Government of the
Virgin Islands

REPORT OF THE AUDITOR GENERAL

2013

"Towards Greater Accountability"

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OFFICE OF THE AUDITOR GENERAL
GOVERNMENT OF THE VIRGIN ISLANDS

P.O. Box 174, Road Town, Tortola, Virgin Islands
Telephone: (284) 468-4144, Facsimile: (284) 468-4148

Dr. the Honourable D. Orlando Smith
Premier and Minister of Finance
Ministry of Finance
Road Town, Tortola
Virgin Islands

15th March 2018

Sir,

I forward herewith, my Report on the Accounts of the Government of the Virgin Islands for the year ended 31 December 2013, in accordance with the provisions of Section 109(3) of the Virgin Islands (Constitution) Order 2007.

Sincerely,

Sonia M. Webster
Auditor General

Audit Certificate

Statement of Assets and Liabilities
Statement of Operations
For the Year 2013

I have audited the financial statements of the Government of the Virgin Islands which comprise of the Statement of Assets and Liabilities and Statement of Operations for the year then ended. These were examined together with the accompanying schedules and notes submitted by the Accountant General.

Management's Responsibility for the Consolidated Financial Statements
Management (Financial Secretary and Accountant General) is responsible for the preparation and fair presentation of these financial statements in accordance with International Public Sector Accounting Standards (IPSAS) and for implementing and maintaining a system of internal controls to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted our audit in accordance with the International Organisation of Supreme Audit Institutions (INTOSAI) standards and with the provisions of section 109(2) of the Virgin Islands (Constitution) Order. 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.

Scope of the Audit of Financial Statements
An audit involves performing procedures to obtain evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of 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 that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

Qualification arising from the under-valuation of Central Government Assets

The financial statements for the year ended 31 December 2013 were prepared on a modified cash basis, incorporating fixed assets and long term debt. Whereas long term debt, as it pertains to borrowings, has been verified based on ongoing and supporting records and independent confirmations, there has been no comprehensive documentation of government assets only the historical cost value of the New Peebles Hospital and other minor assets that were purchased in 2013. The amount disclosed for Property Plant and Equipment of $119,769,611 therefore does not take into account government land, buildings, vehicles, equipment, furniture and infrastructural assets such as bridges, roads, retaining structures that were either acquired or constructed in the years prior. This results in the significant understatement of assets values in the financial statements.

Qualification arising from non-conformation with IPSAS

The Public Finance Management (Amendment) Act, 2012 requires the financial statements to be prepared in conformity with International Financial Reporting Standards (IFRS) or more specifically the public sector equivalent, IPSAS (International Public Sector Accounting Standards). IPSAS are standards recently developed to improve the quality of financial reporting of governments and their agencies by bringing them more in line with private sector reporting. The impetus is to move the public sector away from cash basis to accrual basis accounting and to consolidate the financials of central government with all its owned entities and statutory boards into one set of financial statements for more complete information to facilitate informed decision making.

While there have been significant improvements in the preparation and presentation of the accounts for 2013, the Treasury has not formally adopted IPSAS standards and the government's statutory boards have not been prepared for transformation to the new standards which is required to enable consolidation of all public accounts. Challenges to this process include resources limitation, inconsistencies in preparation of financial statements across the public sector and the absence of any focused effort to coordinate and implement an IPSAS transition for the entire public service.

Qualified Opinion

In my opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraphs, the financial statements present fairly in all material respects the financial position of the Government of the Virgin Islands as at 31December 2013, and its financial performance and cash flows for the year then ended.

Sonia M. Webster
Auditor General
15 March 2018

GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF ASSETS AND LIABILITIES
AS AT 31 DECEMBER 2013

(Expressed in US$)	2013	2012
ASSETS		
Current Assets		
Cash and Cash Equivalent	16,307,261	49,665,071
Public Officers Advances	1,444,450	1,557,018
Other Advances	1,340,296	1,171,366
Current Accounts	476,743	538,806
Postmaster Receivables	227,465	281,800
Total Current Assets	**19,796,215**	**53,214,061**
Non-Current Assets		
Property, Plant and Equipment	119,769,611	-
Investments	73,671,890	51,964,368
Total Non-Current Assets	**193,441,501**	**51,964,368**
TOTAL ASSETS	**213,237,716**	**105,178,429**
LIABILITIES		
Current Liabilities		
Postmaster Deposits	471,800	266,667
Bank Overdrafts	3,647,549	10,277,525
Other Refundable Deposits	29,079,215	33,982,569
Total Current Liabilities	**33,198,564**	**44,526,761**
Non-Current Liabilities		
Borrowings	90,995,993	-
Total Non-Current Liabilities	**90,995,993**	-
TOTAL LIABILITIES	**124,194,557**	**44,526,761**
NET ASSETS	**89,043,159**	**60,651,668**
Supported by:		
FUND BALANCES		
Consolidated Fund	10,344,647	6,747,123
Development Fund	39,740,009	30,072,960
Emergency/Disaster Fund	1,109,500	1,101,584
Car Loan Fund	0	664,179
Pension Fund	1,019,946	1,000,000
Reserve Fund	36,829,057	21,065,822
TOTAL FUND BALANCES	**89,043,159**	**60,651,668**

GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS (With Comparatives)
FOR THE YEAR ENDED 31 DECEMBER 2013

(Expressed in US$)	2013	2012
REVENUE		
Recurrent Revenue		
Payroll Taxes	44,178,950	40,861,273
Property Taxes	2,716,867	2,815,877
Taxes on Goods and Services	194,058,849	199,417,082
Taxes on International Trade	28,952,176	31,812,076
Sale of Goods and Services	16,410,670	13,608,827
Taxes on Transactions	7,146,496	9,094,950
Grants	3,327,060	-
Other Revenue	3,372,737	2,161,254
Total Recurrent Revenue	**300,163,805**	**299,771,339**
EXPENDITURE		
Recurrent Expenditure		
Constitutional Bodies	7,389,291	7,827,080
Office of the Governor	33,753,572	32,426,114
Office of the Premier	25,059,994	24,561,628
Min of Finance	25,145,061	28,428,160
Min of Natural Resources & Labour	13,592,776	13,850,662
Min of Education & Culture	55,554,028	56,502,165
Min of Health & Welfare	38,553,151	35,914,705
Min of Communications & Works	39,380,060	43,994,146
Statutory Charges	18,961,855	30,101,382
Total Expenditure	**257,389,788**	**273,606,042**
Operating Surplus	**42,774,017**	**26,165,297**

PART I
Audit Mandate

1. The audit of the accounts of the Government of the Virgin Islands for the year ended 31 December 2013 was carried out in accordance with the provisions of Section 109 of the Virgin Islands (Constitution) Order 2007 and the Audit Act 2003, hereinafter referred to as the Act.

2. The Act prescribes, inter alia, for the appointment, tenure of office, powers and duties of the Auditor General, for the submission of annual statements by the Accountant General, and for examination and audit of those statements.

3. The Statutory duties of the Auditor General, as contained in sections 11(1) and 14 of the Act, are as follows:

> 11. (1) The Auditor General, acting in accordance with section 109 of the Constitution, shall undertake an audit of the accounts of the House of Assembly and all Government departments and offices, including the Public Service Commission, for each financial year.
>
> 14. In performing his duties under this Act, the Auditor General shall, in particular, satisfy himself
>
> a. that funds have been used for purposes approved by law and for no other purposes;
>
> b. that each payment and receipt was made or received in accordance with the law;
>
> c. that adequate instructions have been given to ensure
>
> (i) that money is collected, paid and accounted for in accordance with the law, and
>
> (ii) that property is received, held, issued, sold, transferred, destroyed, and accounted for in accordance with the law, and that those instructions are being complied with; and
>
> d. that adequate records are being kept
>
> (i) of the collection and payment of money;
>
> (ii) and of the receipt, custody, issue, sale, transfer or destruction of property.

Audit Independence

4. The Office of the Auditor General derives its independence from the Constitution and the Audit Act 2003 which provides its mandate, reporting and management structure and endows the office with full discretion to discharge its functions.

5. The Office, in addition, adopts INTOSAI Independence standards and Code of Ethics. INTOSAI's Independence standards postulates:

i. The existence of an appropriate and effective Constitution and Statutory/Legal framework;

ii. Independence of SAI heads;

iii. Sufficiently broad mandate and full discretion in the discharge of functions;

iv. Unrestricted access to information;

v. The right and obligation to report on work;

vi. The freedom to decide the content and timing of audit reports and to publish and disseminate them;

vii. The Existence of effective follow-up mechanism on recommendations;

viii. Financial and managerial/administrative autonomy and the availability of appropriate human, material and monetary resources.

6. The areas which present challenges to the Office's independence include full access to information (the office at times encounters resistance when information or documents are requested) and the absence of adequate staffing.

7. Subject to the above, the Office has complied with the INTOSAI Independence and Code of Conduct principles in the performance of audits and have qualified areas where the non-achievement of these standards are likely to impact our reporting and audit opinion.

8. Pursuant to Principle vii above, the office is in the process of updating its follow-up procedures to enable a more complete assessment of audit results.

Audit Report Format

9. The audit report format has been amended to focus on our findings with respect to the statements and any audits issues arising that may affect the accounts.

10. Part one of this report outlines the Audit Office's mandate, independence and the government's general accounting policies. Part two deals with governments operations and related audit issues where they arose. Part three provides a status of statutory boards' audits and Public Accounts committee activity where applicable.

11. Audit Issues highlighted throughout this report are matters that are considered sufficient to warrant disclosure. If unaddressed these could lead to additional qualifications to the accounts in subsequent reports.

Submission and Transmission of Accounts

12. The financial statements for 2013 were received for audit in April 2017 and revised statements submitted on 2 February 2018.

13. The financial statements comprised a Statement of Assets and Liabilities, Statement of Operations by Economic Classifications and Statement of Operations by Ministry as appended on pages 23-25 of this report. These were accompanied by other supporting statements and notes including, but not limited to, statements of Public Debt; Cash and Cash Equivalents; Property Plant and Equipment; and Investments.

14. Section 11 of the Act prescribes, that the Auditor General shall cause the accounts to be examined and audited and shall, prepare and transmit to the Minister a report upon his examination and audit of all accounts relating to public moneys, stamps, securities, stores and other Government property, together with a copy of the Statement of Assets and Liabilities and the Annual Abstract Statement duly certified by him.

15. The Accountant General's submissions did not include an Abstract Statement which traditionally records the revenue and expenditure activity of the Consolidated and Development funds along with the changes in the other Balance Sheet items. The current legislation needs to be updated to adopt the more modern format of the statements. My transmission of the 2013 accounts includes signed copies of the Statement of Assets and Liabilities and Statements of Operations.

Financial Regulations & Significant Accounting Policies

16. The directions and instructions for the management of the financial and accounting activities of the government are provided by The Public Finance Management Regulations 2005 and any amendments thereto. These are supplemented by policy directives and circulars issued throughout the year by the Ministry of Finance.

17. The accounting policies of the Government of the Virgin Islands are based on provisions embodied in the Public Finance Management Act 2004, Public Finance Management Regulations, 2005 (as amended) and the Audit Act 2003, and are applied on a basis consistent with government accounting procedures.

Modified Cash Basis

18. The financial statements and supporting schedules were prepared on a modified cash basis of accounting. Revenue is recorded when received and expenses recorded in the period payments are made. Accruals were applied to long-term balance sheet elements and the cash basis for short-term ones.

Currency

19. Amounts in respect of currency in this Report are expressed in United States dollars, except where stated otherwise.

PART II
Government Operations

20. The Government of the BVI operates a central accounting system in which all revenue is collected by, or on behalf of, the Treasury and deposited into accounts controlled by the Accountant General. All expenditure by government departments and ministries must be submitted to the Treasury with supporting information and documents to be processed and paid. This system allows for adequate control of public expenditure, by ensuring conformity with spending allotments and validating existence and relevance of the commitments submitted for payments.

21. The centralized system also facilitates compilation of the accounts with most of the government's financial records passing through or destined for the government's Treasury.

Financial Management Infrastructure Reform

22. The government introduced major changes to the financial management infrastructure in 2013 with a view to improving the availability, timeliness and accuracy of financial information for planning and decision making. Some of the changes included:

- Introduction of multi-year performance based budgeting;
- Developing a medium term fiscal plan to assess fiscal stability, manage risk and guide decision making;
- Developing a policy based national development plan for improved capital project appraisal and assessment processes;
- Developing a medium term debt management framework to improve the monitoring of public debt and ensure that sustainable debt levels are maintained;
- Replacing the existing chart of accounts on which the government financials are based with one that could facilitate a higher level of detail for financial analysis;

IPSAS Changes and Associated Impacts

23. In preparation for the reform the Public Finance Management Act was amended in 2012 to include the adoption of international accounting standards for preparing financial statements.

24. Conversion to the International Public Sector Accounting Standards (IPSAS) carries a number of implications for the offices tasked with bringing about this change. Some of these are the identification and valuation of all government assets and liabilities, updating of controlled entities accounts and bringing these in line with IPSAS, amending government legislation with respect to the statements required to be produced, building IPSAS competencies throughout the public service and consolidation of accounts across all government owned entities (statutory boards) into one set of financial statements.

25. The introduction of multi-year programme budgeting by the Ministry of Finance and the submission of modified cash basis financial statements from the Treasury are the first steps towards transitioning to full accrual basis accounting. Given the current resource limitation, it is anticipated that full adoption of IPSAS will be phased.

Performance Overview

26. The 2013 financial year saw mixed results in all areas of operations. The reported outcomes in some areas such as capital expenditure and non-current assets were affected by the changes in the chart of accounts and the introduction accrual elements in the presentation of the statements. An overview of Government's operations for the 2013 financial year is below.

- Government's revenue increased by 0.1% from $299.7 million to $300.1 million, primarily due to increased collections from payroll taxes and sales of goods & services;

- Expenditure decreased by 5.9% from $273.6 million to $257.3 million. This was principally attributable to a decline in statutory charges which moved from $30.1 million in 2012 to $18.9 million in 2013.

- Government's operating surplus at year end was $42.7 million. This is an increase of 63% (or $16.6 million) over the previous year amount of $26.1 million;

- Total assets increased by 102.7% from $105.1 million to $213.2 million, as a result of the inclusion of fixed assets (property, vehicles, machinery) on the Statement of Assets and Liabilities for the first time;

- Despite this, the assets reported in the Statement are severely understated as more than 95% of government's properties and infrastructural developments have not been valued and brought on to the statements.

- Investments increased 41.7% from $51.9 million to $73.6 million. This change was primarily the result of government's equity injection of $13.7 million dollars in the National Bank of the Virgin Islands. Of this, $4.0 million occurred in 2013, the balance $9.7 million represents prior year investments that were brought onto the balance sheet in 2013 as a part of the accrual transformation.

- Public debt decreased from $102.0 million in 2012 to $90.9 million at the close of 2013. There were no new loans, but the government received a drawdown of $279,954 on an existing CDB loan.

- In addition to the expenditure outflow of $257.3 million, government also repaid $11.3 million on the public debt loans.

- The overall result at year end is that the net asset position of the balance sheet was improved by 31.89% from $60.6 million in 2012 to $89.0 million at end of 2013.

Recurrent Revenue

2013: $300,163,805 **2012: $299,771,339**

27. Recurrent revenue for 2013 was budgeted at $296.7 million. Actual collections totaled $300.1 million. This exceeded the budgeted amount by $3.4 million or 1.16%. An overview of government's revenue collection performance is below.

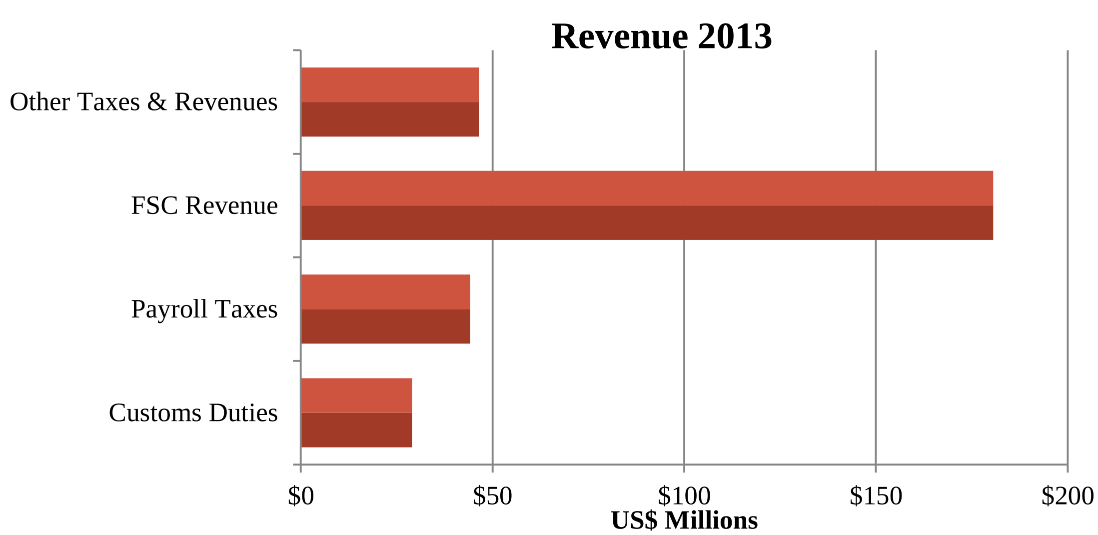
- Taxation revenue made up more than 92% ($277 million) of the $300.1 million received 2013. The primary contributors were FSC Revenue $180.5 million, Payroll Taxes $44.7 million and Customs/Import Duties $28.7 million.

- Despite the revenue surplus there was a general shortfall in the collection of taxes, with key revenue areas of FSC Revenue and Taxes on International trade (Customs Duties) missing budgeted projections by 2.5% and 1.10% respectively. Payroll taxes made up for some of the shortfall by surpassing its budget by 2.95%.

- Other miscellaneous revenue sources (Sales of Goods and Services and Other Revenue) budgeted to generate ($14.1 million) or less than 5% revenue delivered $19.7 million (or 6.6%) thus contributing to the slight overall budget surplus.

- Water and Sewerage Revenue ($5.94 million) was the largest contributor in the sales of Goods and Services category followed by Postage and Related Services ($4.9 million) and Administrative Fees ($4.0 million).

- A total of $3.3 million was received in the form of Grants. With the majority of this ($3.0 million) coming from the Financial Services Commission.



28. Approximately 90% of government's revenue collection offices use the Treasury's electronic online receipting system. This allows the Accountant General to monitor the revenue collection and reporting activity throughout the service from her desk.

29. Due to logistics and connectivity issues the remaining offices use manual receipting which is more prone to manipulation.

Audit Issue 1 – Collection System

Our Examination of the government's revenue collection offices revealed some instances where internal controls were insufficient to safeguard the collection process.

Weaknesses stemmed primarily from inadequate supervision of the cashiers, delays in depositing revenues and delays in processing remittances received through the mail. If unchecked these can open the door to irregularities in collection activity. The affected offices were notified of the weaknesses and recommendations made for improvements.

Audit Issue 2 – Arrears of Revenue (Accounts Receivable)

Accounting Officers responsible for collecting revenue are required to submit to the Accountant General an annual return of arrears of revenue and subsequent monthly reports of arrears of revenue recovered. This is required whether or not any arrears have accrued or any recovery has been made.

This requirement is not currently being complied with and has become even more relevant with the introduction of accrual basis accounting.

Government offices, particularly those with primary revenue collection function such as the Inland Revenue Department may need to upgrade their systems and methodologies to allow for the timely compilation of such reports.

Revenue in the 2013 statements is reported on a cash basis and does not include accounts receivable.

Recurrent (Operating) Expenditure

2013: $257,389,788 **2012: $273,606,042**

30. The 2013 budget provided $252.7 million for recurrent expenditure, $11.3 million for debt service and $68.0 million development fund expenditure. These provisions were increased by a supplementary appropriation warrant which brought the authorised recurrent expenditure amount to $297 million. A synopsis of the Recurrent (Operating) expenditure is below.

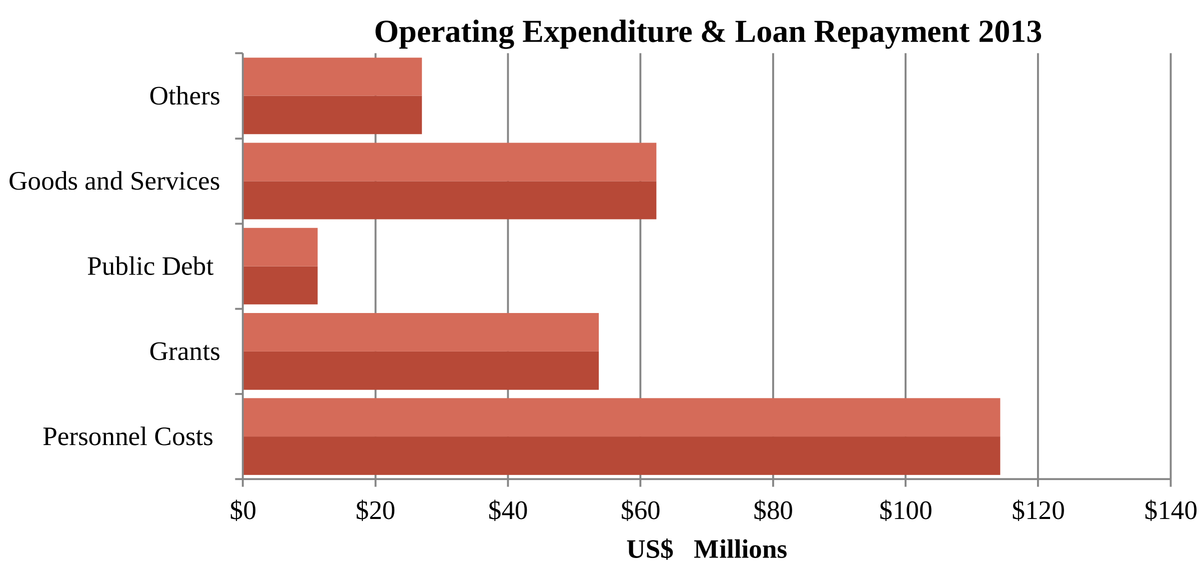
- Operating expenditure for 2013 was $257.3 million. Approximately 44.4% ($114.3 million) of this was applied to personal emoluments and related staff costs.

- The Ministry of Education which supports the all public primary and secondary schools together with the Governor's group which includes the Police and legal establishment and supporting services accounted for about 45% of staff costs incurred.

- Aside from staff costs the government's most significant expenditures were Goods and Services $62.3 million and Grants $53.7million.

- Major charges under Goods and Services were Utilities $18.3 million, Rent $7.1 million and Supplies (including minor equipment) $8.5 million. Services also include purchase of desalinated water at $13.7 million in 2013.

- Grants, which comprise contributions to statutory boards and other organisations, was $53.7 million and accounted for 20.87% of the government's overall expenditure. The BVI Health Services Authority received $23.1 million, BVI Tourist Board $10.7 million and the HLSCC $9.9 million with the remaining amount going to other miscellaneous agencies.



Excess Expenditure

31. There was no reported excess expenditure in 2013 as over commitments were regularised with a supplementary provision that was passed in the House of Assembly on 3rd September 2015.

Audit Issue 3 – Budget Discrepancies

The supplementary amounts posted by the Ministry of Finance to the central accounting system contained discrepancies which resulted in errors in the budget allocations for recurrent and development expenditure and the related variances on the system.

Audit Issue 4 – Accounts Payable (Regulation 83)

Despite the positive report on Excess Expenditure, a number of departments and ministries held over part of their 2013 expenditures to be paid from their 2014 budgets.

For the year 2013 the carried forward unpaid expenditure was $2.2 million which is a substantial reduction from the previous year's amount of $8.0 million.

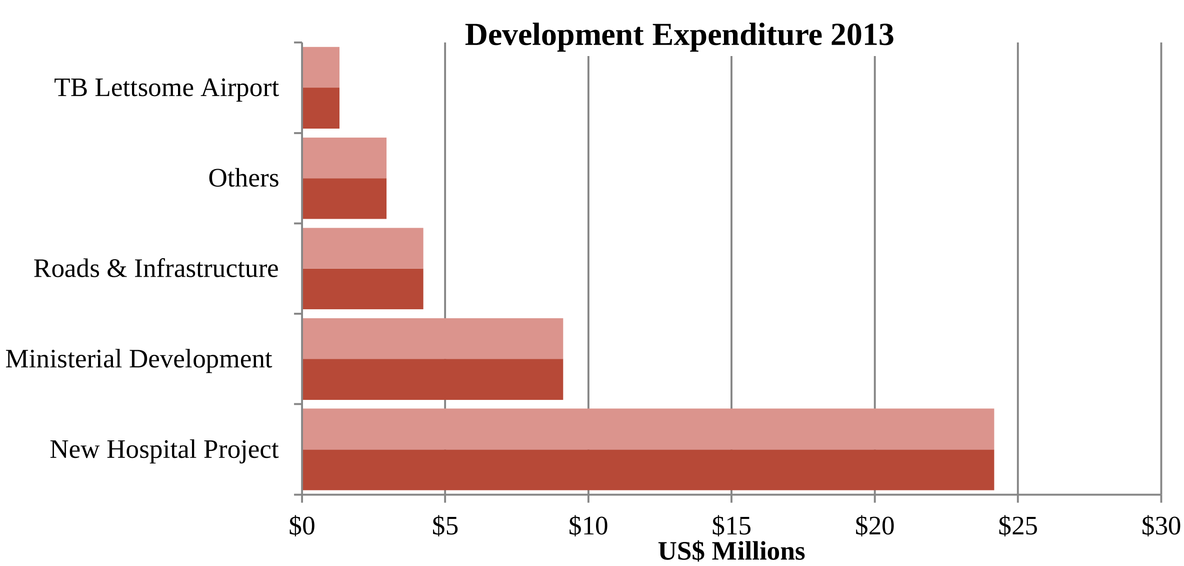
Departments with substantial carried forward expenditures were Water and Sewerage $0.78 million; Ministry of Education & Culture $0.29 million and Facilities Management Unit $0.20 million.

Development Fund Activity

Revenue: $33,698,170 **Expenditure: $41,799,347**

32. The 2013 initial budget for the Development Fund provided for funding of $68.0 million of which $33.0 million was to be sourced via borrowing, $25.7 via local fund transfers and $9.3 million from brought forward balances held in the Development Fund.

- The Development Fund received $33.6 million in 2013 for development projects and $0.83 million for capital acquisitions (vehicles, machinery, equipment etc.).
- Borrowing envisaged to support fund activity did not occur as there were no new loans.
- Expenditure from the Development Fund was $41.7 million which was a marginal increase from $41.0 million in 2012.
- More than half of this ($24.1 million) was spent on construction of the New Peebles Hospital building which was completed in 2013. For the period 2007 - 2013 a total of $119.7 million had been spent on this project.
- Other significant expenditure were for the National Sewerage Project $1.0 million, Civil Works Mitigation $2.2 million (both occurring under the Ministry of Communications and works) and TB Lettsome International Airport project $1.3 million by the Ministry of Natural Resources and Labour.
- Each Ministry controls a general “Development Projects” subhead which does not specify how the funds would be spent. Expenditure incurred from these accounts were - Premier’s Office $2.8 million; Ministry of Education and Culture $1.7 million; Ministry of Health and Social Development $2.3 million; and Ministry of Communications and Works $2.1 million.



Audit Issue 5 – Procurement Weaknesses

The regulations in place for public procurement are insufficient to ensure transparency and value for money is achieved in contract letting. Soft provisions allow for circumvention of regulations which can be bypassed or otherwise disregarded with the splitting of contracts and waiver of tender. The regulations for public tender need to be reviewed for improved management, transparency and economy in public procurement.

Audit Issue 6 – Ministerial Portfolio Infringement

Several instances have been observed where ministerial budgets adopted allow for ministries to undertake work on projects falling outside of their defined portfolios.

This gives the appearance of a ministry that has shifted focus from addressing the needs of the territory to catering to the needs of an electoral district, where the minister is also the district representative. This practice needs to be discontinued.

Audit Issue 7 – Ministerial Development Projects

Under the new chart of accounts a general development expenditure account is provided for each ministry. Expenditure in these accounts are not categorised by project, but by objects (materials, payroll, utilities etc). The object categories combine the activities of different projects thereby presenting difficulty in establishing:

- *What projects are being undertaken;*
- *The budgeted amount and actual expenditure for individual projects; and*
- *The legitimacy of related payment requests (and actual expenditure) as required by section 14(a) of the Audit Act.)*

There is a need for sub-ledgers to be introduced to enable each project undertaken under these subheads to be properly and transparently accounted for.

Assets

2013: $213,237,716 **2012: $105,178,429**

33. Assets that are convertible into cash within a year are generally categorized as current. These include cash and cash equivalents, current accounts receivable, public officer's loans and other miscellaneous items. Other assets such as land, property, equipment and long term investments that are expected to be held for the longer term are regarded as non-current assets.

- The most significant assets owned and controlled by the government are property, plant and equipment.
- The value recorded on the statements of $119.7 million is understated as it does not take into consideration government wide equipment and territory wide properties owned. A valuation exercise was commenced in 2012/2013 but not completed.
- Loans to public officers decreased by 7.2% from $1.5 million in 2012 to $1.4 million at the end 2013. These are usually issued for medical purposes, to purchase a vehicle or for special circumstances and are repaid through automatic salary deductions executed at the Treasury Department. Public Officers Loans do not generally present a recovery problem.
- Other advances comprise primarily for scholarship bond repayment, advances to statutory boards and bounced cheques. The balance increased from $1.1 million to $1.3 million (14.4%) in 2013.
- The overall balance for advances ($2.7 million) was within the statutory requirement of $4.0 million at year end. (Statutory limitation is computed at 1.5% of the total amount appropriated).

Audit Issue 8 – Understated Cash Balance

Our verification of the cash balances revealed accounts held at three local commercial banks totalling $4.1 million that were not included in the Treasury's records. These amounts represented transfers of balances from dormant private bank accounts in keeping with the Dormant Account Act 2011.

Audit Issue 9 – Prior Period Assets Valuation

A valuation exercise is required to ensure that there is full accounting for government's assets. Unrecorded assets comprise office buildings, schools, community centers, machinery, equipment, vehicles and infrastructure assets (such as roads, bridges, ghuts, retaining walls etc).

Audit Issue 10 – Asset Register

The Asset Register implemented in 2013 for central government's property plant and equipment requires additional details to allow for accurate identification of the assets recorded for verification purposes and for more effective central asset management.

Liabilities

2013: $124,194,557 **2012: $44,526,761**

34. Current liabilities refer to government debts that are expected to be paid off within the next 12 month period. Obligations that become due more than one year into the future are categorized as long term or non-current liabilities.

- The statements submitted show a sharp increase in liabilities from $44.5 million in 2012 to $124.1 million in 2013. This was due to the inclusion of government's loan obligations on the Statement of Assets and Liabilities for the first time. An adjusted comparison to include the government loans for the prior year would show liabilities of $146.5 million for 2012.

- The most significant public liabilities are loans received by the government for development projects. Loan balances decreased from $102.0 million in 2012 to $90.9 million at the close of 2013. The largest balance was for the New Hospital project - $71.6 million.

- The $90.9 million loan obligation was made up of $14.0 million in foreign loans, $38.2 million from local commercial banks and $38.7 million from BVI Social Security Board. The cost of financing government's long term liabilities in 2013 was $4.6 million compared to $5.5 million in the prior year.

- Refundable deposits and Other Liabilities shown on the statement at $29.0 million make up 23.41% of government liabilities. Within that balance is Domestic Trade Accounts Payable ($26.4 million) which is made up of outstanding cheques issued by the government that were undrawn at year end. Most of these were cleared in the subsequent year, but approximately 2% or $0.58 million were stale dated.

- Bank Overdraft of $3.6 million is made up primarily of a current account held in a local bank. The account maintains a zero balance but processes cheques as they are presented by the government and covers the payments with transfers from a linked money market account. The amount shown as overdraft represents cheques that were issued but not yet presented to the bank for payment.

Audit Issue 11 – Public Pension Obligations

The government supports a fully funded pension system for qualifying former public servants and legislators. Over a ten year period the annual pension and gratuities payments have more than doubled from $6.7 million in 2003 to $14.3million in 2013. Currently the government's pension obligations far exceed the balance held in its Pension Fund of $1.01 million. There is a need for an actuarial assessment to be carried out and for the introduction of adequate provisions to support this liability. This requirement is especially relevant pending the implementation of IPSAS standards, which require pension obligations to be disclosed as liabilities in public sector financial reporting.

Other Funds

2013: $38,958,503 **2012: $23,831,585**

35. Where legislation or regulations stipulate that monies are to be kept separate from the Consolidated Fund for purposes specified a separate fund account is established and maintained for such purpose. These Fund accounts are included on the face of the government's Statement of Assets and Liabilities. There were three such funds at the 31 December 2013.

- The Reserve Fund's balance increased by 74.8% due to a transfer from the Consolidated Fund of $15.5 million and interest income of $263,235. The balance at year end was $36.8 million.

- The Emergency Disaster Fund received interest income of $7,916 in 2013 bringing the balance to $1.1 million. The fund did not record any payment activity during the year.

- The Pension Fund received interest income of $19,946 but did not record any other activity. The balance at year end was $1.0 million.

- The balance in the Car Loan Fund $0.66 million in 2012, was transferred to Public Officers Loans under Current Assets in 2013.

36. Several inactive funds that were being carried forward in the accounts were removed from the statements. These include the Debt Service Fund, Car Loan revolving Fund, Loan Revolving Fund and the Repairs and Renewal Fund. The balances were transferred to the Consolidated Fund in 2012. The balances on two active funds the Transportation Improvement Network Fund and the Contingency Fund were also transferred to the Consolidated Fund in 2012.

Audit Issue 12 – Contingency Fund Balance

The Contingency Fund is intended to meet any urgent and unforeseen need for expenditure for which no other provision exists. This fund was written out of the accounts in 2012 and may have been rendered obsolete through the practice of issuing advances for unforeseen expenditure. The status of this fund needs to be reviewed and a decision taken on whether it should be re-instituted and used as intended.

PART III
Statutory Authorities and Trusts

37. The financial statements of the British Virgin Islands Electricity Corporation, H Lavity Stoutt Community College and the British Virgin Islands Social Security Board were audited by accounting firms on behalf of the Auditor General.

38. The accounts of the Development Bank of the Virgin Islands are examined by an auditor appointed for this purpose by the Governor in accordance with Section 37 of the Development Bank of the Virgin Islands Ordinance, Chapter 100. Auditors for the Port Authority are appointed by the Authority with the approval of the Minister in accordance with the British Virgin Islands Ports Authority Act 1990.

39. All of the larger statutory agencies are staffed with either a financial controller or a full time accountant. These are, for the most part, current in the compilation and audit of their annual accounts. The smaller agencies are often not staffed, but operated by committees functioning on a part time, as-needed basis. Most of these committees include a treasurer, yet for these there continue to be major difficulties in compilation and submission of statements of accounts.

40. The government does not require statutory authorities to produce financials prior to providing financing, consequently there is no incentive for these agencies to adopt prudent financial practices and thus no accountability. Self-financing agencies such as the Prospect Reef Management Company which operates without a functioning board and is unable to present any audited financial statements are equally unaccountable and require oversight.

41. Of particular concern are the agencies that have never undergone any audit review, those that have received disclaimer opinions from their auditors and those that are three or more years delinquent with audits.

42. At the time of writing, our records indicate that the status of the audits for the various boards and trusts were as shown in the schedule that follows.

Statutory Authority or Board	Last Audited
BVI Electricity Corporation	2015
BVI Health Services Authority	2014
BVI Port Authority	2013
BVI Airport Authority	2012
BVI Social Security Board	2016
BVI Tourist Board	2016
National Bank of Virgin Islands	2016
Telecommunication Regulatory Com.	2012

Statutory Authority or Board	Last Audited
Financial Investigation Unit	2014
Financial Services Commission	2016
HL Stoutt Community College	2014
National Parks Trust	2014
BVI Recreation Trust	2013
V I Festival & Fairs Committee	2006
Wickhams Cay Development Authority	2004
Prospect Reef Management Company	2007

Contingent Liabilities

43. Loans negotiated with various lending agencies on behalf of Statutory Boards, Trust and other Government sponsored bodies are usually guaranteed by the Government. In the event that these entities are unable to meet their repayment obligations, the Government would be required to do so on their behalf.

- Contingent liabilities declined 11.5% from $17.1 million in 2012 to $15.1 million in 2013.
- The majority of this 89.1% related to an outstanding balance of $13.5 million on a loan to the Electricity Corporation for electricity power development.
- The remaining 10.8% or $1.6 million was for loans issued to the Scholarship Trust Fund Board for Student Loans.

Public Accounts Committee

44. The Public Accounts Committee (PAC) is a Select Committee of the House of Assembly which is constituted under Standing Order No. 73 of the House of Assembly Rules. Its functions are:

a. to consider the accounts of Government in conjunction with the Auditor's Report;

b. to consider any Special Report submitted by the Auditor General under Section 20(3) of the Audit Act;

c. to report to the House of Assembly in the case of any excess or unauthorised expenditure of funds, the reason for such expenditure;

d. to report to the House of Assembly in the case of any shortfall of revenue, the reason for such shortfall;

e. to report to the House of Assembly any case of apparent extravagance or waste of public funds;

f. to propose any measure it considers necessary to ensure that public funds are properly brought to account and are economically spent.

45. In 2013 the membership of the Public Accounts Committee comprised of the five members of the House of Assembly (three opposition members, and two backbenchers from the Government side) with the Leader of the Opposition serving as Chairman. Meetings were convened in during the course of the year and a report was completed and forwarded to the House in 2014.

Acknowledgements

46. I extend my appreciation to members of my staff for their dedication and professionalism in performing their duties throughout the year and to the Accountant General and members of her staff for their valuable cooperation. I am also appreciative of those Accounting Officers and members of their staff who assisted through their cooperation.

OFFICE OF THE AUDITOR GENERAL
Road Town, Tortola
Virgin Islands
VG 1110

Attachment 1

GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 2013

(Figures in US$)	Notes	2013	2012
ASSETS			
Current Assets			
Cash and Cash Equivalent	2	16,307,261	49,665,071
Public Officers Loans	3	1,444,450	1,557,018
Other Advances	3	1,340,296	1,171,366
Current Accounts	4	476,743	538,806
Postmaster Receivables	5	227,465	281,800
Total Current Assets		19,796,215	53,214,061
Non-Current Assets			
Property, Plant and Equipment	6	119,769,611	-
Investments	7	73,671,890	51,964,368
Total Non-Current Assets		193,441,501	51,964,368
Total Assets		**213,237,716**	**105,178,429**
LIABILITIES			
Current Liabilities			
Postmaster Deposits	5	471,800	266,667
Bank Overdraft	10	3,647,549	10,277,525
Other Refundable Deposits & Other Liabilities	8	29,079,215	33,982,569
Total Current Liabilities		33,198,564	44,526,761
Non-Current Liabilities			
Borrowings	9	90,995,993	-
Total Non-Current Liabilities		90,995,993	-
Total Liabilities		**124,194,557**	**44,526,761**
Net Assets		**89,043,159**	**60,651,668**
Supported by:			
FUND BALANCES			
Consolidated Fund	11.1	10,344,647	6,747,123
Development Fund	11.2	39,740,009	30,072,960
Emergency/Disaster Fund	11.3	1,109,500	1,101,584
Car Loan Fund		-	664,179
Pension Fund	11.4	1,019,946	1,000,000
Reserve Fund	11.5	36,829,057	21,065,822
Total Fund Balances	11.0	**89,043,159**	**60,651,668**

AUDIT DEPARTMENT ★ BRITISH VIRGIN ISLANDS ★

ACCOUNTANT GENERAL ★ BRITISH VIRGIN ISLANDS ★

Attachment 2

GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY MINISTRY
AS AT DECEMBER 31, 2013

(Figures in US$)	Notes	2013	2012
REVENUE			
Recurrent Revenue			
Constitutional Bodies	13.1	768,192	N/A*
Office of the Governor	13.2	4,059,799	N/A
Office of the Premier	13.3	2,948,695	N/A
Ministry of Finance	13.4	270,921,068	N/A
Ministry of Natural Resources & Labour	13.5	8,131,429	N/A
Ministry of Education & Culture	13.6	2,726,828	N/A
Ministry of Health & Welfare	13.7	1,145,936	N/A
Ministry of Communications and Works	13.8	9,461,858	N/A
Total Recurrent Revenue		**300,163,805**	**299,771,339**
EXPENDITURE			
Recurrent Expenditure			
Constitutional Bodies	13.1	7,389,291	7,827,080
Office of the Governor	13.2	33,753,572	32,426,114
Office of the Premier	13.3	25,059,994	24,561,628
Ministry of Finance	13.4	25,145,061	28,428,160
Ministry of Natural Resources & Labour	13.5	13,592,776	13,850,662
Ministry of Education & Culture	13.6	55,554,028	56,502,165
Ministry of Health & Welfare	13.7	38,553,151	35,914,705
Ministry of Communications and Works	13.8	39,380,060	43,994,146
Statutory Charges	13.9	18,961,855	30,101,382
Total Expenditure		**257,389,788**	**273,606,042**
Operating Surplus		**42,774,017**	**26,165,297**

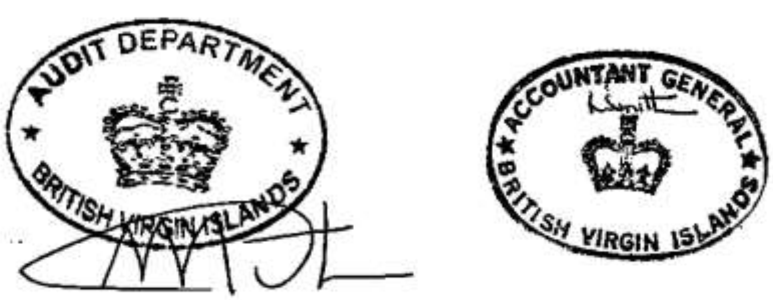
** Comparative figures for the prior year 2012 are not available due to a change in the Chart of Accounts for 2013*

Attachment 3

GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY ECONOMIC CLASSIFICATIONS
AS AT DECEMBER 31, 2013

(Figures in US$)	Notes	2013	2012
REVENUE			
Recurrent Revenue			
Payroll Taxes	12.1	44,178,950	40,861,273
Property Taxes	12.1	2,716,867	2,815,877
Taxes on Goods and Services	12.1	194,058,849	199,417,082
Taxes on International Trade	12.1	28,952,176	31,812,076
Sale of Goods and Services	12.1	16,410,670	13,608,827
Taxes on Transactions	12.1	7,146,496	9,094,950
Grants	12.1	3,327,060	-
Other Revenue	12.1	3,372,737	2,161,254
Total Recurrent Revenue		**300,163,805**	**299,771,339**
EXPENDITURE			
Recurrent Expenditure			
Employee Compensation	12.2	114,294,677	N/A*
Goods and Services	12.2	62,378,424	N/A
Finance Cost	12.2	4,614,530	N/A
Subsidies	12.2	467,322	N/A
Grants	12.2	53,708,647	N/A
Social Benefits	12.2	10,502,761	N/A
Other Recurrent Expenditure	12.2	11,423,427	N/A
Total Expenditure		**257,389,788**	**273,606,042**
Operating Surplus		**42,774,017**	**26,165,297**

** Comparative figures for Financial Year 2012 are not available due to a change in the Chart of Accounts for 2013*



OFFICE OF THE AUDITOR GENERAL