

## AUDIT CERTIFICATE

### To the House of Assembly of the Turks and Caicos Islands

The Auditor General is legally required to examine, audit and certify, in accordance with internationally recognized auditing standards, where appropriate, whether or not the Government's annual public accounts and statements presented by the Accountant General conform to the requirements of the Public Financial Management Ordinance (PFMO) (and any framework document prepared thereunder), represent fairly its financial performance and financial position and that the financial affairs have been conducted with regularity and propriety. Furthermore, the Auditor General must ensure that reasonable precautions have been taken to safeguard the proper collection of monies and for the receipt, custody, issue of and accounting for assets, to ensure that all receipts, assets, expenditure and other transactions to which such examination and audit relate have been lawfully incurred and that the law has been duly observed. The Auditor General is also required to certify that the internal control system and provision of internal audit services is adequate and complies with any instructions issued by the Permanent Secretary, Finance and that satisfactory management measures have been taken to ensure that public or other resources are procured economically and utilized efficiently and effectively.

### ***Management's Responsibility for the Financial Statements***

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

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

- about all known or suspected fraud affecting Government involving
  - management;
  - employees who have significant roles over financial reporting;

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

### ***Auditor's Responsibility***

My responsibility is to express an opinion on these statements based on my audit. My audit was conducted in accordance with internationally recognized auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the annual statement of public accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the annual statement of public accounts, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the annual statement of public accounts in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe I was able to obtain sufficient appropriate audit evidence to provide the basis for the audit opinions on the annual statement of public accounts but not for the purpose of expressing an opinion on the internal controls and value for money.

### **Basis for Modified Opinions**

1. Several internal control deficiencies and material weaknesses were identified which can potentially impact the accuracy of the financial statements. There are also several repeat audit findings identified in the prior year's Audit Report which also existed during the period under audit and need to be addressed. These material weaknesses and/or significant deficiencies and repeat audit findings directly impact the reliability of the annual statements of public accounts.

2. According to IPSAS – Financial Reporting under the Cash Basis of Accounting, the GAAP adopted by Government, financial statements are required to be consolidated. Users of the financial statements of Government 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 which present financial information about the economic entity as a single entity without regard for the legal boundaries of the separate legal entities. This annual statement of public accounts does not include all Statutory Bodies, Commissions and other public bodies. Consolidation of these entities was not done for the period under audit.
3. The PFMO Schedule 2 requires *“a balance sheet showing the assets and liabilities of the Consolidated Fund”*. Schedule C of the PFMR requires *“a balance sheet referred to as the Statement of Assets and Liabilities of the Consolidated Fund and other funds.”* In addition there is a *fundamental requirement to ensure that the financial position of the Government is fully disclosed to the House of Assembly*. I am required to certify whether the public accounts represent fairly the financial position of Government. Under IPSAS – Financial Reporting Under the Cash Basis of Accounting Part 2 ‘assets’ are defined as *“resources controlled as an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity”*. Non-current assets are defined under Section 67(4) and Section 127(1) of the PFMR as furniture and fixtures, vehicles, equipment, plant, machinery, vessels and boats, office equipment, computer hardware, computer software, land, building and infrastructure. TCIG does not include these items as assets on its statement of assets and liabilities. Development fund expenditure is expensed as incurred, a high proportion of which would likely meet the definition of a non-current asset. In addition, Government also does not include other assets, such as inventory and revenue arrears for example, on its statement of assets and liabilities. Under IPSAS – Financial Reporting Under the Cash Basis of Accounting Part 2 ‘liabilities’ are defined as *“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.”* Government does not include a number of liabilities, such as Public Private Partnerships (subject to an accounting opinion), amounts due under financing transactions, repatriation deposits payable, expenditure arrears etc., for example, on its statement of assets and liabilities. Where certain assets have been included on the statement of assets and liabilities, in a number of instances, the carrying value of the assets reported is uncertain as there are indicators of impairment. Failure to recognize all the Government’s assets and liabilities on the statement of assets and liabilities as required by law, and failure to write down those assets where appropriate, significantly reduces the meaningfulness of the financial statements to the users. In addition it can increase the risk of misappropriation

of assets if there is no control or recording of these assets, it increases the risk that assets may be disposed of without being recorded or disposed of at under value and it increases the chances that associated write-offs of these assets will not be taken to the House of Assembly for approval as required under Section 62 of the PFMO. These amounts could not be quantified and/or assured.

4. Per Section 62 of the PFMO, *“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.”* Losses are defined in Section 14 of the PFMR which states that *“a loss shall be considered to have occurred when the Government is deprived of the use of any public money, public property, stores or any other financial or physical asset.”* Schedule 2 of the PFMO requires both a statement of losses written off and claims abandoned and a statement of losses reported whether written off or not. As noted above, there are a number of assets that are carried at their full value on the statement of assets and liabilities in which there are indicators of impairment and, therefore, a loss (as defined under the PFMO) may have occurred. It is uncertain whether or not TCIG will receive all of the funds due. Therefore in addition to the risk that the statement of assets and liabilities is not accurately reported there is a risk that the statement of losses of public moneys and claims abandoned is not accurate. While there is no requirement under IPSAS - Financial Reporting Under the Cash Basis of Accounting to provide for losses, there is a requirement under Section 15 of the PFMR to prepare a register of all losses incurred in which monthly details of any uncollectable debts due to Government are recorded and reported. Schedule 2 of the PFMO and the relevant PFMR Amendments require both a statement of losses written off and claims abandoned and a statement of losses reported whether written off or not. This statement of losses may not be accurate as a loss is defined as having occurred when the Government is deprived of the use of any public money, public property, stores or any other financial or physical asset. There are conflicts and/or inaccuracies in the amounts recorded which need to be validated for errors, omissions, legitimate amounts collected and the remainder recommended for write off. Given the importance of accurate arrears reporting, a misstatement in this area can significantly impact the accuracy of the public accounts. As a result of the material differences in reported amounts they could not be assured.
5. The PFMO, Section 30(13(d)), states, in respect of proposed PPPs, or any other form of alternative financing, that they will only be considered for approval, along with other criteria, once *“an independent opinion has been received from a qualified accountant of good standing on the correct accounting treatment in the Government’s accounts.”* The Government currently has a major PPP in respect of the construction of the hospitals

located in Grand Turk and Providenciales (the Hospital PPP). While this PPP was entered into prior to the enactment of the PFMO and PFMR, despite recommendations in the 2014 audit, no independent opinion has been provided on the appropriate accounting treatment for this PPP. The Hospital PPP contract significantly impacts both the current financial year and also the financial obligations of Government for approximately the next 17 years. The notes to Government's financial statements as at, and for the year ended, March 31, 2015 include references to the Hospital PPP in the long term commitments disclosure, however, the Hospital PPP is not included on the statement of assets and liabilities. In the absence of an accounting opinion there is a risk that Government may not be accounting for the Hospital PPP in accordance with a *"fundamental requirement to ensure that the financial position of the Government is fully disclosed to the House of Assembly"*. An accounting opinion is required to determine the proper treatment and disclosure requirements.

6. The PFMO defines a commitment as *"future expenses and liabilities incurred whether by contract or otherwise."* Outstanding lease commitments existed as at March 31, 2015 but were not included in time for audit examination. These amounts cannot be assured.

It is also important to draw to the reader's attention that the annual statements of public accounts as at, and for the year ended, March 31, 2014 (last year) were disclaimed and no further work was done of the financials at the point in time it was disclaimed.

### **Emphasis of Matter Paragraph**

The primary requirement of the Auditor General, in accordance with recognized international auditing standards and under law, is to provide an opinion on the Annual Statements of Public Accounts enumerated in Schedule 2 of the PFMO. Over the course of the audit it was recognized that the accounts were prepared under the IPSAS - Cash Basis of Accounting Framework. However in order for the Annual Statements of Public Accounts to achieve fair presentation, the National Framework requires disclosures in accordance with GAAP beyond the requirements of the Cash Basis of Accounting. On this basis therefore, to recognize the work of the Ministry of Finance, I provided opinions under two frameworks separately (IPSAS – Cash Basis Framework and the National Framework). A second conflicting situation was whether or not the accounts should be consolidated together with the statutory bodies, commissions and other public bodies. In my opinion, in order to ensure fair presentation for the "Whole of Government", consolidation of all entities is recommended. As such, opinions were provided under the two frameworks.

## Modified Audit Opinions

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

## Other Matters

I provide no assurance on the effectiveness of internal controls, no assurance on whether value for money has been achieved, and no assurance on whether fraud risks are mitigated. To provide this assurance would require significant audit work beyond that of a financial audit for which the NAO currently does not have sufficient and appropriate resources.



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

## Limitations

*The parameters within which this audit was conducted provides findings related to the implementation of policy. It does not comment on policy initiatives. 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 to recommend further investigation but not sufficient for civil or criminal action. 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, 2015 and subsequently revised on 10 November, 2015. 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 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.*