Sports Commission.
- k) There have been instances where management has failed to remedy known significant deficiencies in internal control on a timely basis. Several audit findings remain open, there are repeat audit findings and the control environment is weak. Audits as far back as 2002 have made recommendations that, up to today, are very relevant.
- l) There are some recurring attempts by management to justify marginal or inappropriate accounting on the basis of materiality. While the cash basis of accounting is a fair presentation framework, the Public Finance Management Framework mandates classification/accounting/recording/disclosing of items that are non-cash as well as assets, commitments and so on. Further to move towards accounting policies which only record cash does not accord with full disclosure requirements to the House of Assembly and does not fairly represent the true nature of transactions such as concessions, arrears of revenue, exemptions, subsidies, grants, gifts received and/given, assets, the public private partnerships, contingent liabilities etc.

m) Assessment of whether or not the relationship between management and the current or predecessor auditor is/was strained. The following 3 factors were considered;

- Whether or not there were frequent disputes with the current or predecessor auditor on accounting, auditing, or reporting matters.

There were a few disputes between current auditor and the client. Upon joining the NAO, I understood that the predecessor auditor had left prior to completion of his contract. While I am not privy to the reasons, this is concerning as I have experienced many instances of interference in the operations of the NAO during my tenure. This may not directly impact material misstatements on the financial statements but is a concern.

- Whether or not there were unreasonable demands on the auditor, such as unrealistic time constraints regarding the completion of the audit or the issuance of the auditor's report.

There was an instance of pressure placed on this office to complete the audit even though it was explained that the accounts were not in good order for release and that the Treasury had to revise their statements. It was also explained that audits over internal controls, regularity and propriety are also a requirement, which demands adequate capacity. Also in this instance the individual was fully aware that we were not resourced properly. We are significantly under-resourced. After explaining this again, this was then rectified. If resources are inadequate, deadlines will not be met and there will be issues.

- Whether or not there was a domineering management behaviour in dealing with the auditor, especially involving attempts to influence the scope of the auditor's work or the selection or continuance of personnel assigned to or consulted on the audit engagement.

With respect to the management, any interference has certainly decreased significantly over the last 4 years, although there are complaints made about the NAO without first informing the NAO so that we could represent our side, an opportunity that we afford all our audit clients. However, the issue of interference in the work of the NAO has been more pronounced with the larger statutory bodies. While they tend to be resolved in the main, a significant amount of my time and effort has been geared towards dealing with these issues, rather than focussing on Audits. Valuable time has been lost.

n) 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.

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

- p) 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.
- q) 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.
- r) There may be increased public expectations to bring the laws and regulations, processes and systems up to international standards and guidelines that creates pressures for reporting and leads to taking “short-cuts” or “quick fixes” which do not solve the problem.
- s) There appears to be a difficult recruitment environment.
- t) The public service compensation structure appears to be rigid and seen to be inconsistent with expectations, but a recent compensation review exercise may have erased some of these concerns.
- u) 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
- v) It is not sure whether there is an internal system of compliance with ethical standards. No evidence seems to suggest such actions have taken place, although it is noted that there are instances where public officers do verbally declare conflicts of interests and the Public Service Commission, through the HR Department, has requested all public servants to disclose or seek permission to engage in any business outside of the Public Service.
- w) ISA 240 - unusual delays by the entity in providing requested information

### **Recommendation**

1. Management should develop fraud policies and procedures and fraud awareness programs for the public service.
2. All incidents of fraud should be responded to promptly and records maintained.
3. Accounting officers should perform fraud risk assessments for all programs under their ministry at least annually.

4. Fraud plans should be developed and executed for all ministries and departments.
5. There should be continuous monitoring of fraud systems.
6. Management should be trained in fraud detection and prevention.
7. A formalized system for reporting unethical conduct should be developed.

**Management Response on February 1, 2017**

*A formal risk assessment framework is to be implemented as soon as the relevant resources are identified. In the interim, there will be continued reliance on strengthening the internal control environment.*

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#### **4.10                      Related Party Transactions and/or events may not all be reported in the financial statements- HR**

**Criteria**

ISSAI 1550 Para 14

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

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

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

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

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

- (a) Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities; and
- (b) Significant influence (which may be gained by share ownership, statute or agreement) is the power to participate in the financial and operating policy decisions of an entity, but is not control over those policies.

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

- a) Direct or indirect equity holdings or other financial interests in the entity.
- b) The entity's holdings of direct or indirect equity or other financial interests in other entities.
- c) Being part of those charged with governance or key management (that is, those members of management who have the authority and responsibility for planning, directing and controlling the activities of the entity).
- d) Being a close family member of any person referred to in subparagraph (c).
- e) Having a significant business relationship with any person referred to in subparagraph (c).

### **Condition**

Through the Human Resources Department, controls are in place to authorize and approve significant transactions and arrangements outside the normal course of business.

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

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

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

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

### **Recommendation**

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

- a. related transactions and appropriate disclosures; and
- b. Authorize and approve significant transactions and arrangements with related parties.

### **Management Response on February 1, 2017**

*The recommendation above will be reviewed and incorporated where necessary in the proposed risk framework.*

### **Auditor General's Position**

This must form an integral part of the financial reporting systems across Whole of Government to ensure transactions are conducted at arms-length. This forms an integral part of compliance with the Code of Conduct and a control to deal with issues such as favouritism, nepotism, abuse etc.

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## **4.11 Management Override of Controls – HR**

### **Criteria**

There should be no management override of controls, unless in exceptional circumstances.

### **Condition**

Financial reporting misstatements can occur by overriding established control procedures and as evidenced in 5.1, 5.16 and other findings where unauthorized or inappropriate journal entries or other post-closing adjustments (for example, consolidating adjustments or reclassifications).

Although the level of risk of management override of controls will vary from entity to entity, the risk is, nevertheless, present in all entities. Due to the unpredictable way in which such override could occur, it is a significant risk of material misstatement.

It is relatively easy to use journal entries to misstate financial records. Material misstatements of financial statements often involve adjustments of the financial reporting process, such as recording inappropriate or unauthorized journal entries or making adjustments to amounts reported in the financial statements but not reflected in formal journal entries (e.g., those resulting from valid consolidation of financial adjustments, reporting aggregation and reclassification).

There appears to be an inadequate design of internal controls that prevents the financial information system from providing complete and accurate information that may be susceptible to management override of controls.

### **Management Response**

*It should be noted that entries are approved electronically on SS. In the instances where management overrides have been cited, this occurs only on the "paper copies". There is the additional control that the information can be verified by third party confirmation.*

### **Auditor General's Position**

Third party confirmation has nothing to do with this issue. TPCs are only one part of an audit. If you are preparing accounts that only support a TPC I would be deeply concerned about this. E.g. The Belize Bank Account had \$0 but the TCIG's Accounts had \$2.5 million. Are we supposed to accept that the bank statement from this third party and adjust it down to \$0? In 2007, there was approximately \$81.3 million in adjustments brought onto TCIG's books, because it was not there in the first place.

The \$5,916,592 adjustment to cash and cash equivalent relate to bank overdrafts that should be shown separately as a liability. The \$500,519 adjustment to Advances represent amounts written off. The \$283,000 adjustment to Investments represent shareholding in CDB Capital stock which were not included as investments. The \$16,688,604 adjustment to Accounts payable relate to debt due in the amount of \$15,101,560 and other payables of \$1,587,044 that were not recorded on the Statement of Assets and Liabilities. The \$1,780,935 adjustment to short term Deposits held relate to accounts payables of \$1,587,044 and accounts Receivable of \$70,385 which were classified as short term deposits held when they should have been classified separately as accounts payable and accounts receivables. The \$1,068,155 adjustment to current portion of long term liabilities relate to loans during the period that were not included in prior year financial statements. The \$3,364,879 adjustment to CDB and the \$61,848,747 adjustment to commercial bank loans relate to loans and balances of TCIG that were not included in prior year financial statements.

**The fact that it did not exist in the books, means that the accounting control system did not pick it up. TPCs are there as a check. It does not absolve anyone from the responsibility for ensuring that the accounts are reliable. And if you are preparing your accounts to reflect what the TPCs represent, then you are not accounting properly.**

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## **4.12 Control gaps in the preparation, review and approval process of adjusting journal entries**

### **Criteria**

Proper financial reporting processes require that journals are prepared, reviewed and approved before they are posted into the system. The review process should include verifying that the journal has supporting documents attached to support the entry made.

### **Condition**

During our review of the general journal entries we noted that entries often lacked proper review and approval by a responsible employee. All journal entries should be accompanied by full explanations and referenced to verifiable supporting data and contain a signature of proper approval by someone other than the person responsible for preparing and posting the entry. The risk is that there is the potential for unauthorized or fraudulent transactions being posted to the general ledger. Examples of reviewed journals are included in Table 9.

## **Recommendation**

We recommend that there be a clear policy and procedure for posting of journal entries to the General Ledger. We recommend that the journal entries be approved by the Accountant General prior to posting and approval be documented on paper copy of entries filed in journal entry binders. We also recommend journal entries contain supporting documentation as well as affected account descriptions and purpose of entry. This will ensure a verifiable trail for transactions posted to the general ledger and ultimately the financial statements. In addition, we recommend that on a periodic basis a journal entry report be generated from the general ledger and that the report be provided to the PS Finance for approval. This approved report should be signed and maintained as evidence of the procedure being performed.

JRNL_ID	EFF_DATE				DESCP	PRIM_AMT	COMMENT
JNLJUN201356	30/06/2013	54	021	91001	Bank Charges on Transfer to Sinking Fund	- 17	No supporting documents attached to journal
JNLJUN201356	30/06/2013	54	021	91001	Transfer from FCIB to Sinking Fund	1,300,000	No supporting documents attached to journal
JNLJUN201356	30/06/2013	54	021	91001	Interest on Sinking Fund	14,814	No supporting documents attached to journal
JNLJUN201356	30/06/2013	54	021	91001	Interest on Sinking Fund	14,341	No supporting documents attached to journal
JNLJUN201356	30/06/2013	54	021	91001	To adjust NFF Fund Balances	114,750	No supporting documents attached to journal
JNLAUG201309	31/08/2013	54	021	91001	Transfer from Consolidated Fund to Sinking Fund	14,824	No supporting documents attached to journal. Manual journal was not numbered. Journal has no indication of preparer and poster.
JNLAUG201309	31/08/2013	54	021	91001	Transfer from Consolidated Fund to Sinking Fund	14,246	No supporting documents attached to journal. Manual journal was not numbered. Journal has no indication of preparer and poster.
JNLNOV2013138	30/11/2013	54	021	91001	Transfer from NFF to Consolidated Fund	1,280,953	No supporting documents attached to journal.
JNLADJ201425	31/03/2014	54	021	91001	To Adjust Loan Balances	- 445	No evidence of review and approval
JNLADJ201425	31/03/2014	54	021	91001	To Adjust Loan Balances	- 154	No evidence of review and approval

JRNL_ID	EFF_DATE				DESCP	PRIM_AMT	COMMENT
JNLADJ201469	31/03/2014	54	021	91001	To Correct JNLS posted for transfer from NFF	- 1,280,953	No evidence of approval.
JNLMAR2014117	31/03/2014	54	021	91001	Transfer to Sinking Fund 31/03/2014	2,500,000	No evidence of review and approval
JNLMAR2014118	31/03/2014	54	021	91001	Transfer to Sinking Fund 31/03/2014	5,448,858	No evidence of review and approval
JNLMAR2014183	31/03/2014	54	021	91001	Transfer fr NFF to Consolidated FUND	- 44	No evidence of review and approval
JNLMAR2014184	31/03/2014	54	021	91001	Transfer from NFF to Sinking Fund	4,463,128	No evidence of review and approval. Description does not match the journal and there's not supporting document to ascertain what the entry related to. Management explained that description used was wrong
JNLMAY201403	31/05/2014	54	021	91001	Transfer to Sinking Fund	4,000,000	No evidence of approval
JNLJUL201449	31/07/2014	54	021	91001	Debt Settlement 10/07/2014	- 9,000,000	No evidence of review and approval.
JNLJUL201466	31/07/2014	54	021	91001	Interest Sinking Fund 30/06/2014	20,456	No evidence of review and approval
JNLAUG201469	31/08/2014	54	021	91001	Transfer - Scotia main to Sinking Fund 29/08/2014	6,750,000	No evidence of review and approval
JNLAUG201483	31/08/2014	54	021	91001	Trans -Sinking Fund to Term Deposit	- 60,000,000	No evidence of review and approval
JNLOCT2014141	31/10/2014	54	021	91001	EIB Loan	- 24,574	No evidence of review and approval

**Table 4 – Result of sample journal reviews for Consolidated Fund Account**

**Management Response on February 1, 2017**

There are established policies and procedures concerning journal entries, including approvals at various levels based on the nature of the transactions. It should be noted that entries are approved electronically on SS. Greater care will be exercised to ensure that the written journal entries have the supporting documentation attached as well as evidence of review and approval.

#### **4.13 Ineffective controls around review of exposures arising from financial instruments held**

##### **Criteria**

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

##### **Condition**

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

Interest Rate Risk - The Government's borrowings are interest bound. Short-term financial liabilities are interest free. The disclosure Note 8 has does not have details on whether these are variable interest rates. The interest rate risk exposure arising from the facilities, assuming an increase/ decrease in interest rates should be disclosed. The interest rate risk exposure relates to the effect that a reasonably possible movement in interest rates would have on the government surplus. The Government also has interest bearing investments and should disclose if the rates and variable and any exposures that may affect the cash receipts.

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

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

### **Recommendation**

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

### **Management Response on February 1, 2017**

*A formal risk assessment framework is to be implemented as soon as the relevant resources are identified.*

---

## **4.14 Repeat Audit Findings and incomplete audit recommendations - HR**

### **Criteria**

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

### **Condition**

We noted that the majority of issues raised during the 2014 and 2015 audits remain open or in progress. Some were recurring issues identified during the current audit. Appendix 4 shows the status of audit findings from the 2013/14 and 2014/15 audit reports in detail. The table below shows a summary of the audit findings and recommendations for the prior 2-year period. It is acknowledged that there would be resource constraints and therefore those in authority should consider the impact on the reliability of the financials if some of the critical repeat audit findings remain unresolved.

<b>Audit Findings &amp; Recommendations</b>	<b>2013/14</b>	<b>2014/15</b>
Open	30	36
In progress	16	8
Closed	4	12
NAO to review in future	7	0

**Table 5 – Status on Audit Findings & Recommendations for 2013/14 and 2014/15**

### **Recommendation**

Management should implement audit recommendations and perform regular monitoring of the previously identified audit issues to ensure they have been resolved. Repeat audit findings have occurred several times. For example the fixed assets listing has not been completed, 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.

**Management Response on February 1, 2017**

*There is currently a lack of capacity within the Treasury which contributes to queries remaining outstanding. As soon as the resource constraints are addressed there will be improvements.*

---

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

**Criteria**

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

**Condition**

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

It appears that the old manuals are being used.

**Recommendation**

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

**Management Response on February 1, 2017**

*The manuals will be updated to reflect the upgraded software as well as other policies and procedures currently under review.*

#### **4.16 Control gaps around preparation and review of bank reconciliations - HR**

##### **Criteria**

Basic accounting practice requires timely and regular preparation and review of bank reconciliation. The review should include a follow up on outstanding items like outstanding cheques and deposits and an adjustment to the cashbook for any direct charges by the bank.

##### **Condition**

For TCIG main operating account, we noted that stale cheques were not reversed, and there were outstanding cheques from as far back as 2014. We also noted reconciling items on the bank reconciliation that related to adjustments not made to the cashbook (Smartstream). Generally, the preparation and review process is not timely hence any fraudulent payments may not be detected and corrected in a timely manner.

##### **Recommendation**

Management should perform robust reconciliation procedures that involve clean-up of cashbook and cancellation of stale cheques. Management should also ensure regular that preparation and reviews are carried out in a timely manner i.e. within 15 days of every month end.

##### **Management Response**

*Bank reconciliations are prepared and reviewed in a timely manner each month. It is acknowledged that there were dated reconciling items which should have been adjusted on the completion of the reconciliations. This is currently being done and will include the monthly recording of staledated cheques as payment obligations.*

---

#### **4.17 Controls gaps over completeness, accuracy and recoverability of arrears - HR**

##### **Criteria**

PFMR Section 63 (1) (2) (3)

(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. (2) The return shall state for each revenue head and item the arrears outstanding at the end of that financial year. (3) The Accountant-General shall, on receiving the individual returns consolidate them into a statement showing

all the revenue outstanding under each revenue item as at the end of that financial year. The statements shall form part of the Government's annual statements of accounts.

### **Condition**

From our review of the revenue arrears schedules, we noted the following;

1. The crown land arrears reported in the financial statements are not complete. The schedule reviewed revealed that these have not been updated since 2013. Arrears on leases running beyond 2013 have not been included in the schedule. Revenue arrears arising from lease of crown land shown in the financial statements are potentially misstated.
2. All Ministries Revenue Arrears Statements agreed with the Financial Statements except for the Ministry of Education and Attorney General's Chambers. The Ministry of Education reported a total Revenue Arrears of \$ 85,000 whereas the Financial Statements has their Revenue Arrears at \$178,000. This is a difference of \$93,000. The Attorney General's Chambers used the total Revenue Arrears for 2012/2013 (\$2, 332,539.57) in the 2015/2016 Financial Statements instead of 2015/2016 Revenue Arrears total of \$8,977,991.26.
3. Also \$2,332,540 of all crown land arrears included in the financial statements also includes already collected amounts amounting to \$28,678.
4. Revenue arrears schedules from the sale of water amounting to \$3,495,579.64 do not indicate date since which amounts have been outstanding. It is therefore impossible to assess how long these amounts have been outstanding and whether they are recoverable.
5. Based on schedules provided by Treasury for the various revenue arrears relating to Ministry of Finance, Trade and Investment amounting to \$5,983,569.06, most of these amounts have been outstanding for more than a year.
6. A material amount of the \$12,423,000 revenue arrears in the financial statements has been outstanding for more than one year.

Overall, there is no evidence of measures in place to follow-up and try to recover these amounts, as well as little evidence as to what controls management has put in place to prevent future revenue losses of this kind.

### **Recommendation**

The statement of Arrears should be confirmed as true and correct by all departments before finalization. The department should also make available the support documentation to aid in this confirmation. TCIG should also put in place stronger control measures to collect arrears, and apply for write-off of amounts

deemed uncollectable. The risk is that arrears are built-up over time and remain owing to the TCIG similar to what occurred in the past.

**Management Response on February 1, 2017**

*Ministries/Departments are required to submit true and correct information. However, there were errors made in the original submissions which were used to prepare the Annual Accounts submitted in July 2016. This information has since been corrected and has been reflected in the Annual Accounts.*

*There is also a lack of capacity to perform all the functions as required under the PFMO. The Ministry is currently seeking to address this issue and expects that there will be improvements accordingly.*

**Auditor General's position**

The errors and omissions are not the issue. It is the frequency, materiality and impact of occurrence. These have occurred over several years, across the entire financial statements and includes large figures being materially misstated.

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## **4.18 Inadequate Accounting Policies**

**Criteria**

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

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

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

#### **Condition**

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

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

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

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

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

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

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

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

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

### **Recommendation**

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

### **Management Response on February 1, 2017**

*The auditors have been advised that the recording of cash-based transactions is the first step in providing comprehensive and accurate information in the Annual Accounts. It is expected that accounting policies and procedures will be reviewed in the next twelve months. The auditors are reminded that IPSAS Cash is a recognised form of GAAP.*

*With respect to the Belize Bank Account transaction, there was no write off. All transactions were brought to account and verified by third party confirmations; the information was given to the auditors in a previous year.*

### **Auditor General's position**

The MoF has been using the cash basis of accounting since before 2006 and perhaps quite likely before that. It is surprising that in 2015, 9 or more years after the use of the cash basis of accounting, that the MoF are now taking the first steps.

The Auditors are well aware that IPSAS cash is a recognized GAAP. However, the overriding principle is to provide a true and fair view of the transactions in which the preparers of financial statements acknowledge that they may be required to provide additional disclosures beyond what the standard prescribes.

## 4.19 Statement of Loss of Public Money and Stores understated - HR

### Criteria

The PFMO and PFMR requires proper recording of, accounting for, and disclosures in respect of losses of public money and stores.

### Condition

Review of the statement of loss of public money and stores reveal that:

1. The losses from previous years were not being carried forward to the subsequent financial years.

<b>By Ministry</b>	<b>31 Mar 2014 US\$'000</b>	<b>31 Mar 2015 US\$'000</b>	<b>31 Mar 2016 US\$'000</b>	<b>Write Offs to Date US\$'000</b>	<b>Losses to Date US\$'000</b>
Attorney General's Chambers	2	12	2		16
Judiciary	13				13
Ministry of Education Youth Sports and Library Services	1		118		119
Ministry of Health and Human Services	2	5			7
Ministry of Home Affairs, Trans, & Comm.	6		2		8
Ministry of Infrastructure, Housing & Planning					0
Ministry of Tourism, Environment, Heritage & Culture			92		92
Ministry Of Government Support Services	2	65			67
Ministry of Finance, Trade and Investment			12,678	12,598	80
<b>Total</b>	<b>26</b>	<b>82</b>	<b>12,892</b>	<b>12,598</b>	<b>402</b>

**Table 6 – Statement of Loss of Public Money and Stores Balances for financial years 2013, 2014 and 2015**

2. Further review of the statement of loss of public money and stores indicates that there was only one write off of \$12,598,173.
3. Statement of loss of public money and stores did not include \$22,616.30 for the Judiciary for the Magistrate Court Providenciales that was paid to clients of the Judiciary from the claims account.
4. The statement for year ended 31 March 2016 show a total of \$294,000 but it is not clear whether all reports were submitted to the Auditor General as required by PFMR 22 (3).

### **Recommendation**

The Accountant General should ensure that controls are in place to capture all loss of public money and stores. Additionally, unless losses were written off the balances should be reported in the financial statements.

Accounting Officers shall report all losses in writing, copied to the Auditor General as required by PFMR 22 (3).

### **Management Response on January 23, 2017**

*This matter will be looked into to see how best it can be addressed.*

### **Management Response on February 1, 2017**

*The losses which have not yet been written-off as disclosed in Note 15 will be reported in the schedule of assets and liabilities. Compliance with the PFMR will be enforced in future years.*

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## **4.20 Misstatement of Subventions - HR**

### **Criteria**

Subventions are funds allocated by TCIG for statutory bodies in the Appropriation Ordinance and are recorded as transfers on the financial statements. The amount in the Appropriation (2015/2016) Ordinance 2015 page 3.11 for Human Rights Commission Subvention was \$320,477.

### **Condition**

Expenditure for subventions were incorrectly classified resulting in misstatements as follows:

1. Subventions were overstated by \$233,171.55 for expenditure incurred for contribution to local organizations such as churches and local festivals and events.
2. Subventions were understated as it did not include the expenditure of \$271,074.52 for expenses incurred by the Human Rights Commission.

3. Additionally, the total expenditure recorded in the statements for the Office of the Governor has been overstated by \$271,074.52 as the expenditure for Human Rights Commission was included in the Governor's operating cost.

### **Recommendation**

The Accountant General should ensure that expenditure is classified and recorded accurately in the financial statements.

### **Management Response on February 1, 2017**

*Subventions are currently reported at Notes 5 & 25 in the Annual Accounts. The Notes further reflect that the postings have been corrected subsequent to July 31, 2016.*

### **Auditor General's position**

The MoF has had 4 months to prepare the accounts for audit. They have also had time during which the audit was conducted to end of November 30, 2017 and a further 2 months to respond. The extent of delays, re-work, errors, omissions, etc. regrettably point to a lack of controls and quality assurance. All prior years have had numerous errors. It is only when the NAO highlights these errors, that these are corrected. The MoF needs to ensure that there is a proper review and vetting system in place. Audits over controls have indicated that they are weak.

Account	Description	Actuals	Budgets	Variance	Comments
35801	Community College	2,217,012.00	2,217,011.00	(1.00)	
35803	Contribution to Local Organizations	233,171.55	256,500.00	23,328.45	Contributions to churches and other local organizations should be reallocated appropriately. Part of operational expenditure.
35804	Tourist Board	2,955,000.00	2,955,000.00	0.00	
35805	Invest TC	1,299,596.85	1,330,860.00	31,263.15	
35806	National Trust	199,746.82	200,000.00	253.18	
35812	TCI Civil Aviation authority	969,064.00	969,064.00	0.00	
35819	Integrity Commission	1,200,338.00	1,200,338.00	0.00	
35820	NAO	589,822.00	1,001,360.00	411,538.00	
	<b>Treasury total</b>	<b>9,663,751.22</b>	<b>10,130,133.00</b>	<b>466,381.78</b>	

Account	Description	Actuals	Budgets	Variance	Comments
34227	Human Right Commission (Understated by)	271,074.52	320,477.00	49,402.48	
	<b>Total</b>	<b>9,934,825.74</b>	<b>10,450,610.00</b>	<b>515,784.26</b>	
	Contribution to Local Organizations (overstated)	233,171.55			
	<b>Payments to Statutory Bodies (Correct figure)</b>	<b>9,701,654.19</b>			

**Table 7 – TCIG Subventions to Statutory Bodies**

## **4.21 Several years of disclaimed, qualified and/or adverse audit opinions - HR**

### **Criteria**

Financial statements should give a true and fair view of the financial performance and position of the TCIG. The internal controls employed in the preparation and financial reporting process and the compliance with laws and regulations (regularity) are equally important to ensure the integrity (reliability, accuracy, completeness etc.) of the financial statements.

### **Condition**

For the years ended March 31, 2008, 2009, 2010 and 2011 which were compiled and audited together, a disclaimer audit opinion was provided on the TCIG Annual Statement of Public Accounts for those periods.

For the year ended March 31, 2012, the Annual Statement of Public Accounts was qualified. However, in reviewing this opinion, I am of the view that there were matters discovered in this 2015/16 audit, which pertain to prior years including the 2011/12 fiscal year which can lead to a disclaimer. However, I was only appointed in January 2013 (and the audit was substantially completed by another auditor).

For the year ended March 31, 2013, a disclaimer audit opinion was provided on the TCIG Annual Statement of Public Accounts.

For the year ended March 31, 2014, a disclaimer audit opinion was provided on the TCIG Annual Statement of Public Accounts.

For the year ended March 31, 2015, the TCIG Annual Statement of Public Accounts, 4 opinions were provided. On an unconsolidated basis, a qualified opinion was provided\*. On a consolidated basis, an

adverse opinion was provided. The foregoing two opinions were audited against the IPSAS Cash Basis Standard. However, there was a National Framework against which the audit was conducted, referred to as the Public Financial Management Framework. Both on an unconsolidated and a consolidated basis, adverse opinions were provided.

***\*This audit opinion is being revisited given new audit evidence that the opening balances for the 2015/16 audit are incorrect and therefore would impact the 2014/15 qualified audit opinion on the Cash Basis of Accounting on an unconsolidated basis. All prior years' Consolidated Fund Balance presented on the financial statements are significantly and materially different from the Trial Balance used to generate the financial statements.***

### **Recommendation**

TCIG should review findings and recommendations from the prior year audits, in particular the 2013/14 and 2014/15 TCIG Audit recommendations in order to address the continuing weaknesses over the last several years. This should be read in conjunction with the lack of a quality review of the financial statements, which indicates that **ALL** years have had to be reviewed post-issuance to the NAO and changes made due to errors, omissions and/or a lack of management review of the financial statements.

### **Management Response on February 1, 2017**

*It is unsure whether the auditors identified any controls at all on which reliance could be placed.*

*Certainly, the third party confirmations and/or reconciliations have been provided for at least \$4.9 million of the \$6.0 million net assets shown in the Trial Balance.*

Assets	\$
Cash and cash equivalents	37,695
Receivables from exchange transaction	2,731
Financial asset - investments	3,438
Tolco Portfolio	5,334
	49,198
Current portion of borrowings	(11,857)
Borrowings	(32,423)
	4,918

### **Auditor General's position**

The controls are weak and inadequate. The number of exceptions and issues outweigh, ***by far***, any controls you have in place and this is evidenced by the numerous repeat audit findings, errors, omissions, inadequate and inappropriate accounting policies etc. Some of these repeated issues span as far back as 2002.

I do not have confidence in the controls system upon which the financial system is prepared.

Is this computation based on our recomputed balance sheet in the Appendices? You did not provide a balance sheet in your statements. The reconciliations were received in October. Are you now stating that it is a surplus of \$6 million? What is this represented by in your books?

It is rather ingenuous that one would seek to criticize the NAO for failure to identify any controls when the comments you have provided are post your financials submitted on 31 July, 2016. The MoF had 4 months to prepare the financials, 4 months to provide revisions to the financials (when the audit was going on), an additional 2 months to respond to the audit issues and still could not get it right as my position still holds on every single one of the issues in this Audit Report.

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## **4.22 Prior year audit opinion modified from qualified to disclaimer - HR**

### **Criteria**

According to internationally recognized audit standards, the auditor is required to form an opinion on the financial statements, to conclude whether reasonable assurance has been obtained about whether the financial statements as a whole are free from material misstatement. This conclusion takes into account the auditor's evaluation of uncorrected misstatements, if any, on the financial statements. A misstatement is defined as a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and the amount, classification, presentation, or disclosure that is required for the item to be presented fairly in accordance with the applicable financial reporting framework.

If the auditor obtains audit evidence that a material misstatement exists in the prior period financial statements in which a qualified opinion has been previously issued, and the corresponding figures have not been properly restated or appropriate disclosures have not been made, the auditor shall express a qualified opinion or an adverse opinion in the auditor's report on the current period financial statements, modified with respect to the corresponding figures included therein.

When reporting on prior period financial statements in connection with the current period's audit, if the auditor's opinion on such prior period financial statements differs from the opinion the auditor previously expressed, the auditor shall disclose the substantive reasons for the different opinion in an Other Matter paragraph in accordance with ISA 706.5.

### **Condition**

Due to the existence of a material misstatement in the 2015/16 period of the accumulated Consolidated Fund balance, the Consolidated Fund for prior years is also materially misstated from 2007 to 2015. These misstatements also impact prior years' audit opinions, which were qualified for the 2014/15 period. My opinion on such prior period financial statements differ from the opinion previously

expressed, as the Government's Main Account, the Consolidated Fund is not correct for several years of financial statements presented in the past. The figures included as the surplus or deficit for several prior years reported to the public in the financial statements are different from what is generated from the Government's Accounting Software Smartstream. These amounts are significantly different from what was reported to the House of Assembly and the Public. Given the significant material misstatement, the prior year audit opinion is adjusted from a qualified position on an unconsolidated basis to a disclaimer.

The Government's Main Account, the Consolidated Fund is not reconciled. The figures included as the surplus or deficit for several prior years presented in the financial statements are different from what is generated from the Government's Accounting Software Smartstream. The Consolidated fund is materially misstated for 2015/16 and it is also misstated from 2007 to 2016 as noted in Table under Issue 5.1.

### **Recommendation**

### **Management Response**

*It is unclear the extent to which the auditor is able to rely on audits of prior years, especially in relation to balances which have been verified by third parties (especially cash, cash equivalents and borrowings). It is also unclear what makes the balance incorrect and what the correct balance should be.*

*As shown in the response to 5.1 above we believe that there is no error on the CF account.*

### **Auditor General's Position**

The financial statements need to be reviewed by management and restated. As the majority of them are disclaimers, they cannot be relied upon. The Consolidated Fund Account Balance is materially misstated. Please refer to the audit findings throughout this audit.

Relying on third party confirmation is only one part of an audit. If the MoF has to rely on a third party only to confirm the figures, it implies that the accounts are being prepared to what balance is reported in the third party's books which is an incorrect approach.

The MoF should have their books properly prepared with sound controls in place and compliant with the laws.

See extract from 2002 Audit Report;

## Consolidated Accounts

9. In part because of technical difficulties posed by the TCIG accounts being prepared on a cash basis the accounts of government do not incorporate the financial statements of public sector bodies such as the statutory bodies. In this respect the statements as presented do not present a complete picture of TCIG financial activity, and are in contravention of the forthcoming International Public Sector Standards (discussed below). 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.

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### 4.23 Net cash receipts not reconciled by \$2.2 million - HR

#### Criteria

IPSAS cash paragraph 1.3.12 requires that the presentation of the Statement of cash receipts and expenditure clearly illustrates the receipts, expenditure and net receipts balances for the period which should be reconciled to the opening cash balances to show the closing cash balance for the period.

#### Condition

The cash balances included within the financial statements are not reconciled as per the guidelines of IPSAS cash, the statement of cash receipts and payments does not comply with the IPSAS presentation (IPSAS requires that the Closing Cash = Opening Cash + Cash Receipts - Cash expenditure). The statement provided by management includes a \$2.2 million balance that has not been directly derived by netting off all cash expenditures against cash receipts. It is also unclear as to what the amount represents as "Net receipts/(payments) of public accounts". A snapshot of the statement illustrates this further.

<b>Operating surplus</b>	<b>67,303</b>	<b>77,533</b>
Net cash flows from investing activities *	99,476	(116,607)
Net cash flows from financing activities *	(147,458)	(15,806)
Net cash and cash equivalents at beginning of the year	16,127	70,924
Net receipts/(payments) of public accounts	2,247	83
<b>Net cash and cash equivalents at end of the year</b>	<b>37,695</b>	<b>16,127</b>

**Table 8 – Extract from cash flow showing unreconciled amount of \$2.247 million**

#### Recommendation

Management needs to accurately capture a complete record of cash receipts and expenditure as required by IPSAS cash basis of accounting so as keep an accurate reconciliation of the closing and opening cash balances in the statement of public accounts.

### **Management Response on January 23, 2017**

*The auditors have been provided with the breakdown of the \$2.2 M which has arisen, not from operating surplus, but as a result of transactions in other accounts on the Trial balance, which must be brought to account.*

### **Management Response on February 1, 2017.**

*The auditors by email dated November 11, 2016 have been provided with the breakdown of the \$2.2 M which has arisen, not from operating surplus, but as a result of transactions in other accounts on the trial balance, which must be brought to account. See details below.*

<b>Net Receipts from Public Accounts</b>		<b>\$</b>
Consolidated Fund		91,361
DF Receipts		18,896
		37
SF repayments		(110,026)
NFF Net receipts		141
		409
Net Change :		
Receivables from Exchange trans.		(2)
Payables from Exchange trans.		(2)
Refundable Deposits		1,842
		2,247

### **Auditor General's position**

If my auditor had received and reviewed this and found acceptable, this matter would have been removed. At this stage we are not satisfied with management's explanation but would remove it if this changes. Given the delayed responses received on this report and other reports of the past, this is precisely why it has remained. I am not clear as to what is "Net receipts/payments of public accounts" and why there has to be a separate line for this. If it was a cash transaction and you are cash accounting, it should be disclosed in the proper place, not captured in another line item.

Question raised on February 1, 2017 as to whether they are cash or non-cash transactions.

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## **4.24 Undrawn external assistance through EU grants has not been reported - HR**

### **Criteria**

Paragraph 1.10.18 of IPSAS cash requires that the entity shall disclose separately in the notes to the financial statements the balance of undrawn external assistance loans and grants available to fund future operations showing separately: (a) Total external assistance loans; and (b) Total external assistance grants. The amount of external assistance currently committed under a written agreement(s) but not yet drawn may be significant. Disclosure of the amount of the undrawn balances will indicate the extent to which the entity may avail itself of external assistance loans and grants to sustain its operations in the future. Where such undrawn balances are denominated in a foreign currency, opening and closing balances will be determined by applying to the foreign currency amount the exchange rate on the respective dates.

### **Condition**

From our discussions with management, we noted that TCIG has a grant agreement with the European Union to foster economic development. The EDF 10 program had an undrawn amount of €4m due in December 2016. While the EDF 11 program of €14.6m was formulated around improvements in the education sector, it will span the years 2017-2020. No disclosures have been included in the statements of public accounts as required by IPSAS cash to report these amounts.

### **Recommendation**

Management needs to make extensive disclosures regarding these undrawn amounts from external assistance.

### **Management Response on February 1, 2017**

*Note 4.7 provides details on all External Assistance received during the year. The third tranche of the EU grant is variable based on the achievement of certain indicators and is therefore not included.*

*There is no finance agreement in place for EDF 11 and being prudent, the amount was not included. Whenever there is a contractual arrangement the information will be disclosed.*

---

## **4.25 No guidelines in the management of an escrow account - HR**

### **Criteria**

Best practice requires that where any deposit or written instrument is to be temporarily maintained with an escrow agent or a neutral third party by agreement of two parties in a valid contract, there should be policy guidelines or laws on how the escrow account should be foreseen.

### **Condition**

TCIG current holds an escrow account with a credit balance amounting \$1.85 million. We have not been availed any guidelines on how this account is managed, why it is in a liability position and the purpose of those costs. It is also not clear if they have been classified properly. There are several transactions described as “funds held in escrow” (7), “settlement funds”, “payment for client”, “compulsory land acquisition”, “pension and gratuity”.

### **Recommendation**

TCIG should draft guidelines that are agreeable with any parties with whom an escrow account is maintained in order to avoid any future disputes that may arise in the contract period. If these are payments through which third parties are paid, then this is a mandatory requirement under the Cash Basis of Accounting.

A credit balance may also imply that TCIG is not meeting its end of the agreement by depositing funds into the escrow account (an overdraft position). This may lead to contract breaches. TCIG should ensure that it complies with all contracts that may require establishment of escrow accounts, once agreed by both parties. The amounts and purpose for which the funds are intended must be appropriately disclosed and classified.

### **Management Response on January 23, 2017**

*The difference as stated by the auditors have arisen because while the auditors have recognised in the journal entries as posted in 2016, they have not recognised the update to the financial statements, hence the difference exists.*

### **Management Response on February 1, 2017**

*The account has been disclosed correctly as refundable deposits. As indicated at response 5.8 above, the name of the account on the SS system needs to be updated. Additionally, the difference as stated by the auditors no longer exists as the Annual Accounts have been updated subsequent to July 31, 2016.*

### **Auditor General’s position**

I note that the Trial Balance amount has changed but it does not answer the specific question as to whether or not these are amounts held for third parties and if so, they need to be disclosed appropriately.

## **4.26 Under absorption of allocated development fund expenditure - HR**

### **Criteria**

Sound economic principles require effective absorption of available funds through government investment so as to stimulate economic growth and development. Section 9 of the PPO 2012 also calls for use of an efficient procurement process that ensures effective use of government resources.

### **Condition**

Projects failed to absorb funds totalling to \$15.4 million (See Appendix 2 for details) that were available through appropriation during the year, indicating partial service delivery. Most affected service delivery areas were; road constructions, construction of new government buildings, repairs on existing structures, enhancement of information systems and acquisition of land and equipment to needed to deliver other social services. While there may be plausible explanations for the under-absorption, this needs to be closely examined as allocation of resources in one area implies an under resourcing in another which may need it. In the circumstances, service delivery is undermined. Appendix 2 shows some of the capital development projects that had significant variances between planned and actual expenditure.

No disclosures have been included in the financial statements to explain the variances between budgeted and actual capital expenditure as required by Paragraph 1.9 of the IPSAS cash standard Presentation of Budget Information in the financial statements.

### **Recommendation**

Management should review the causes and develop strategies to ensure 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 deal with any existing bottlenecks.

### **Management Response on February 1, 2017**

*The recent implementation of a Procurement Unit in the Ministry of Finance will contribute to better management of the projects process.*

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## **4.27 Lack of Support Documents Attached to Concessions Granted - MR**

### **Criteria:**

Adequate management practices must be maintained for Concessions approved by the Government in accordance with the Customs Ordinance Sec 70, The Encouragement of Development Ordinance Sec (7) and (9) and PFMR Schedule B.

**Condition:**

The Concessions Office which is a part of the Customs Department currently has a capacity of 2 Customs Officers to conduct the daily tasks assigned to this area. A number of issues were identified as a result of this review. A sample of 70 (\$12,899,327.05) Concessions was extracted from Asycuda for the financial year 2015/2016. There were 5354 entries during 2015/2016. The following tests were performed:

TEST	NO EXCEPTION	EXCEPTION	NOT APPLICABLE	LACK OF INFORMATION	TOTAL
Approval letters and/or support documents were available for all entries.	58	12			70
All approval letters were signed by the appropriate Officer	16		54		70
Letter of exemption had total value disclosed for which an exemption was given.	70				70
Rates were charged correctly	68			2	70
CFO Approval submitted as required by PFMR Schedule B (6).		70			70

**Table 9 – Sample tests performed on Concessions**

After the initial findings were disclosed the department added the appropriate documentation to the 2 entries listed as “rates were charged correctly” that lacked information.

**Recommendation**

Responsible Officers must ensure that complete records are maintained for concessions and that inspections are completed as required by the Customs Ordinance.

### **Action Plan**

Persons Responsible: PS Finance  
Collector of Customs

### **Management Response**

After carefully reviewing the 19 entries which were listed as lacking information and having no approval attached, the following are our findings.

Lack of information 2 entries

E9171-1 -Sun Oil import the fuel for Fortis TCI. Under the customs procedure code (CPC) 525 which is a 0% duty rate, concession given under the electricity ordinance.

E12383, E3172-1-2- Imported by Fortis TCI under the Electricity Ordinance, (525) has a 0% duty rate.

No Approval Attached

E3156-1-2- This is not a concession entry. 10% duty rate in tariff

E1548-1-4- This is a short shipped entry it was verified by officer Hazel-Morris-Prospere, which will be 0% duty because the duty already paid from the first entry

E3155-1- This is not a concession entry. 0% duty rate in tariff

E2124-1 -This is not a concession entry. 30% duty rate in tariff

E2732-1- This is a government entry (CPC) 411. 0% duty rate.

E2733-1, E1360-1, E1916-1 and E1915-1- These are banknotes and they are prescribed a 0% duty rate in the Customs Tariff.

E5085-1-2- The CPC 448 was created for the duty free shops and item 2 is not a concession entry, the tariff code for the items made is the 10% , 5% and 0% duty rate.

E1546-1-3- This is not a concession entry. The tariff code is a 0% duty rate.

### **Auditors Comments**

Based on the management response provided to our findings, there is no documentation available to

support the internal decision taken by the former Collector of Customs to process the declaration and clearance of bank notes and other documents received by Courier services (CPC 403). If these items (including those mentioned in the management response) are not recognised as Concessions by the Collector of Customs, we must insist that the Concessions Statement submitted for the period ended 31 March 2016 be reviewed and possibly reissued to show the correct disclosures for foregone revenue. The statement includes disclosures of foregone revenue for 5354 entries, If there are items on the statement which are not considered concessions, they must be removed and those items which are concessions and were not included, must be included.

For future reference, we intend on reviewing whether this was undertaken for the period 31<sup>st</sup> March 2017.

## 4.28 Late submission of returns for Revenue Arrears - MR

### Criteria:

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- PFMR SECTION 63

### Condition:

The following 7 Ministries' Revenue Arrears returns were dated after April 30, 2016. See Table:

MINISTRY	DATE SIGN	AMOUNT
Judicial Department	23-May-16	0
Office of the director of Public Prosecutions	05-May-16	0
Ministry of Home Affairs, Transportation and Communication	17-Aug-16	3,8670.00
Ministry of Tourism, Environment, Heritage and Culture	03-May-16	381,026.63
House of Assembly	26-Jul-16	0
Attorney General Chambers	29-Jul-16	2,332,539.57
<b>Total</b>		<b>2,752,236.20</b>

**Table 10 – Revenue Arrears returns submitted after required date**

### Recommendation

Accounting Officers must ensure that returns are provided in accordance with PFMR. Systems must be in place to provide accurate and reliable information for audit purposes.

### **Management Response**

*Ministries and Departments will be required to provide quarterly updates in the first instance and eventually monthly updates.*

### **Estimated completion date:**

---

## **4.29 Stop Cheque listing did not include all businesses where cheques were dishonoured and still outstanding for payment - MR**

### **Criteria:**

#### **PFMR 58 (3) and (4)**

(3) In any case where a cheque is dishonoured, recovery measures shall be instituted immediately by the Accounting Officer; and all instances of dishonoured cheques shall be brought to the immediate attention of the Accountant General.

(4) All original dishonoured 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.

Best practice requires that a Stop Cheque listing is maintained and updated regularly with business whose cheques were dishonoured during the period.

The standard practice is once a dishonoured cheque is received by the Treasury, the cheque is logged and the information is transferred to the Revenue Department for collection.

### **Condition:**

During 2015/2016, the Ministry of Finance reported total dishonoured cheques of \$722,709.08. Six cheques were dishonoured since 2008. The Stop Cheque listing was not up to date with all business names that were reported to have dishonoured cheques in the Dishonoured Cheques Register (DCR). The exclusion of the stale dated cheques and the businesses with payment plans resulted in an omission of 44 cheques (\$346,271.57) from the Stop Cheque List. The Stop Cheque List does contain business names whose cheques were not stated as “NSF” or “refer to drawer”. After this issue was brought to the attention of Treasury, the Stop Cheque List was updated.

### **Recommendation**

All dishonoured Cheques should be logged, copied and sent to the responsible Ministry/Department accounting Officer and action taken as described in PFMR Sec 58 (1)-(4).

The Stop Cheque listing must be updated regularly to reflect all businesses where dishonoured cheques were received by TCIG.

A Ministry or Department should be required to stop services when it has been identified that these services have been paid for with a Cheque that was dishonoured.

The responsible person must assign a greater level of priority to collecting dishonoured Cheques and inform the Public that such collections will be pursued.

### **Action Plan**

Persons Responsible: PS Finance  
Accountant General

### **Management Response:**

*The recommendations are noted. With effect 1<sup>st</sup> April 2016, the Treasury has been responsible to inform all Accounting Officers in the various departments of all cheques outstanding along with the relevant Finance Managers & Finance Officers.*

*The Stop Cheque Listing is updated monthly and periodic checks are made with Accounting Officers as to efforts to collect amounts.*

*The monitoring of the outstanding cheques is now included in the Treasury's monthly checklist of tasks and reminders will continue to be sent periodically to Accounting Officers.*

**Estimated Completion Date:** On going

---

## **4.30 Lack of oversight in Gaming Inspectorate - MR**

### **Criteria:**

Best practice requires that Management plays a significant role in ensuring that internal controls are effective.

### **Condition:**

A review of 58 transactions was conducted to ascertain whether the proper support documents were in place for the revenue collected by the Gaming Inspectorate and that all relevant approvals and checks were completed.

The Gaming Inspectorate is responsible for managing the collection of revenue for Gaming Machine tax, Lottery tax, Casino Winnings Tax, Casino Licences, Casino Permits, Gaming location licences and Casino Certificates.

A sample of 23 transactions were analysed to ensure that the needed information was attached. This includes Drop Sheet dated and signed, with evidence of inspection and review. 17% had no drop sheet attached while 22% had no date recorded on the drop sheet. The signature of the client was only on 74% of the drop sheets and 56% had a review signature.

	DROP SHEET ATTACHED		SHEET DATED SHOWING INSPECTION		SIGNATURE OF CLIENT OR REP ON SHEET		VISIBLE SIGNS OF INSPECTION		SIGNATURE OF REVIEWER	
<b>YES</b>	19	(1,220,096.74)	18	(1,220,096.74)	17	(1,162,437.20)	19	(1,220,096.74)	13	(849,177.20)
<b>NO</b>	4	(121,731.65)	5	(121,731.65)	6	(179,391.19)	4	(121,731.65)	10	(439,576.75)

**Table 11 – Results of sample drop sheets examined**

A sample of 25 Drop sheets were examined to ensure that they were signed, Tax received, Ticket Attached, and Signed off by supervisor and calculations were checked. 16% were not signed by inspector and 48% were not sign off by supervisor.

	SIGN BY INSPECTOR		TAX RECEIVED VIA SS/SIGTAS		TICKET ATTACHED		SIGNED OFF BY SUPERVISOR/DIRECTOR		CALCULATIONS - EVIDENCED OF BEING CHECKED	
<b>YES</b>	21	447,870.39	25	471,868.78	25	471,868.78	13	239,883.06	25	471,868.78
<b>NO</b>	4	23,998.39	0		0		12	231,985.72	0	

### **Recommendation**

**(Please note that this is a repeat finding from last financial year)**

Management must ensure that the appropriate controls are implemented. They must ensure that there is proper supervision and review of completed work.

### **Action Plan**

Persons Responsible: PS Tourism, Environment,  
Heritage & Culture  
  
Director of Gaming  
Inspectorate

### **Management Response**

*Out of the 23 reviewed transactions, 21 were completed before the 2014-15 Audit report findings were issued in October 2015. In late December 2015, alterations to the conduct and reviewing process of the Gaming Drops were implemented to enhance the process. 1 of the 23 reviewed transactions was not verified by the Gaming supervisor on January 16<sup>th</sup>, 2016, which was an oversight. Going forward, the Department in 2017/2018, under the new Gaming Legislation and Policy, will implement an online monitoring system in all gaming venues for the real-time data recording of all gaming devices which will be transmitted directly to the department, phasing out the current process and avoiding human error.*

***Estimated Completion Date:***

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## **4.31 Limited oversight of lottery operator for the period - MR**

### **Criteria:**

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

### **Condition:**

A sample of 3 transactions totalling \$68,657.21 out of 24 totalling \$286,321.82 for the year 2015/2016 for Lottery tax collected from Lottery Operators were selected. Results of the review are as follows:

- Only support documentation provided were reports by Morris, Cottingham & Co. Ltd and payment receipt printouts.
- No evidence of any inspections done on the Lottery.
- A review was done of the financial data by Morris, Cottingham & Co. Ltd (Lottery's Auditors). They stated that they do not vouch the figures accuracy.
- Lottery tax collected for 2014/2015 totalled \$164,248 and collection for 2015/2016 was \$286,321.82. An increase in the collection of \$122,073.82 or 74%.
- There is no direct government oversight for the lottery.
- The Lottery Board who has oversight responsibility for lotteries has not operated since 31 March, 2011.

- It was brought to our attention that a revised Ordinance for the Gaming Inspectorate was created (not yet passed) that has specific protocols in place to ensure proper oversight and management of the Lottery Tax.

**Recommendation:**

**(Please note that this is a repeat finding from last financial year)**

If/when the new Ordinance is passed, management needs to ensure that the new laws are enacted. The financial data for the lottery operators should be reviewed to ensure all taxes owed to TCIG are collected.

**Action Plan**

**Persons Responsible:** PS Tourism, Environment,  
Heritage & Culture  
  
Director of Gaming  
Inspectorate

**Management Response**

Provisions in the newly drafted gaming legislation will give the Gaming Inspectorate Department legal authority to monitor and govern the National Lottery. It is anticipated that the legislation will come into effect April 2017. In the interim, the Ministry is seeking to re-establish the Lottery Board to oversee the National Lottery.

**Estimated completion date:**

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**4.32 No contracts - MR**

**Criteria**

The Public Procurement Ordinance 2012 Section 50 states that:

(1) An officer must ensure that a contract entered into on behalf of the government is evidenced in writing.

(6) Unless a contract is in a form previously approved by the Attorney General the form of a contract must be approved by the Attorney General before it is entered into.

(7) Except with the approval of the Attorney General, an officer must not include in a contract a provision that has not previously been approved by the Attorney General for that type of contract or omit a provision from such a contract.

(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**

Review of transactions revealed that contracts were not entered into for the following expenditure:

#### **Payments \$5,000 to under \$75,000:**

Year	Sample \$	Sample #	Exception \$	Exception #
2015/16	317,046.46	26	\$171,100.13	8

#### **Payment over \$75,000:**

Year	Sample \$	Sample #	Exception \$	Exception #
2015/16	2,974,751.61	13	75,000	1

### **Recommendation**

Accounting Officers and Responsible Officers must ensure that contracts exist where required and that they are up to date as per the Public Procurement Ordinance 2012 Section 50 (PPO) and best practice.

### **Management Response**

The Ministry of Finance is committed to ensure that we adhere to the PPO. The findings for under \$75,000 relates to the airline subsidy for Salt Cay. This was a matter passed onto Ministry of Finance. Nevertheless during FY 16/17 attempts are being made to regularize this expenditure, with the implementation of a contract.

For the payment of \$75,000, this contract is also being regularized through a contract.

#### **Responsible Officer(s):**

**Estimate Completion Date: January 2017**

### **4.33 Non-compliance issues in expenditure administration LR - HR**

Despite a reduction in non-compliance in the areas across Expenditure between 2015 and 2016, the following non-compliances did take place. However, I believe that many of these issues have been sufficiently examined and it is for the individual Ministries to manage for continuous improvement. A few issues still remain which are outlined in this audit. It is my view that proper assistance/enforcement of the controls by the Ministry of Finance can alleviate many of these issues. While Accounting Officers are responsible for their area, and given the resource challenge, it is understandable some of these issues may unintentionally occur. We would like to appeal to Accounting Officers to monitor these issues for continuous improvement.

The main issues highlighted are as follows;

#### **Cash (Operating) Expenditure**

- Vendor invoices were not approved for payment totaling \$3,799,340.38.
- Leases were not provided for payments totaling \$2,306,805.99.
- Payments were not certified totaling \$1,526,277.04.
- SmartStream invoices with insufficient supporting documents totaling \$1,506,503.
- Payments without obtaining Chief Financial Officer's approval totaling \$1,317,958.99.
- Excess expenditure totaling \$1,167,211.79.
- The contracts register includes all contracts for high value procurement but not all of the contracts for low value and intermediate value procurement are included.
- Accounting officers did not maintain contract registers for their Ministries.
- No monitoring of contracts totaling \$959,778.96.
- Expenditure posted to the incorrect financial year totaling \$857,109.97.
- No contracts for expenditure totaling \$740,756.70.
- Purchase orders were not used to request good and services totaling \$607,567.26.
- Contract not tendered for expenditure totaling \$589,466.18.

The NAO will follow up on these findings in the next audit cycle. In the event that the issues repeat itself we will be hard-pressed not to report them fully to the House of Assembly.

	Year	2015/16	2015/16	2014/15	2014/15	Difference		Comments
No	Description	No	Amount	No	Amount	No	Amount	
1	Vendor invoice not approved for payment	104	3,779,340	99	3,299,491	(5)	(479,850)	Needs addressing
2	Payments were not certified	20	1,526,277	94	4,036,078	74	2,509,801	Improved but needs addressing
3	Insufficient supporting documents	7	1,506,503	1	200,000	(6)	(1,306,503)	Needs addressing
4	Payments made without obtaining the CFO approval	5	1,317,959	16	437,080	11	(880,879)	Needs addressing
5	Excess expenditure	2	1,167,212			(2)	(1,167,212)	Needs addressing
6	No monitoring of contracts	7	959,779			(7)	(959,779)	Needs addressing
7	Expenditure posted to the incorrect financial year	26	857,110			(26)	(857,110)	Needs addressing
8	No contracts	47	740,757	73	845,234	26	104,478	Improved but need addressing
9	POs were not used to request goods and services	32	607,567	6	64,729	(26)	(542,838)	Needs addressing
10	Contracts not tendered	4	589,466	2	170,322	(2)	(419,145)	Needs addressing
11	Unpaid commitments	78	55,710			(78)	(55,710)	Needs addressing
12	Payments made without obtaining the requisite three quotes	4	54,227	6	222,915	2	168,688	Improved
13	Conflict of Interest	3	53,407			(3)	(53,407)	Needs addressing
14	Incorrect Classification of Expenditure	8	33,269	1	5,700	(7)	(27,569)	Needs addressing
15	Duplicate payments	1	2,640			(1)	(2,640)	Needs addressing
16	SmartStream Invoices were not approved			92	250,636	92	250,636	Improved
17	Payment approved at both Level 1 and Level 2			1	70,312	1	70,312	Improved
18	Non-Compliance with TCIG Travel Policies			4	23,464	4	23,464	Improved
	<b>Total</b>	<b>348</b>	<b>13,251,224</b>	<b>395</b>	<b>9,625,961</b>	<b>47</b>	<b>(3,625,263)</b>	
	<b>Samples tested</b>	<b>591</b>	<b>41,581,253</b>					
	<b>% of Exception</b>	<b>59%</b>	<b>32%</b>					

**Table 12 – Operating Expenditure Audit Results for Compliance**

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## **4.34            Claims - HR**

### **Criteria**

#### **PPO 2012**

58. (1) If a claim arises under a contract in respect of a matter not clearly within the terms of the contract the accounting officer of the relevant department of government must seek the advice of the Attorney General on the government's legal liability and the advice of the Permanent Secretary, Finance on any financial consideration.

#### **PFMR 2012**

##### **Claims by Government**

141. (1) Where the Accident Investigation Board recommends that a claim be made against any person or insurance company in respect of any liability for an accident, the Accounting Officer shall prepare the claim and submit it to the Attorney General for his or her approval before it is issued.

(2) It is responsibility of the Accounting Officer to immediately notify the Attorney General's Office of any claim that has been made or that might be made against Government.

##### **Claims against Government**

142. In the event of a claim being made against the Government for liability in respect of an accident, the claim shall be investigated immediately by the Accounting Officer and a copy of a report of the investigation and the claim shall be referred to the Attorney General for his or her advice on the action to be taken.

Best practice that management consult with their legal counsel before settling disputes.

### **Condition**

Review of transactions for claims for year ended 31 March 2016 revealed the following:

#### **Claims by Government:**

No claims were made by Government against any person or company for year ended 31 March 2016.

#### **Claims against Government:**

1. The total claims made against the government for the year ended 31 March 2016 was estimated as \$10,118,850.
2. The total expenditure posted to the claims against government account for the year ended 31 March 2016 was \$2,453,059.18. See table below for an analysis of the claims against government account expenditure.

Description	Amount \$
Claims paid	174,021.00
Professional and Consultancy	2,256,421.88
Compensation to Clients of the Magistrate Court for alleged misappropriation of clients funds	22,616.30
<b>Total</b>	<b>2,453,059.18</b>

**Table 13 – Claims Account Analysis**

3. The Royal Turks and Caicos Islands Police Force did not consult the Attorney General's Chambers before paying claims totaling \$19,850.35.
4. The claims against government account was understated by \$52,221.65 as ministries such as Police and Ministry of Infrastructure posted claim payments to court related cost and third party cost ledger accounts respectively.
5. The statement of loss of public stores and money was understated by \$22,616.30. The understatement relates to amounts paid in respect of compensation to clients of Judiciary, Magistrate Courts Office Providenciales relating to allege misappropriation. Review of statements of loss of public stores and money for financial years ending 31 March 2014 and 31 March 2015 reveal the following balances:
  - Year ended 31 March 2014 - \$13,000
  - Year ended 31 March 2015 - Nil

For the year ended 31 March 2016 Judiciary is not on the statement of loss of public stores and money. There were no write offs of public moneys and stores for Judiciary for the years ended 31 March 2015 and 31 March 2016.

6. Professional and consultancy fees totaling \$2,256,421.88 were incorrectly classified and mis-posted to the claims against government account resulting in overstatement of the claims account.

### **Recommendation**

Accounting Officer should consult the Attorney General's Chambers before paying any claims and claim payments should be classified correctly and posted to the claim against government ledger account.

Additionally, professional and consultancy cost should be classified correctly and posted to the professional and consultancy account.

The statement of loss of public stores and money should be restated to reflect the loss of public money at the Magistrate Court Providenciales of \$22,616.30 and the balances from the previous years.

### **Management Response**

#### **Police**

A request was sent to AG's Chambers but we never got a response and if the payments were not made in a certain time frame, it would have cost TCIG more.

#### **Responsible Officer(s):**

Accounting Officer - Judiciary

Accounting Officer - Attorney General's Chambers

Accounting Officer - Police

#### **Estimate Completion Date:**

No.	Ministry	Payee	Amount	Description	A G Chamber's Comments
1	Police	Marsha Lewis	5,000.00	Claim for items missing from son's car	A G Chambers not consulted
2	Police	Ojay Lightbourne	9,000.00	Claim for arrest without reasonable suspicion	A G Chambers involvement
3	Police	Ranscuit Missick	5,000.00	Claim for Compensation for Vehicle at Police Impound	A G Chambers not consulted
4	Police	J & H Construction	9,850.35	Claim for damages to A Malcolm Apartments by Police Officers	A G Chambers not consulted
5	Min of Infrastructure	Mac Motors	23,371.30		A G Chambers involvement
	<b>Total</b>		<b>52,221.65</b>		

**Table 14 – Claims against Government settled by various Ministries**

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### 4.35 Conflict of Interest (Ministry of Infrastructure)- HR

#### Criteria

#### **Public Financial Management Ordinance 2012 (PFMO)**

**3 (1)** “conflict of interest” means the situation that arises when an obligation, interest or distraction exists that would interfere with an independent exercise of judgment;

#### **PFMO 3 (6) – (8)**

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

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

(8) If it is found that a conflict of interest was known to a contractor the contract is annulable by the government.

**PFMO 9 (11)** Ethical behaviour identifies and manages conflicts of interests, and does not make improper use of an individual’s position.

**PFMO 9 (13)** Ethical behaviour includes—

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

**PPO 46 3 (3)** The practices are that the tenderer has not—

(e) failed to disclose a conflict of interest.

**Code of Conduct chapter 3 Section (23)** States that senior Officers must comply with the provision of Integrity Commission Ordinance relating to declarations and section 145 of the Public Services Ordinances , and the Public Service Handbook In relation to handling conflict of interest. They must avoid both actual and an apparent conflicts between their private interests and their official functions that may impact on the efficient and effective performance of their duties. Where a conflicts of interest giving rise to the actual or apparent conflict or take alternative steps agreed with their permanent Secretary ( or Deputy Governor if the relevant public officer is a permanent Secretary) to prevent such a conflict. If in doubt the relevant officer should seek the guidance of the Integrity Commission.

#### Condition

Review of transactions and Statements of Related Party Transaction and Code of Conduct Compliance revealed that the Direct of Public Works certify Engineer’s Certificates for his family members as follows:

**Transactions \$5,000 to under \$75,000:**

Date	Min.	Prog.	Account	Year		Description	Total
21/04/201	60	82	33707	2015	1	RRCON00001 PWD14/100M Being payment for repair	16,976.78

Date	Min.	Prog.	Account	Year		Description	Total
5						works at	
24/06/2015	60	82	33704	2015	3	RRCON00001 PWD15/05M CONTRACT WORK	17,302.18
24/06/2015	60	82	33704	2015	3	PETER00006 PWD15/13M CONTRACT WORK	19,128.03
						Total	53,406.99

### **Recommendation**

Conflict of interest can lead to reputational risk for TCIG. Accounting officers should ensure that controls are in place to prevent conflict of interest.

### **Management Response**

Whilst we do not entirely agree, we acknowledge that a conflict of interest could be perceived from the Director of Public Works certifying Engineer's Certificates for companies owned by his family members. A meeting was held with the Director on 7<sup>th</sup> September, 2016 to ensure that this matter does not take place going forward.

Controls are now in place to ensure that no responsible officer within the Ministry certify or approve any related party transactions. HODs have also been informed to notify the Accounting Officer of any potential related party transaction that they encounter while performing their regular duties so that these can be reassigned to another responsible officer.

### **Responsible Officer(s):**

Xavier Malcolm – Director of Engineering and Maintenance Services

Susan Malcolm – Permanent Secretary

Desmond Wilson – Deputy Secretary

**Estimate Completion Date: Done**

## 5. NAO ANNUAL STATUS REPORT

The National Audit Office (NAO) is an institution protecting good governance established under Section 97(1) of the TCI Constitution. Its operational requirements are established under the NAO Ordinance dated 16th March, 2012 (and amended). According to the NAO Ordinance Section 18 the NAO will report on the results of its examination and audit of TCIG's financial statements, as prescribed under Section 35 of the PFMO, and certify whether the accounts represent a true and fair view. There is a general public expectation that an opinion is provided, taking into consideration the public accounts, risks, internal controls, compliance, regularity, propriety and value for money. The objectives of this audit are outlined in Section 39 of the PFMO and Section 18 of the NAO Ordinance. The PFMO allows four months after the financial year end (March 31) for the presentation of financial statements by the Accountant General (due 31 July). It is my responsibility under Section 39 of the PFMO and Section 18 of the NAO Ordinance to then form an independent opinion, based on the audit, on those statements and to report my opinion within a further four months (due 30 November). According to the NAO Ordinance, Section 7(2), in carrying out his functions the Auditor General shall do so through the application of internationally recognised auditing standards.

The NAO is required under the laws to examine, audit and certify where appropriate whether or not the accounts and statements represent fairly the financial position of TCIG and that it has been conducted with regularity and propriety. Further the NAO must ensure that reasonable precautions have been taken to safeguard the proper collection and payment of monies and to ensure that all expenditure to which such examination and audit relate has been lawfully incurred. The NAO is also required to assure the internal control system and internal audit services is adequate and that satisfactory management measures have been taken to ensure that public or other resources are procured economically and utilized efficiently and effectively.

The following sub-sections outline the statutory body audits that are outstanding and completed to date, the financial statements of the NAO and the cost to audit the Accounts of the NAO.

## 5.1 Statutory Body Audits outstanding and completed to date

### KEY

\*\* Discussed by Public Accounts Committee at public hearings during the period

**Table 15 – Statutory body audit statuses**

Statutory Body	Audits Performed By	Last Audit Report Issued to the House to be laid	Comment
National Insurance Board (NIB)	KPMG	31-Mar-15	2016 and 2017 engagement letters sent to NIB to sign. This was delayed due to legal issues raised by the NIB which was recently resolved.
Civil Aviation Authority (CAA)	WB Financial	31-Mar-14	2015 under review by the NAO, 2016 and 2017 to begin concurrently.
National Health Insurance Board (NHIB)	PwC	31-Mar-14	Received 2015 Audit in Feb 2017. Audits for 2016 and 2017 are to be tendered.
Airports Authority (AA)	PwC	31/03/2013 and 31/03/2015	Determine whether 2014 was laid. Audits for 2016 and 2017 to be tendered.
Financial Services Commission (FSC)	KPMG	31-Mar-15	2016 - to be issued to the House. 2017 - letter of engagement issued for signature
Telecommunications Commission	HLB	31 March 2013 ** 31 March 2014 ** 31 March 2015 **	2016 under review by the NAO.
Ports Authority	SNG Financial	2011-2013	2014 received in early Feb 2017. 2015 is overdue, 2016 to be retendered
TCI Community College (TCICC)	SNG Financial	-	Several years audits outstanding. SNG Financials have been extremely late in completing.

Statutory Body	Audits Performed By	Last Audit Report Issued to the House to be laid	Comment
TCI National Trust	PwC	-	2014 - 2016 are outstanding. NAO to schedule to complete.
Tourist Board	NAO	-	2007 - 2016 are outstanding. This has commenced in March 2017. Assistance will be required for 2013 - 2017
Invest TCI	TBD	-	Initial kick-off meeting to be scheduled in 2017 to establish audit engagement.
Human Rights Commission	NAO	-	2014 and 2015 issued for finalization, 2016 and 2017 to commence.
Complaints Commission	NAO	-	This audit has not commenced due to the lack of information provided for review as requested by the NAO. To commence in April 2017 for 2014 - 2017
Elections Office	NAO	-	Financial audit to be finalized for 2014/2015. Y/e March, 2016 to be scheduled in 2017
Financial Intelligence Agency	NAO	-	Initial kick-off meeting to be scheduled in 2017 to establish audit engagement.
TCI Integrity Commission		2014 and 2015	2016 Audit under review by NAO. 2017 to begin.
Audit of the Turks and Caicos Islands Government Financial Statements	NAO	2015 **	2015 - Public Discussions held by Public Accounts Committee on sections of the report. 2016 – TCIG Audit completed since Nov 2016, extension of time allowed given the significance of the issues to be resolved. To issue in March 2017
Sports Commission	NAO	31 March 2008 to 30 September 2016 **	No longer a statutory Body

## 5.2 NAO's Unaudited Financial Statements for 2015/16

Note that the NAO is not required to produce financial statements for audit as it was advised in April 2013 that we were not a statutory body and our accounts will be included with the TCIG's

accounts. However, we have still made a conscious decision to prepare these statements, despite inadequate resources.

	Notes	Actual 2016 \$	Budget 2016 \$	Variance (Impr/Impair) \$
<b>Gross Revenue</b>				
Government subvention		1,001,360	1,001,360	-
Other Revenue		-	-	-
		<b>1,001,360</b>	<b>1,001,360</b>	<b>-</b>
<b>Expenses</b>				
Employment costs		402,826	694,578	291,752
Operating expenditure		186,996	306,782	119,786
		<b>589,822</b>	<b>1,001,360</b>	<b>411,538</b>
<b>Operating surplus for the year</b>		<b>411,538</b>	<b>-</b>	<b>411,538</b>

#### EMPLOYMENT COSTS

	Actual 2016 \$	Budget 2016 \$	Variance (Impr/Impair) \$
Salaries	305,595	527,556	221,961
Allowances	77,685	131,064	53,379
National Insurance Contributions	9,800	16,200	6,400
National Health Insurance Contributions	9,746	19,758	10,012
	<b>402,826</b>	<b>694,578</b>	<b>291,752</b>

Note 1

Note 1 - Underspent mainly as a result of not securing appropriate professional audit staff for 3 positions.

## OPERATING EXPENDITURE

	Actual 2016	Budget 2016	Variance (Impr/Impair)	
	\$	\$	\$	
Directors' fees and expenses		-	-	
Local Travel and Subsistence	21,724	47,196	25,472	Note 1
International Travel and Subsistence	7,060	25,900	18,840	"
Utilities	8,285	23,520	15,235	Note 2
Communications Expenses	1,972	11,100	9,128	"
Office Expenses	1,979	28,800	26,821	"
Rental of Assets	5,450	24,000	18,550	Note 3
Maintenance Expenses		3,200	3,200	"
Subscriptions, Periodicals, Books, etc.			-	
Other Supplies, Materials and Equipment	9,590	38,066	28,476	Note 3
Uniforms & Protective Clothing			-	
Professional and Consultancy Services	90,555	55,000	(35,555)	Note 4
Computer License Software and Hardware Maintenance	4,037	20,000	15,963	Note 5
Insurance			-	
Hosting and Entertainment	2,281	1,000	(1,281)	Note 6
Training	29,033	23,000	(6,033)	Note 7
Advertising and Promotions		6,000	6,000	Note 8
Drugs, Medical and Laboratory Supplies/Healthcare Costs			-	
Payments to Inter Health Canada			-	
Subscriptions and Contributions	3,932		(3,932)	Note 9
Auditing and Accounting				
Board Expenses				
Depreciation and Amortisation				
Bad debt write off/increase provisions				
Debt service Interests				
Bank Charges				
Other Operating Expenses	1,096		(1,096)	Note 10
	<b>186,996</b>	<b>306,782</b>	<b>119,786</b>	

Note 1 – Improved due to staff now based in Providenciales and underspent as a result of not securing 3 positions.

Note 2 - Underspent due to staff not recruited and awaiting finalization of Provo Office

Note 3 - Underspent as a result of finalization of Provo Office

Note 4 - Impaired mainly due to additional audit assistance as a result of a shortage of staff

Note 5 - Underspent as a result of specialist software required being significantly more expensive than anticipated.

Note 6 - Staff dinner and catering for training by inviting foreign trainers for all staff.

Note 7 - Impaired as a result of additional training programs for staff, necessary for this regulated profession.

Note 8 - Deferred into 2016/17

Note 9 - CAROSAI dues and accounting subscription dues

Note 10 - Purchase of law books from AG's Chambers

## 5.3 Audit of the NAO's Accounts

The accounts of the NAO have been merged into the financial statements of Government and the NAO follows the policies and procedures set out under the PFMO, PPO and PFMR as well as the

Public Service Handbook, Travel Policies etc. The cost of undertaking the audit is approximately \$60,000 for 4 years. Efforts are being made to see how this amount can be reduced or to seek alternative quotations to have this completed. In the past the Governor's Office will review the expenditures of the previous Chief Auditor's Office.

## **5.4 NAO Risks**

### **Resource Capacity Risks**

Auditing is a regulated profession. There is a clear imbalance between the expectations versus capacities of the NAO. The performance expectations are clearly out of sync with the capacity (authorities, skills and resources of the NAO). The absence of a plausible link between what is expected and the authorities and resources supplied has undermined the effectiveness of the NAO. Consequently, expectations that are well beyond what is reasonable for the resources provided are unrealistic. Accordingly, effective accountability can only be achieved once there is a reasonable balance between resources and expected results in order for me to take responsibility for any resulting audit report.

The NAO does not have the requisite capacity to conduct audits to international standards in this regulated profession. It is important to note that prior to my appointment, the previous Audit Office was staffed with 19 officers. When I assumed office we had 5 officers. We currently have 7 auditors with 2 positions currently being advertised for and 1 Admin. Assistant. Of the 7 officers, as of March 2016 we now have 2 professionally qualified auditors (which includes the Auditor General). In Cayman Islands there are 19 persons (more than 15 are professionally trained) and in Bermuda there are 25 persons (more than ½ are professionally trained). And both Audit Offices use audit firms to supplement their work.

In order to address this challenge, significant training programs have been conducted with existing staff, the NAO has reached out to the Caribbean Organization for Supreme Audit Institutions (CAROSAI) to establish mechanisms for capacity building, staff are encouraged to apply their new audit training into the audit practice, staff are also seeking to become professionally qualified, job enrichment is being employed and new technologies are being applied in the audit process. While this may work in the short term, longer term, more permanent measures are required. As the NAO is not responsible for staffing, recruitment, compensation and overall human resource policies and procedures, it is suggested that the Public Service Commission develop new strategies to attract much needed audit personnel.

While there is always room for improvement, staff training appears to have worked well and staff have undertaken to apply the learning and training to the work. Longer term there is still a gap and the NAO requires audit support to ensure that the mandate is achieved as there is a backlog of

audits and International Audit Standards need to be met including quality assurance. Different methods of working are also being explored to mitigate this risk.

### **Quality Assurance and Detection Risks**

These still remain high for the NAO which consequently can result in other risks materializing. Staff training as well as new audit software administration have been introduced to mitigate this risk. However, according to international standards the audit teams are required to have the necessary competence and capability to perform the audit engagement in accordance with professional standards and applicable laws and regulations. This is very clearly stated in the standards and other guidelines such as the Board of the International Federation of Accountants (IFAC) Statements of Membership Obligations, American Institute of Certified Public Accountants (AICPA) AU Section 210 – Training and Proficiency of the Auditor, International Standards of Supreme Audit Institutions (ISSAI) 1220 – Quality Control for an Audit of Financial Statements, International Standards for Quality Control 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements and other Assurance and Related Services Engagements, ISSAI 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in accordance with International Standards on Auditing, International Accounting Education Standards Board (IAESB) 2014 and International Education Standards (IES) 4 and IES 8 (other standards 1,2,3,5,6 and 7 are also applicable. In addition, Section 7 (2) and 19 (1) of the NAO Ordinance (it states that the Auditor General shall perform his or her function through the application of internationally recognized auditing standards). This suggests that if suitably competent staff are not available to conduct an audit engagement, it should not be accepted in the first place.

### **Confidentiality Risks**

The NAO currently is supported by the TCIG Computer Unit. Highly sensitive and confidential information is passed on the email network. This is one area that the NAO would like to change to preserve the confidentiality of information as it believes this to be a high risk. There would be some moderate infrastructural requirements for this.

### **Document Retention Risk**

Since audit firms are contracted to undertake audits on behalf of the NAO, working papers currently reside with the audit firms. This needs to be changed so that the NAO is the holder of the working papers, as it is the Auditor General who is responsible and accountable, not the audit firms. While the NAO can go back to the audit firms to obtain working papers, this is an administrative burden for which we have neither the time nor the resources to deal with. Alternative measures could be access to the working papers on an indefinite basis.

### **Legal Considerations to explore**

There are several laws under the NAO Ordinance that do not occur in practice. For example the determination of salaries and allowances for the NAO resides with the Public Service which is the audit client of the NAO even though the law provides for determining compensation *in consultation with* the Public Service Commission. According to international auditing standards, there should be laws that provide for statutory protection which give the audit organization sole authority over the selection, retention, advancement, and dismissal of its staff. The NAO Ordinance provides for making appointments, transfers, terminations, salary scales, etc. within the NAO, however this is currently determined by the Public Service. The NAO should be independent of its audit client as far as possible.

The NAOO provides for audits to be conducted in accordance with internationally recognized audit standards. This has not been fully adhered to because we do not have adequate capacity to do so.

The NAOO provides for receipt of funds to develop its office and payment of expenses. However, in applying for the opening of an account, this was not approved. Currently, for statutory body audits, the NAO is unable to pay for an auditor to conduct work on the statutory bodies and have to depend on the statutory bodies to pay these auditors.

The NAOO provides for retaining a surplus or a portion of the surplus of funds. With the inability to have its own bank account, no funds can be retained and therefore the NAO is further constrained as on the one hand budgets are reduced or held at a ceiling and then unspent funds cannot be rolled forward to augment the upcoming year's budget ceilings or cuts.

The NAOO provides for the preparation of financial statements of the NAO, however it was indicated that this was not a requirement as all expenditures of the NAO are rolled in with the TCIG accounts.

The NAOO provides for the audit of the statutory bodies and for the Auditor General to appoint auditors, yet there were statutory bodies who believed that they should be the ones appointing auditors to audit themselves. This is hopefully resolved.

The NAOO provides for the non-interference in the work of the NAO and for persons not to exert undue influence in the performance of their functions or in the exercise of their powers. However, in practice this has not been the case. Some audit entities have interfered or exerted undue influence in the work of this office. Further, complaints are made to other entities about the NAO, thereby not affording the NAO the opportunity to respond to these issues, an opportunity we afford all audit clients.

## **5.5 Response to 2015 PEFA Assessment on External Audit**

The PEFA May 2015 report on External Scrutiny and Audit indicated that *“Recent audit reports have been produced eight months after receipt of the draft financial statements, and four months after*

*the PFMO deadline. In his audit report for 2013-14 submitted during the preparation of this PEFA assessment, the Auditor-General disclaims any opinion on the government's financial statements on the ground that they are not in conformity with accrual-based accounting standards applied in the US private sector. This judgment ignores the government's view that cash-based International Public Sector Accounting Standards are appropriate to its circumstances, and its presentation is not in conformity with international reporting standards for Supreme Audit Institutions, since the report does not acknowledge that many findings and interpretations have not been agreed with the auditees concerned, and no information is given about the reasons for these disagreements.*

*“Audit has focused exclusively on the financial statements, with no work on performance or value for money. Audit work has been carried out rigorously, but does not meet basic reporting standards since it does not acknowledge the audited entity's disagreement with the accounting standards applied and with many of the findings.”*

### **Auditor General's Position**

Issue 1 – The PEFA report indicates that audit reports were submitted 4 months after the PFMO deadline. This was because the accounts were riddled with errors, persons did not take the deadlines set in the preparation of their own accounts seriously and the financials had to be resubmitted several times in order to be revised so that it could improve the quality of the output rather than having so many mistakes being published. There was also the incorrect use and/or application of the accounting standards in addition to incomplete or inaccurate disclosures that did not reflect the substance of the transactions.

Issue 2 – The PEFA report indicates that I disclaimed the accounts because TCIG did not apply accruals based accounting.

See Section 3 of the 2013/14 Audit Report, page 10 –

*“The financial statements as at, and for the year ended, March 31, 2014 **have been disclaimed due to a substantial number of material and pervasive issues identified during the audit** as further detailed in the body of this report. When considering the cumulative effect of these findings on the TCIG financial statements, as presented, is very significant. There were over 200 individual findings and recommendations which were collapsed into specific areas, included in this audit report and the supplemental detailed report, which it is hoped would be acted upon within the upcoming period.”*

The position holds through to this 2015/16 audit report as well. The assessor does not seem to understand that under internationally recognized audit standards (ISSAI 1700 – Forming an Opinion and reporting on the Financial Statements), **the auditor is required to determine if the framework is a “fair presentation framework”**. A fair presentation framework is used to refer to a financial

reporting framework that requires compliance with the requirements of the framework and 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..." Management has not accounted for the resources used. This is a value for money issue. If there are assets, we are required to check for the existence and ownership, and to ensure that there are controls in place to safeguard these assets from theft or loss. Further there are other laws for example under the Crown Land Ordinance which requires an annual review of crown land.

It is factually incorrect to state that the report did not highlight the administration's side. The issues in the 2013/14 Audit Report are a summary of the 343 page report which extracted the very salient and critical issues (high and moderate risks). It should also be noted that this is an "Audit Report" and at this time the exceptions outweigh the improvements. That is a bottom line fact. Further, management responses are simply statements in which no evidence was provided and I cannot use statements without evidence to form an opinion.

Very early in the document the "Administration's side" is highlighted. See immediately below which has been extracted from the 2013/14 Audit Report;

Page 6 –

*"There is no question that TCIG is on a sound financial footing and the general economic outlook is positive. The sovereign credit rating of BBB+, from Standard and Poors, is certainly positive indicating that TCIG has adequate capacity to meet financial commitments, but is vulnerable to adverse conditions. The fundamentals are in place. Compared to many of its Caribbean neighbours, TCI should be proud to have passed into legislation, what are viewed by many, as precedent-setting financial laws and regulations. In trying to build a transparent and publicly accountable architecture, there has been a genuine effort by many accounting officers to strengthen management of public finances despite very limited human and financial resources for many years. There are challenges in finding an optimum balance between expert resources, staff development and achieving department objectives. Legislation has increased extensively which dramatically increases the demands on officers while staff complement has been very limited for some departments and almost crippling for others.*

Page 6/7 –

*"Cash revenue recording appears to be adequate but all revenues legally due are not being collected. The risk of loss of revenues is therefore high. Expenditure control and compliance is improving in the smaller departments but remains weak in some of the larger ones. Accounting Officers should be commended for the significant reduction in excess expenditure over the last reporting period and the risk has moderated in this respect."*

*“Financial statement disclosures are improving but there is still much work to be done to ensure that they are accurate and reliable. However, with improvements in specific areas, I anticipate that TCIG should be able to strengthen its financial governance and improve transparency of its reporting processes in order to achieve an improved audit report in the next cycle (2015/16 or earlier), provided that recommendations are accepted and dealt with expeditiously.”*

Again, very early in the report on pages 8 - 9 there is a year over year comparison which shows improvements in certain areas as follows;

- (a) Financial Laws and Regulations are Strong (same year over year)
- (b) Controls/systems/processes are weak but improving
- (c) GAAP - improvement over 2012/13
- (d) Cash Revenue is adequate but needs improving,
- (e) Transparency is improved,
- (f) Expenditure Controls improved
- (g) Excess Expenditure greatly improved
- (h) Disclosures - improving controls.

There are other areas throughout the report that speaks to improvements in particular with respect to the 98% reduction in excess expenditure.

I have also gone through the 343 page report and extracted the other pages which have the management responses as noted below as well as where management responses were NOT received; Management responses received and included - pg. 162, 163, 181, 182, 185, 189, 192, 195, 196, 201, 206, 209, 212, 215, 218, 221, 231, 232, 233, 235, 236, 237, 238, 239, 241, 242, 244, 245, 248, 251, 255, 259, 264, 267, 288, 289, 291, 292, 293, 294, 295, 297, 300, 302, 303, 304, 306, 307, 309, 310, 311, 312, 313 (2 responses on same page), 314, 316, 318, 321, 322, 324, 326, 328. Management responses NOT received - pg. 166, 167, 169, 172, 174, 176, 179, 198, 230, 273.

All opportunities were afforded to the audit entity to provide their responses. However, very little of their responses would have changed the outcome of the opinion and a majority of the issues have repeated itself since my appointment in January 2013.

This year's audit, further solidifies the issues raised in the previous audits and that regardless of the management responses, the fact remains that the accounts do not represent a true and fair view of the finances of TCIG.

## 6. 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, 2016, 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.

## 7. Key Definitions

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

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

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

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

(a) Acknowledges explicitly or implicitly that, to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those specifically required by the framework; or

(b) Acknowledges explicitly that it may be necessary for management to depart from a requirement of the framework to achieve fair presentation of the financial statements. Such departures are expected to be necessary only in extremely rare circumstances.

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

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

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

**Capital Expenditure** means the acquisition, construction or development of any tangible capital asset valued in excess of \$75,000 which is distinguished from current account expenditure for repair and maintenance in that it enhances the service potential of a capital asset and therefore consists

of a betterment (enhancing the output of the asset, or extending its useful life). There are two types of capital expenditures –

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## 8. Appendices

### Appendix 1 – Recomputed Balance Sheet based on ending TB figures 2015/16

	2016 numbers linked to TB	2015 numbers got from 2015 FS
<b>Statement of Assets and Liabilities</b>	<b>2016</b>	<b>2015</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and Cash equivalents	37,675	16,127
Held to maturity investments	-	110,000
Receivables from exchange transactions	2,735	2,729
<b>Total Current assets</b>	<b>40,410</b>	<b>128,856</b>
<b>Non-current Assets</b>		
Financial Assets-Investments	2,732	3,805
Receivables from exchange transactions	11,396	11,322
<b>Total non-current assets</b>	<b>14,128</b>	<b>15,127</b>
<b>Total assets</b>	<b>54,538</b>	<b>143,983</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Payables from exchange transactions	1,752	1,851
Current portion of borrowings	-	173,506
Refundable deposits	2,472	533
<b>Total current liabilities</b>	<b>4,224</b>	<b>175,890</b>
<b>Non-current liabilities</b>		
Borrowings	44,281	18,232
<b>Total non-current liabilities</b>	<b>44,281</b>	<b>18,232</b>
<b>Total liabilities</b>	<b>48,505</b>	<b>194,122</b>
<b>Net Asset/(Liabilities)</b>	<b>6,033</b>	<b>(50,139)</b>
<b>Represented by;</b>		
Consolidated fund	(10,918)	(169,581)
Development Fund	14,997	7,603
Sinking fund	-	110,026
National Forfeiture fund	1,954	1,813
<b>Total fund balances</b>	<b>6,033</b>	<b>(50,139)</b>

Note that some of the figures may be incorrect due to the findings outlined in this audit report.

## Appendix 2 – Development Fund Summary of Expenditure for the period ended 31 March 2016

SOURCE OF FUNDING	PROJECT	PROJECT TITLE	ESTIMATES INCLUDING SUPPLEMENTARY for 2015/2016	ACTUAL	Under/(Over)
1001	4327	Census Preparation 2012	20,000.00	2,000.00	18,000.00
1001	4776	Furniture and Equipment for HJRHS Six Classroom Block	15,550.00	-	15,550.00
1001	4783	Upgrade of Salt Cay Island Clinic	75,400.00	5,396.67	70,003.33
1001	4784	Furniture & Equipment for Islands Caicos	83,513.00	-	83,513.00
1001	4799	Agriculture Development	90,000.00	-	90,000.00
1001	4836	EU Housing Initiative	240,000.00	200,000.00	40,000.00
1001	4838	Provision for CDB Shares	71,000.00	70,488.82	511.18
1001	4858	Repairs to Causeway Bridge	2,770,000.00	2,036,264.14	733,735.86
1001	4859	Construction of New Block Ona Glington Primary School	189,804.00	109,942.03	79,861.97
1001	4861	Upgrade of the Revenue System SIGTAS	220,000.00	-	220,000.00
1001	4863	Video-Linking and Cell Pods	2,690.00	-	2,690.00
1001	4865	Renovation of Facility to House the Fire Hall	24,500.00	-	24,500.00
1001	4866	Installation of Shutter on Gov't Buildings - all Islands	26,400.00	12,549.20	13,850.80
1001	4872	Queen Conch Visual Survey and Local Consumption Study	33,842.00	6,350.24	27,491.76
1001	4873	South Caicos Police Station Roof	33,000.00	19,228.75	13,771.25
1001	4880	Additional Toilet Block for CHHS	16,000.00	6,638.76	9,361.24
1001	4881	Construction of Canteen at CHHS	80,500.00	89,205.00	-8,705.00
1001	4882	Construction of Bathroom Block for Ianthe Pratt Primary School	9,000.00	4,040.23	4,959.77
1001	4901	Illegal Development/Squatter Containment	150,000.00	-	150,000.00
1001	4902	Completion of Auditorium at HJRHS	245,000.00	161,556.50	83,443.50
1001	4907	Construction of Remand/Detention Centre PLS	46,953.00	62,606.97	-15,653.97
1001	4927	Carnival Infrastructure Projects	650,000.00	481,964.50	168,035.50
1001	4932	Law Revision Centre	-	55,104.66	-55,104.66
1001	4935	Counter-part Contribution for BNTF 7	38,810.00	-	38,810.00
1001	4937	Court Outfitting	157,901.00	21,850.07	136,050.93
1001	4938	New RO Plant Salt Cay	148,053.00	99,615.41	48,437.59
1001	4939	Construction of Building to House New RO Plant - Salt Cay	30,677.00	30,676.94	0.06
1001	4946	Installation of pre-paid water meters to all customers	20,000.00	11,156.09	8,843.91

SOURCE OF FUNDING	PROJECT	PROJECT TITLE	ESTIMATES INCLUDING SUPPLEMENTARY for 2015/2016	ACTUAL	Under/(Over)
1001	4948	Design and Installation of New RO Plant for XSC	250,000.00	-	250,000.00
1001	4949	Construction of Building to House new RO Plant - XSC	350,000.00	80,870.33	269,129.67
1001	4964	Strategic Planning for Primary Care Clinics	5,000.00	3,217.83	1,782.17
1001	4970	Agriculture and Manufacturing Plan	30,000.00	-	30,000.00
1001	4973	National Skills Audit	75,000.00	-	75,000.00
1001	4975	Amenities for TCICC (technical training)	10,000.00	-	10,000.00
1001	4979	Refurbishment of and outfitting of the Wellness Centre - GDT	630,000.00	479,797.76	150,202.24
1001	4980	Ambulances	100,000.00	199,999.00	-99,999.00
1001	4981	Stepwise Approach to Surveillance of Chronic Disease Risk Factors in TCI	120,000.00	6,000.00	114,000.00
1001	4986	International Finance Marketing and Promotion	250,000.00	10,000.00	240,000.00
1001	4992	Laboratory and Other Equipment	110,000.00	79,120.21	30,879.79
1001	4993	School Bus Replacement MBHS	21,500.00	21,500.00	-
1001	5014	Refurbishment of Provo's Morgue and Replacement Morgue Freezers	250,000.00	-	250,000.00
1001	5021	Agricultural Centre (North Caicos)	100,000.00	-	100,000.00
1001	5022	Repair of Facilities at Boiling Hole South Caicos	60,000.00	52,057.89	7,942.11
1001	5036	Furniture & Equipment for HJRHS Admin Block	200,000.00	200,473.55	-473.55
1001	5037	HIES/CPI Projects	30,021.00	4,656.02	25,364.98
1001	5043	Road Safety - Plate Printers	15,000.00	-	15,000.00
1001	5046	ICT Upgrade for All Schools	190,000.00	-	190,000.00
1001	5053	North Caicos Sports Track	7,000.00	8,977.50	-1,977.50
1001	5054	Fencing for Clement Howell High School	5,000.00	7,515.80	-2,515.80
1001	5057	Monitoring Cabin for Radar Station	400,000.00	125,055.56	274,944.44
1001	5058	Upgrading of Bathroom Facility HJRHS	350,000.00	-	350,000.00
1001	5059	Bambara Dock slip Extension	15,000.00	23,975.55	-8,975.55
1001	5064	Middle Caicos Cave Bathroom Project	3,000.00	1,298.16	1,701.84
1001	5065	Adelaide Oemler Primary School Playground	4,000.00	3,578.75	421.25
1001	5067	Construction of Fish Market for West Road	40,000.00	-	40,000.00
1001	5068	Installation of Generators	1,730.00	508.58	1,221.42

SOURCE OF FUNDING	PROJECT	PROJECT TITLE	ESTIMATES INCLUDING SUPPLEMENTARY for 2015/2016	ACTUAL	Under/(Over)
1001	5072	Furniture Immigration Department - Providenciales Airport	100,000.00	-	100,000.00
1001	5106	Mental Health Home Grand Turk	350,000.00	103,498.57	246,501.43
1001	5110	Replacement Dock for South Caicos	18,793.00	14,692.18	4,100.82
1001	5114	New High School - Furniture and Equipment	125,000.00	241,875.78	-116,875.78
1001	5116	Purchase Software for Information Management within all schools	50,000.00	-	50,000.00
1001	5117	Upgrading of Sporting Facilities Throughout the Islands	250,000.00	-	250,000.00
1001	5119	Upgrading raining and Vocational Rooms at the TCICC	70,000.00	-	70,000.00
1001	5123	Laboratory and Other Equipment Phase 2	200,000.00	115,149.27	84,850.73
1001	5126	Border Control Refurbishing of Building	225,000.00	99,300.85	125,699.15
1001	5127	Border Control Management Information System Phase 2	150,000.00	43,133.96	106,866.04
1001	5128	The Purchase or renovating the Juvenile Centre	240,000.00	151,363.04	88,636.96
1001	5131	New High School	1,715,000.00	1,491,917.76	223,082.24
1001	5132	Down Town Ball Park Lights	270,000.00	131,555.00	138,445.00
1001	5134	Repairs to the Morgue, including purchases of reefers	70,000.00	74,727.23	-4,727.23
1001	5136	Ambulance for other islands	200,000.00	54,392.00	145,608.00
1001	5137	Retrofitting of Office Space for Ministry of Finance	202,100.00	165,411.13	36,688.87
1001	5138	Fixed Assets Records management Software Purchase	30,000.00	19,129.50	10,870.50
1001	5154	Strengthening of Investments	410,000.00	118,800.00	291,200.00
1001	5155	Road Development Programme - Five Cays Subdivision Rd	56,000.00	9,368.47	46,631.53
1001	5156	Road Development Programme -Kew Town Subdivision Rd	20,000.00	18,900.00	1,100.00
1001	5157	Road Development Programme - CHHS Rd	20,000.00	-	20,000.00
1001	5158	Road Development Programme - Belle Field Landing Road	105,000.00	-	105,000.00
1001	5159	Road Development Programme - Three Mary Cays Road Grading	20,000.00	24,262.00	-4,262.00
1001	5160	Blue Hills Dock Repair	48,000.00	65,061.02	-17,061.02
1001	5161	Middle Caicos Recreational Park	10,000.00	13,106.00	-3,106.00
1001	5163	Purchase of Garbage Truck	130,000.00	100,160.00	29,840.00
1001	5167	Renovation works to all RTCIPF Buildings	200,000.00	-	200,000.00
1001	5175	Border Control Building Refurbishment phase 2	250,000.00	85,785.94	164,214.06

SOURCE OF FUNDING	PROJECT	PROJECT TITLE	ESTIMATES INCLUDING SUPPLEMENTARY for 2015/2016	ACTUAL	Under/(Over)
1001	5176	Solar LED Street Lighting Pilot for GDT	-	-	-
1001	5177	Implementation of Legislative and Regulatory reform for the Energy Sector	100,000.00	85.96	99,914.04
1001	5178	Petroleum Sector Risk Assessment and Legislative Upgrade	85,000.00	-	85,000.00
1001	5179	Energy Audit and Retrofitting of NJS Francis Building	40,000.00	16,467.84	23,532.16
1001	5180	West Road Market Phase 2	300,000.00	285,950.68	14,049.32
1001	5181	Upgrading of the NJS Francis Building	100,000.00	-	100,000.00
1001	5182	Road Development	1,200,000.00	394,813.39	805,186.61
1001	5183	Vehicle for Treasury GDT and PLS	70,000.00	66,000.00	4,000.00
1001	5184	Replacement Vehicle for Central Information Technology Unit	40,000.00	-	40,000.00
1001	5186	Vehicle for Investment Unit	15,000.00	-	15,000.00
1001	5187	Replacement Vehicle for Deputy Governor's Office	50,000.00	-	50,000.00
1001	5189	Community Clinic	350,000.00	-	350,000.00
1001	5194	Replacement Garbage Truck	140,000.00	-	140,000.00
1001	5195	Purchase of Transport Vehicle EMS (Ambulance) Department	40,000.00	-	40,000.00
1001	5197	Furniture and Equipment for Wellness Centre-GDT	150,000.00	-	150,000.00
1001	5198	Vehicle for Courts	60,000.00	-	60,000.00
1001	5199	Furniture and Equipment for Schools	175,000.00	123,605.96	51,394.04
1001	5200	South Caicos Sports and recreational Centre	250,000.00	-	250,000.00
1001	5201	Upgrading of Bathrooms at Mary Robinson Primary School	25,000.00	21,541.30	3,458.70
1001	5202	Lon Bay High School-Phase 2	2,000,000.00	748,904.36	1,251,095.64
1001	5205	Establishment of Green Fitness Parks across the islands	450,000.00	-	450,000.00
1001	5207	Vehicles for DPPs Office	60,000.00	60,000.00	-
1001	5214	Budget Software	30,000.00	-	30,000.00
1001	5215	Vehicle for Attorney General	25,000.00	-	25,000.00
1001	5217	Development Fund Project Management	450,000.00	119,507.75	330,492.25
1001	5219	Repairs to the Governor's Residence Roofing	100,000.00	84,858.94	15,141.06
1001	5220	Furniture and Equipment for Ministry of Tourism	30,000.00	-	30,000.00

SOURCE OF FUNDING	PROJECT	PROJECT TITLE	ESTIMATES INCLUDING SUPPLEMENTARY for 2015/2016	ACTUAL	Under/(Over)
1001	5221	911 Project and National Radio	140,000.00	140,160.00	-160
1001	5222	New Soft Body Amour Vest for Police Officer	150,000.00	146,718.43	3,281.57
	5223		80,000.00	-	80,000.00
	5224		50,000.00	-	50,000.00
1001	5225	Land Acquisition Cristobal	200,000.00	200,000.00	-
1001	5227	Blood Bank Machine and Reagent	80,000.00	64,110.14	15,889.86
1001	5228	Land Acquisition	1,813,000.00	714,732.69	1,098,267.31
1001	5229	Outfitting of Ministry of Finance	15,000.00		15,000.00
1001	5230	Turks and Caicos Islands Airport Master Plan	40,000.00		40,000.00
1001	5231	Counter-part Contribution for BNTF 8	20,000.00		20,000.00
1001	5232	Grand Turk Urban Renewal Project	10,000.00		10,000.00
1001	5233	Fencing for the JAGS McCartney International Airport	14,000.00	14,000.00	-
1001	5234		100,000.00		100,000.00
1001	5235	Equipment for Radio Turks and Caicos	52,500.00		52,500.00
1001	5236	Shore Club/Long Bay Subdivision Water Project	150,000.00		150,000.00
1001	5237	Replacement Vehicles for TCIG	300,000.00		300,000.00
1001	5238	Equipment for Police	250,000.00		250,000.00
1001	5239	New Immigration Bill Public Awareness Campaign	70,000.00		70,000.00
1001	5240	Refurbishment of the Water Plant - GDT	380,000.00	123,660.00	256,340.00
1001	5241	Police Vehicles	100,000.00	133,050.00	-33,050.00
1001	5242	Repairs to the Roof at the Eliza Simons Primary School	200,000.00		200,000.00
1001	5243	Lighthouse Road Project	659,480.00		659,480.00
1001	5244	Major Hill Road Development	300,000.00		300,000.00
1001	5245	Front Street Repairs	200,000.00	104,101.20	95,898.80
1001	5298	Environment Health Equipment	95,000.00		95,000.00
1001	5299	Police Vehicle	35,000.00		35,000.00
		<b>FUNDED THROUGH TCIG CONSOLIDATED FUND</b>	<b>26,404,717.00</b>	<b>11,499,095.81</b>	<b>14,905,621.19</b>
3030	4842	Wonderful Water Project	1,834.00	-	1,834.00
3030	4846	Cholera Treatment Project	43,372.00	-	43,372.00
		<b>FUNDED THROUGH UNITED KINGDOM UK DFID PROGRAMME</b>	<b>45,206.00</b>	-	45,206.00
3053	2827	BNTF Office Cost	2,039.00	-	2,039.00

SOURCE OF FUNDING	PROJECT	PROJECT TITLE	ESTIMATES INCLUDING SUPPLEMENTARY for 2015/2016	ACTUAL	Under/(Over)
3053	4922	Basic Needs Trust Fund - Seventh Programme	300,000.00	-	300,000.00
		<b>FUNDED THROUGH CARIBBEAN DEVELOPMENT BANK CDB</b>	<b>302,039.00</b>	-	<b>302,039.00</b>
3099	4604	Strengthening of the Public Health Delivery System in the TCI	9,187.00	11,149.08	8,037.92
3099	4611	Habitat Mapping Project	32,164.00	-	32,164.00
3099	4612	Turtle Research Project	1,354.00	-	1,354.00
3099	4790	National Tree for TCI	-	38,736.00	-38,736.00
3099	4790	National Tree for TCI	15,000.00	-	15,000.00
3099	4791	Invasive Species Management	8,515.00	-	8,515.00
3099	4795	Disaster Management Project	6,769.00		6,769.00
3099	4797	Fisheries Monitoring Project	2,480.00	-	2,480.00
3099	4801	Activities or Climate Change	4,127.00	-	4,127.00
3099	4823	Darwin Wetlands Project	8,727.00	-	8,727.00
3099	4825	Youth Empowerment Survey	2,000.00	-	2,000.00
3099	4900	Healthy Lifestyles Curriculum	11,098.00	-	11,098.00
3099	4923	Bight Community park	35,000.00	-	35,000.00
3099	4924	Mark Crick Award	379	-	379
		<b>FUNDED THROUGH OTHER PRIVATE SOURCES</b>	<b>136,800.00</b>	39,885.08	96,914.92
3239	4928	Project Management Cost for Judiciary	34,039.00	-	34,039.00
		<b>FUNDED THOUGH UNITED KINGDOM OTHER GOVERNMENT GRANTS</b>	<b>34,039.00</b>	-	34,039.00
		<b>TOTAL FROM ALL SOURCES</b>	<b>26,922,801.00</b>	<b>11,538,980.89</b>	<b>15,383,820.11</b>

### Appendix 3 – 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 4 – Follow-up on 2013/14 and 2014/15 audit findings

Audit Findings & Recommendations	2013/14	2014/15
Open	30	36
In progress	16	8
Closed	4	12
NAO to review in future	7	0

Note that some of the audit findings from year to year may be repeat audit findings. Another follow-up will be conducted in 2016/17. The NAO has relied on some of the representations made in the “Current Status” column to capture the items as either “in progress” or “closed. However, where representation has not been relied upon the issue has been captured as “Open” based an overall judgment of the findings from this 2015/16 Audit.

#### 2013/14

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
Potential revenue loss of \$5 - \$10 million annually	PS Finance / Commissioner of Revenue	Consideration should be given to setting up a properly resourced central revenue department, under the leadership of a Commissioner of Revenue, with the power to examine compliance in all revenue streams and to levy civil penalties for tax being evaded.	This has been addressed. The staff of the Revenue department has increased by more than 100%, in addition the Revenue Unit has set up various working groups with other TCIG revenue collecting department to	Open The NAO has not been able to attest to the accuracy and completeness of the arrears for the past several years mainly due to

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
			assist with the revenue collection, legislation strengthening, validating the integrity of the arrears report etc.	weaknesses in controls.
Millions in revenue arrears to be validated, corrected, collected or recommended for write off	PS Finance / Commissioner of Revenue	The Ministry of Finance needs to ensure that accurate and reliable figures are made available. The lack of proper documentation and information indicates that there is inadequate regular monitoring and ineffective management of the collection process.	Revenue arrears are still being accessed to ascertain revenue arrears. AO are urged to maintain and submit the supporting documents to Audit and the Accounting General's Office. Over the last two years a paper was put forward for the write off of scholarship contributions, Business Licensing and water arrears. In FY 2016 MOF will attempt, once again, to persuade Cabinet to approve the advance of the revenue arrears write off paper to the HOA.	Open The NAO has not been able to attest to the accuracy and completeness of the arrears for the past several years mainly due to weaknesses in controls.
Lack of enforcement action to collect revenue arrears	PS Finance / Commissioner of Revenue	The ageing report must be validated, sanitized, enforcement action taken to collect amounts legally due to TCIG, and approval sought from the House of Assembly to write off those amounts that are not considered recoverable.	Work on this commenced in FY 2014. Notices were placed in public media to advise persons of amounts owing. The integrity of the report is also being accessed. Letters were sent out regarding scholarship contribution arrears and water arrears. During FY 2016/17 attempts will be made once again to write uncollectable balances off	In progress Based on the MoF representation being made, it appears that attempts are being made to resolve long-standing revenue arrears amounts.
108 Person/companies who have arrears also received concessions	PS Finance / Commissioner of Revenue	All companies should be checked for duties owed before receiving concessions	Customs Department will work along with Revenue Department to ensure that this practice is discontinued.	Open The NAO will follow up to ascertain what controls/policies or procedures have been put in place to ensure that this does not occur again.
Revenue arrears not accounted for on the statement of financial position	Accountant General	TCIG should consider including revenue arrears on the statement of financial position as this facilitates far greater control and accountability over the accuracy and reliability of what is reported to the House of Assembly.	Revenues arrears are received and reported in the financial statement	Open The NAO has not been able to assure the accuracy and completeness of the revenue arrears in prior audits.

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
Inadequate management of concessions granted (\$78.7M for the 3 years to March 31, 2014)	PS Finance / Commissioner of Revenue  Accountant General  Office of the chief internal auditor	Concessions by sector/industry such as utilities, tourism, health etc. should be disclosed (this was included in the revised financial statements submitted on 15 January, 2015). TCIG should institute a proper controls management system for concessions and subsidies to measure their economic benefit. A value for money audit needs to be conducted to determine the relative benefits (quantitative and qualitative) especially in the larger grants such as for power and fuel.	Work commenced on this recommendation in FY 2015/2016. This should be fully implemented in FY 16/17. It is not certain how a measure for the concession economic benefit can be implemented. However, before a sec 70 concessions is granted it is assessed by both the CFO and MOF	In progress The NAO will review the controls over the granting of concessions in the next audit, depending on resource availability.
Non-recording or non-recognition of \$2.915 million of stamp duty foregone	PS Finance / Commissioner of Revenue  Accountant General	TCIG needs to consider the level of accountability for these types of revenues foregone or concessions granted and ensure that they are monitored. It must also consider the quantum of concessions granted to a few entities and ensure that the relative benefit derived is assured. There is a risk of loss of economic value to TCIG if these concessions are not monitored.	This is still being worked on	In progress This is a control issue, and non-cash transactions which are exemptions, taxes foregone, should be recorded and there must be controls to ensure that these are captured.
Lease commitments and incentives not disclosed	Accountant General	Leases entered into by TCIG should be disclosed. Those containing concessions should be separately disclosed as part of the concessions disclosures. It is recommended that GAAP be adhered to determine the accounting treatment of lease incentives and how the leases themselves are treated. Leases at "peppercorn" rents, or below market value, are revenues foregone and should be accounted for in accordance with GAAP as provided for in Section 45 of the PFMO.	This disclosure is not required by IPSAS cash basis of accounting, nor is it required under legislation. A note is however included in the Schedules to the Public Accounts	Open While this is not a requirement under IPSAS Cash, it will impact a true and fair presentation of TCIG's transactions. Disclosures made should be in accordance with GAAP where IPSAS Cash does not provide for it.
\$934K net repatriation deposits treated as revenue upon receipt instead of a liability	Accountant General	These amounts should not be recognized as revenue at the time of receipt, but held on the statement of financial position as a liability until such time as they are either utilized to pay for repatriation, refunded to the employer or can be released.	This is still being looked into. Not addressed as yet.	Open
Unregistered private lodgings possibly not paying Hotel and Restaurant Tax	PS Finance / Commissioner of Revenue	TCIG should put in place a robust compliance program that covers unregistered businesses and business should be prosecuted for non-registration.	A programme was put in place in FY 2015/16 where Revenue has established a relationship with the TCHTA to monitor this sector. In	NAO to review in future

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
			addition, compliance teams within Revenue has been set up to carry out compliance work	
Revenue Control Unit did not subject tourism lodgings and restaurants to annual audit	PS Finance / Commissioner of Revenue	TCIG should put in place a robust compliance program that covers filing of tax returns by businesses and business should be prosecuted for non-compliance.	With the strengthening and training of Revenue Commission work plans were developed and is continuously developed for the auditing of these establishments	NAO to review in future
No systematic compliance checks for compliance with business licensing requirements	PS Finance / Commissioner of Revenue	TCIG should put in place a robust compliance program that covers licensing of businesses and business should be prosecuted for operating without valid licenses.	Work commenced regarding this in FY 14/15. Currently the legislation is being updated and a team. Several compliance programs are carried out island wide on a consistent basis including joint operations with other TCIG Department such as Immigration, Police and Environmental Health.	NAO to review in future
No annual compliance checks for compliance with the Immigration Ordinance	PS Border Control & Labour	TCIG should put in place a robust compliance program that covers individual's work permit monitoring and employers should be prosecuted for employing individuals without permits.	Notification systems are in place. Efforts are being made to improve management oversight and acquire the additional resources needed to improve efficiency productivity levels.	NAO to review in future
Significant number of custom tariffs can lead to possible tariff shopping by importers	PS Finance / Commissioner of Revenue	The tariff code been simplified to avoid tariff shopping	It is being proposed that in FY 17/18 a review of the tariff will be carried out to see if this recommendation can be supported.	Open
Significant increase in IT costs from \$1.7M to \$3.5M and a \$6M contingent liability	PS Finance/ Central Information Technology Unit	This contract is to be investigated further and Confirmation should be given on whether adequate approval was provided for the original contract and the subsequent changes in scope / new contract and if the House of Assembly was required to assess this in accordance with the PPO. Adequate disclosures regarding the contract should also be included in the financial statements.	A monitoring team has been established, comprised of CITU Director, MOF, Accountant General's Office and Digicel to monitor the contract. This was done in FY 15/16.	NAO to review in future
Netting of hospital revenues with hospital expenditures	Accountant General	This netting off of hospital revenue and expenditure should be corrected as it understates revenues and expenditures of TCIG. By separately recording the co-payments and third party revenues the true revenues and	Changes have since been made as evident in next year audit.	NAO to review in future

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
		costs of the hospitals can be identified allowing for better informed financial decisions and management.		
Consolidated healthcare related costs approximate \$64M (split between TCIG and NHIB)	Accountant General	The combined total healthcare costs incurred by TCIG and NHIB needs to be aggregated and disclosed	Information and amounts fully disclosed	Open In reviewing the 2015/16 Audit the combined healthcare costs were not disclosed. NHIB Treatment Abroad Programme costs appeared not to have been included. Further the NHIB Audit for 2014/15 was not complete, and the NAO could not verify the accuracy or completeness of healthcare costs for the whole of government.
Several control exceptions and repeat audit findings in Development Fund expenditure	PS Finance	TCIG needs to strengthen these controls and resolve long outstanding audit findings	A review of the Development Fund is underway in FY 16/17. However written instructions have been issued regarding expenditure commitment and warrant issuance. Further training will be carried out in FY 16/17.	In progress Note that the 2015/16 Fin Stats indicate some issues with the Development Fund Expenditure
Lack of supporting documentation for \$6.6M in journals	PS Finance/ Accountant General	Full supporting documentation be attached to all journals made to ensure a proper audit trail.	This has been rectified and supporting documentation is requested to be maintained for each journal	NAO to review this in future
Bulk Air Tickets cost higher by \$154K compared to on-demand prices	Central Purchasing Unit	This purchase mechanism should be revised to achieve better value for money	The bulk ticketing is still being done as a result of MOF monitoring travel.	Closed
Poor vendor master file management	Central Purchasing Unit	Vendor management should be revised to achieve better value for money	A vendor audit was done on the system during FY 15/16. Work is still ongoing to ensure that VFM is achieved	In progress AAM made inquiries with CPU and Treasury, no formal vendor audit was done.  NAO to obtain vendor audit.
IT Control Issues	Central	Controls over providing and	A SSTRM list for all	NAO to review in

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
	Information Technology Unit	removing rights of access are inadequate and should be improved. It is recommended that the list be cleansed and appropriate controls are introduced for employee departures	Ministries have been requested at the beginning of each year, to assist with the updating of the system. With the introduction of O365 our system management has changed, with the administration of O365 not with all CITU officers, we have selected 1 Global Administrator and 3 User Administrators. With each user now assigned a license we now regularly liaise with HR Directorate more frequently for updates with TCIG departures; this coincides with user access to TCIG Domain and applications	future An IT audit is scheduled around financial reporting and should cover the CITU controls. This will help identify any control deficiencies.
Excess Expenditure	Treasury department Labour tribunal Prisons services	Ministries should ensure expenditure is within Smartstream estimates	This has been rectified and accounts are being monitored on a weekly basis	In progress This was a recurring issue for 2015-2016. A G's Chambers and Police (line item)
Expenditure arrears management	Attorney General's Office Min of Government Support Services Min of Finance, Trade & Investment Min of Health & Human Services	Expenditure arrears should be maintained within budgetary limit	<p>This has been rectified and accounts are being monitored on a weekly basis.</p> <p>Response from Attorney General's office- A - Management of expenditure has improved since the 13/14 audit. The improvement is primarily due to the following approaches:</p> <ol style="list-style-type: none"> <li>1) Strategic planning and projecting expenses;</li> <li>2) Being careful to spend within budget allocations;</li> <li>3) Careful monitoring of projects/activities through weekly/monthly expenditure reports etc.</li> </ol>	In progress Recurring issue for 2015-2016. The NAO notes the efforts.

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
			<p>However, it should be noted that due to the nature of business conducted by the Attorney General Chambers, estimating some expenditure for professional and consultancy services, civil recoveries or claims against government is difficult due to unpredictable and time-sensitive demands, litigation and claims which must be attended to due to the financial and legal risks to the Government if no action is taken. Additionally, once litigation matters have commenced, the Attorney General's Chambers has little control over the duration of court matters which are subject to judicial processes and such matters may take extended periods of time to resolve. These factors can lead to delayed production of billing invoices and result in unpredicted excess expenditure.</p> <p>B - Administrative personnel have increased their efforts in the follow-up process for outstanding invoices. That is, vendors are promptly contacted and asked to submit final invoices within a timely manner so that they can be paid within 30 days of receipt. However, it is almost impossible to avoid some arrears in expenditure at the end of the FY (and beginning of the new).</p>	
Assets reported at higher than their likely recoverable	Accountant General	Asset values should be written down to the recoverable amounts	Once fixed asset software and personal is in place and proper valuation is	Open

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
amount			done adjustment will be made	
Significant assets with an estimated value of \$50M not recorded in financials	Accountant General	Asset registers and financial statements should be reconciled to show a complete record of all existing assets	TCIG is in the process of commissioning a valuation for its PPE. A Fixed Asset register is established and the road map has outlined that there will be a period of up to 7 years before all non-financial assets are appropriately reported in the statements of the public accounts, noting that there is a 5-year transitional period associated with IPSAS 17 to fully adopt the standard. Also under Part 2 of IPSAS cash basis of accounting 2.1.35 in regards to reporting the Statement of Assets & Liabilities it states: "While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them".	Open The MOF has been using the Cash Basis of Accounting for several years prior to this finding. The transitional period has probably passed. This has been a significant issue and a repeat audit finding for several years.
\$2.5M Belize Bank / British Caribbean Bank (BCB) account not clarified	Accountant General	All Journals totaling \$86,017,664 (Ref. 2012/13 Audit Report – Adjusting entries discovered after the reporting period) should be reversed until such time as the error, omission or fraud is detected and/or the House of Assembly gives approval for a write-off.	The matter was addressed and journals will not be reversed.	Open The \$2.5 million could not be sufficiently supported as there was no reconciliation done to assess how the bank account was \$0 and the GL was \$2.5 million. It could be an error or omission.  It was also discovered that these journals were in the Consolidated Fund Account.
Prior Year Adjustments of \$5.8M between 2011-2014 not properly	Accountant General	TCIG should re-examine the treatment it has adopted for prior year adjustments, in particular when the prior year adjustment is material. If the prior year	This is still being looked into	Open NAO to review this in future

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
accounted for		adjustment is material the accounting and disclosure requirements of IPSAS 3.54 need to be met.		
TC Invest loans not properly reflected in TCIG's Financial Statements	PS Finance / Accountant General	The inclusion of TC Invest balances in 2012/2013 should have had far greater disclosure including a line by line summary of the assets and liabilities taken on by TCIG, the basis on which the assets and liabilities were included (e.g. book value, fair value etc.) etc. In addition, there should have been far greater disclosures on the sale and purchase agreement for the identified non-performing loans with TOLCO, including the terms and conditions.	Because TCInvest operated under the accrual basis of accounting the bank balance was already treated as impaired and transferred to accounts receivable from TCI Bank in Liquidation. The bank balance was therefore included in accounts receivable when the assets and liabilities of TCInvest were transferred to TCIG. Once the balance was identified in accounts receivable the bank balance was transferred to the appropriate account during the financial year being audited.	Open The disclosures for the old TC Invest are insufficient.
No proper due diligence or tendering procedures followed in relation to non-performing loans	PS Finance / Accountant General	The whole transaction should be evaluated and accounting entries corrected where necessary in respect of these transactions to accurately reflect the commercial arrangements per the SPA either by write-off, bad debt or discounting.	This will be looked into in FY 16/17	Open
Inconsistency in inventory values by \$1.1M	Central Purchasing Unit/Accountant General	Verification and reconciliation of inventory in stores to book values should be done regularly	Not to cause a disruption this is done at end of every year	Open After the completion of the inventory check, the balances presented in the financials are still different from what's presented by the Board of Survey. Perhaps a review post-year end of the BoS report and the MoF figures should be done to avoid any disruption.
Cash losses not managed in compliance with regulations	PS Finance	The statement of losses needs to be revised to incorporate uncollectable arrears of revenue. Loss registers should be	This is a work in progress and should be implemented in FY 16/17	In progress

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
		maintained at all public offices		
\$1.2M outstanding checks not cleared by Nov 2014	PS Finance	Long outstanding checks should be cleared/written back	Treasury is now required to monitor the outstanding check list regarding stale dated cheques. However, this is still a work in progress.	In progress
Stamp duty receivables not recorded	Accountant General	Stamp duty receivables should be disclosed in the financial statements	The other receivables in TCIG books resulted from cash transactions that included TCIG making a cash advance. To include the stamp duty payable by instalment would require that we also record the unpaid stamp duty as revenue, which we cannot do under the cash basis of accounting.	Open <i>Disclosure in the notes</i> is recommended. If disclosures of the non-cash economic transactions are not made in the financial statements, then the accounts will not reflect a true and fair view.
Staff loans not managed in compliance with the PFMR	PS Finance	Staff loan and advances should be awarded in compliance with PFMO 32 and PFMR 81, 82 and 83.	Rectified. A new Staff advance policy was implemented in FY 15/16. Now sign off of advances require the approval of HOD/AO, HRMD and Accountant General	Closed
Travel advances not managed in compliance with the PFMR	Attorney General's chambers	Travel advances should be managed in compliance with the PFMR	<p>Since the Audit period 13/14, the Chambers has maintained departmental level detailed travel advance registers.</p> <p>However, after November 29th 2014, public officers across Government were NOT required, as a matter of a change in the Travel policy, to submit expense claims, receipts or credit card statements (Travel Policy section 15.2). It was changed to per diem rather than an advance policy. Registers were thereafter modified to include time of travel, destination, purpose of travel and total cost of the trip etc. (Including registration fees). Registers have since been managed in compliance with Travel Policy and</p>	Closed

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
			PRMR.	
Noncompliance with mandatory requirement under IPSAS 6 or IPSAS cash basis to prepare Consolidated financial statements	Accountant General	TCIG should consider the benefits of a high level consolidation (total revenue, total expenses, assets (with cash separately identified) and liabilities (with loans separately identified)) as part of their standard reporting procedures	Due to the difficulty in consolidating under IPSAS cash (experienced worldwide), it is the recommended practice (ICGFM and IFAC) to consolidate at the last stage of the transition – as a result, the matter of consolidation under IPSAS cash Part 1 is currently under review by IFAC. An exposure draft has already been issued by the IPSAS Board to propose its removal as it is seen as a major obstacle to the adoption of the IPSAS Cash Basis.	Open It should be recognized that it was the Auditor General who advised the then Accountant General and one of the UK Advisors that there was an exposure draft (ED 61) which sought to change the current Cash Basis IPSAS. Prior to this the MoF was not aware of this exposure draft. In order to recognize this, I split the audit opinion and provided it on an unconsolidated and a consolidated basis.  However, the Cash Basis IPSAS as it stands now in force requires consolidation for those entities that meet consolidation criteria under IPSAS Cash.
Proper accounting treatment required for the \$116M Hospital PPP	Accountant General	An independent accounting and legal opinion should be obtained as to how the Hospital PPP should be accounted for under IPSAS. TCIG should consider this opinion and the impact on TCIG's financial statements. If at all possible TCIG should amend its accounting to agree with the accounting requirements given in the independent opinion. There should be a level of reconciliation or reporting between the accounting for the Hospital PPP in the financial statements and the required inclusion of PFI/PPP liabilities as	Agreed. Has since changed	In progress Disclosures have been made on the amounts. Recommendations from the NAO will be to provide interest rates on each of the debts, a note to indicate that the TCIG did not provide any financing. Full financing was provided by the private lenders.

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
		public debt in the FSPS.		The Contract Management Team of the Healthcare contract indicated that the figures provided in the accounts were incorrect and were supposed to meet with MoF to correct. There is therefore a material misstatement in the disclosures for the Hospital Contract.
Inadequate contract management of health costs	PS Health& Human services / Contract management Unit	Consideration should be given to the benchmarking of the construction costs to similar hospitals, in particular the cost of construction per hospital bed and the bed to population ratio. Due to the seemingly extremely high build cost and low bed to population ratio TCIG needs to re-examine the costs incurred.	Awaiting feedback from PSH	Open
Inadequate Treasury management	PS Finance	TCIG should put in place a more balanced treasury management process to ensure excess cash resources can be utilized to make loan repayments. TCIG should ensure it negotiates early redemption terms and maintain good records of loan agreements.	This is currently being worked on. In FY 15/16 TC Invest related loans were retired using the excess cash	In progress A note disclosure is recommended for the accounts.
Unfunded Actuarial Valuation of \$84.8M	PS Finance	TCIG should conduct regular actuarial valuation in line with PFMO and disclosures should be made in the FS	The is currently being worked on to ensure that TCIG adheres to the Constitution of providing actuarial assessments every two years	Open This is due for 2015/16 period. As at 3 Dec, 2016 this was not received by the NAO.
Determination of creditors and timing of payments	PS Finance	A clear policy should be established as to what criteria need to be met for a claim to be included as a creditor and what criteria need to be met for a claim to be included as a contingent liability.	Currently being looked into	Open
Insufficient audit evidence	PS Finance	All requested audit evidence should be availed to avoid limitation of scope	This is ongoing. MOF will be organizing training in the upcoming months of FY 16/17 to assist with this	In progress
Unrecognised accrued interest	Accountant General	Use of appropriate GAAP	TCIG has since fully adopted IPSAS Cash Basis	In progress Even though not a

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
payable			of Accounting. TCIG has also received a certificate of conformance for preparation under this standard.	requirement under IPSAS Cash, these needs to be disclosed in the notes to the financials.
Non-compliance with Generally Accepted Accounting Practice	Accountant General	Use of appropriate GAAP	TCIG has since fully adopted IPSAS Cash Basis of Accounting. TCIG has also received a certificate of conformance for preparation under this standard.	<p>In progress. Even though the MoF has adopted IPSAS Cash, there are still legal and regulatory requirements to ensure that resources, public property, non-current assets, investments, stores, losses, arrears, commitments, liabilities, exemptions, guarantees, etc. are all DISCLOSED.</p> <p>This is to ensure that the MoF provides a true and fair view of the financial (cash and non-cash) activities and position of TCIG.</p>
Inadequate Basis of Accounting	Accountant General	Use of appropriate GAAP	TCIG has since fully adopted IPSAS Cash Basis of Accounting. TCIG has also received a certificate of conformance for preparation under this standard.	In progress See above
Risk of bad debts increases and non-approval of write-offs	Accountant General	Use of appropriate GAAP to monitor non-cash items like bad debt write offs	TCIG has since fully adopted IPSAS Cash Basis of Accounting. TCIG has also received a certificate of conformance for preparation under this standard.	Open This is a controls issue. If the MoF does not put in place and properly disclose bad debts, then it risks moving back to same way of doing things where there millions of dollars in write-offs and non-collection. The IPSAS Cash basis has nothing to do

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
				with the MoF's ability to ensure that what is owed is collected promptly.
Large number of preparation issues presented in TCIG's financial statements sent to auditors	Accountant General	Controls around preparation of financial statements should be improved	Technical assistance has been sourced and significant improvements have been made in preparation of financial statement	Open For each review of the financial statements from 2012/13 to present there have been many errors and omissions. Even the current review of the Fin Stats have several material errors which indicate that Quality Review is inadequate.
Inconsistency in the application of the basis of accounting	Accountant General	Use of appropriate GAAP	TCIG has since fully adopted IPSAS Cash Basis of Accounting. TCIG has also received a certificate of conformance for preparation under this standard.	Open In 2007/2012 the accounts were prepared on a cash basis, revised to comply with a modified cash basis, then changed in 2013/14 back to a Cash Basis. This makes it difficult for the users of the financial statements to compare statements and impacts the reliability of statements especially where there have been several errors/omissions, controls issues, compliance issues etc.
Non-transparent economic value transactions not recorded	Accountant General	Rules based accounting is strongly recommended. There must be a fundamental recognition and shift in thought so that the focus should be on economic events and not only cash based events	Technical assistance has been sourced and changes has been made	Open
Lack of disclosure	Accountant	TCIG's financial statements should	Persons with significant	In progress

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
of related party transactions	General	include sufficient disclosures on related party transactions and balances, including those with key management personnel and their close family members as well as significant influence. Far greater transparency and accountability is needed in the area of related parties and significant influence.	decision making influence are required to complete related parties statement each year	It is anticipated that the MoF and other ministries would drive this effort as it is not the responsibility of the NAO to police related party transactions. We have merely provided suggested forms to capture these issues.  The NAO will monitor.
Inadequate system to deal with third party payments and in-kind services	Accountant General	There should be controls in place to capture transactions or events with external/third parties which bring economic value to the TCIG	The issue of consolidation has been reviewed.  Also, since Due to the difficulty in consolidating under IPSAS cash (experienced worldwide), it is the recommended practice (ICGFM and IFAC) to consolidate at the last stage of the transition – as a result, the matter of consolidation under IPSAS cash Part 1 is currently under review by IFAC. An exposure draft has already been issued by the IPSAS Board to propose its removal as it is seen as a major obstacle to the adoption of the IPSAS Cash Basis.	Open  While there is a proposal to amend the IPSAS Cash Standard (ED 61), the fact remains that there must be controls in place to ensure that we track these types of payments and technical assistance included in-kind services as they have more to do with effective governance and transparency and less to do with the IPSAS Cash Standard.
Treatment of shareholding in Provo Water Company Limited	Accountant General	TCIG should adjust its accounting policies regarding investment in associates/subsidiaries to comply with GAAP	TCIG does not hold any other shareholdings of this nature.	Closed At the time when the audit was done, TCIG did have shareholdings which were subsequently sold.
Material changes made between both drafts of the financial statements submitted	Accountant General	Controls around preparation of financial statements should be improved	Agreed, significant improvements have been made to preparation of Financial statement	Open There have been similar errors present when the NAO reviews the Financials presented. Quality Review

ISSUES	OWNER	RECOMMENDATION	CURRENT STATUS	NAO Comment
				needs to improve.
Risk of bad debts increases and non-approval of write-offs	Accountant General	Use of appropriate GAAP to monitor non-cash items like bad debt write offs	TCIG has since fully adopted IPSAS Cash Basis of Accounting. TCIG has also received a certificate of conformance for preparation under this standard.	Open This is a controls issue. If the MoF does not put in place and properly disclose bad debts, then it risks moving back to same way of doing things where there millions of dollars in write-offs and non-collection. The IPSAS Cash basis has nothing to do with the MoF's ability to ensure that what is owed is collected promptly.
Large number of preparation issues presented in TCIG's financial statements sent to auditors	Accountant General	Controls around preparation of financial statements should be improved	Technical assistance has been sourced and improvements have been made in preparation of financial statement	Open Errors in review of the financials have presented itself in 2015/16. Quality reviews are inadequate.

## 2014/15

Open - 36

In progress - 8

Closed - 12

NAO to review in future - 0

## 2014/15

Summary finding	Owner	Recommendation	Current status	NAO comment
SmartStream Invoices were not approved	PS Finance	Accounting Officers and other authorized personnel should adhere to section 72 of the Public Finance Management Regulation (PFMR). Accounting Officers should ensure that adequate controls are in place within the approval process to ensure invoices are certified and approved for payment and	This is rectified and approved approval logs have been implemented for FY 15/16. In addition, a FM has been put in place to ensure that all invoices have been certified	Closed

Summary finding	Owner	Recommendation	Current status	NAO comment
		SmartStream invoices are approved.		
Vendor invoices not approved for payment	Office of the Deputy Governor Ministry of Health Office of the Premier Ministry of Environment Ministry of Government Support Services Ministry of Border Control Judiciary Royal Turks and Caicos Islands Police force Ministry of Finance	Accounting Officers and other authorized personnel should adhere to section 72(2) of the Public Finance Management Regulation (PFMR). Furthermore, Accounting Officers should ensure that adequate controls are in place within the approval process.	This is rectified and approved approval logs have been implemented for FY 15/16. In addition, a FM has been put in place to ensure that all invoices have been certified.  Additionally, each level of smart stream (data entry, 1st and 2nd level approver) has at least 3 persons assigned to ensure invoices are approved in a timely manner. Also, the assigned finance manager highlights and provides advice to resolve issues.	Open  Recurring issue for 2015-2016. Additional controls have been implemented where FM review payments for this exception. Have made inquiries about the approval log but was not able to ascertain what this is (FM and SS IT (CA))
Payments not certified	Office of the Deputy Governor Ministry of Health Office of the Premier Ministry of Environment Office of the Governor Office of the Director of Public Prosecution Ministry of Government Support Services Judiciary	Accounting Officers must ensure that invoices are certified and signed by responsible officers. Accounting Officers must also ensure that review is carried out of all payments before they are approved	This is rectified and approved approval logs have been implemented for FY 15/16. In addition, a FM has been put in place to ensure that all invoices have been certified.  Staff have taken refresher smart stream courses to ensure they are adhering to all the required procedures. Data entry personnel ensure that invoices are certified before processing and in the event there is an oversight the persons approving as well as the finance manager double and triple check.	Open Recurring issues for 2015-2016
Non-Compliance with TCIG Travel Policies	Ministry of Border Control Office of the Premier	Accounting Officers must ensure that their Ministries comply with TCIG Travel Policies	The Travel policy was revamped in FY 15/16 and AO along with FM are closely monitoring the adherence.	Closed
Transaction posted to incorrect expenditure account	Office of the Governor	Accounting Officers must ensure that expenditure is posted to the correct account and officer are able to recognize the appropriate classification for expenses	This was rectified and the salaries and allowances of the employees in question has been transferred to the correct account head. This	Open Recurring issues for 2015-2016.

Summary finding	Owner	Recommendation	Current status	NAO comment
		incurred.	was done through the Human Resource Management Directorate.	
No contracts/lease agreements	Office of the Governor Ministry of Government Support Services Judiciary Royal Turks and Caicos Islands Police force	Accounting Officers and Responsible Officers must ensure that contracts exist where required and that they are up to date as per the Public Procurement Ordinance 2012 Section 50 (PPO).	Measures were taken to obtain all existing contracts and update them if necessary until they are taken over by Estates Department.	Open Recurring issues for 2015-2016.
Payments made without obtaining the requisite quotes	Royal Turks and Caicos Islands Police force Ministry of Government Support Services	Accounting Officers should ensure that quotes are obtained for good and services	This is being looked at. A FM has been placed in this Ministry to ensure that the ordinance is adhered to.	Open Recurring issues for 2015-2016.
Payments made without CFO approval	Royal Turks and Caicos Islands Police force Ministry of Government Support Services Ministry of Border Control	Accounting Officers should ensure that CFO approval is obtain before committing any expenditure over \$10,000 as per PFMR Section B (5).	FM has been placed to advise on the expenditure commitments of these ministries. Also the FM check each invoices, to ensure compliance with the PFMR, before the payment is executed	Open Recurring issues for 2015-2016.
Purchase orders were not used to request goods and services	Ministry of Border Control Royal Turks and Caicos Islands Police force Ministry of Finance	Accounting Officers must ensure that the responsible officers use Purchase Orders for requesting goods and services when applicable. Data Entry Officers should be trained or retrained to prepare, receipt and match PO's. Approvers should be trained to recognize when SmartStream Invoices do not have POs attached/matched.	This issue was rectified. All invoices with the exception of reimbursements and utilities require a PO for processing	Open Recurring issues for 2015-2016.
Non-Compliance with PPO 2012 - Breach of Tender Procedures	Ministry of Border Control Royal Turks and Caicos Islands Police force	Accounting Officers must ensure that their Ministries comply with all the stipulation of the Public Procurement Ordinance 2012	This issue was rectified. All procurement is done with guidance of PPO	Open Recurring issues for 2015-2016.
Insufficient supporting documents	Ministry of Border Control Royal Turks and Caicos Islands Police	Accounting Officers should ensure that sufficient supporting documentation are attached to SmartStream invoices before they are approved.	FM have been put in place to ensure that the supporting documentation is attached before the payment is executed.	Open Recurring issues for 2015-2016.

Summary finding	Owner	Recommendation	Current status	NAO comment
	force			
Payment not approved at both Level 1 and Level 2	Ministry of Finance	Accounting Officers and other authorized personnel should adhere to section 72 of the Public Finance Management Regulation (PFMR). Furthermore, Accounting Officers should ensure that adequate controls are in place within the approval process.	This was rectified. Bills are placed on with sufficient time to ensure that two levels of approvers are available to approve. In addition, additional approvers have been implemented to ensure that no payment is delayed due to approver not being able to approve	Closed .
Poor maintenance of payroll information, employee files did not contain the required information	Royal Turks and Caicos Islands Police force HRD and Payroll Department	RTCIPF, HRD and Payroll Department – Treasury should ensure that records are maintained for all employees and that there is regular reconciliation, at least quarterly, by RTCIPF and HRD with the Payroll Department – Treasury’s records. Employee files should be maintained for each person appointed to a position within TCIG. Files should be placed in a secure environment that is not susceptible to flooding and fire.	One electronic system is used for employee data and payroll – Smart Stream. Data is input into this system. Unfortunately, it is not easy to get management information from Smart Stream, and so manual lists are often kept. A recommendation from Audit would be appreciated as to how a regular reconciliation of one system can be done.  - This is standard practice.	Open Recurring issues for 2015-2016.
Incomplete listings were provided by both Human Resource Directorate and the Ministries of employees joining and leaving the service.	Human Resource Directorate	The HRD should ensure that there is complete adherence to the criteria in regards to maintaining information on all persons appointed within the civil service. All matters concerning civil servants go through the HRD, therefore all information from the entity should be complete and accurate at all times.	This has been rectified and before any change in employee’s salary is made the relevant signed Appendix B forms are forwarded to HRD	Open Recurring issues for 2015-2016
No reconciliation of payroll department information by human resources directorate	Royal Turks and Caicos Islands Police force HRD and Payroll Department	RTCIPF – Human Resource Department and HRD should ensure that regular reconciliations are carried out with the Payroll Department – Treasury information and the Smart Stream system to ensure that discrepancies are noted and can be corrected within a timely manner.	One electronic system is used for employee data and payroll – Smart Stream. Data is input into this system. Unfortunately, it is not easy to get management information from Smart Stream, and so manual lists are often kept. A recommendation from Audit would be appreciated as to how a regular reconciliation of one system can be done.	Closed

Summary finding	Owner	Recommendation	Current status	NAO comment
Allowances/overtime paid without proper approval and allowances not in accordance with the public service handbook	HRD and Payroll Department	The payroll system should at all times reflect the decision communicated by the HRD within the appointment letter. All allowances should be paid in accordance with the Public Service Handbook.	Some appointment letters do not always contain all allowances that may be required for a position. For example sometimes the Permanent Secretary decides that Transport and telephone allowance should be paid following appointment, and as such these allowances are then applied. It is not essential that all allowances are included in the appointment letter, but it is good practice if these are known to be a requirement for the job.	Open Recurring issues for 2015-2016
Allowances paid not listed within the public service handbook	Human Resource Directorate	The Public Service Handbook should be updated to reflect new allowances.	This was rectified. And a revised PS Handbook was published May 1, 2016.	Open Recurring issues for 2015-2016
Projects identified as not initiated by warrant were not investigated by SPPD	PS Finance Accountant General SPPD	The Accountant General and SPPD must implement controls where no expenditure for any project could be processed through the system without an approved warrant. Surcharge any accounting officer through the PFMO for not managing and safeguarding the public funds they are in charge of.	The matter has been rectified. The Capital budget is uploaded at the beginning of the year and if any fund exception is incurred the Director of SPPD must be identified to ensure that adequate funds are available to cover the costs. Also warrants are required to be issued and signed before payment is processed. In FY 16/17 FM will also be tasked to look at capital expenditure as well.	Closed
Four projects within the Devpt Fund had overspent warrants totaling \$190,947.02.	PS Finance Accountant General SPPD	Stronger controls must be implemented to mitigate the problem of overspending of the warrants. The authorization and approval of warrants need to be strengthened to prevent unauthorized use of warrants. The system must be reviewed to enable the SPPD to enter approved warrant amounts against approved estimates for projects. There needs to be regular monitoring of projects.	The matter has been rectified. The Capital budget is uploaded at the beginning of the year and if any fund exception is incurred the Director of SPPD must be identified to ensure that adequate funds are available to cover the costs. Also warrant are required to be issued and signed before payment is processed. In FY 16/17 FM will also be tasked to look at capital expenditure as well.	Open Recurring issues for 2015-2016
There were 19 projects approved in the Appropriation Ordinance 2014 that had no expenditure	PS Finance Accountant General SPPD Budget office	There should be better planning within the Development Fund Expenditure budget with regard to projects that will not be ready for undertaking in the financial	This issue has been rectified. Quarterly review of the Development Fund is being carried out to ensure that the overall allocation	Open Recurring issues for 2015-2016

Summary finding	Owner	Recommendation	Current status	NAO comment
totaling \$2,106,417.		year	utilized. In addition, changes were carried out in the PFMR to allow for project funds that were committed in one year be carried over if the project was not completed	
Over estimation of grant funding for 18 projects	PS Finance Accountant General SPPD Budget office	Better collaboration between those parties who are directly involved with Development Fund receipts to ensure that projects that require donor funding are properly included in the budget and are not over estimated.	This matter has been rectified	Closed
Lack of progress reports for 31 projects totaling \$2,545,768.37	PS Finance Accountant General SPPD	Accounting Officers must ensure that they comply with PPO 55 (1) (a) – (b). Authorized personnel should ensure that progress reports are produced for all projects and maintained in contract files.	This is still being worked on.	In progress
Business cases not provided for 6 projects with budgets totaling \$511,830	PS Finance Accountant General SPPD Budget office	Accounting Officers must ensure that business cases are obtained and provided for all request for good and services over \$10,000. Ensure all Business Cases are provided when requested & received prior to the audit	FM have been put in place to ensure that the relevant approvals were obtain before the expenditure is processed.	Closed
Lack of support documents to verify donor funding received totaling \$43,658.59	PS Finance Accountant General	The PS Finance or Accountant General must forward correspondence to all accounting officers informing them to forward all source documentation for international Donors to the Accountant General for verification before any money can be disbursed. Controls should be put in place to securely file this documentation for future inspection and/or review. (In accordance with PFMR 2012 SEC 96)	This has been looked into and work is ongoing	In progress
Stop Cheque listing did not include all businesses that had dishonored cheques and outstanding fees	PS Finance Accountant General	The Accountant General must ensure that the listing is complete and accurate to provide information for cashiers who collect the Turks and Caicos Islands Government's revenue. All dishonored Cheques should be logged, copied and sent to the responsible Ministry/Department accounting Officer and action taken as described in PFMR Sec 58 (1) -(4). The Stop Cheque listing must be updated regularly to reflect all businesses where dishonored	This was rectified. A notice is sent to Accounting Officers regarding the outstanding checks. The collection aspect is continuous work in progress.	Open Recurring issues for 2015-2016

Summary finding	Owner	Recommendation	Current status	NAO comment
		cheques were received by TCIG. Cheque Collection criteria must be established for TCIG including actions for initiation and follow up. A Ministry or Department should be required to stop services when it has been identified that these services have been paid for with a Cheque that was dishonored. The responsible person must assign a greater level of priority to collecting dishonored Cheques and inform the Public that such collections will be pursued.		
Lack of management oversight in the Gaming Inspectorate for gaming tax.	Ministry of Tourism, Environment, Culture and Heritage Director-Gaming inspectorate	Management must ensure that the appropriate controls are put in place to address the issue. Management must ensure that there is proper supervision and review of work completed.	There is an ongoing review of the Gaming department and sector. In FY 16/17 a gaming policy was approved in Cabinet	Open Recurring issues for 2015-2016
Limited oversight of Lottery Operator for the period.	Ministry of Tourism, Environment, Culture and Heritage Director-Gaming inspectorate	The Lottery Ordinance sets out guidelines to ensure that the proper procedures are in place and the Ministry of Finance must ensure that a functioning Lottery Board is put in place to facilitate this function. In the interim management should ensure that the relevant revenue raising document are maintained for collection of Lottery tax. The financial data for the lottery operators should be reviewed to ensure all taxes owed to TCIG are collected	There is an ongoing review of the Gaming department and sector. In FY 16/17 a gaming policy was approved in Cabinet	Open Recurring issues for 2015-2016
Inaccurate disclosures and non-disclosure of different forms of concessions approved	PS Finance Attorney General Chambers	Concessions which relate to land sales under Development order or otherwise should be reviewed and the Ministry of Finance and the AG Chambers, who is the responsible accounting officer for the Land Registry Department, must decide on a way forward on adequately disclosing this information.	This is still being worked on. A listing of all Stamp Duty waivers have been compiled by the Collector of Stamp Duty. For ease of reference the worksheet provided for the current audit.  The Attorney General's Chambers maintains that there exists no statutory obligation on any department in the Chambers to maintain a register of concessions. There is a wide range of concessions given by the Government and the sole concessions that concern	In progress It is understood that the responsibility for this is to reside with MoF as per PAC meeting held in 2016.

Summary finding	Owner	Recommendation	Current status	NAO comment
			<p>the Chambers relate to Customs import duties and stamp duties.</p> <p>Firstly, where concessions on Customs Import duties are granted under Development Orders by virtue of the Encouragement of Development Ordinance, such Orders are prepared by the Attorney General's Chambers and published in the Gazette and retained as part of the collection of laws and by virtue of those practices, is available to the Auditors and the public alike.</p> <p>Secondly, the Attorney General's Chambers has advised the Ministry of Finance that concessions on stamp duty granted under the Stamp Duty Ordinance should only be granted by Remission Orders rather than by letters. Such concessions are lodged with the Land Registry in accordance with the Stamp Duty Ordinance and the Registered Land Ordinance. Whilst individuals granted such concessions are not required to lodge proof of such concessions unless they undertake land transactions, where that occurs, the Land Registry has now implemented a system where applications are sent under cover of letter to the Permanent Secretary (PS), Ministry of Finance. Each application citing concessions, is forwarded to the PS Finance is recorded in the Land Registry's "Record of Stamp Duty Exemptions" Book. This book details the following:</p> <ol style="list-style-type: none"> <li>1. The date of receipt of the application,</li> <li>2. The date sent and</li> </ol>	

Summary finding	Owner	Recommendation	Current status	NAO comment
			<p>returned from Ministry of Finance</p> <p>3. The Instrument Number for the application</p> <p>4. The Block/Parcel Number of the land</p> <p>5. The Section and the Island on which the land is located</p> <p>6. The names of the Transferee(s) and Transferor (s)</p> <p>The nature of the consideration</p>	
Inadequate management of concessions granted and inspection of goods brought in under concession	Collector of Customs Department	Responsible Officers must ensure that complete records are maintained for concessions and that inspections are completed as required by the Customs Ordinance	This was rectified. In FY 16/17 approval was given for a post audit function to be implemented in Customs.	Open Recurring issues for 2015-2016
Arrears of revenue not accurately stated due to inaccurate disclosures.	Accountant General Commissioner of revenue	We recommend that greater care and attention be given to compiling the Arrears of Revenue statement to ensure that accurate and reliable information is provided.	This is still being worked on. TCIG is currently look at some sought of training to look into this matter	In progress Recurring issues for 2015-2016
Significant increase in arrears of revenue when compared to the previous financial year	Commissioner of revenue	The responsible Officer must implement a plan to approach and collect the arrears outstanding to TCIG	This is still being worked on. TCIG is currently look at some sought of training to look into this matter	In progress Recurring issues for 2015-2016
Lack of information to support the disclosures made in the statement of Revenue arrears	PS Finance Accountant General	Accounting Officers must ensure that support documentation is provided to support all disclosures. Systems must be in place to provide accurate and reliable information for audit purposes.	This is still being worked on. TCIG is currently look at some sought of training to look into this matter	In progress Recurring issues for 2015-2016
Potential for inaccurate disclosures and non-disclosure of different forms of concessions approved	PS Finance Accountant General	Accounting Officers must ensure that all information relating to the Statement of Concessions are adequately compiled and supported.	This is still being worked on. TCIG is currently look at some sought of training to look into this matter	In progress Recurring issues for 2015-2016
Inclusion of other Government bodies	Accountant General	TCIG should include in its financial statements the assets and liabilities and receipts and payments of controlled entities to comply with IPSAS 'Financial Reporting under the Cash Basis of Accounting'. Due to its unique nature a legal opinion would need to be obtained as to whether the revenues, expenses, assets and liabilities of the TCI National	The issue of consolidation was addressed in the notes to the public account (Note 1.4) and the IPSAS transitional road map. In addition, it was disclosed that Statutory Bodies are subject to their own external audit by NAO and their audited financial statements are published.	Open Opinions have been split for an unconsolidated and a consolidated basis, despite the statutory bodies being subject to audit by the NAO.  The current IPSAS

Summary finding	Owner	Recommendation	Current status	NAO comment
		Insurance Board should or should not be subject to consolidation. The treasury function should be managed on a consolidated basis to ensure compliance with the requirements of the PFMO for efficient and cost effective cash management.	Due to the difficulty in consolidating under IPSAS cash (experienced worldwide), it is the recommended practice (ICGFM and IFAC) to consolidate at the last stage of the transition – as a result, the matter of consolidation under IPSAS cash Part 1 is currently under review by IFAC. An exposure draft has already been issued by the IPSAS Board to propose its removal as it is seen as a major obstacle to the adoption of the IPSAS Cash Basis.	Cash Standard requires consolidation based on the criteria outlined.  It must be recognized that it is the Auditor General who brought ED 61 to the attention of the MoF.
Completeness of Statement of Assets and Liabilities	Accountant General	TCIG should identify all of its assets and liabilities including finalizing a register of property, plant and equipment, investment property and intangible assets, including assignment of values, as soon as possible. Upon completion, TCIG should include these amounts, as required under the law, on its statement of assets and liabilities	A Fixed Asset register is established and the road map has outlined that there will a period of up to 7 years before all non-financial assets are appropriately reported in the statements of the public accounts, noting that there is a 5-year transitional period associated with IPSAS 17 to fully adopt the standard. Also under Part 2 of IPSAS cash basis of accounting 2.1.35 in regards to reporting the Statement of Assets & Liabilities it states: “While such disclosures may not be comprehensive in the first instance, entities are encouraged to progressively develop and build on them”.	Open There is a legal requirement under the laws to ensure that a statement of assets and liabilities is prepared. This has changed in 2015/16 under Ordinance 9 Amendment of the PFMO. However, the MoF must be able to show that there are controls over assets to deal with the risk of misappropriation and loss.
Basis of split of information in the financial statements	Accountant General	We recommend TCIG re-examine the need, basis and terminology used for separating the financial statements into different sections given its requirement to comply with both GAAP and the law.	In order to comply with the IPSAS cash basis of accounting, this is the layout that is required i.e. IPSAS cash basis of accounting public accounts are reported with encouraged additional disclosures (whether voluntary or required by legislation) are included as supplementary notes. Including legislative financial information would	The financial reporting and accounting framework must acknowledge to achieve fair presentation of the financial statements, it may be necessary for management to provide disclosures beyond those

Summary finding	Owner	Recommendation	Current status	NAO comment
			mean that the public accounts would not be compliant with GAAP i.e. IPSAS cash basis of accounting.	specifically required by the framework. The financial audit includes evaluating the appropriateness of accounting policies used as well as evaluating the disclosures and overall presentation of the financial statements.
Third party goods and services	Accountant General	Information should be requested from all major parties providing third party assistance. This information should be disclosed in the financial statements to assist the user of the financial statements and to meet the requirements and encouraged disclosures of IPSAS.	An internal review of the operations of TOLCO to determine their level of compliance with the sales agreement was commissioned and a draft of the reviewed processed was reviewed by the CFO and Ministry of Finance. The review is not yet conducted due to staff resource constraints and other competing priorities. TCIG will attempt to solicit the assistance of the Internal Audit Department and NAO to get this undertaking completed.	Open
Cash and cash equivalents	Accountant General	TCIG should examine its accounting policy on the presentation of its cash equivalents for compliance with IPSAS. TCIG should distinguish between its accounting for cash receipts and payments on the cash basis and its accounting for assets and liabilities in accordance with Schedule 2 of the PFMO and Schedule C of the PFM (Amendment) Regulations 2015	This was discussed and agreed at the meetings with KPMG and the Auditor General and the public accounts have been amended to record this change.	Closed
Inclusion of Public Private Partnerships (PPPs)	Accountant General	An independent accounting opinion should be obtained as to how the PPP should be accounted for under the law. TCIG should consider this opinion and the impact on TCIG's financial statements. If at all possible, TCIG should amend its accounting to agree with the accounting requirements given in the independent opinion. There	The treatment of assets and liabilities is included in the transitional road map provisions. We agree to secure the opinion of an independent accounting expert with experience with IPSAS cash. The FSPS is a tool to manage the macro-economic environment of	In progress  Recommend, at a minimum, proper <u>disclosures</u> up to GAAP standards

Summary finding	Owner	Recommendation	Current status	NAO comment
		appears to be a mis-match between the accounting for the PPP in the financial statements and the required inclusion of PFI/PPP liabilities as public debt in the FSPS	the TCIG and mechanism to measure its compliance with the PFM Framework debt sustainability ratios. These ratios are designed so that TCIG/UKG can ascertain the TCIG's ability to repay its debt and long term contractual commitments. It will always deviate from the public debt recorded in the financial statements for example only 20% of statutory body debt is required to be measured where the body is self-financing and had not relied on government subvention for its operations. PPP's are required to be included in the FSPS compliance ratios due to its long term contractual nature.	
Presentation of TCIG financial statements	Accountant General	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 GAAP, the law and the disclosure requirements of IPSAS	TCIG will review their final QA process of the public accounts, to ensure that a high level review of the public accounts is carried out prior to submission to the NAO. However, TCIG believes that the legislative requirements mentioned under criteria were met.	Open This finding has mainly to do with several material errors and omissions that have occurred over the last 3 audits. It indicates that quality assurance reviews are lacking which impacts the reliability and integrity of the Fin. Stats.
Adjustments to carrying values of deposits held with TCI Bank Limited	PS Finance Accountant General	While the PFMO contains specific requirements for amounts to be written off to be approved by the House of Assembly it does not contain any similar requirements for amounts to be provided for in the financial statements. Accounting officers should recommend, where appropriate, adjustments against the carrying value of deposits at TCI Bank Limited. Thereafter they should actively monitor the collectability of TCIG's deposits, so as to provide TCIG with timely and accurate financial information.	No provision for impairment is required under the cash basis of accounting, as such reporting is based on historical costs and disclosed accordingly. However, in accordance with the PFMO the request for a write off will be submitted to the House of Assembly, once the potential loss can be reasonably determined. Work is underway for this in FY 16/17	Open Recommend adequate disclosures.

Summary finding	Owner	Recommendation	Current status	NAO comment
		<p>These adjustments should be reflected as provisions for impairment against the carrying value of the term deposits. By providing against the carrying value only no write off has occurred, simply a provision to more accurately reflect on the statement of assets and liabilities the estimated recoverable value of the asset.</p> <p>At the appropriate time, approval should be sought from the House of Assembly for write offs. In the case of TCI Bank Limited, this would likely be at the conclusion of the liquidation process.</p>		
Lease commitments	Accountant General	TCIG should disclose its lease commitments, both as lessor and lessee, in the financial statements.	This disclosure is not required by IPSAS cash basis of accounting, nor is it required under legislation. A note is however included in the Schedules to the Public Accounts, as agreed with the Auditor General.	Open Even though not required under IPSAS Cash, the overriding issue is that the MoF needs to ensure that there are controls to record and account for <b>ANY</b> transaction which is cash or non-cash that creates either an inflow or outflow of economic resources from TCIG which can reasonably be determined either now or in the future. Failure to do this results in TCIG moving back to the traditional methods of accounting. The MoF needs to be more transparent in substance over legal form transactions.
Carnival Infrastructure fund	Accountant General	<p>TCIG should determine whether the above funds, or part of them, are assets of TCIG.</p> <p>If there are deemed to be assets of TCIG, in whole or in part, then TCIG should include these on the statement of assets and liabilities and include appropriate</p>	This was mentioned in earlier finding. A note now included in the Schedules to the Public Accounts, as agreed with the Auditor General.	Closed

Summary finding	Owner	Recommendation	Current status	NAO comment
		disclosures in the financial statements. Irrespective of whether they are found to be assets TCIG should include greater disclosures to the users of the financial statements of the nature of these funds, TCIG's involvement and contributions to them and their key terms and conditions to provide users with relevant information as required under Appendix 4 of IPSAS.		
Comparison to budget	Accountant General	TCIG should disclose and compare the budgeted development fund expenditure	This detailed development fund schedule is not required under IPSAS cash basis of accounting or by legislation therefore it is included in the Schedules to the Public Accounts. The recommendation to provide comparative budget numbers was not unreasonable and was therefore included in the F/S for the next financial year.	Closed
Term investments greater than 12 months	Accountant General	TCIG should examine whether the requirements of the PFMO have been met.	Approval to invest received from the Minister of Finance, CFO and the UKG. In addition, the interest rates available were significantly less for a 12 months' period. If lower rates were accepted TCIG's stewardship of these funds could be questioned and considered imprudent by all stakeholders. In addition, TCIG were entitled to withdraw these funds within a 12-month period or before maturity albeit with a penalty of partial forgone interest, therefore TCIG complied with the requirement of the PFMO.	Closed
Recoverability of other receivables	Accountant General	While the PFMO contains specific requirements for amounts to be written off to be approved by the House of Assembly it does not contain any similar requirements for amounts to be provided for in the financial statements. TCIG should examine the outstanding advances. TCIG	No provisions required under IPSAS cash basis of accounting. Collection of 35% of the amount outstanding in the first 3 months of the new financial should not be considered "limited collection". It also be noted that the balance	Open The main issue here is to ensure that sufficient controls and attention are in place to collect any/all receivables or risk

Summary finding	Owner	Recommendation	Current status	NAO comment
		<p>should determine the reasons that some advance balances at March 31, 2015 remain largely unchanged in the 3 months subsequent to March 31, 2015. Appropriate adjustments to internal controls should be made if weaknesses in the system for recording advances are identified.</p> <p>If write offs of advances are required these should be taken to the House of Assembly in accordance with the PFMO.</p>	<p>of receivables at the 31 March 2015 is 32% less than the previous financial year. A request for write off will be made to the House of Assembly once it is determined that the loans or advances are uncollectable. TCIG is not clear on the basis of the 3-month period in reviewing recoverability of debts [subsequent to balance date].</p>	<p>moving back to instances where there are millions outstanding. This is so that history does not repeat itself.</p>
Loans and advances recommended for write off	Accountant General	<p>A detail of the balances making up this account should be made available.</p> <p>An assessment should be made as to whether the amounts are recoverable.</p> <p>Where amounts are not deemed to be recoverable, approval from the House of Assembly should be sought to write off the amounts due.</p> <p>Pending the approval of the House of Assembly for the write off, an impairment provision should be made to reflect its estimated recoverable amount.</p>	<p>Irrecoverable amounts have already been presented to the HOA for approval to write-off.</p>	Open
Staff Advances	Accountant General	<p>Accounting officers should actively monitor advances made, including their collectability, so as to provide TCIG with timely and accurate financial information.</p> <p>Where advances are not being repaid within the terms of the advance, which should be a maximum of 3 monthly instalments per TCIG policy, efforts should be made by TCIG to collect the amounts due.</p> <p>As there were a number of loans and advances due for over three months we recommend that accounting officers perform a detailed review of loans and advances, resolve items in dispute, if any, and pursue collection wherever possible.</p> <p>We recommend that accounting officers recommend provisions for impairment where the full amount is not considered likely to be collected.</p> <p>The Accountant General should recommend for write off all items</p>	<p>Advances are all recovered in the 3 months specified by the PFM. These remaining balances are long standing amounts that are mostly irrecoverable, however, extensive analysis and reconciliations were necessary before we could conclude that they cannot be recovered. New request for write offs will be recommended to the HOA.</p>	Open

Summary finding	Owner	Recommendation	Current status	NAO comment
		<p>for which collection is not deemed possible rather than maintain these balances in the books and records.</p> <p>Accounting officers should investigate why there are credit balances on the staff loans and advances account. There would not appear to be any normal explanation for staff to have credit balances which indicates that there may be weaknesses in controls over this account</p>		
Carrying Value / Recoverability, Monitoring and Interest charges on TOLCO balances	Accountant General	<p>While the PFMO contains specific requirements for amounts to be written off to be approved by the House of Assembly it does not contain any similar requirements for amounts to be provided for in the financial statements</p> <p>Accounting officers must recommend, where appropriate, adjustments against the carrying value of TCIG's agreed share of the portfolio controlled by TOLCO. Thereafter they should actively monitor the collectability, so as to provide TCIG with timely and accurate financial information. These adjustments should be reflected as provisions for impairment against the carrying value of the TOLCO receivables.</p> <p>By providing against the carrying value no write off has occurred, simply a provision to more accurately reflect the estimated recoverable value of the asset in the reported statement of assets and liabilities.</p> <p>At the appropriate time approval should be sought from the House of Assembly for write offs. In the case of the portfolio managed by TOLCO, this would likely be either on a loan by loan basis once final settlement has been reached or on a portfolio basis once TOLCO ceases its attempted collection of the loans.</p> <p>The reporting provided by TOLCO should be reviewed for accuracy and completeness. Appropriate source documents held by TOLCO should be examined where deemed appropriate.</p>	The review is not yet conducted due to staff resource constraints and other competing priorities. TCIG will attempt to solicit the assistance of the Internal Audit Department and NAO to get this undertaking completed.	Open

Summary finding	Owner	Recommendation	Current status	NAO comment
		<p>Enquiries should be made of TOLCO as to how it ensures appropriate insurance coverage is maintained for securities held. Corroborating evidence should be examined.</p> <p>The treatment of interest charges, including the rights to that interest per the agreement with TOLCO, should be examined. Where TCIG has retained rights to some, or all, of the interest charged (if any) examinations should be performed to ensure that TCIG is receiving the amounts, if any, it is due</p>		
Recoverability of Loans Receivable - TCIG	Accountant General	<p>While the PFMO contains specific requirements for amounts to be written off to be approved by the House of Assembly it does not contain any similar requirements for amounts to be provided for in the financial statements. Accounting officers must recommend, where appropriate, adjustments against the carrying value of the loan portfolio. Thereafter they should actively monitor the collectability, so as to provide TCIG with timely and accurate financial information. These adjustments should be reflected as provisions for impairment against the carrying value of the receivables. By providing against the carrying value no write off has occurred, simply a provision to more accurately reflect the estimated recoverable value of the asset in the reported statement of assets and liabilities. At the appropriate time, approval should be sought from the House of Assembly for write offs. In the case of the loan portfolio, this would likely be either on a loan by loan basis once final settlement has been reached or on a portfolio basis once TCIG ceases its attempted collection of the loans. The treatment of interest charges should be examined. Where TCIG has retained rights to the interest charged (if any) examinations should be performed to ensure</p>	No provisions required IPSAS under cash basis of accounting for impairments. Reporting is on a historical costs basis with additional disclosure provided by way of notes to the public accounts.	Open Adequate disclosures are recommended

Summary finding	Owner	Recommendation	Current status	NAO comment
		that TCIG is accurately recording the interest revenue. Where loans are in default TCIG should look to enforce its right on the associated security. If write offs of receivables are required these should be taken to the House of Assembly in accordance with the PFMO.		
Completeness and Existence of Accounts Payable	Accountant General	Information requested for audit must be provided on time to prevent a scope limitation	There were issues relating to which documents could be released to KPMG. This was resolved with an agreement to release these documents to the Auditor General instead of KPMG, however the Attorney General Chambers was not able to provide the documents within the timeframe required.	Closed
Existence, Accuracy and Classification of Investments	Accountant General	TCIG should examine its accounting policy on the presentation of its investments. TCIG should examine whether payments made by the development fund during the year should be included on the statement of assets and liabilities. Information requested for audit must be provided on time to prevent a scope limitation. TCIG's obligations under the terms of the callable shares should be disclosed in the notes to the financial statements	CDB provided a confirmation of shareholdings directly to KPMG and it balances with the \$706K reported in the public accounts. No confirmation was provided by RBTT Merchant Bank regarding the bonds but all bond agreements were provided to auditors of KPMG in person at the Treasury in Grand Turk. Not sure what other evidence could have been provided. The bond balances can therefore be verified by reviewing the bond agreements presented to KPMG. Investments were presented as required by PFM Schedule 2.	Open This is a key independent third party audit check to ensure the existence and accuracy of the investment.
Loan agreements and amortization schedules have not been provided	Accountant General	Information requested for audit must be provided on time to prevent a possible scope limitation	There is no requirement to have amortization schedules under either IPSAS cash basis of accounting or the PFM. The files in question are for loan facilities that are in some cases over 10 years old. The AG Chambers and the Treasury searched diligently but were unable to locate these files, all other loan files were presented to	Open How can one then ensure that the payments made are correct and that we are not overpaying? This request is to cross check the accuracy of the amount/payment.

Summary finding	Owner	Recommendation	Current status	NAO comment
Net receipts/ (payments) of public accounts	Accountant General	As TCIG has adopted the IPSAS 'Financial Reporting Under the Cash Basis of Accounting' standard it should only account for transactions as permitted under this standard. TCIG should have retrospectively applied the change in accounting basis to eliminate the impact of historically modified items. Amounts should be reported net only when permitted under the basis of accounting	KPMG for review.  The reporting of the reconciling items (to the TCIG closing cash position) is reported net with details disclosed in the Statement of Cash Flow. These figures are required to ensure the Statement of Cash Receipts reconciles to cash and that due to the transition stage (this being the first year) there were items where cash was charged direct to an account that was not a receipt and payment, hence the reconciling items. This reconciling is not the norm but given the transition phase and TCIG had not been presenting under any formal accounting standards in the past it is expected. This has been raised with and accepted by the International Consortium for Global Financial Management who have provided TCIG with a certificate of conformance with Presenting under IPSAS cash basis of accounting.	Open The prior years should be restated as this will form part of a qualification moving forward.
Unrecognised Interest Payable on Outstanding Loans	Accountant General	TCIG disclose in the financial statements the interest expense that would have been recognized under the accruals basis of accounting to assist the users of the financial statements. In addition, as accrued interest payable would meet the definition of a liability, it should be included on the statement of assets and liabilities. This will enable TCIG to make decisions based on more accurate information.	Interest expenses accurately reflects the amount paid during the financial year under IPSAS cash basis of accounting. To accrue interest as at year end would be in contradiction of IPSAS cash basis and would distort the figures and put the public accounts at risk of being non-conformant with IPSAS cash basis of accounting. TCIG's transitional roadmap clearly outline the transition process from IPSAS cash basis to IPSAS accrual over a stipulated timeframe.	Open The PFMO laws and regulations under Schedule 2 and require that liabilities be recorded. At a minimum, this should be disclosed up to GAAP standard.
Existence and Accuracy of Refundable Deposits	Accountant General	The subsidiary ledger should be reconciled to the general ledger on a monthly basis. Any differences should be investigated and explained. This will provide assurance that deposits received and paid are	All files are reconciled to subsidiary ledgers each year. This is an audit finding from two years ago referring to one account that was not completed in the because the	Open The 2015/16 audit found that the main Government Account i.e. the Consolidated

Summary finding	Owner	Recommendation	Current status	NAO comment
		properly recorded in both the general ledger and subsidiary ledger on a timely basis	reconciliation process required analyzing data going back over 15 years, when a different accounting software was in place. This has since then been reconciled.	Fund is not reconciled and there is the risk that other accounts are materially misstated.
Insufficient disclosures	Accountant General	TCIG should look to disclose the ageing analysis of its financial assets.	The difficult and time consuming effort to get this exercise completed was clearly outlined previously with auditors. In addition, the work involved to obtain this aging information would outweigh the benefits and furthermore it is neither required by IPSAS cash or the PFM.	Open If this approach is taken, then we risk going back to doing the same thing again, i.e. not having proper controls over arrears and/or receivables due. Hence the reason why we have millions that are bad debts.