



Government of the
Virgin Islands

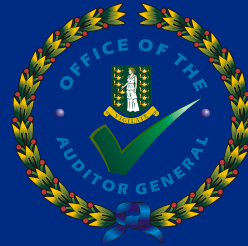
Report of The Auditor General

2014



REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY

"Towards Greater Accountability"



Government of the
Virgin Islands

Audit Office

Report of the

AUDITOR GENERAL

For The Year Ended 31 December 2014





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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

11 September 2018

Sir,

I forward herewith, my Report on the Accounts of the Government of the Virgin Islands for the year ended 31 December 2014, 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 Changes in Fund Balances
Statement of Operations
For the Year 2014

I have audited the financial statements of the Government of the Virgin Islands which comprise of the Statement of Assets and Liabilities, Statement of Changes in Fund Balances and Statement of Operations for the year ended 31 December 2014. These were examined together with the accompanying schedules and notes submitted by the Accountant General.

Management's Responsibility for the Consolidated Financial Statements

Management (the 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 my 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 2014 were prepared on a modified cash basis which incorporated fixed assets and long term debt. Whereas long term debt, as it



pertains to borrowings, has been verified based on supporting records and independent confirmations, there has been no comprehensive documentation of government assets for years prior to 2013.

The amount of \$132,761,257 disclosed in the statements for Property Plant and Equipment reflect only the historical cost value of the New Peebles Hospital, renovations to the Premier's Office and other assets that were purchased in 2013 and 2014. It does not take into account assets acquired or constructed in the years prior to 2013. These include government land, buildings, vehicles, equipment, furniture and infrastructural assets such as bridges, roads and retaining structures. This results in the significant understatement of asset 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 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 has been ongoing reform of the financial statements in line with these standards, there has not yet been a formal adoption of 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 31 December 2014, and its financial performance and cash flows for the year then ended.

Sonia M. Webster
Auditor General
11 September 2018



GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 2014

	2014 US\$	2013 US\$
ASSETS		
Current Assets		
Cash and Cash Equivalent	36,723,738	16,307,261
Public Officers Advances	1,188,535	1,437,270
Other Advances	798,783	713,534
Advances to Agencies	3,122,361	633,942
Current Accounts	501,532	476,743
Postmaster Receivables	525,988	227,465
Total Current Assets	42,860,937	19,796,215
Non-Current Assets		
Property, Plant and Equipment	132,761,257	119,769,611
Investments	76,423,712	73,671,890
Total Non-Current Assets	209,184,969	193,441,501
Total Assets	252,045,906	213,237,716
LIABILITIES		
Current Liabilities		
Postmaster Deposits	478,074	471,736
Bank Overdrafts	5,893,856	3,647,549
Other Refundable Deposits	20,046,447	29,079,215
Total Current Liabilities	26,418,377	33,198,564
Non-Current Liabilities		
Borrowings	92,127,318	90,995,993
Total Non-Current Liabilities	92,127,318	90,995,993
Total Liabilities	118,545,695	124,194,557
Net Assets	133,500,211	89,043,159
Supported by:		
FUND BALANCES		
Consolidated Fund	31,699,866	10,344,647
Development Fund	55,404,720	39,740,009
Emergency/Disaster Fund	1,114,214	1,109,500
Pension Fund	1,040,457	1,019,946
Reserve Fund	44,240,954	36,829,057
Total Fund Balances	133,500,211	89,043,159





GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF CHANGES IN FUND BALANCES
For The Financial Year Ended December 31, 2014

(Figures in US\$)	Consolidated Fund	Development Fund	Emergency/ Disaster Fund	Pension Fund	Reserve Fund	Total Fund Balances
Balance as at 1 January 2014	10,344,647	39,740,009	1,109,500	1,019,946	36,829,057	89,043,159
Changes in Fund Balances Attributable to:						
Surplus for the Financial Year 2014	64,343,654	-	-	-	-	64,343,654
Investment Income	73,024	251,977	4,714	20,511	411,897	762,123
Transfer to the Development Fund	(20,024,623)	20,024,623	-	-	-	-
Capital Acquisitions	(3,891,122)	3,891,122	-	-	-	-
Capitalized Expenditure	-	9,100,524	-	-	-	9,100,524
Debt Financing	(12,145,714)	12,145,714	-	-	-	-
Transfer to Reserve Fund	(7,000,000)	-	-	-	7,000,000	-
Development Fund Projects	-	(29,749,249)	-	-	-	(29,749,249)
Changes in Fund Balances	21,355,219	15,664,711	4,714	20,511	7,411,897	44,457,052
Balance as at 31 December 2014	31,699,866	55,404,720	1,114,214	1,040,457	44,240,954	133,500,211





GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY ECONOMIC CLASSIFICATIONS
AS AT DECEMBER, 31 2014

	2014	2013
	US\$	US\$
REVENUE		
Recurrent Revenue		
Payroll Taxes	47,354,057	44,178,950
Property Taxes	2,770,363	2,716,867
Taxes on Goods and Services	198,872,473	194,058,849
Taxes on International Trade	32,247,339	28,952,176
Taxes on Transactions	16,223,711	7,146,496
Sale of Goods and Services	15,909,590	16,410,670
Grants	2,519,425	3,327,060
Other Revenue	2,109,973	3,372,737
Total Recurrent Revenue	318,006,931	300,163,805
EXPENDITURE		
Recurrent Expenditure		
Employee Compensation	113,290,552	114,294,677
Goods and Services	57,917,390	62,378,424
Finance Cost	4,065,195	4,614,530
Subsidies	342,164	467,322
Grants	52,864,666	53,708,647
Social Benefits	11,430,356	10,502,761
Other Recurrent Expenditure	13,679,930	11,423,427
Total Expenditure	253,590,253	257,389,788
Operating Surplus	64,416,678	42,774,017





GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY MINISTRY
AS AT DECEMBER 31, 2014

	2014	2013
	US\$	US\$
REVENUE		
Recurrent Revenue		
Constitutional Bodies	790,947	768,192
Office of the Governor	4,070,078	4,059,799
Office of the Premier	3,280,795	2,948,695
Ministry of Finance	288,771,352	270,921,068
Ministry of Natural Resources and Labour	8,514,360	8,131,429
Ministry of Education and Culture	2,760,127	2,726,828
Ministry of Health and Welfare	886,678	1,145,936
Ministry of Communications and Works	8,932,594	9,461,858
Total Recurrent Revenue	318,006,931	300,163,805
EXPENDITURE		
Recurrent Expenditure		
Constitutional Bodies	7,388,591	7,389,291
Office of the Governor	33,527,931	33,753,572
Office of the Premier	27,235,382	25,059,994
Ministry of Finance	26,317,619	25,145,061
Ministry of Natural Resources and Labour	13,058,534	13,592,776
Ministry of Education and Culture	55,388,033	55,554,028
Ministry of Health and Welfare	37,562,537	38,553,151
Ministry of Communications and Works	34,018,766	39,380,060
Statutory Charges	19,092,860	18,961,855
Total Expenditure	253,590,253	257,389,788
Operating Surplus	64,416,678	42,774,017





PART I Audit Mandate

1. The audit of the accounts of the Government of the Virgin Islands for the year ended 31 December 2014 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. In addition, the Office adopts INTOSAI Independence standards and Code of Ethics. INTOSAI's independence standards postulate:

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

10. 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

11. The financial statements for 2014 were received for audit in April 2017 and revised statements submitted on 23 February 2018 and 5 September 2018.

12. The financial statements comprised a Statement of Assets and Liabilities, Statement of Operations by Economic Classifications, Statement of Operations by Ministry and Statement of Changes in Fund Balances as appended to 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.

13. 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.

14. 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 2014 accounts includes signed copies of the Statement of Assets and Liabilities, Statements of Operations and Statement of Changes in Fund Balances.

15. The audit examination was performed on the Financial Statements and supporting schedules which are presented on pages 12-98 of the Accountant General's 2014 Report.

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 items 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 Virgin Islands 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 destined for, or passing through, the government's Treasury.

Financial Management Infrastructure Reform

22. The government continued its financial infrastructure reform that was introduced in 2013 with its second multi-year budget. This identified specific areas of focus for the government's 2014 - 2016 fiscal strategy. These were:

- Build the Reserve Fund balance as a means of buffering public finances from unexpected future shocks;
- Manage contingent liabilities, in particular provision for a funded pension fund;
- Improve the financial management structure within Central Government and its parastatals;
- Improve the recurrent surplus balance by implementing revenue generating and expenditure efficiency initiatives;
- Decrease the overall deficit in 2014 and 2015, and convert the deficit into an overall surplus by 2016; and
- Maintain the borrowing ratios within limits outlined in the Protocols for Effective Financial Management.

IPSAS Implementation

23. An important part of the government's financial reform is improved financial reporting for decision making and transparency. This included upgrading the presentation of the financial statements in line with International Public Sector Accounting Standards (IPSAS).

24. To facilitate this, the chart of accounts was upgraded in 2012 and the financial statements were modified in 2013 from cash basis to modified cash basis. This has resulted in a more comprehensive set of statements and supporting schedules.

25. Despite the improvements, central government has not fully adopted IPSAS standards and its parastatals (statutory boards and agencies) have not been prepared for transformation of their accounting standards and financial statements to allow for consolidation of public sector accounts across all government owned entities into one set of financial statements per IPSAS.



Performance Overview

26. The 2014 financial year saw an improved overall balance sheet position which was the result of increased revenue collections and a moderate decline in spending. An overview of Government's operations for the 2014 financial year is below.

- Government's revenue increased by 5.9% from \$300.1 million to \$318.0 million, primarily due to increased collections from stamp duty and taxes on Goods and Services.
- Expenditure decreased by 1.5% from \$257.3 million to \$253.6 million. This was mainly attributable to payments on Goods and Services which were reduced from \$62.4 million in 2013 to \$57.9 million in 2014.
- Government's operating surplus at year end was \$64.4 million. This is an increase of \$21.6million (or 50.6%) over the previous year amount of \$42.7 million;
- Total assets increased by 18.2% from \$213.2 million to \$252.0 million. Primarily due to an increase in cash from \$16.3 million to \$36.7 million and increases in Property Plant and Equipment from \$119.7 million to \$132.7 million.
- 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.
- Total liabilities decreased by 4.5% from \$124.1 million to \$118.5 million.
- Investments increased by 3.7% from \$73.6 million to \$76.4 million. This was a net result as local term deposits increased from \$50.9 million to \$58.3 million and international securities dropped from \$8.9 million to \$4.4million.
- Public debt increased from \$90.9 million in 2013 to \$92.1 million at the close of 2014. This increase was the result of drawdowns received on one new loan for the Peebles Hospital Project (equipment purchases) of \$10.3 million and additional funding of \$1.8 million received for Disaster Infrastructure.
- In addition to the expenditure outflow of \$253.6 million, government also repaid principal of \$11.0 million on public debt loans.
- The overall result at year end is that the net asset position of the balance sheet was improved by 49.9% from \$89.0 million in 2013 to \$133.5 million at end of 2014.



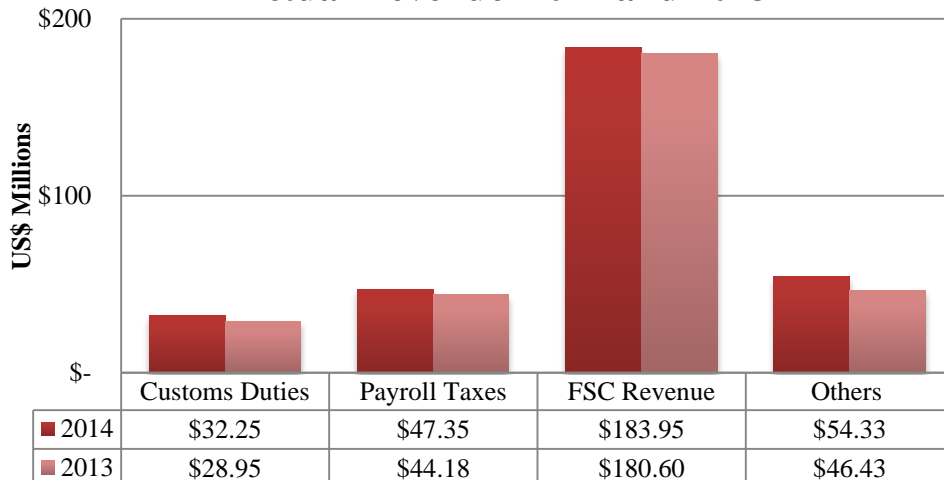
Recurrent Revenue

2014: \$318,006,931 2013: \$300,163,805

27. Recurrent revenue for 2014 was budgeted at \$302 million. Actual collections totaled \$318.0 million. This exceeded the budgeted amount by \$15.2 million or 5.1%. An overview of government's revenue collection performance is below.

- Taxation revenue made up more than 93.4% (\$297.1 million) of the \$318.0 million received in 2014. The primary contributors were FSC Revenue \$183.9 million, Payroll Taxes \$47.3 million and Customs/Import Duties \$31.9 million.
- The revenue source with the most significant change in 2014 was Stamp Duties (Taxes on Transactions). This more than doubled from \$7.1 million in 2013 to \$16.1 million in 2014. This increase was related to property sales taxes.
- Payroll Taxes and Customs Duties/Taxes on International Trade exceeded budget projections by \$4.6 million and \$2.8 million respectively. FSC Revenue maintained its position as the Government's main revenue earner, but fell short of its budget by \$1.8 million. All of three sources showed improved collections over the prior year.
- Water and Sewerage fees showed the greatest budget shortfall with under collections of \$2.4 million. This deficit was the combined effect of a revenue projections increase by \$3.1 million and actual collections decline by \$0.6 million.
- A total of \$2.5 million was received in the form of Grants. With the majority of this (\$2.5 million) coming from the Financial Services Commission. Other grants accounted for approximately \$0.02 million
- A proposed Tourist Arrival Levy that was estimated to generate \$1.3 million in revenues was not implemented during the year.

Actual Revenue 2014 and 2013





28. The majority of government's collection offices use an electronic receipting system that allows the Accountant General to monitor the revenue collection and reporting activity throughout the service from her desk. The Inland Revenue Department and the Post Office use collection programs that are tailored to their functions.

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 internal control weaknesses in a few offices. This stemmed from inadequate supervision of the cashiers, delays in depositing revenues and delays in processing remittances received through the mail. The affected offices were notified of the weaknesses.

AUDIT ISSUE 2: ARREARS OF REVENUE (ACCOUNTS RECEIVABLE)

As previously reported, accounting officers have not been complying with the requirement to submit annual statements of revenue arrears.

This requirement needs to be enforced as the information will become more relevant as the government advances efforts to introduce full 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 2014 statements is reported on a cash basis and does not include accounts receivable.

AUDIT ISSUE 3: UNREPORTED REVENUE (DORMANT ACCOUNTS)

Examination 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. The Accountant General has advised that these will be reconciled and brought into account in 2016.



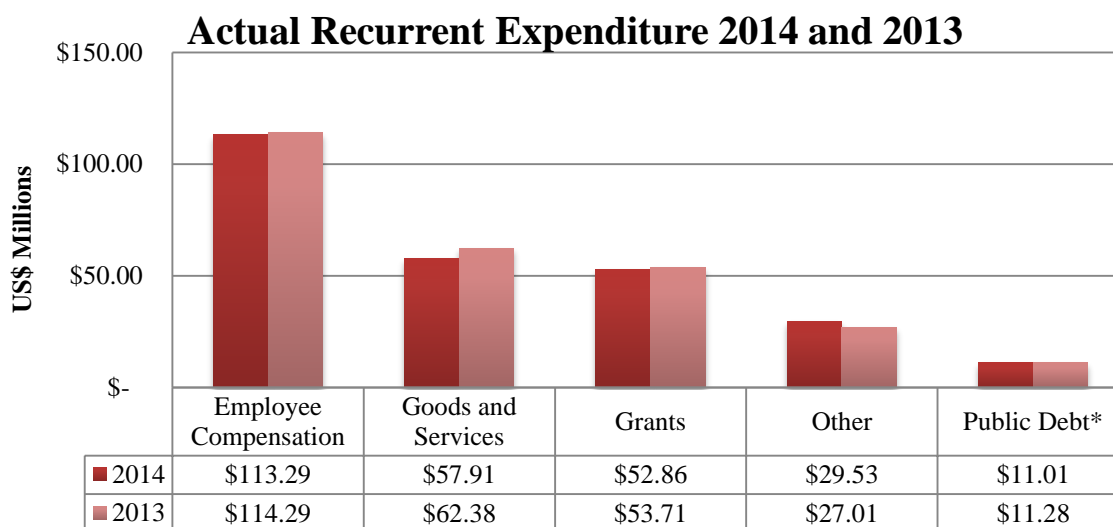
Recurrent (Operating) Expenditure

2014: \$253,590,253

2013: \$257,389,788

30. The 2014 budget provided \$246.7 million for recurrent (operating) expenditure. This provision was increased by a supplementary appropriation warrant which brought the authorised recurrent expenditure budget to \$260 million. A synopsis of the recurrent expenditure is below.

- Operating expenditure for 2014 was \$253.5 million. This was 1.4% (\$3.8 million) reduction from the previous year.
- Approximately \$113.2 million (44.6%) of the total recurrent expenditure was applied to personal emoluments and related staff costs. A decline of \$1.0 million when compared to the prior year.
- Goods and services totalling \$57.9 million accounted for 22.8% of recurrent costs. Payments under this head showed a decline of \$4.4 million or 7.1% from the prior year.
- Major expenditure under Goods and Services were Utilities \$18.6 million, (decrease from \$24.1 million); Rent \$8.1 million (increased from \$6.9 million) and Supplies (including minor equipment) \$7.0 million (decrease from \$7.4 million).
- Goods and Services also include purchase of desalinated water at \$9.8 million (reduced from \$13.7 million in 2013).
- Subventions which was \$52.8 million (\$53.7 million in 2013), accounted for 20.8% of the government's overall expenditure. Most of this (\$50.0 million) went to government supported statutory boards. Contributions were also made to Caribbean institutions (\$2.6 million) with the remaining going to other organisations.



US\$ Millions * Not included in Recurrent Expenditure Amount



Excess Expenditure

31. Ten ministries/departments overspent their budgets in 2014. The excesses are net amounts where the over-expended subheads exceeded saving in other areas.
32. The Premier's Office payment of Grants totalling \$11.2 million to the Tourist Board from a budget of \$10.0 million resulted in an over expenditure for that ministry.
33. The Treasury's excess was caused by payments made on Remittances and Agents fees of \$744,284 that exceeded the budgeted amount of \$518,100.
34. Payments on civil servants pension \$9.9 million exceeded the budget of \$7.5 million and led to the excess expenditure in Statutory Charges.
35. The Ministry of Education and Culture's excess expenditure was incurred primarily on domestic and foreign scholarships. The budgeted amount was \$4.26 million and the actual amount spent was \$5.92 million.
36. Shipping Registry's over expenditure was the result of excesses in Office Rent and Marketing/Advertising. Post Office's was because of a professional membership fee payment of \$24,589.
37. The Agriculture Department incurred excesses in Gasoline, Diesel and Miscellaneous Supplies.
38. The excess expenditure for Central Statistics Office, Youth Affairs and Sports and Fire Services was caused by Employee Compensations i.e. salaries and related staff costs.

EXPENDITURE HEAD	Excess Expenditure
Premier's Office	(595,989)
BVI Shipping Registry	(6,019)
Development Planning Unit	(611)
Post Office	(22,704)
Treasury	(190,411)
Agriculture	(648)
Ministry of Education and Culture	(1,276,083)
Youth Affairs and Sports	(30,993)
Fire Services	(596)
Pensions and Gratuities	(124,565)



AUDIT ISSUE 4: EXCESS EXPENDITURE

In accordance with the provisions of Section 12(c) of the Public Finance Management Act, a supplementary estimate must be laid before the House of Assembly in respect of any excesses of the amounts appropriated for a particular purpose. As of writing the amounts had not been regularised.

AUDIT ISSUE 5: ACCOUNTS PAYABLE (REGULATION 83)

A number of departments and ministries held over part of their 2014 expenditures to be paid from their 2015 budgets.

For the year 2014 the carried forward unpaid expenditure was \$3.4 million which is an increase over the previous year's amount of \$2.2 million.

Departments with substantial carried forward expenditures were Water and Sewerage \$0.68 million; Post Office \$.043 million; Ministry of Natural Resources and Labour \$0.32 million; Facilities Management Unit \$0.30 million; Ministry of Education & Culture \$0.26 million; and Prison \$0.21million.



Development Fund Activity

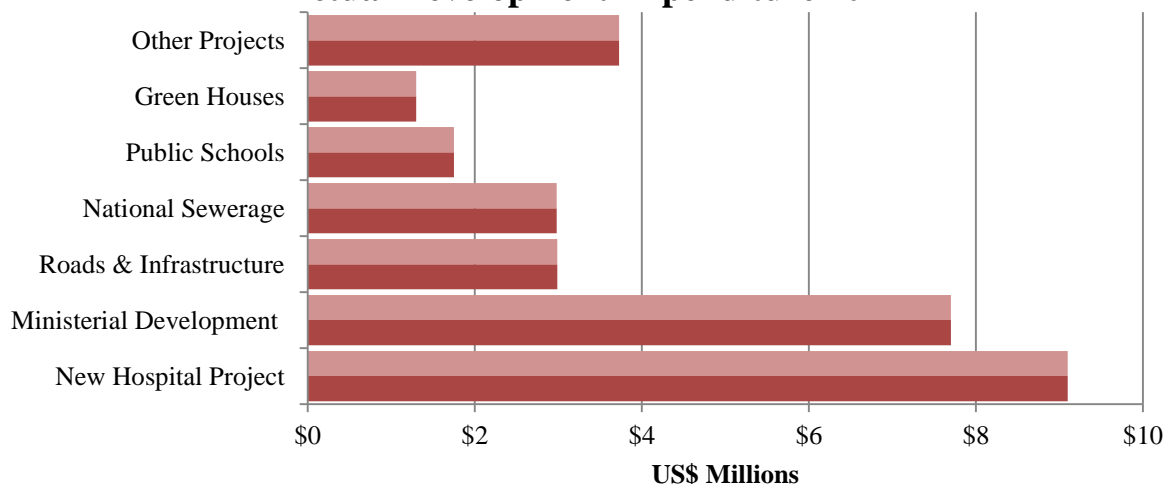
Funding: \$32,170,337

Expenditure: \$29,749,249

39. The 2014 initial budget for the Development Fund provided for funding of \$54.3 million of which \$25.4 million was to be sourced via borrowing and \$28.9 million from local revenues.

- During the year the Development Fund received \$20.0 million from local sources and \$12.1 million in loan funds for a total of \$32.1 million.
- Development expenditure in 2014 was \$29.7 million, a reduction of 28.8% when compared to the prior year expenditure of \$41.7 million.
- Approximately 30.1% (or \$9.1 million) of capital expenditure was spent on the New Peebles Hospital project. The building was completed in 2013 and commissioned and opened in December 2014. For the period 2007 - 2014 more than \$128 million had been spent on this project.
- Significant expenditure occurring under other ministries included the National Sewerage Project \$2.9 million, Road Infrastructure \$1.87 million and Civil Works Mitigation \$1.1 million for the Ministry of Communications and Works. The Ministry of Education and Culture’s major capital projects were the Technical Vocational School \$1.0 million and other schools \$0.7 million. The Greenhouse Project dominated capital spending for the Ministry of Natural Resources and Labour with \$1.3 million.
- Each ministry controls a general “Development Projects” subhead which does not specify how the funds have been spent. Expenditure incurred from these accounts were Ministry of Finance \$0.9 million; Ministry of Education and Culture \$0.5 million; Ministry of Natural Resources & Labour \$0.8 million; Ministry of Health and Social Development \$2.1 million; and Ministry of Communications and Works \$3.2 million. In total more than \$7.5 million was spent on unspecified ministerial development projects.

Actual Development Expenditure 2014





AUDIT ISSUE 6: PROCUREMENT WEAKNESSES

The issues relating to procurement weaknesses have been reported in previous reports and were again noted in 2014. 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 7: MINISTERIAL DEVELOPMENT PROJECTS

The “Development Projects” subheads provided to the ministries presents issues of transparency. Expenditure occurring within 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:

- 1. What projects are being undertaken;*
- 2. The budgeted amount and actual expenditure for individual projects; and*
- 3. 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.

In addition, the Ministry of Communications and Works overspent its provision of \$1.3 million by \$1.8 million for total Development Projects expenditure under this ministry of \$3.2 million.



Assets

2014: \$252,045,906

2013: \$213,237,652

40. Government assets comprise of cash and investments, land, buildings, equipment as well as infrastructural developments such as roads, bridges and retaining walls.

- The most significant assets owned by the government are property, plant and equipment which increased by \$13.0 million from \$119.7 million in 2013 to \$132.7 million in 2014. Much of this (\$8.0 million) was related to the New Hospital project. The remainder was related to government's investment in equipment and furniture.
- Investments represents government's second largest balance sheet asset at \$76.4 million. This comprised of Term deposits \$58.2 million; International securities \$4.4 million and equity investment in the National Bank of the BVI \$13.7 million.
- There was a marked improvement in the cash position from \$16.3 million to \$36.7 million. This amount however includes funds at government disposal as well as deposit accounts where monies are being held for other persons or agencies and cannot be used for government purposes. Deposit accounts in 2014 totaled \$20.4 million.
- Advances to agencies increased from \$.06 million to \$3.1 million. This was primarily the result of a loan for \$1.0 million issued to the Health Services Authority to cover cost of computerization and an advance of \$1.5 million to the Port Authority for the Cruise Pier Development Project.
- The overall balance for advances (\$5.1 million) exceeded the statutory limitation at year end which is computed at 1.5% of the total amount appropriated.

AUDIT ISSUE 8: DEPRECIATION OF ASSETS

No depreciation has been applied to the assets recorded from the prior year(s) in the statement of assets and liabilities. Accounting standards require consistency in adoption and the inclusion of long term assets on the balance sheet introduces an accrual standard that requires the application of depreciation to ensure that the values are fairly stated.

The affected items on the Statement of Assets and Liabilities are Fixed Assets and the Development Fund Balance. Also affected are the supporting schedules for Development Expenditure and related notes detailing the method and application of Depreciation Expenses.



AUDIT ISSUE 9: NON-RECOGNITION OF INFRASTRUCTURE ASSETS

Investment in infrastructure assets (roads, bridges, retaining walls etc.) during the year under review were not added to the asset register and are not disclosed in the Statement of Assets and Liabilities. This contributes to the ongoing undervaluation of public assets on the statements.

AUDIT ISSUE 10: PRIOR PERIOD ASSETS VALUATION

Assets acquired prior to 2013 are not reported on the statements. 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 11: ASSET REGISTER

The Asset Register for property plant and equipment requires additional details to allow for accurate identification of the assets recorded. The present register does not provide an asset identification number (serial # / VIN) or information about its location or department to which it is assigned. The format and content of this document needs to be revised and improved so that items can be verified and updated as needed.



Liabilities & Public Debt

2014: \$118,545,695

2013: \$124,194,557

41. 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.

- Total liabilities dropped by 4.2% from \$124.1 million to \$118.5 million. This was largely the result of a decline in Other Refundable Deposits which fell by \$9.0 million from \$29.0 million to \$20.0 million.
- The public debt (loans received by the government for development projects) is the most significant government liability. This increased from \$90.9 million to \$92.1 as a result of additional financing received for the New Peebles Hospital Project (\$10.3 million) and Disaster Preparedness Infrastructure (\$1.8 million). The balance was also affected by repayments made during the year of \$11.0 million.
- The \$92.1 million loan obligation was made up of \$13.2 million in foreign loans, \$45.5 million from local commercial banks and \$33.3 million from BVI Social Security Board. The interest payments on the public debt loans in 2014 totaled \$4.1 million compared to \$4.6 million in the prior year.
- The New Peebles Hospital Project made up 80.9% of the Public Debt with a balance of \$74.5 million. Other loans were for Beef Island Airport (Terminal and Runway) \$8.9 million; Road Improvement Infrastructure \$3.4 million; Disaster Infrastructure & Hurricane Rehabilitation \$3.0 million; Water Projects (various) \$1.8 million and Greenhouses \$0.2 million.
- Refundable Deposits and Other Liabilities shown on the statement at \$20.0 million made up 16.91% of government liabilities. Within that balance is Domestic Trade Accounts Payable (\$17.0 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.
- Bank Overdraft of \$5.8 million is made up primarily of an 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.



Other Funds

2014: \$46,395,625

2013: \$38,958,503

42. Where legislation or regulations stipulate that monies are to be kept separate from the Consolidated Fund for purposes specified, an independent fund account is established and maintained for such purpose. These Funds are included on the face of the government's Statement of Assets and Liabilities. There were three such funds at 31 December 2014.

- The Reserve Fund's balance increased from \$36.8 million to \$44.2 million due to a transfer from the Consolidated Fund of \$7.0 million and interest income of \$411,897.
- The Emergency Disaster Fund received interest income of \$4,714 in 2014 and recorded a balance of \$1.1 million at year end. The fund did not record any payment activity during the year.
- The Pension Fund received interest income of \$20,511 but did not record any other activity. The balance at year end was \$1.0 million.

43. 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: PUBLIC PENSION OBLIGATIONS

As previously reported, 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 \$7.7 million in 2004 to \$14.9 million in 2014. Currently the government's pension obligations far exceed the balance held in its Pension Fund of \$1.04 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.

AUDIT ISSUE 13: CONTINGENCY FUND BALANCE

The Contingency Fund, which was adopted to meet unplanned urgent and unforeseen need for expenditure 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

44. Government grants to Statutory Boards totaled \$50.0 million in 2014 and accounted for 19.7% of Government's recurrent expenditure. Almost half of this was contributed to the BVI Health Services Authority with other major contributions going to the BVI Tourist Board and HL Stoutt Community College. The schedule below refers.

Grants to Statutory Boards	2014	2013
BVI Health Services Authority	22,000,000	23,100,000
Tourist Board	11,271,354	10,710,000
HL Stoutt Community College	9,510,900	9,960,800
BVI Airport Authority	2,748,100	2,842,800
Financial Investigation Unit	1,662,500	1,750,000
Festival and Fairs	1,538,764	1,126,100
Recreation Trust	875,000	700,000
National Parks Trust	356,300	365,500
Wickhams Cay Dev. Authority	50,000	55,000
HLSCC Memorial Fund	40,600	40,600
	<u>50,053,518</u>	<u>50,650,800</u>

45. Other government agencies not mentioned in the above schedule are self-supporting and do not require government subvention.

46. Each agency is required to produce audited financial statements which are tabled before the House of Assembly.

47. 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.

48. The accounts of the National 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.

49. 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.

50. 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.

51. Of particular concern are the agencies that have never undergone any audit review, and those that are three or more years delinquent with audits.

52. 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 Social Security Board	2016
BVI Tourist Board	2016
Financial Investigation Unit	2016
Financial Services Commission	2016
National Bank of Virgin Islands	2016
BVI Electricity Corporation	2016
HL Stoutt Community College	2014
National Parks Trust	2014
BVI Health Services Authority	2014
BVI Port Authority	2013
BVI Recreation Trust	2013
BVI Airport Authority	2012
Telecommunication Regulatory Com.	2012
Prospect Reef Management Company	2007
V I Festival & Fairs Committee	2006
Wickhams Cay Development Authority	2004

Contingent Liabilities

53. Loans negotiated 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, this responsibility falls on the Government.

- Contingent liabilities increased by \$25.4 million from \$15.1 million in 2013 to \$40.5 million in 2014.
- This increase was the result of two loans issued to the BVI Ports Authority for the Cruise Pier Development totalling \$26.7 million.
- Other contingent liabilities included \$11.5 million for the BVI Electricity Corporation and \$2.2 million for the Scholarship Trust Fund Board.



Public Accounts Committee

54. 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.

55. In 2014 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 during the course of the year and a report was completed and forwarded to the House in 2014.

Acknowledgements

56. I am appreciative of the audit 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.

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