

2015

REPORT OF THE AUDITOR GENERAL ON THE ACCOUNTS OF THE VIRGIN ISLANDS



Government of the
Virgin Islands

"Towards Greater Accountability"



Government of the
Virgin Islands

Audit Office

Report of the

AUDITOR GENERAL

For The Year Ended 31 December 2015



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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

25 October 2018

Sir,

I forward herewith, my Report on the Accounts of the Government of the Virgin Islands for the year ended 31 December 2015, in accordance with the provisions of Section 109(3) of the Virgin Islands (Constitution) Order 2007.

Sincerely,

Sonia M. Webster
Auditor General



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

Audit Certificate

Statement of Assets and Liabilities
Statement of Changes in Fund Balances
Statement of Operations
For the Year 2015

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 2015. 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 2015 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 \$142,651,733 disclosed in the statements for Property Plant and Equipment reflect only the historical cost value of assets that were purchased in 2013 and onwards. 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 material 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 focused efforts 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 2015, and its financial performance and fund balances for the year then ended.

Sonia M. Webster
Auditor General
25 October 2018



GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 2015

(Figures in US\$)	2015 US\$	2014 US\$
ASSETS		
Current Assets		
Cash and Cash Equivalent	31,357,777	36,757,976
Public Officers Advances	1,343,920	1,188,535
Other Advances	1,081,325	798,783
Advances to Agencies	9,563,751	3,122,361
Current Accounts	537,082	501,532
Postmaster Receivables	482,858	525,988
Total Current Assets	44,366,713	42,895,175
Non-Current Assets		
Property, Plant and Equipment	142,651,733	132,761,257
Investments	82,250,272	76,389,474
Total Non-Current Assets	224,902,005	209,150,731
Total Assets	270,440,570	252,045,906
LIABILITIES		
Current Liabilities		
Postmaster Deposits	432,958	478,074
Bank Overdrafts	2,808,027	5,893,856
Other Refundable Deposits	14,844,389	20,046,447
Total Current Liabilities	18,085,374	26,418,377
Non-Current Liabilities		
Borrowings	103,061,319	92,127,318
Total Non-Current Liabilities	103,061,319	92,127,318
Total Liabilities	121,146,693	118,545,695
Net Assets	148,122,025	133,500,211
Supported by:		
Consolidated Fund	11,916,543	31,699,866
Development Fund	84,853,971	55,404,720
Emergency/Disaster Fund	1,117,002	1,114,214
Pension Fund	1,055,023	1,040,457
Reserve Fund	49,179,486	44,240,954
Total Fund Balances	148,122,025	133,500,211





GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF CHANGES IN FUND BALANCES
For The Financial Year Ended December 31, 2015

(Figures in US\$)	Consolidated Fund	Development Fund	Emergency/ Disaster Fund	Pension Fund	Reserve Fund	Total Fund Balances
Balance as at 1 January 2015	31,699,866	55,404,720	1,114,214	1,040,457	44,240,954	133,500,211
Changes in Fund Balances Attributable to:						
Surplus for the Financial Year 2015	39,678,543	-	-	-	-	39,678,543
Investment Income	66,433	38,640	2,788	14,566	358,697	481,124
Transfer from Reserve Fund	420,165	-	-	-	(420,165)	-
Transfer to the Development Fund	(31,680,807)	31,680,807	-	-	-	-
Capital Acquisitions	(1,553,694)	1,553,694	-	-	-	-
Capitalized Expenditure	-	8,336,782	-	-	-	8,336,782
Debt Financing	(21,713,963)	21,713,963	-	-	-	-
Transfer to Reserve Fund	(5,000,000)	-	-	-	5,000,000	-
Development Fund Projects	-	(33,874,635)	-	-	-	(33,874,635)
Changes in Fund Balances	(19,783,323)	29,449,251	2,788	14,566	4,938,532	14,621,814
Balance as at 31 December 2015	11,916,543	84,853,971	1,117,002	1,055,023	49,179,486	148,122,025





**GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY ECONOMIC CLASSIFICATIONS
AS AT DECEMBER, 31 2015**

(Figures in US\$)	2015 US\$	2014 US\$
REVENUE		
Recurrent Revenue		
Payroll Taxes	49,812,030	47,354,057
Property Taxes	3,227,392	2,770,363
Taxes on Goods and Services	198,084,352	198,872,473
Taxes on International Trade	36,407,774	32,247,339
Taxes on Transactions	12,460,593	16,223,711
Sale of Goods and Services	15,307,182	15,909,590
Grants	3,058,385	2,519,425
Other Revenue	1,881,582	2,109,973
Total Recurrent Revenue	320,239,290	318,006,931
EXPENDITURE		
Recurrent Expenditure		
Employee Compensation	120,284,789	113,290,552
Goods and Services	69,056,175	57,917,390
Finance Cost	4,303,651	4,065,195
Subsidies	380,361	342,164
Grants	54,998,928	52,864,666
Social Benefits	12,119,844	11,430,356
Other Recurrent Expenditure	19,350,566	13,679,930
Total Expenditure	280,494,314	253,590,253
Operating Surplus	39,744,976	64,416,678





GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY MINISTRY
AS AT DECEMBER 31, 2015

(Figures in US\$)	2015 US\$	2014 US\$
REVENUE		
Recurrent Revenue		
Constitutional Bodies	678,073	790,947
Office of the Governor	3,283,651	4,070,078
Office of the Premier	3,165,404	3,280,795
Ministry of Finance	294,346,113	288,771,352
Ministry of Natural Resources and Labour	8,679,118	8,514,360
Ministry of Education and Culture	1,642,167	2,760,127
Ministry of Health and Welfare	594,684	886,678
Ministry of Communications and Works	7,850,080	8,932,594
Total Recurrent Revenue	320,239,290	318,006,931
EXPENDITURE		
Recurrent Expenditure		
Constitutional Bodies	7,910,024	7,388,591
Office of the Governor	34,554,540	33,527,931
Office of the Premier	26,048,550	27,235,382
Ministry of Finance	35,545,984	26,317,619
Ministry of Natural Resources and Labour	12,909,894	13,058,534
Ministry of Education and Culture	53,203,698	55,388,033
Ministry of Health and Welfare	42,898,088	37,562,537
Ministry of Communications and Works	46,700,048	34,018,766
Statutory Charges	20,723,488	19,092,860
Total Expenditure	280,494,314	253,590,253
Operating Surplus	39,744,976	64,416,678





PART I Audit Mandate

1. The audit of the accounts of the Government of the Virgin Islands for the year ended 31 December 2015 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.

Audit Report Format

8. 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.

9. 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

10. The financial statements for 2015 were received for audit in April 2017 and the final amended statements submitted on 24 October 2018.

11. 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.

12. 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.

13. 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 2015 accounts includes signed copies of the Statement of Assets and Liabilities, Statements of Operations and Statement of Changes in Fund Balances.

14. The audit examination was performed on the Financial Statements and supporting schedules which are presented on pages 15-105 of the Accountant General's 2015 Report.

Financial Regulations & Significant Accounting Policies

15. 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.

16. 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

17. 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

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



PART II

Government Operations

19. 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.

20. 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

21. The government introduced its financial infrastructure reform in 2013 which included multi-year performance based budgeting and a medium term macro fiscal strategy. The government's 2015 - 2017 areas of focus as outlined in its 2015 performance budget were:

- i. Ensure quality care for all through National Health Insurance (NHI) System;
- ii. Utilise the New Facilities at Peebles Hospital and modernise clinics territory wide;
- iii. Provide high quality, well-rounded education at all levels in a modernized system;
- iv. Care for our most vulnerable;
- v. Open for tourism and financial services business;
- vi. Encourage business and entrepreneurship development;
- vii. Develop Cruise pier and other tourism infrastructure;
- viii. Expand airport and seaport facilities;
- ix. Build better roads and bridges for improved access;
- x. Improve water and sewerage network;
- xi. Encourage energy efficiency and use of alternative energy sources;
- xii. Promote sustainable waste management through recycling;
- xiii. Encourage public sector reform by finding efficiencies in Government's provision of services and instituting reform of the public financial management system; and
- xiv. Ensure public safety by protecting our borders.

IPSAS Implementation

22. The government's financial infrastructural reform includes implementation of International Public Sector Accounting Standards (IPSAS) for preparation and presentation of the public accounts. In 2013 the financial statements were modified from cash basis to include elements of accrual accounting such as fixed assets and public debt. This has resulted in a more comprehensive set of statements and supporting schedules, lending to improved disclosure of government's financial standing.

23. Despite this, there has not been a full adoption of IPSAS, which requires consolidation of public sector accounts across all government owned entities. The financial statements of statutory boards continue to be prepared and submitted to the House of Assembly separately in-keeping with the individual legislations.



Performance Overview

24. The 2015 calendar year was an eventful one that saw the restructuring to the Ministry of Education and Culture, the introduction of the National Health Insurance and the undertaking of territory-wide General Elections for representatives to the House of Assembly. Government's operations showed mixed results with a marginal increase in revenue collections over the prior year and increased spending in all areas. An overview of Government's operations for the 2015 financial year is below.

- i. Government's revenue increased by 0.7% from \$318.0 million to \$320.2 million, largely due to increased collections from Payroll Taxes and Taxes on International Trade (Customs/Import Duties).
- ii. Expenditure increased by 10.6% from \$253.6 million to \$280.5 million. The statements show an across the board rise in all expenditure classifications. The largest increase was in Goods and Services which climbed from \$57.9 million in 2014 to \$69.0 million in 2015.
- iii. Government's operating surplus at year end was \$39.7 million. This is a reduction of \$29.1 million (or 45.2%) from the surplus in the previous year which was \$64.4 million;
- iv. Total assets increased by 6.8% from \$252.0 million to \$269.2 million. Primarily due to Property Plant and Equipment which increased from \$132.7 million to \$142.6 million.
- v. Total liabilities increased by 2.2% from \$118.5 million to \$121.1 million.
- vi. Investments increased by 7.6% from \$76.4 million to \$82.2 million. This was the result of increases in local term deposits from \$58.3 million to \$61.1 million and international securities from \$4.4 million to \$7.4million. Non-traded equities of \$13.7 million remained unchanged.
- vii. Public debt increased from \$92.1 million in 2014 to \$103.0 million at the close of 2015. This increase was the result of additional drawdowns on two existing loans (\$11.7 for Hospital and Sewerage and \$1.5 million for Disaster Infrastructure) and drawdowns received on one new loan for the Road Infrastructure of \$8.5 million.
- viii. In addition to the expenditure outflow of \$280.5 million, government also repaid principal of \$10.8 million on public debt loans.
- ix. The overall result at year end was a 10.9% improved net asset position on the balance sheet from \$133.5 million in 2014 to \$148.1 million at end of 2015.



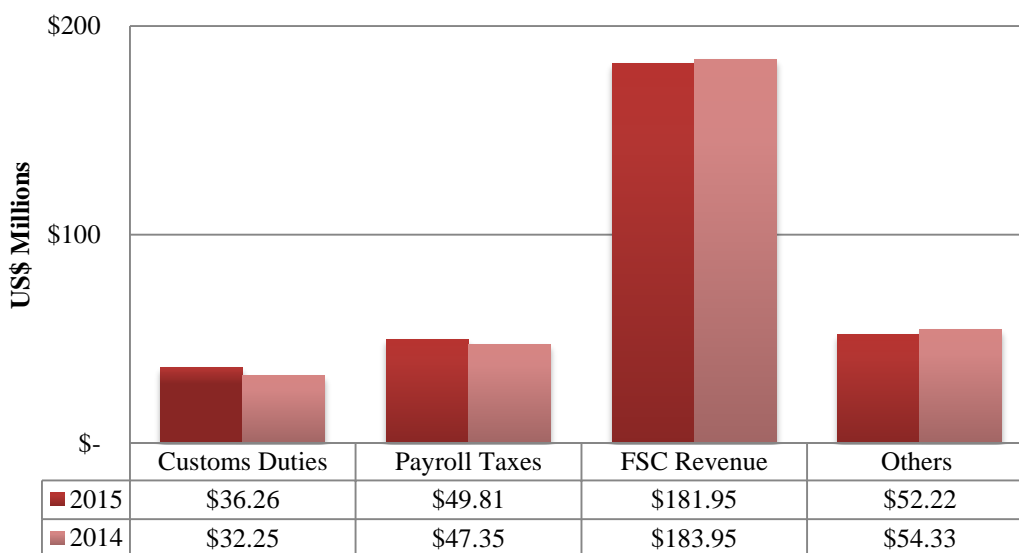
Recurrent Revenue

2015: \$320,239,290 2014: \$318,006,931

25. Recurrent revenue for 2015 was budgeted at \$311.1 million. Actual collections totaled \$320.2 million. This exceeded the budgeted amount by \$9.1 million. An overview of government's revenue collection performance is below.

- i. Taxation revenue made up more than 93.7% (\$300.0 million) of the \$320.2 million received in 2015. The primary contributors were FSC Revenue \$181.9 million, Payroll Taxes \$49.8 million and Customs/Import Duties \$36.2 million.
- ii. The revenue source with the most significant increase in 2015 was Customs Duties which increased by \$4.3 million (from \$31.9 to \$36.2). Collections on Stamp duties declined from \$16.1 million in 2014 to \$12.4 million in 2015 due to a drop in revenue from property sales taxes.
- iii. Payroll Taxes, Customs Duties/Taxes on International Trade and FSC Revenue exceeded budget projections by \$2.7 million, \$2.1 million and \$0.8 million respectively. FSC revenue was in addition supplemented with a grant of \$3 million increasing its contribution to \$184.9 million in 2015. Payroll Taxes and Customs Duties showed improved collections over the prior year.
- iv. Water and Sewerage and Work Permit fees showed the greatest budget shortfalls with under collections of \$5.3 million and \$3.4 million respectively.

Actual Revenue 2015 and 2014





26. 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.

27. Due to logistics and connectivity issues a small number of offices use manual receipting which is more prone to manipulation.

AUDIT ISSUE 1: BUDGET DISCREPANCIES

The Revenue Budget reported in the notes to the financial statements is understated by \$935,864. This is the result of a posting error that led to understatements in the budgets for "Sales of Goods and Services" and "Other Revenue" by \$788,832 and \$147,037 respectively.

The error does not affect the operating results on the Statement of Assets and Liabilities or Statement of Operations only the budget comparatives in the notes.

AUDIT ISSUE 2: ARREARS OF REVENUE (ACCOUNTS RECEIVABLE)

There is currently wide scale non-compliance with provision 43.1 of the Public Finance Management Regulations requirement for Departments to submit statements of revenue arrears. This information is not presently used in the preparation of the financial statements which are reported on a cash basis, but is relevant for decision making and will become necessary 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.

AUDIT ISSUE 3: UNREPORTED REVENUE (DORMANT ACCOUNTS)

The dormant private bank accounts balances transferred by local banks to the name of the Accountant General were not included in the 2015 statements. The Accountant General has advised that these will be reconciled and brought into account in the 2016 statements. The balances are estimated to be in excess of \$6million.



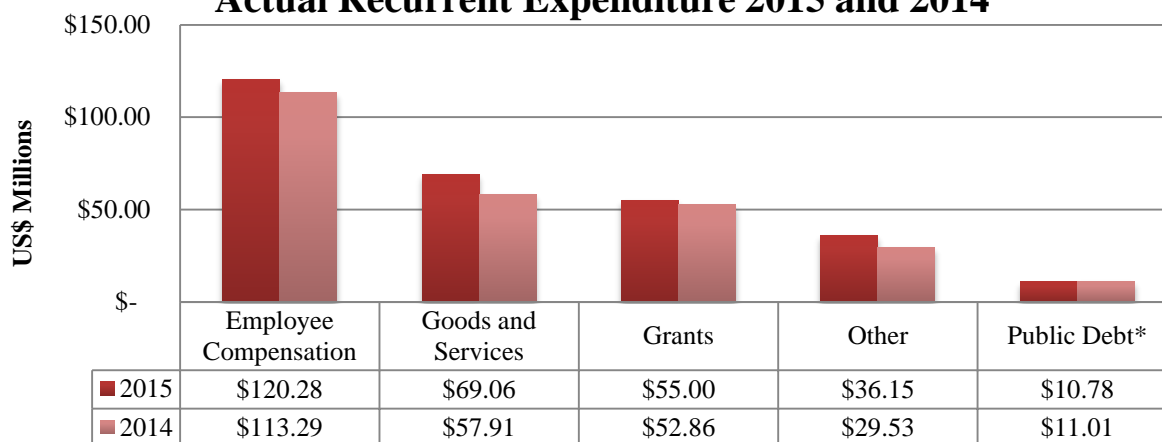
Recurrent (Operating) Expenditure

2015: \$280,494,314 2014: \$253,590,253

28. The 2015 budget provided \$279.2 million for recurrent (operating) expenditure. This provision was increased by a supplementary appropriation warrant which brought the authorised recurrent expenditure budget to \$296.1 million. A synopsis of the recurrent expenditure is below.

- i. Operating expenditure for 2015 was \$280.4 million. This was an increase of 10.6% (or \$26.9 million) over the previous year.
- ii. Approximately \$120.3 million (42.9%) of the total recurrent expenditure was applied to personal emoluments and related staff costs. An increase of \$7.0 million when compared to the prior year.
- iii. Goods and services totalling \$69.0 million accounted for 24.6% of recurrent costs. Payments under this head increased by \$11.1 million or 19.2% when compared with the prior year.
- iv. Major expenditure under Goods and Services were Utilities \$30.8 million, (increased from \$18.7 million in 2014); Rent \$8.9 million (increased from \$8.1 million) and Supplies (including minor equipment) \$7.0 million (2014: \$7.0 million).
- v. The substantial variance in Utilities was the result on increased expenditure for purchase of desalinated water which increased from \$9.8 million in 2014 to \$20.7 million in 2015.
- vi. Grants (Subventions) which was \$55.0 million (\$52.8 million in 2014), accounted for 19.6% of the government's overall expenditure. Most of this (\$53.1 million) went to government supported statutory boards. Contributions were also made to Caribbean institutions (\$1.6 million) with the remaining going to other organisations.

Actual Recurrent Expenditure 2015 and 2014



US\$ Millions * Not included in Recurrent Expenditure Amount



Excess Expenditure

29. Eight ministries/departments overspent their budgets in 2015. The excesses are net amounts where the over-expended subheads exceeded saving in other areas.

30. Five of the eight overspent heads were departments under the Ministry of Education and Culture. These excesses were the result of salary and related charges.

31. 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.

32. Payments on goods and services resulted in excess expenditure for the Department of Motor Vehicles

33. The excess expenditure for the Ministry of Health and Social Development was also the result of salaries and related staff charges.

EXPENDITURE HEAD	Excess Expenditure
Treasury	(9,397)
Education (Administration)	(496,991)
Education (Pre-Primary and Primary)	(537,813)
Education (Secondary)	(654,324)
Library	(2,593)
Prison	(332,366)
Ministry of Health and Social Development	(5,949)
Department of Motor Vehicles	(43,946)

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.



Development Fund Activity

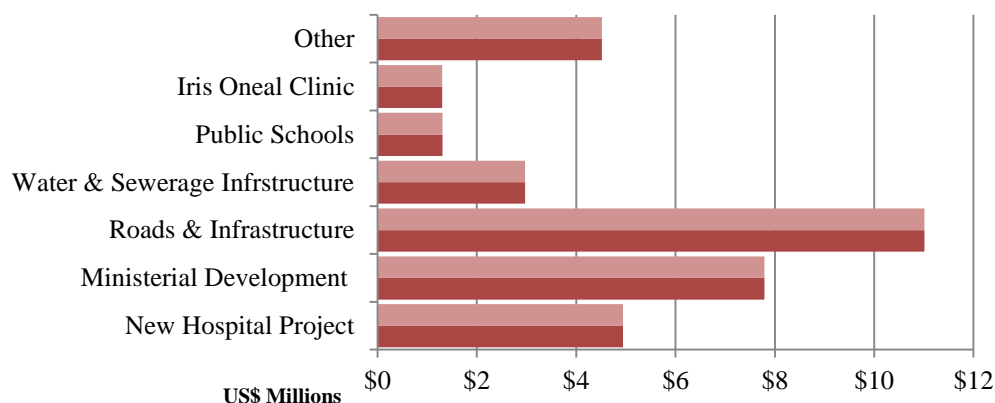
Funding: \$63,323,886

Expenditure: \$33,874,635

34. The initial 2015 budget for the Development Fund provided for funding of \$46.4 million of which \$30.6 million was supported via borrowing and \$15.6 million from local revenues.

- i. During the year the Development Fund received \$41.5 million from local sources and \$21.7 million in loan funds for a total of \$63.3 million.
- ii. Development expenditure in 2015 was \$33.8 million. An increase of 13.7% when compared to the prior year expenditure of \$29.7 million. In addition, a total of \$8.3 million invested in assets was capitalised.
- iii. The Premier’s Office development spending in 2015 was on the Queen Elizabeth Park \$1.1 million and the Greenland Stadium \$1.0 million. Under the Ministry of Health and Social Development approximately \$4.9 million was spent on the new Peebles Hospital project and \$1.3 on the Iris O’Neal Clinic.
- iv. The Ministry of Communications and Works significant expenditure included Road Infrastructure \$8.0 million, the National Sewerage Project \$1.9 million, Civil Works Mitigation \$2.9 million and Water Improvements \$0.9 million.
- v. The Ministry of Education and Culture’s major development spending was on Secondary Schools \$1.3. For the Ministry of Natural Resources and Labour the East End/Fat Hogs Bay Harbour dominated capital spending with \$0.9 million.
- vi. Each ministry controls a general “Development Projects” subhead which does not specify how the funds have been spent. Expenditure incurred from these accounts were Premier’s Office \$0.1 million; Ministry of Finance \$1.1 million; Ministry of Education and Culture \$1.2 million; Ministry of Natural Resources & Labour \$0.6 million; Ministry of Health and Social Development \$0.3 million; and Ministry of Communications and Works \$4.4 million. In total more than \$7.7 million was spent on unspecified ministerial development projects.

Actual Development Expenditure 2015





AUDIT ISSUE 5: REDUCED FUNDING FOR DEVELOPMENT PROJECTS

Eight million dollars (of the \$11.7million) that was drawn down on the “Hospital Outfitting and Sewerage Infrastructure” loan was not received into the Development Fund, but was instead advanced to the BVI Port Authority. This resulted in fewer funds available for projects slated to benefit from these resources.

Related: Audit Issue 9.

AUDIT ISSUE 6: PROCUREMENT WEAKNESSES

The issues relating to procurement weaknesses have been reported in previous Audit reports and were again present in 2015. One extreme example of the procurement regulations being circumvented was observed in the Ministry of Communications and Works where a contract valued in excess of a million dollars (\$1.05 million) was split into twelve petty contracts (varying in amounts from \$72,960 to \$97,200) which were all issued to the same contractor. There was no tendering for this project or waiver from the Cabinet. (Reference Petty Contracts MCW 113p – 124p).

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 \$3.7 million by \$0.1 million for total Development Projects expenditure.



Assets

2015: \$269,268,718

2014: \$252,045,906

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

- i. The most significant recorded assets owned by the government are property, plant and equipment which increased by \$9.9 million from \$132.7 million in 2014 to \$142.6 million in 2015. Much of this (\$8.3 million) was related to the capitalised expenditure from the Development Fund (New Hospital Project, Iris O'Neal Clinic, Queen Elizabeth Park and Greenland Stadium). The remainder was related to equipment and furniture purchased by the government.
- ii. Investments represents government's second largest balance sheet asset at \$82.2 million. This comprised of Term deposits \$61.1 million; International securities \$7.4 million and equity investment in the National Bank of the BVI \$13.7 million.
- iii. The cash position declined from \$36.7 million to \$32.5 million. This amount 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 2015 totaled \$15.7 million.
- iv. Advances to agencies increased from \$3.1 million to \$9.5 million. This was primarily the result of an advance of \$8.0 million to the Port Authority for the Cruise Pier Development Project (BVI Port Authority repaid \$1.5 million from previous year).
- v. The overall balance for advances (\$10.6 million) exceeded the statutory limitation at year end which is computed at 1.5% of the total amount appropriated.

AUDIT ISSUE 8: ASSETS

Depreciation

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.



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.

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).

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

2015: \$121,146,693

2014: \$118,545,695

36. 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.

- i. Total liabilities increased by 2.2% from \$118.5 million to \$121.1 million. This was largely the result of a declines in Other Refundable Deposits which fell by \$4.3 million from \$20.0 million to \$14.8 million and an increase in borrowings from \$92.1 million in 2014 to \$103.0 million in 2015. Also affecting this account is a reduction in bank overdraft by \$3.0 million.
- ii. The public debt (loans received by the government, usually for development projects) is the most significant government liability. This increased from \$92.1 million to \$103.0 million as a result of additional financing received for the Hospital Outfitting & Sewerage Infrastructure (\$11.7 million), Disaster Preparedness Infrastructure (\$1.4 million) and Road Rebuilding (\$8.5). The balance was also affected by repayments made during the year of \$10.8 million.
- iii. The \$103.0 million loan obligation was made up of \$12.2 million in foreign loans, \$54.2 million from local commercial banks and \$36.5 million from BVI Social Security Board. The interest payments on the public debt loans in 2015 totaled \$4.2 million compared to \$4.1 million in the prior year.
- iv. The New Peebles Hospital Project made up 76.5% of the Public Debt with a balance of \$78.8 million. Other loans were for Beef Island Airport (Terminal and Runway) \$6.6 million; Road Improvement Infrastructure \$11.4 million; Disaster Infrastructure & Hurricane Rehabilitation \$4.4 million and Water Projects (various) \$1.7 million.
- v. Refundable Deposits and Other Liabilities shown on the statement at \$14.8 million made up 12.2% of government liabilities. Within that balance is Accounts Payable (\$15.7 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. In addition, credit balances within the Refundable Deposits account have the effect of generating a reduced net balance.
- vi. Bank Overdraft of \$2.8 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.



AUDIT ISSUE 9: ADVANCE OF LOAN FUNDS TO PORT AUTHORITY

The BVI Government drew down an amount of \$11.7million on the Hospital Outfitting and Sewerage Infrastructure loan in 2015. The records show that \$8.0 million of this was not paid to the Government but was transferred directly from the lending agency to the BVI Port Authority, which was at the time undertaking development of the Pier Park.

No Advance Warrant was received in support of this transaction.

The Drawdown of \$11.7 million is included on the Balance Sheet as part of the public debt (Borrowings) and in note 10 of the Financial Statements. The \$8.0 million advance is reflected on the Balance Sheet under "Advances to Agencies" and in note 4 of the Statements.



Other Funds

2015: \$51,351,511

2014: \$46,395,625

37. 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 2015.

- i. The Reserve Fund's balance increased from \$44.2 million to \$49.2 million due to a transfer from the Consolidated Fund of \$5.0 million and interest income of \$358,697.
- ii. The Emergency Disaster Fund received interest income of \$2,788 in 2015 and recorded a balance of \$1.1 million at year end. The fund did not record any payment activity during the year.
- iii. The Pension Fund received interest income of \$14,566 but did not record any other activity. The balance at year end was \$1.0 million.

38. The balances on two active funds the Transportation Improvement Network Fund and the Contingency Fund were transferred to the Consolidated Fund in 2012.

39. Also transferred to the Consolidated Fund were the balances on several funds that had been inactive for a number of years. These were the Debt Service Fund, Car Loan Revolving Fund, Loan Revolving Fund and the Repairs and Renewal Fund.

AUDIT ISSUE 10: PENSION FUND AND PUBLIC PENSION OBLIGATIONS

As previously reported, the government supports a fully funded pension system for qualifying public servants and legislators. Over a ten year period pension and gratuities payments have more than doubled from \$7.6 million in 2005 to \$16.5 million in 2015. Currently the government's pension obligations far exceed the balance held in its Pension Fund of \$1.05 million.

An actuarial assessment is required to facilitate 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 11: 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

40. Government grants to Statutory Boards totaled \$53.1 million in 2015 and accounted for 19.0% 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	2015	2014
BVI Health Services Authority	25,212,082	22,000,000
BVI Tourist Board	10,093,646	11,271,354
HL Stoutt Community College	8,890,800	9,510,900
BVI Airport Authority	2,610,700	2,748,100
National Health Insurance	2,200,621	-
Financial Investigation Unit	1,662,500	1,662,500
VI Festival and Fairs Committee	1,131,766	1,538,764
BVI Recreation Trust	875,000	875,000
National Parks Trust	338,500	356,300
Wickhams Cay Dev. Authority	143,813	50,000
HLSCC Memorial Fund	-	40,600
	<u>53,159,428</u>	<u>50,053,518</u>

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

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

43. 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.

44. 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 National 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.

45. 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.



46. The government does not require statutory authorities to produce financials prior to providing financial subventions, 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.

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

48. At the time of writing 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 Commission	2012
Prospect Reef Management Company	2007
V I Festival & Fairs Committee	2006
Wickhams Cay Development Authority	2004

Contingent Liabilities

49. 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.

- i. Contingent liabilities increased by \$15.9 million from \$40.5 million in 2014 to \$56.4 million in 2015.
- ii. This increase was the result of drawdowns on one new loan issued to the Electricity Corporation of \$7.7 million, one loan issued to the Scholarship Trust Fund Board \$2.0 million and two loans issued to the BVI Ports Authority for the Cruise Pier Development totalling \$8.2 million.



- iii. Contingent liabilities balance at year end was made up of \$17.2 million for the BVI Electricity Corporation, \$4.2 million for the Scholarship Trust Fund Board and \$35.0 million for the BVI Port Authority.

Public Accounts Committee

50. 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.

51. The composition of the Public Accounts Committee changed after the 2015 General Elections. The body comprised of four members of the House of Assembly (two opposition members and two backbenchers from the Government side) with the Leader of the Opposition serving as Chairman. No meetings were convened during the course of the year.

Acknowledgements

52. 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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2015 REPORT OF THE AUDITOR GENERAL TO THE HOUSE OF ASSEMBLY

