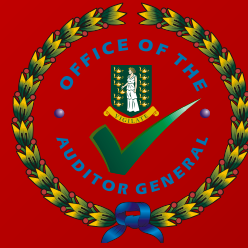




Government of the
Virgin Islands

**2016
REPORT**
OF THE
AUDITOR GENERAL
ON THE
**ACCOUNTS 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 2016





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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**

Honourable Andrew Fahie
Premier and Minister of Finance
Ministry of Finance
Road Town, Tortola
Virgin Islands

21 March 2019

Sir,

I forward herewith, my Report on the Accounts of the Government of the Virgin Islands for the year ended 31 December 2016, 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 2016

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 Statements of Operations for the year ended 31 December 2016. 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 2016 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 \$146,198,616 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 2016, and its financial performance and fund balances for the year then ended.

Sonia M. Webster
Auditor General
21 March 2019



GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 2016

(Figures in US\$)	2016	2015
ASSETS		
Current Assets		
Cash and Cash Equivalent	19,618,200	31,357,777
Public Officers Advances	967,859	1,343,920
Other Advances	1,139,033	1,081,325
Advances to Agencies	15,726,724	9,563,751
Current Accounts	519,066	537,082
Postmaster Receivables	531,026	482,858
Total Current Assets	38,501,908	44,366,713
Non-Current Assets		
Property, Plant and Equipment	146,198,616	142,651,733
Investments	89,948,494	82,250,272
Total Non-Current Assets	236,147,110	224,902,005
Total Assets	274,649,018	269,268,718
LIABILITIES		
Current Liabilities		
Postmaster Deposits	432,328	432,958
Bank Overdrafts	5,447,531	2,808,027
Other Refundable Deposits	16,550,958	14,844,389
Total Current Liabilities	22,430,817	18,085,374
Non-Current Liabilities		
Borrowings	99,272,498	103,061,319
Total Non-Current Liabilities	99,272,498	103,061,319
Total Liabilities	121,703,315	121,146,693
Net Assets	152,945,703	148,122,025
Supported by:		
Consolidated Fund	(5,159,764)	11,916,543
Development Fund	90,193,990	84,853,971
Emergency/Disaster Fund	1,119,803	1,117,002
Pension Fund	1,068,211	1,055,023
Reserve Fund	65,723,463	49,179,486
Total Fund Balances	152,945,703	148,122,025





GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF CHANGES IN FUND BALANCES
For the Financial Year ended December 31, 2016

(Figures in US\$)	Consolidated Fund	Development Fund	Emergency/ Disaster Fund	Pension Fund	Reserve Fund	Total Fund Balances
Balance as at January 1, 2016	11,916,543	84,853,971	1,117,002	1,055,023	49,179,486	148,122,025
Changes in Fund Balances attributable to:						
Surplus/(Deficit) for Financial Year 2016	13,279,743	-	-	-	(15)	13,279,728
Investment Income	57,552	241,205	2,801	13,188	442,112	756,858
Transfers from Local banks	-	-	-	-	6,190,532	6,190,532
Dormant Accounts Claims	-	-	-	-	(10,281)	(10,281)
Transfers from the Reserve Fund	78,371	-	-	-	(78,371)	-
Transfers to the Reserve Fund	(10,000,000)	-	-	-	10,000,000	-
Transfers from the Development Fund	3,667,334	(3,667,334)	-	-	-	-
Transfers to the Development Fund	(14,797,854)	14,797,854	-	-	-	-
Capital Acquisition	(2,584,857)	2,584,857	-	-	-	-
Debt Financing	(6,776,596)	6,776,596	-	-	-	-
Development Fund projects	-	(16,355,185)	-	-	-	(16,355,185)
Capitalized Expenditure	-	962,026	-	-	-	962,026
Changes in Fund Balances	(17,076,307)	5,340,019	2,801	13,188	16,543,977	4,823,678
Balance as at December 31, 2016	(5,159,764)	90,193,990	1,119,803	1,068,211	65,723,463	152,945,703



AUDITOR GENERAL
BRITISH VIRGIN ISLANDS



ACCOUNTANT GENERAL
BRITISH VIRGIN ISLANDS



GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY ECONOMIC CLASSIFICATIONS
AS AT DECEMBER, 31 2016

(Figures in US\$)	2016	2015
REVENUE		
Recurrent Revenue		
Payroll Taxes	49,672,317	49,812,030
Property Taxes	2,824,334	3,227,392
Taxes on Goods and Services	185,577,058	198,084,352
Taxes on International Trade	38,998,206	36,407,774
Taxes on Transactions	7,377,611	12,460,593
Sale of Goods and Services	15,042,704	15,307,182
Grants	4,020,980	3,058,385
Other Revenue	3,209,529	1,881,582
Total Recurrent Revenue	306,722,739	320,239,290
EXPENDITURE		
Recurrent Expenditure		
Employee Compensation	118,370,594	120,284,789
Goods and Services	72,759,970	69,056,175
Finance Cost	4,105,476	4,303,651
Subsidies	273,627	380,361
Grants	70,868,089	54,998,928
Social Benefits	13,057,985	12,119,844
Other Recurrent Expenditure	13,949,703	19,350,566
Total Expenditure	293,385,444	280,494,314
Operating Surplus	13,337,295	39,744,976





GOVERNMENT OF THE VIRGIN ISLANDS
STATEMENT OF OPERATIONS BY MINISTRY
AS AT DECEMBER 31, 2016

(Figures in US\$)	2016	2015
REVENUE		
Recurrent Revenue		
Constitutional Bodies	736,599	678,073
Office of the Governor	4,719,567	3,283,651
Office of the Premier	3,441,027	3,165,404
Ministry of Finance	280,101,175	294,346,113
Ministry of Natural Resources & Labour	8,488,539	8,679,118
Ministry of Education and Culture	1,577,136	1,642,167
Ministry of Health and Welfare	574,919	594,684
Ministry of Communications and Works	7,083,777	7,850,080
Total Recurrent Revenue	306,722,739	320,239,290
EXPENDITURE		
Recurrent Expenditure		
Constitutional Bodies	7,654,133	7,910,024
Office of the Governor	33,423,061	34,554,540
Office of the Premier	26,564,685	26,048,550
Ministry of Finance	28,571,337	35,545,984
Ministry of Natural Resources & Labour	11,333,955	12,909,894
Ministry of Education and Culture	53,692,910	53,203,698
Ministry of Health and Welfare	56,646,016	42,898,088
Ministry of Communications and Works	54,737,691	46,700,048
Statutory Charges	20,761,656	20,723,488
Total Expenditure	293,385,444	280,494,314
Operating Surplus	13,337,295	39,744,976





PART I

Audit Mandate

1. The audit of the accounts of the Government of the Virgin Islands for the year ended 31 December 2016 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 occasional lack of full access to information 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

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 2016 were received for audit 1 October 2018 and the final amended statements submitted on 6 March 2019.

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 2016 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 17-107 of the Accountant General's 2016 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 Treasury Department.

Financial Management Areas of Focus

21. The government's areas of focus as outlined in its 2016 - 2018 performance budget were:

- i. Maintain the recurrent surplus balance through revenue generating initiatives and expenditure efficiency measures;
- ii. Build the Reserve Fund balance by \$15 million;
- iii. Manage Pension Liability with the introduction of a contributory scheme
- iv. Maintain Borrowing ratios within Protocols limits;

The Revenue Generating Initiatives to be implemented included:

- a. Changing the charging base for import duties and customs tariffs;
- b. Collecting Passenger Taxes at sea ports of entry, Cruise passenger tax of \$7.00 per person and implementing the Tourist Arrival Environmental Levy;
- c. Changing the Work Permit structure and fees;
- d. Reviewing and revising the Marine Fee Structure;
- e. Increasing Hotel Accommodation Taxes from 7% to 10%;
- f. Collecting Telecommunications Royalties due to Government;
- g. Empowering revenue collecting agencies to enforce collections;

Expenditure Efficiency Measures included:

- a. Improved performance and efficiency of the Public Service;
- b. Reducing the cost associated with procuring goods and services and reduce subsidisation of public goods and services;
- c. Improving the financial management of Parastatals;
- d. Improving appraisal and assessment of projects to promote value for money on projects;
- e. Imposing budgetary controls to contain budget creep and offset new spending.

IPSAS Implementation

22. The government's financial infrastructural reform which commenced in 2013 includes implementation of International Public Sector Accounting Standards (IPSAS) for preparation and presentation of the public accounts. For the 2013 financial year 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. During 2016 two ministries underwent restructuring of their departments and portfolios. The Ministry of Health and Social Development introduced departments of Aged Care Services; Social Protection; Children and Family Support Services; and Disability Services. In addition, departments for Community Services; and Public Health were reintroduced with revised portfolios. The Ministry of Natural Resources and Labour transferred some of its functions to the Land Registry which was renamed the department of "Land and Seabed Management" in 2016.

25. Government's operating activity in the Consolidated Fund saw reduced revenue collections and increased overall spending which nonetheless resulted in an operating surplus of \$13.3 million. This was insufficient to cover the approved transfers to the Development and Reserve Funds leading to an ending deficit balance on the Consolidated Fund of \$5.2 million. An overview of Government's operations for the 2016 financial year is below.

- i. Government's revenue dropped by 4.2% from \$320.2 million in 2015 to \$306.7 million in 2016 as five of the eight revenue streams experienced reductions in collections.
- ii. Expenditure increased by 4.6% from \$280.5 million to \$293.4 million. This was primarily due to government grants (to statutory boards and others) which increased by \$15.9 million from \$55.0 million in 2015 to \$70.9 million in 2016.
- iii. Government's operating surplus at year end was \$13.3 million. This continued a trend of declining results with surpluses of \$39.7 million in 2015 and \$64.4 million in 2014.
- iv. Total assets increased by 2.0% from \$269.3 million to \$274.6 million, despite a 37.4% (\$11.7 million) reduction in Cash from \$31.4 million to \$19.6 million.
- v. Investments increased by 9.4% from \$82.3 million to \$89.9 million which was a net result of increases in local term deposits from \$61.1 million to \$69.3 million and reduction in the value of international securities from \$7.4 million to \$6.9 million. Non-traded equities of \$13.7 million (Government's Investment in National Bank of the Virgin Islands) remained unchanged.
- vi. Total liabilities increased marginally by 0.5% from \$121.1 million to \$121.7 million.
- vii. Public debt decreased to \$99.3 million from \$103.1 million. Drawdowns of \$3.2 million were received on the Disaster Infrastructure loan and \$3.5 million on Road Infrastructure loan. Principal repayments of \$10.6 million were made in 2016.
- viii. The overall result at year end was a 3.3% improved net asset position on the balance sheet from \$148.1 million in 2015 to \$152.9 million at end of 2016.



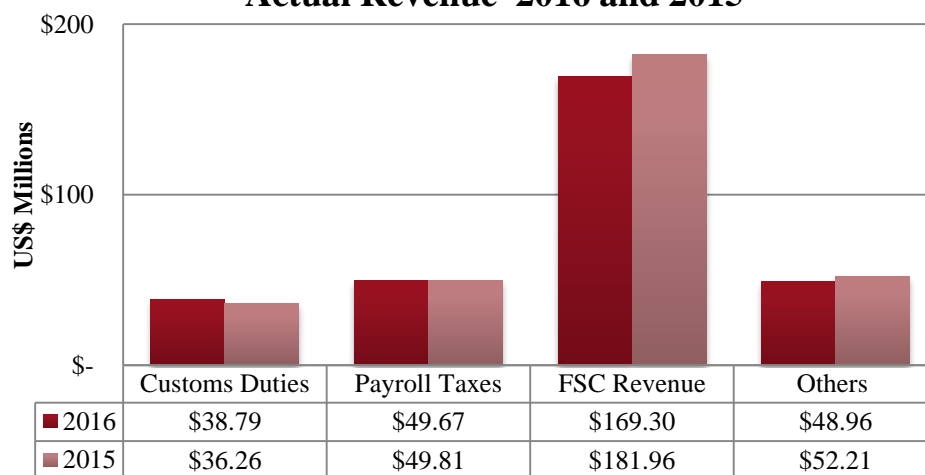
Recurrent Revenue

2016: \$ 306,722,739 2015: \$ 320,239,290

26. The Government's 2016 budget anticipated revenue of \$330.8 million. The actual collections totalled \$306.7 million. This was a shortfall \$24.1 million. An overview of government's revenue collection performance is below.

- i. Taxation revenue made up more than 92.7% (\$284.4 million) of the \$306.7 million received in 2016. The primary contributors were FSC (Financial Services Commission) Revenue \$169.3 million, Payroll Taxes \$49.7 million and Taxes on International Trade \$39.0 million with the remaining \$26.7 million made up of other miscellaneous taxes.
- ii. FSC revenue remained the government's primary income source in 2016, accounting for 55.2% of revenue. This source however fell short of its budgeted projection by \$13.9 million, and reported a 7.0% (or \$12.7 million) decline from the previous year's collections (2015: \$182.0 million).
- iii. Income from Payroll Taxes declined marginally from \$49.8 million in 2015 to \$49.7 million in 2016. Of the three major revenue sources, Customs Duties (classified under Taxes on International Trade) was the only one to achieve growth in 2016 increasing by 7.0% from \$36.3 million in 2015 to \$38.8 million in 2016.
- iv. Revenue from Sales of Goods and Services dropped from \$15.3 million in the previous year to \$15.0 million in 2016. This was the result of reduced collections on Water and Sewerage Services fees and Postal Services revenue which dropped by 20.4% and 9.3% respectively.
- v. There was no reported revenue from the Tourist Arrival Levy; Cruise Passenger Taxes; and Telecommunications Licensing fees which were projected to generate \$1.9 million, \$5.0 million and \$1.0 million respectively.

Actual Revenue 2016 and 2015





27. The government's electronic receipting system that is used by approximately 95% of the revenue collecting offices allows the Accountant General to monitor 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.

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

AUDIT ISSUE 1: 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 as revenue is 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.

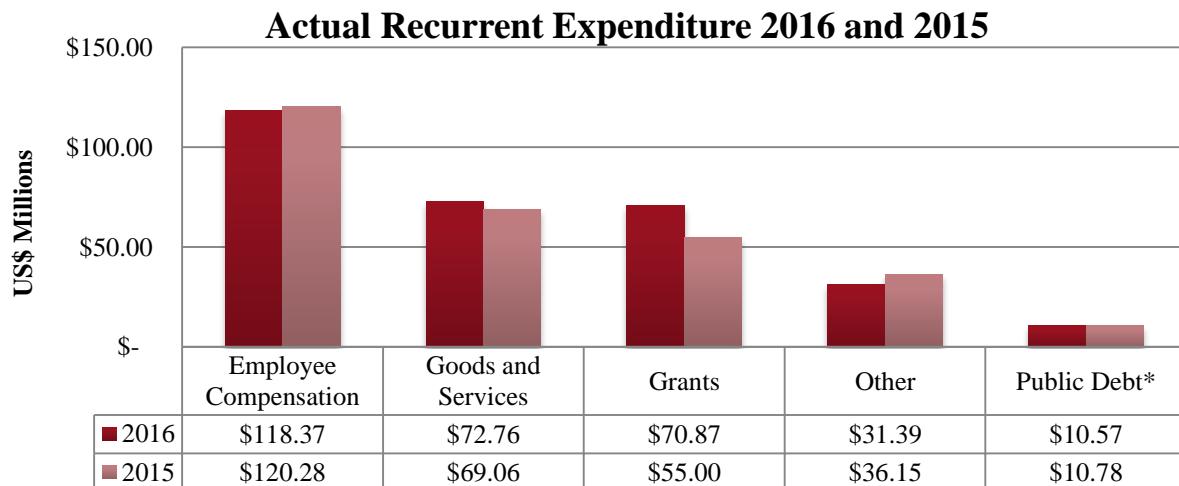


Recurrent (Operating) Expenditure

2016: \$ 293,385,444 2015: \$ 280,494,314

29. The 2016 budget provided \$286.6 million for recurrent (operating) expenditure. This provision was increased by one supplementary appropriation warrant to accommodate additional expenditure during the year. A synopsis of the recurrent expenditure is below.

- i. Operating expenditure for 2016 was \$293.4 million. This was an increase of \$12.9 million (4.6%) over the previous year.
- ii. Approximately \$118.4 million (40.3%) of the total recurrent expenditure was applied to personal emoluments and related staff costs. This was a decrease of \$1.9 million when compared to the prior year.
- iii. Goods and services totalling \$72.8 million accounted for 24.8% of recurrent costs. Payments under this head increased by \$3.7 million (5.4%) over the prior year amount of \$69.1 million.
- iv. Major expenditure under Goods and Services were Utilities \$39.2 million, (increased from \$30.8 million in 2015); Rent \$7.7 million (decreased from \$8.9 million) Supplies (including minor equipment) \$6.8 million (2015: \$7.1 million) and Consultancies \$4.3million.
- v. Grants (Subventions) accounted for 24.2% of the government's overall expenditure at \$70.9 million (\$55.0 million in 2015). Most of this (\$67.5 million) went to government supported statutory boards. Contributions of \$1.1 million were also made to Caribbean and International institutions with the remaining \$2.3 million going to other organisations.
- vi. The Ministry of Health and Welfare showed the greatest increase in recurrent expenditure, from \$42.9 million in 2015 to \$56.6 million in 2016. This was due to an increase in its contribution to statutory boards from \$27.4 million to \$41.3 million in 2016. This amount was paid to the National Health Insurance.



US\$ Millions * Not included in Recurrent Expenditure Amount



Excess Expenditure

30. Seven ministries/departments overspent their budgets in 2016. These are indicated in the schedule below.

EXPENDITURE HEAD	Excess Expenditure
Deputy Governor's Office	(2,614)
Treasury	(263,291)
Water and Sewerage	(31,310)
Post Office	(74)
Department of Social Development	(782,095)
Ministry of Communications and Works	(32,773)
Facilities Management Unit	(124)

31. The Deputy Governor's Office's excess expenditure was due to rent (office space and other) and consultancies.

32. The Treasury's excess was caused by payments made on Remittances and Agents fees of \$907,338 that exceeded the budgeted amount of \$586,900.

33. Payments on goods and services resulted in excess expenditure for the Water and Sewerage Department. This was related to the production of desalinated water, electricity and heavy equipment costs.

34. The excesses on the remaining four were the result of salaries and related staff costs.

35. The Department of Information and Public Relations also appears with an over-expended balance in the financial statements. This was the result of a mis-posting where expenditure was applied against an unused account number that did not contain the 2016 budget. Sufficient funding was provided under the appropriate account to properly cover the charges.

AUDIT ISSUE 2: 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. This process normally follows the tabling of the financial statements in the House of Assembly.



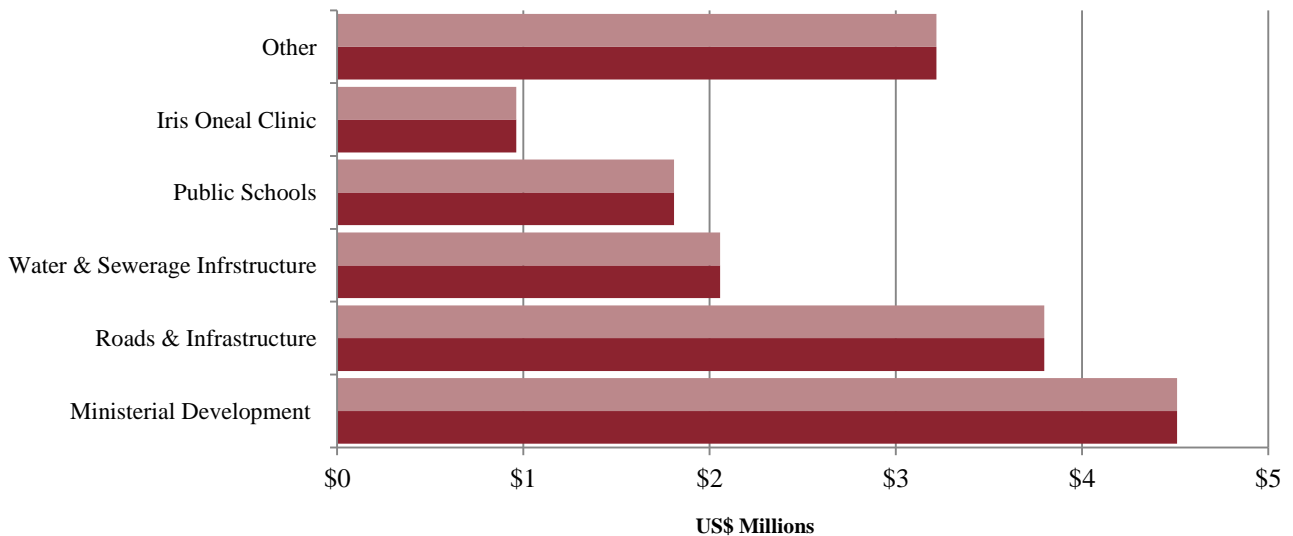
Development Fund Activity

Funding: \$ 21,815,655 Expenditure: \$ 16,355,186

36. The initial 2016 budget for the Development Fund provided for funding of \$40.0 million of which \$21.1 million was supported via borrowing and \$18.9 million from local revenues.

- i. The actual Development Fund receipts were \$21.8 million. This was comprised of \$15.0 million from local sources and \$6.8 million in loan funds.
- ii. Development spending decreased in 2016 to \$16.4 million from \$33.9 million in the prior year. Of the amount spent a total of \$1.0 million was capitalised and \$15.4 million expensed.
- iii. The Ministry of Communications and Works accounted for more than half of the government’s development expenditure (\$9.6 million) in 2016. Major projects undertaken by this ministry included Road Infrastructure works \$2.7 million; National Sewerage Project \$1.5 million; and Civil Works Mitigation \$1.1 million.
- iv. Other major development fund spending occurred in the Ministry of Education (for Secondary Schools \$1.3 million) and in the Ministry of Health and Social Development (on the Iris O’Neal Clinic \$1.0 million).
- v. Non-Specific Ministerial Development spending accounted for \$4.5 million or 27.58% of development spending. Most of this occurred under the Ministry of Communications and Works (\$3.8 million) with each of the other ministries spending below one million dollars.

Actual Development Expenditure 2016





AUDIT ISSUE 3: PROCUREMENT WEAKNESSES

The issues relating to procurement weaknesses have been reported in previous Audit reports and were again present in 2016.

At the time of writing, the Ministry of Finance was advancing draft legislation to update the public procurement process and address the related issues.

AUDIT ISSUE 4: MINISTERIAL DEVELOPMENT PROJECTS

The “Development Projects” subheads provided to the ministries continue to present issues of non-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.



Assets

2016: \$274,649,018 2015: \$269,268,718

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

- i. Government's most significant asset, Property, Plant and Equipment, increased by \$3.5 million from \$142.7 million in 2015 to \$146.2 million. This was primarily due to 44.9% increase in machinery and equipment.
- ii. Investments, the government's second largest balance sheet asset, increased from \$82.3 million in 2015 to \$89.9 million. This comprised of Term Deposits \$69.3 million; International Securities \$6.9 million and an equity investment in the National Bank of the VI of \$13.7 million.
- iii. The cash position dropped from \$31.4 million to \$19.6 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 2016 totalled \$16.6 million.
- iv. Advances to agencies increased from \$9.6 million to \$15.7 million. The balances on this account were BVI Health Services Authority \$1.5 million; BVI Port Authority \$7.0 million; and BVI Airways \$7.2 million.
- v. The overall balance for advances (\$17.8 million) exceeded the statutory limitation at year end which is computed at 1.5% of the total amount appropriated.

AUDIT ISSUE 5: 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, ghats, 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

2016: \$121,703,315 2015: \$121,146,693

38. 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 marginally by 0.5% from \$121.1 million in 2015 to \$121.7 million. An increase in current liabilities of \$4.3million was offset by a \$3.8 million reduction in the public debt.
- ii. The public debt (loans received by the government) is the most significant government liability. This dropped from \$103.1 million in 2015 to \$99.3 million in 2016. During the year additional loan financing was received for Disaster Preparedness Infrastructure (\$3.2 million) and Road Rebuilding (\$3.5million). Repayments were made during the year of \$10.6 million. This does not include \$5.0 million shown on the Statement of Government Debt for the Line of Credit.
- iii. The \$99.3 million loan obligation was made up of \$13.2 million in foreign loans, \$51.3 million from local commercial banks and \$34.8 million from BVI Social Security Board. The interest payments on the public debt loans in 2016 totalled \$4.1 million which is consistent with prior years.
- iv. Borrowing for the New Peebles Hospital Project made up 72.0% of the Public Debt with a balance of \$71.4 million. Other loans were for Beef Island Airport (Terminal and Runway) \$4.2 million; Road Improvement Infrastructure \$14.4 million; Disaster Infrastructure & Hurricane Rehabilitation \$7.6 million and Water Projects (various) \$1.6 million.
- v. Other Refundable Deposits was \$16.6 million in 2016. This made up 13.6% of government liabilities. Within this account is credit balance for Accounts Payable of \$19.6 million which is made up of outstanding cheques issued by the government that were undrawn at year end. Also included is a debit balance of \$13.5 million for BUPA (health insurance payable).
- vi. Bank Overdraft balance increased from \$2.8 million to \$5.4 million in 2016. This is made up of two accounts held in a local bank. The overdraft represents cheques that were issued but not yet presented to the bank for payment.



Other Funds

2016: \$ 67,911,477 2015: \$ 51,351,511

39. 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 2016.

- i. The Reserve Fund's balance increased from \$49.2 million to \$65.7 million due to a transfer from the Consolidated Fund of \$10.0 million, deposits from dormant client accounts from commercial banks of \$6.2 million and interest income of \$442,112. Bank charges of fifteen dollars incurred in the commercial banks dormant accounts is disclosed as a "Deficit" on the Statement of Changes in Fund Balances.
- ii. The Emergency Disaster Fund received interest income of \$2,801 in 2016 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 \$13,188 but did not record any other activity. The balance at year end was \$1.1 million.

AUDIT ISSUE 6: 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 \$7.8 million in 2006 to \$16.6 million in 2016. Currently the government's pension obligations far exceed the balance held in its Pension Fund of \$1.1 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 7: 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 totalled \$67.5 million in 2016 and accounted for 23.0% of Government's recurrent expenditure. More than half of this 61.2% was contributed to National Health Insurance with other major contributions going to the BVI Tourist Board and HL Stoutt Community College. The schedule below refers.

Grants to Statutory Boards	2016	2015
BVI Health Services Authority	-	25,212,082
BVI Tourist Board	10,532,500	10,093,646
HL Stoutt Community College	8,890,800	8,890,800
BVI Airport Authority	2,000,000	2,610,700
National Health Insurance	41,326,300	2,200,621
Financial Investigation Unit	1,620,500	1,662,500
VI Festival & Fairs Committee	2,456,150	1,131,767
BVI Recreation Trust	700,000	875,000
National Parks Trust	-	338,500
Wickhams Cay Dev. Authority	-	143,813
	<u>67,526,250</u>	<u>53,159,428</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 last confirmed 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	2017
Financial Investigation Agency	2017
Financial Services Commission	2017
National Bank of Virgin Islands	2017
BVI Electricity Corporation	2016
HL Stoutt Community College	2014
National Parks Trust	2014
BVI Health Services Authority	2015
BVI Port Authority	2013
BVI Recreation Trust	2013
BVI Airport Authority	2012
Telecommunication Regulatory Commission	2015
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 \$23.5 million from \$56.4 million in 2015 to \$79.9 million in 2016.
- ii. This increase was the result of drawdowns on one new loan issued to the Electricity Corporation of \$15.6 million, one loan issued to the Scholarship Trust Fund Board \$0.7 million and one loan issued to the BVI Ports Authority for the Cruise Pier Development of \$15.0 million.



- iii. Contingent liabilities balance at year end was made up of \$28.4 million for the BVI Electricity Corporation, \$4.5 million for the Scholarship Trust Fund Board and \$47.0 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 Public Accounts Committee is composed 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. Attempts to convene meetings during the course of the year were unsuccessful due to the absence of a quorum.

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.

OFFICE OF THE AUDITOR GENERAL
Road Town, Tortola
Virgin Islands