



2018

AUDIT OF THE PUBLIC ACCOUNTS
OF THE GOVERNMENT OF ST. KITTS & NEVIS



ST. KITTS NEVIS NATIONAL AUDIT OFFICE



St. Kitts and Nevis

National Audit Office

Report by the Director of Audit
On the Public Accounts
For the year 2018



***ST. KITTS AND NEVIS
NATIONAL AUDIT OFFICE
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September 27, 2019

Honourable Dr. Timothy Harris
Prime Minister and Minister of Finance
Government of St. Kitts and Nevis
Government Headquarters
Church Street, Basseterre
St. Kitts

Sir,

In accordance with Section 76 (4) of the Constitution of St. Christopher and Nevis, I submit the Annual Report of the Director of Audit for tabling in the National Assembly. This report includes the examination of the Public Accounts for the year ended December 31, 2018.

Respectfully,


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Carla Berridge - Pike, CPA, Forensic CPA

Acting Director of Audit

Director of Audit's Overview

It is with great pleasure that I present the Annual Report of the Director of Audit on the audit of the Public Accounts for the year ended December 31, 2018.

The principal objective of this Office is to promote better governance, transparency and accountability in the public sector and we strive to do this by issuing impactful reports.

The duties of the Director of Audit are enshrined in Section 76 of the Constitution of St. Christopher and Nevis and Section 6 of The Audit Act, 1990. Section 6 of The Audit Act allows the Director of Audit to make examinations and enquiries of Public Bodies and also Statutory Bodies as he considers necessary and appropriate.

The Annual Report of the Director of Audit is presented to Parliament in accordance with Section 7 (1) of The Audit Act, 1990 which states:

“The Director of Audit shall submit an Annual Report to the Minister for transmission to the National Assembly on the work of his office; on the results of his examination of the annual accounts; and on whether, in carrying out his duties, he received all the information, reports and explanations required.”

The Director of Audit is also required by Section 6 (2) of The Audit Act, 1990 to express an opinion as to whether the Annual Accounts submitted by the Accountant General represent fairly the financial position and results of operations of the Government.

Noting our role in the accountability process of the Government of St. Kitts and Nevis, we endeavor to do our best to enhance financial management, compliance, effectiveness and efficiency of the various Ministries and Departments.

In order to achieve our mandate, we work with individuals in various Ministries and Departments. I wish to acknowledge them and thank them for their co-operation and assistance.

I would also like to express sincere appreciation to my staff for their work and professionalism.


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Carla Berridge - Pike, CPA, Forensic CPA

Acting Director of Audit

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Analysis of the Financial Statements of the Government of St. Kitts and Nevis

INTRODUCTION

The Public Accounts of the Government of St. Kitts and Nevis are prepared by the Accountant General in accordance with Section 57 (2) (a) of the Finance Administration Act.

The Public Accounts of the Government of St. Kitts and Nevis were submitted to the National Audit Office by the Accountant General in compliance with Section 57 (2) (c) of the Finance Administration Act, 2007. This Act requires the Accountant General to submit copies of the Public Accounts to the Director of Audit within six months after the end of the financial year.

The Public Accounts for the financial year ended December 31, 2018 were submitted to the National Audit Office on June 28, 2019.

This section of the report provides an analysis of the Financial Statements and the Notes to the Financial Statements of the Government of St. Kitts and Nevis.

Compliance with Cash Basis International Public Sector Accounting Standards (IPSAS)

The requirements of Part 1 of Cash Basis IPSAS include:

1. A statement of cash receipts and payments which recognizes all cash receipts, cash payments and cash balances controlled by the entity;
2. Accounting policies and explanatory notes;
3. A comparison of budgeted and actual amounts if the approved budget is made publicly available.

The Statement of Cash Receipts and Payments on pages 9 and 10, the Statement of Comparison of Budget and Actual Amounts on pages 11 to 13 and the Accounting Policies

and Notes to the Financial Statements beginning on page 16 of the Public Accounts are in compliance with Part 1 of Cash Basis IPSAS.

Compliance with the Finance Administration Act, 2007

Section 57 (4) of the Finance Administration Act, 2007 lists the statements that are to be included in the Public Accounts. These include:

1. A summary statement of revenue and expenditure of the Consolidated Fund by standard object code and economic classification;
2. A comparative statement of actual and estimated revenue by detailed object code;
3. A statement of assets and liabilities;
4. A statement of each Special Fund;
5. A statement of the balance in each Deposit Fund;
6. A statement of investments showing the funds on behalf of which the investments were made;
7. A statement of public debt and accumulated sinking funds;
8. A statement of balance in any fund, other than a sinking fund, for which provision is made by or under an Act;
9. A statement of contingent liabilities of the Government;
10. Statement of balances on advance accounts;
11. Statement of arrears of revenue by detailed object code;
12. Any other statement the National Assembly may require.

As noted in previous Audit Reports, the Statement of Arrears is incomplete.

REPORT ON THE AUDIT OF THE PUBLIC ACCOUNTS OF THE GOVERNMENT OF ST. KITTS AND NEVIS

Opinion

I have audited the Public Accounts of the Government of St. Kitts and Nevis, which comprise the Statement of Financial Assets and Liabilities as at December 31, 2018, the Statement of Revenue and Expenditure, the Statement of Cash Receipts and Payments, the Statement of Comparison of Budget and Actual Amounts and the Notes to the Financial Statements including Accounting Policies.

In my opinion, the financial statements and notes presented in the Public Accounts present fairly, in all material respects, the financial position of the Government of St. Kitts and Nevis as at December 31, 2018.

Basis for Opinion

The audit was conducted in accordance with generally accepted auditing standards. The Director of Audit's responsibilities under those standards are further described in the Director of Audit's Responsibilities for the Audit of Public Accounts section of this report. It is my view that the audit evidence obtained is sufficient and appropriate to provide a basis for the above audit opinion.

Responsibility of the Accountant General

The presentation of statements, accounts and schedules of the Public Accounts are the responsibility of the Accountant General in fulfillment of Section 57 (4) of the Finance Administration Act, 2007 and the requirements of Cash Basis International Public Sector Accounting Standards (IPSAS).

The Accountant General is also responsible for maintaining a system of internal controls to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Director of Audit's Responsibilities for the Audit of the Public Accounts

The Director of Audit's responsibility is to audit the Public Accounts, express an opinion based on the work conducted and report in accordance with section 76 (2) and (4) of the Constitution of the Federation of St. Christopher and Nevis and section 7 of the Audit Act, 1990.

The objectives of this Office are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to error or fraud and to issue an audit report that includes an opinion. Reasonable assurance is a high level of assurance but it is not a guarantee that an audit conducted in accordance with auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with generally accepted auditing standards, the Director of Audit exercises professional judgement and maintains professional skepticism throughout the audit. The Director of Audit also:

- Identifies and assess the risks of material misstatement of the financial statements, whether due to error or fraud, designs and performs audit procedures responsive to those risks and obtains audit evidence that is sufficient and appropriate to provide a basis for an opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtains an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in circumstances but not for the purpose of expressing an opinion on the effectiveness of the Ministries and Department's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

The Director of Audit communicates with those charged with governance regarding the planned scope and timing of the audit and any significant audit findings, including deficiencies in internal control that were identified during the audit.

Submission of Report

In accordance with section 76 (4) of the Constitution of St. Christopher and Nevis and section 8 of the Audit Act, 1990, this report is being submitted to the Minister of Finance for presentation before the National Assembly.

.....*Pike*.....

Carla Berridge - Pike, CPA, Forensic CPA
Acting Director of Audit
National Audit Office
Basseterre, St. Kitts



September 27, 2019

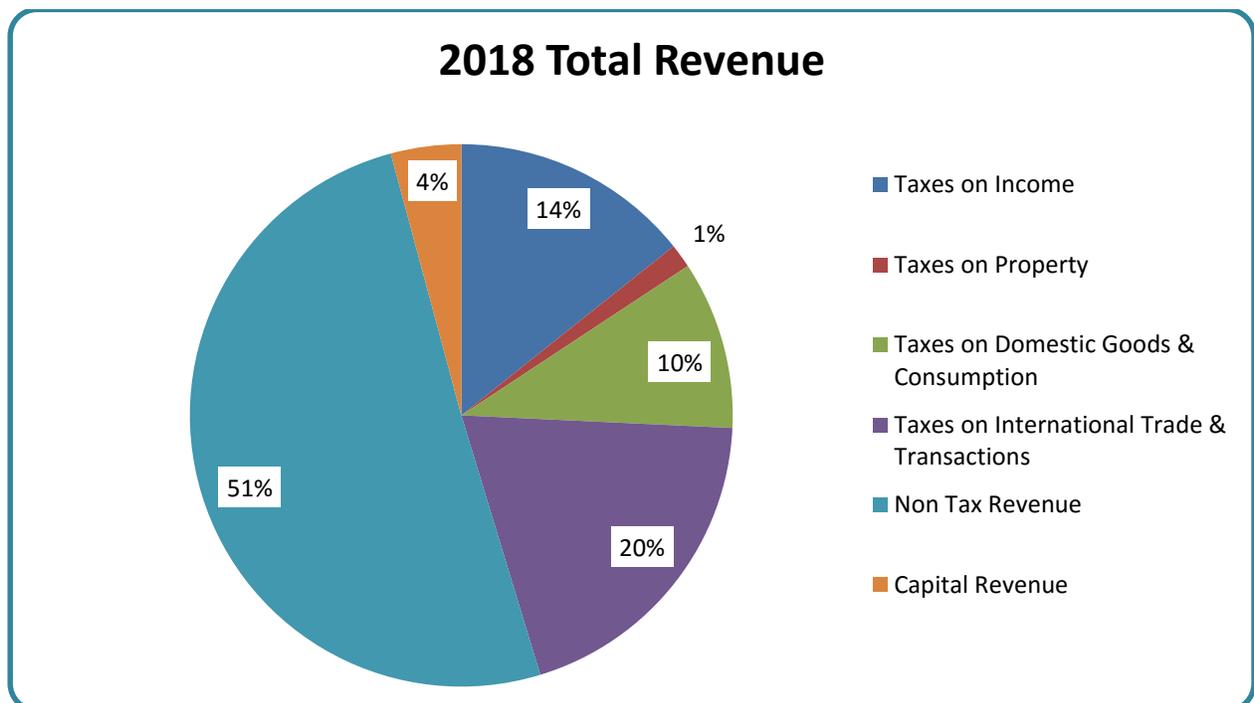
SUMMARY OF FINANCIAL INFORMATION

For the year 2018, Parliament approved an expenditure budget of \$706 million, which included \$42 million in debt repayment. Revenue for the year was estimated at \$712 million and this included the sale of government lands which was budgeted to bring in \$5 million. During 2018, a further \$275 million of expenditure was approved by supplementary/appropriation warrants.

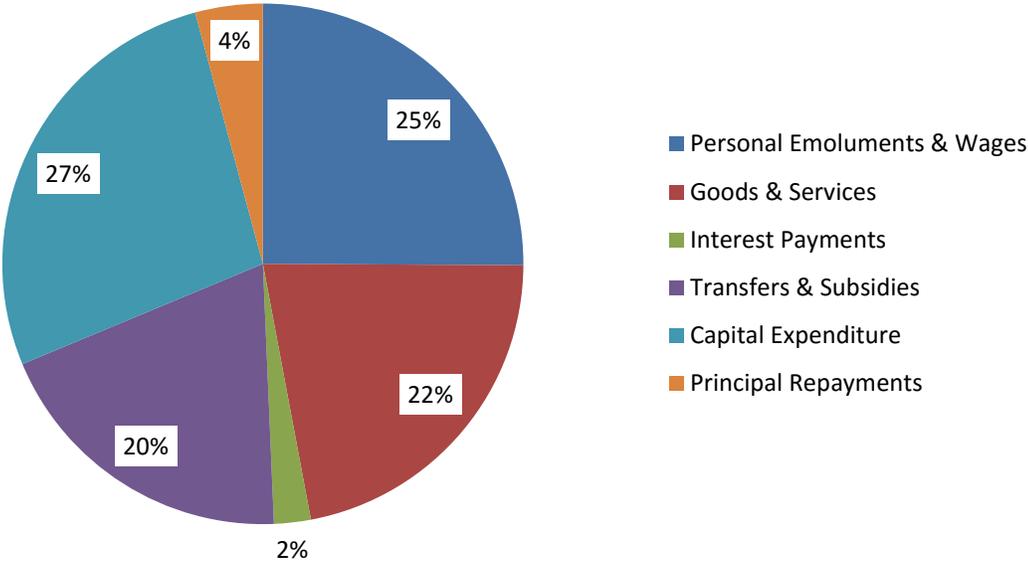
At December 31, 2018, actual revenue totaled \$956 million and actual expenditure amounted to \$922 million which resulted in an end of year surplus of \$34 million.

Graphical Presentation of Government Revenue and Expenditure

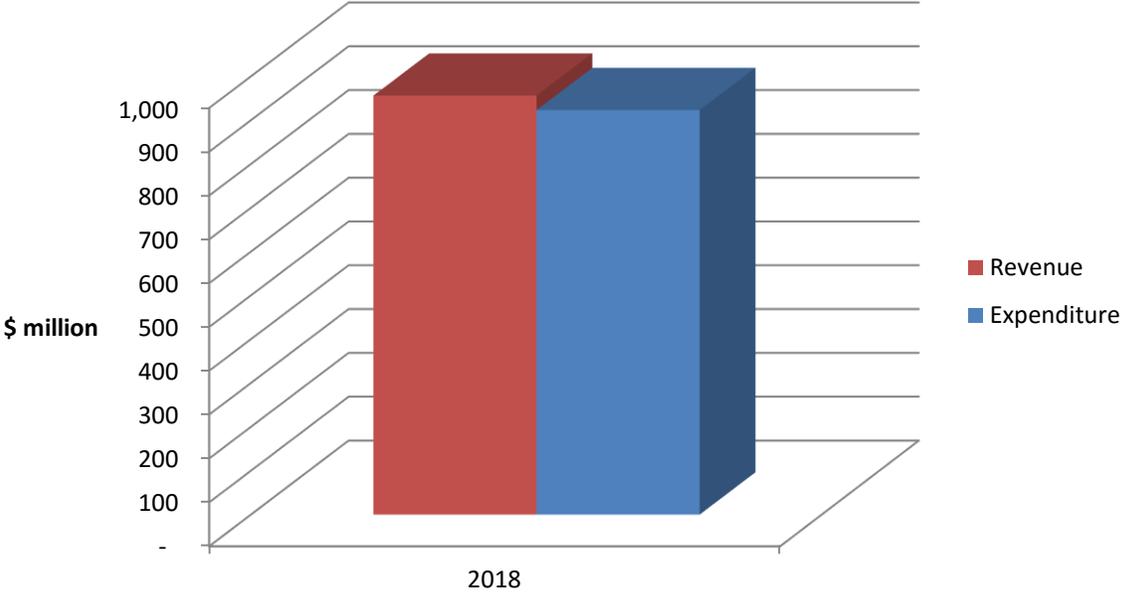
The following graphs represent the composition of the Government's revenue and expenditure for the financial year 2018.



2018 Expenditure



Total Revenue vs. Expenditure 2018



Revenue

Details of revenue collected during 2018, classified by ministry, standard object code and economic classification, as compared with Estimates are shown in the Public Accounts of the Government of St. Kitts and Nevis in Note 14. Table 1 presents a comparative summary of total revenue received in 2018 relative to 2017.

Table 1: Revenue for the years ended 2017 & 2018

Revenue Type	2018 Revenue (\$ million)	2017 Revenue (\$ million)
Tax Revenue	433	406
Non Tax Revenue	483	214
Capital Revenue	40	24
Budgetary Grant	-	17
	956	662

The overall revenue for 2018 totaled \$956 million, which was \$294 million more than the amount collected in 2017. Actual Tax Revenue collected in 2018 increased by \$27 million when compared to 2017.

Non Tax Revenue increased by \$269 million or 125% in comparison to 2017. The majority of this increase resulted from fees collected by the Citizenship by Investment Unit. Revenue collected by this Department increased by \$268 million over the previous year.

Development Aid received in 2018 surpassed the 2017 figure by \$16 million but did not meet the projected target of \$57 million.

Actual revenue collected by the Government in 2018 surpassed the projected target by \$244 million.

Expenditure

Actual expenditure for 2018 totaled \$922 million with personal emoluments and wages and capital expenditure accounting for over half of the total expenditure. Actual expenditure increased by \$290 million in comparison to the previous financial year. The largest increase in expenditure was as a result of monies spent on capital projects in 2018. Capital expenditure rose from \$59 million in 2017 to \$250 million in 2018. Table 2 shows a comparative summary of expenditure by type for 2017 and 2018.

Table 2: Expenditure for the year ended December 2017 & 2018

Expenditure Type	2018 Actual Expenditure (\$ million)	2017 Actual Expenditure (\$ million)
Personal Emoluments & Wages	231	227
Goods & Services	197	117
Interest Payments	21	23
Transfers & Subsidies	184	163
Capital Expenditure	250	59
Principal Payments	39	43
	922	632

Financial Indicators

Overall, the following indicators continue to present a picture of good health of the finances of the Government of St. Kitts and Nevis.

Surplus/Deficit

The surplus/deficit presented in the Statement of Revenue and Expenditure represents the difference between the revenues received and the expenditures paid

for all budgeted accounts. In 2018, the Government of St. Kitts and Nevis recorded a surplus of \$34 million which is an increase of \$4 million in comparison to the previous year.

Table 3: Government's surplus/deficit 2017 & 2018

	2018 (\$ million)	2017 (\$ million)
Total Revenue	956	662
Total Expenditure	922	632
Surplus/(Deficit)	34	30

Interest Costs to Operating Revenue

Interest costs as a percentage of operating revenue decreased from 3.6% in 2017 to 2.3% in 2018. This was due in large part to the significant increase in Government's operating revenues in 2018.

Debt to GDP Ratio

The Debt to GDP ratio is a measure of a country's ability to pay back its debt. The Debt to GDP ratio of the Government of St. Kitts and Nevis decreased from 60.8% at end December 2017 to 57.3% at the end of December 2018. As at December 2018, the Government of St. Kitts and Nevis' Debt to GDP ratio was below the target of 60% for the Eastern Caribbean Currency Union (ECCU). This Debt to GDP ratio of 57.3% also signifies that the Government of St. Kitts and Nevis' risk of defaulting on loan payments is relatively low.

Net Assets

At the end of December 2018, net assets of the Government of St. Kitts and Nevis amounted to \$448 million, an increase of \$34 million over the previous financial year indicating that the Government's financial assets were more than adequate to service

the financial liabilities. While there was a decrease in the financial assets of \$13 million, there was also a decrease in the financial liabilities of \$47 million.

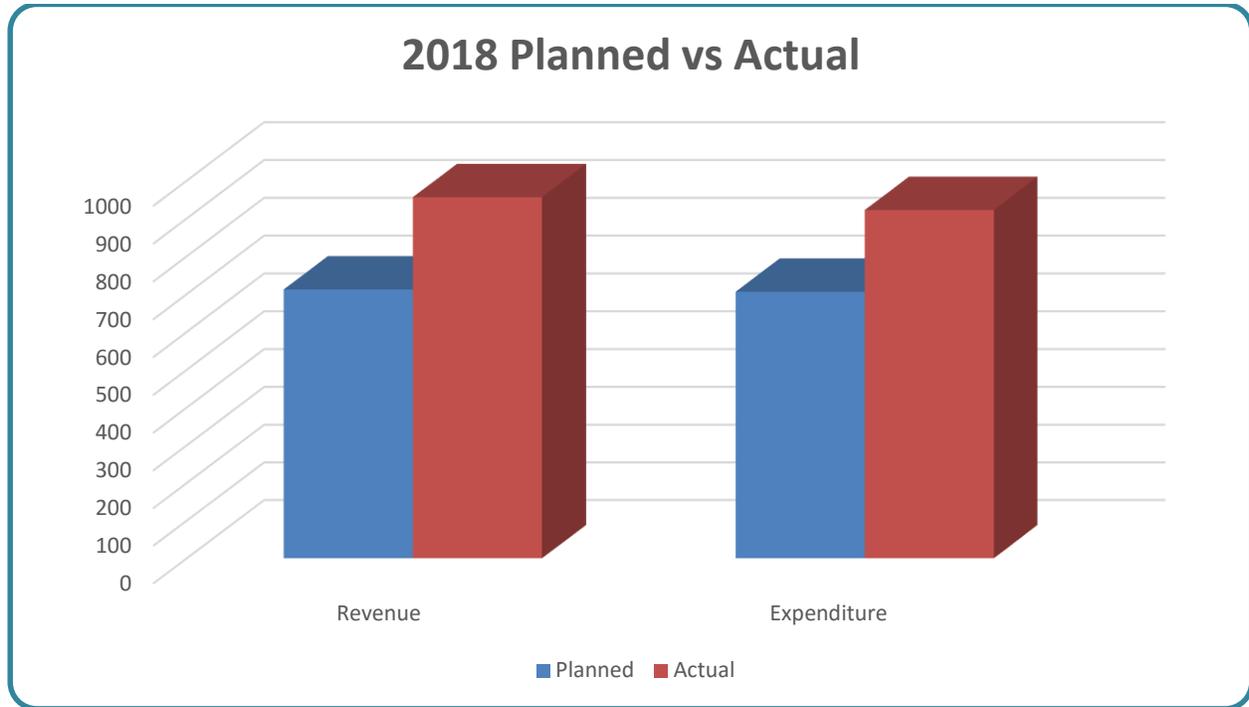
Cash Ratio

The cash ratio provides a measure of the Government's ability to use its most liquid assets (cash and cash equivalents) to meet its obligations. In 2018, the cash ratio was 2.1 relative to 1.91 in 2017 indicating an increase in liquidity coverage compared to the previous year. While the cash and cash equivalents held by the Government decreased by \$29 million, the current liabilities held also decreased by \$47 million leading to a favourable outturn in the cash ratio.

COMPARISON TO THE BUDGET

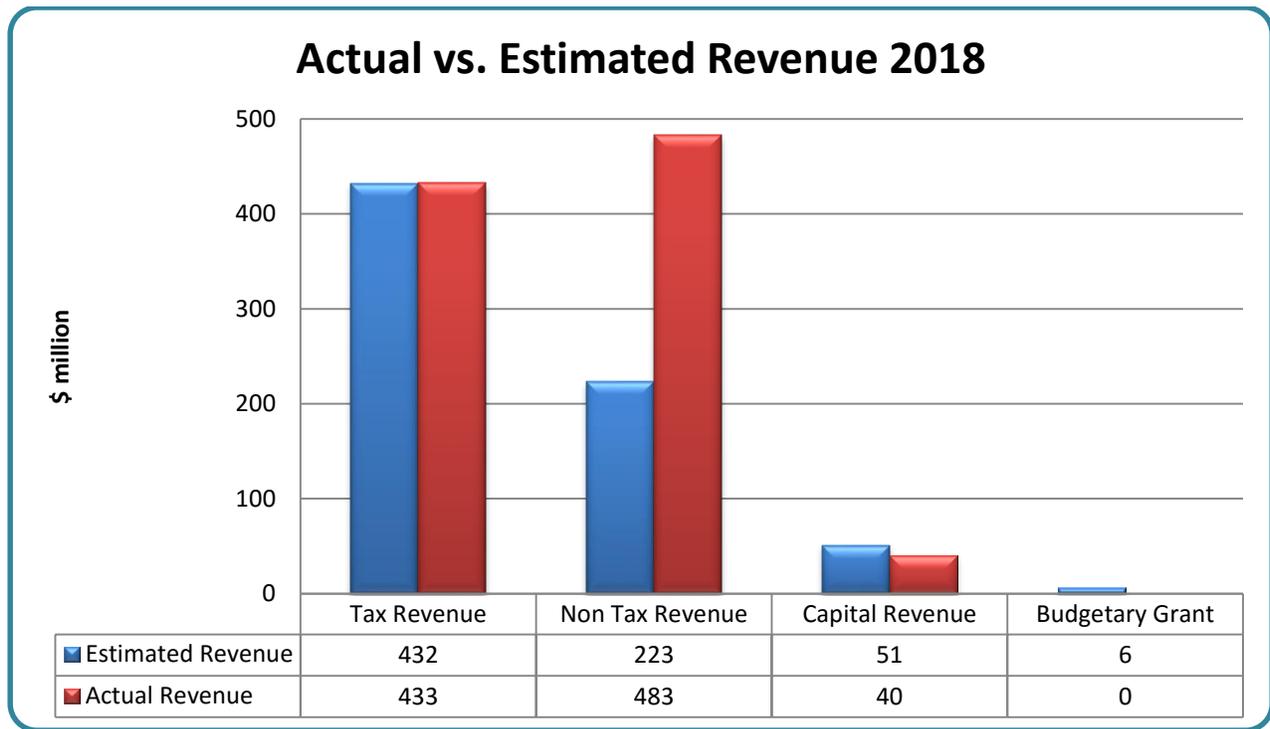
During the Budget Address in December 2017, the Government of St. Kitts and Nevis set out the planned budget for 2018 which included Revenue of \$712 million and Expenditure of \$706 million.

The actual monies collected and spent are shown in the graph below.



There are many reasons why budgets are not executed as planned. However, significant budget deviations can also result from poor revenue projections and unrealistic spending priorities among other factors. Such large budget deviations undermine the credibility of the budget process.

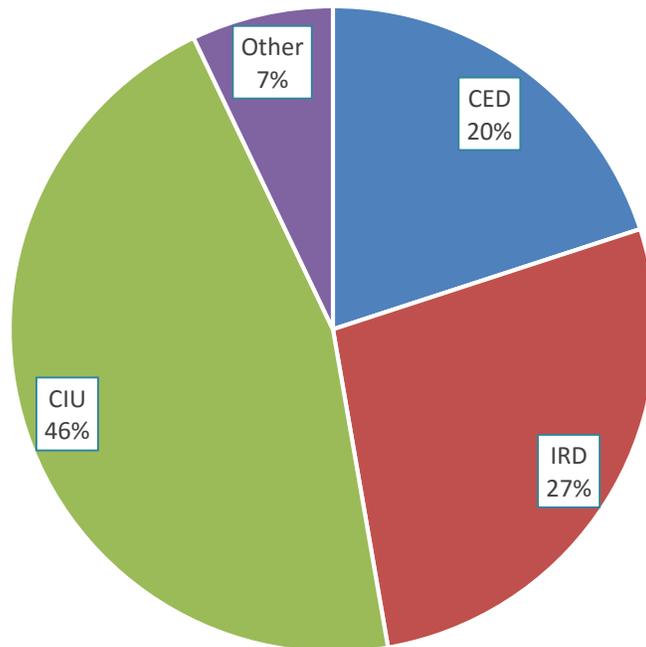
REVENUE



Recurrent Revenue

Recurrent revenue consists of tax and non-tax revenue. Revenue from these sources totaled \$916 million for 2018. The performance of recurrent revenue was \$261 million greater than the budget estimate for 2018. The Customs and Excise Department (CED), Inland Revenue Department (IRD) and the Citizenship by Investment Unit (CIU) collected 93% of the Government's recurrent revenue for 2018.

Recurrent Revenue Collection by Department



The Citizenship by Investment Unit was the largest contributor to the Government’s overall recurrent revenue collections. This Unit collected \$418 million in 2018. Actual Government fees totaled \$78 million. Fees collected for the Hurricane Relief Fund and the Sustainable Growth Fund totaled \$242 million and \$2 million respectively. Application fees collected amounted to \$8 million and fees collected for background checks were \$88 million. This represented an increase of \$268 million over the previous financial year. The collection of revenue by the Citizenship by Investment Unit surpassed its 2018 revenue projection by \$250 million.

The Inland Revenue Department collected \$250 million in taxes, licenses and fees in 2018. This represented a \$13 million increase in revenue collection over 2017. Stamp Duty (\$13 million), Value Added Tax (\$52 million), Corporate Income Tax (\$81 million), Withholding Tax (\$15 million) and Housing and Social Development Levy (\$41 million) all contributed significantly to the Inland Revenue Department’s collection for 2018. The Inland Revenue Department exceeded its targeted revenue collection for 2018 by \$5 million. With the

exception of Corporate Income Tax, which exceeded its target by \$12 million, all other tax types mentioned above fell below their projected target for 2018.

The Customs and Excise Department on St. Kitts collected \$183 million in 2018. The following four revenue streams contributed considerably to the overall collection of the Customs and Excise Department on St. Kitts: Import Duties on Articles other than Alcohol (\$59 million), Customs Service Charge (\$36 million), Value Added Tax (\$60 million) and Excise Tax (\$13 million).

The total amount collected by the Customs and Excise Department on St. Kitts was \$14 million more in comparison to the amount collected in 2017. While the collections from the Customs and Excise Department on St. Kitts were improved as compared with the previous year, the revenue collections failed to meet the target by \$4 million as the target had been raised by \$6 million. With the exception of Import Duties on Articles other than Alcohol, all other revenue streams mentioned above fell below their respective targets.

Other revenue collecting Departments contributed to the overall recurrent revenue collections including the Ministry of National Security (\$5 million), the Accountant General Department (\$31 million), the Ministry of Public Infrastructure (\$19 million) and Institution Based Health Services (\$4 million).

Capital Revenue

Revenue collected from the Sale of Lands and Property amounted to \$35 million, surpassing its target of \$5 million.

There was a shortfall in capital grant revenue compared to the estimated budget for 2018 as capital grants budgeted for were either not received or were less than estimated. Capital grant revenue was estimated at \$46 million for ten (10) Ministries, however the actual collection amounted to \$5 million, which led to an unfavourable variance of \$41 million.

1. Three Ministries did not receive the capital grants revenue that had been budgeted for. Within two of these Ministries, the capital projects for which the grant revenues should have been applied to were not started in 2018.

2. Five Ministries received significantly less in capital grant revenue compared to the amount budgeted.
3. The Office of the Prime Minister collected \$1.9 million in excess of the amount budgeted for.

Budgetary Grants

Budgetary Grants were estimated at \$6 million for 2018. However, no Budgetary Grants were received during the financial year.

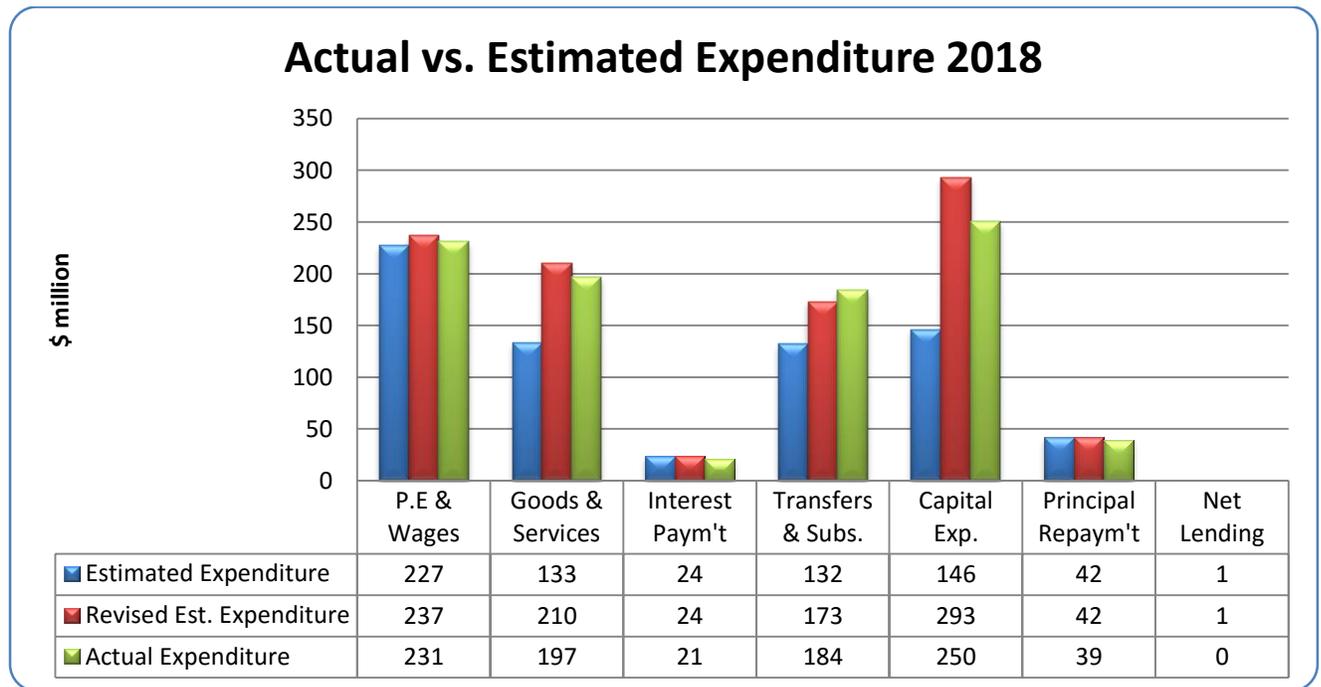
EXPENDITURE

The appropriations for expenditure during 2018 are shown below.

Original Budget \$706,129,036.00

Supplementary Budget \$275,506,767.25

\$981,635,803.25



Recurrent Expenditure

Actual recurrent expenditure totaled \$633 million in 2018.

The budget for recurrent expenditure was revised by Appropriation Warrants and increased by \$128 million resulting in a revised estimate of \$645 million. This revision affected 14 of the 19 Government Ministries.

Eight (8) Ministries submitted Appropriation Warrants in excess of \$1 million to meet additional expenditures. Table 4 below portrays the Ministries whose actual expenditure exceeded their original budgeted figures by over \$1 million.

Table 4: Ministries with actual recurrent expenditure in excess of \$1 million of their original budget

Ministry	Original Budget (\$)	Actual Expenditure (\$)	Variance (\$)
Office of the Prime Minister	33,847,972.00	117,106,710.45	83,258,738.45
National Security	56,870,840.00	60,709,540.40	3,838,700.40
Finance	166,221,695.00	188,268,124.52	22,046,429.52
Agriculture and Agri-Food	9,212,994.00	11,215,305.05	2,002,311.05
Tourism	24,444,451.00	28,532,422.27	4,087,971.27
Education	71,702,095.90	77,027,370.40	5,325,274.50
Health	49,909,894.00	54,012,374.93	4,102,480.93
Youth, Sports, Culture	7,020,229.00	9,270,024.91	2,249,795.91

The following reasons, as stated in the appropriation warrants for 2018, are in respect of the eight (8) Ministries whose actual recurrent expenditure exceeded their original budget by over \$1 million.

Office of the Prime Minister

- Consultancy fees and operational costs for the Citizenship by Investment programme for the last quarter of 2018 - \$56 million
- Marketing Fees for the Citizenship by Investment Unit - \$14 million
- Refurbishment of the ZIZ Broadcasting Corporation (ZBC) Building - \$677 thousand
- Payments to national scholars - \$67 thousand
- Sugar Industry Diversification Foundation (SIDF) - \$10 million
- Outstanding costs to the University of the West Indies and the Council of Legal Education - \$2.5 million

Ministry of National Security

- Provide police services to communities, covering outstanding bills, uniform, medical, forensic services, training, personal emoluments to administer the Anti-Crime Unit - \$3.8 million

Ministry of Finance

- Budgetary support and extra month's salary for the Nevis Island Administration's employees and its Statutory Bodies - \$22 million
- Payment to Special Land Sales Company for the redemption of lands - \$97 million

Ministry of Agriculture, Human Settlement, Co-Operatives and Environment

- Provide support to Farmers under the Agriculture Support Fund Initiative - \$1 million
- Support the National Housing Corporation's (NHC) HELP Programme - \$250 thousand
- Personal Emoluments for the Department of Agriculture - \$750 thousand

Ministry of Tourism

- Additional funds requested for the Music Festival 2018 - \$1 million
- Minimum revenue guarantee for Sun Country Airlines - \$1 million
- Funds to cover the payroll of the Frigate Bay Development Corporation - \$1.5 million

Ministry of Education

- Personal Emoluments for teachers at the various primary and secondary schools - \$4 million.
- Facilitate subvention for the Early Childhood Unit for September to December 2018 - \$465 thousand
- Contribution to the Clarence Fitzroy Bryant College for extra month's salary in December 2018 - \$514 thousand

Ministry of Health

- Personal Emoluments for staff of the Joseph N. France General Hospital - \$3 million
- Payment for Night Security Services at the Joseph N. France General Hospital - \$900 thousand
- Payment to Diagnostic Inc. for CT Scan services - \$100 thousand

Ministry of Youth, Sports and Culture

- Additional expenses for Sugar Mas 46 - \$2 million

Compared with 2017, the supplementary estimates increased by \$236 million. The examination of Appropriation warrants revealed requests for funds to settle outstanding bills. This raises concerns that Departments are making commitments to purchase without the actual budget in place to settle the invoices.

Requests for additional funds such as training, uniforms and personal emoluments (outside of the extra month's salary) also raised concerns as it suggests that Departments are not adequately planning and budgeting for their expenditures or that appropriation warrants

are being used for expenditures that have been disallowed or not included during the initial budgeting process. The previous recommendation remains.

It is recommended that:

Ministries/Departments budget effectively for their recurrent expenditure. Appropriation warrants should be used in instances where:

- **Expenditure could not have been foreseen at the time when the Estimates were passed**
- **Expenditure cannot be postponed without detriment to the public service and**
- **Expenditure cannot be met out of savings.**

Capital Expenditure

The capital expenditure budget for 2018 was approved at \$147 million to support 115 projects. The budget was revised to \$294 million to include funds required in relation to the following projects

- Upgrade of Government House - \$342 thousand
- Hurricane Relief Programme - \$38 million
- Land Redemption Project - \$97 million
- Purchase of Building – Washington, D.C - \$11 million

With the exception of the expenditure on Government House, the projects noted above were not budgeted for in 2018.

Actual expenditure for capital projects for 2018 amounted to \$250 million representing 85% of the revised budget. At the end of the 2018 financial year, 24 projects with a combined estimated budget of \$19 million had not been started. Of these 24 projects, 3 were new projects and the remainder were projects from prior years that had not commenced or were ongoing in 2017. Ten (10) of these projects which had no expenditure in 2018, also had no expenditure in 2017. They were rolled over and included in the 2018 budget and were still not implemented.

The following are some of the projects of the various Ministries.

Under the Office of the Prime Minister, \$1.4 million was spent on construction of the National Heroes Park and \$38 million was spent on the Hurricane Relief Fund project. The initial budget allocation of \$2.5 million was revised to \$41 million. We noted that there was no expenditure under the capital project Provide Scholarship Support, however extra funds were requested via an Appropriation Warrant to provide scholarship support to the National Scholars.

The Ministry of National Security spent \$12 million or 63% of its \$19 million budget allocation for capital projects. Major expenditure included \$1.8 million on the Containerized Forensic Unit, \$1.5 million on the Construction of Police Stations and \$1.8 million on the RSS Operations Project.

The Ministry of Finance's capital expenditure budget was revised from \$12 million to \$110 million to provide for a \$101 million expenditure on the Land Redemption Project. Other significant capital expenditures included \$2 million on the Upgrade/Rehabilitation of Government Buildings, \$1.5 million on the Construction of the Printery Building and \$2 million on the Customs and Excise Compound.

The Ministry of Agriculture spent \$1.9 million or 83% of its budgeted \$2.3 million. The majority of the funds were spent on the Rehabilitation of Old Road Fisheries Complex project. During the audit, we noted that the monies spent under this capital project did not relate to the project. Almost half of the funds spent under the Rehabilitate Old Road Fisheries Complex project were used to upgrade the Department of Marine Resources. Funds were also spent from 2 different capital projects accounts to acquire a motor vehicle which it has not received. The amount of \$72 thousand was also spent on the Agriculture Infrastructure Project. This is a project that was not budgeted for and the funds were used for the rehabilitation of the basketball and netball court in Cayon.

The Ministry of Tourism spent \$2 million or 63% of its budgeted \$3.2 million to undertake the Black Rocks Enhancement project, the Refurbishment of the Pelican Mall Office Spaces, the Coastal erosion Mitigation Project and the Frigate Bay Enhancement project. One project,

the Amina Craft market/Pelican Mall Drainage was not undertaken by the Ministry. The National Audit Office noted however that some work was done in this area by the St. Kitts Tourism Authority. There is a need for coordination between the Ministry of Tourism and the St. Kitts Tourism Authority in these matters especially since the St. Kitts Tourism Authority receives an annual subvention from the Government of St. Kitts and Nevis.

The Ministry of Public Infrastructure et al spent \$39 million or 75% out of a budgeted \$52 million on capital projects. The Ministry spent \$1.2 million on the Upgrade of the Dr. Kennedy Simmonds Highway, \$4 million on the Bus Terminal, \$10 million on the Road Improvement Project, \$4 million on the Rehabilitation of Old Road Bay and \$17 million on the Upgrade of the Island's Main Road.

The Ministry of Education spent \$11 million or 55% of its budgeted \$20 million. Seven million (\$7 million) was spent on the Construction of the New Basseterre High School project while \$1 million was spent to Refurbish Industrial Site Day Care.

The Ministry of Health spent \$4 million or 55% of its budgeted \$7.2 million. The \$3 million JNF General Hospital Development Phase III project did not materialize for the third year in a row. Capitalization of the National Health Insurance Scheme recorded \$870 thousand of expenditure out of the \$3 million budgeted for this project. There was also expenditure of \$1.7 million for the Construction of the Tabernacle Health Center.

The Ministry of Youth, Sports and Culture spent \$6.4 million or 96% of its \$6.7 million capital expenditure allotment for 2018. The largest expenditures included \$3.3 million on the Caribbean Premiere League (CPL) Games. One million (\$1 million) was spent on the Upgrade/Upkeep of Recreational Grounds and \$1 million spent on the Upgrading of Sporting Facilities.

The Ministry of Sustainable Development spent \$3.9 million or 38% out of its budgeted \$10.2 million. There were no expenditures on 5 projects which were brought forward from 2017 with either minimal or no expenditures in that year as well. The largest expenditures for this Ministry were for the Special Land Distribution Initiative of \$1.4 million and the Commercial Infrastructure Development Project of \$1.9 million.

The Ministry of Foreign Affairs purchased a building in Washington, D.C from the Organization of Eastern Caribbean States (OECS) at a cost of \$10.8 million.

The Ministry of Nevis Affairs et al spent 99% of its budgeted \$5.1 million dollars. Five million (\$5 million) of this budget was earmarked to capitalize the Severance Payment Fund to make payments for both Severance Payments and Long Service Gratuity. The auditors found that \$2.2 million of this amount was paid directly out of the capital account to persons for severance payment and long service gratuity benefits. This is not in compliance with the Protection of Employment Act which requires all payments to be made from the Severance Payment Fund.

The implementation rate for capital projects increased significantly from 41% in 2017 to 85% in 2018. There is still a concern that projects are not being properly planned. This can be seen by the number of projects without expenditure and the number of projects that continue to be rolled forward from year to year without implementation. There continues to be expenditure within project accounts that do not relate to the purpose for which the project was created.

It is recommended that:

- 1. Departments carefully plan their capital expenditure projects and only budget for projects that will commence or be executed within the financial year. Projects that are not properly planned and executed can cause large variances that undermine the budgeting process.**
- 2. That the Public Sector Investment Programme (PSIP) Coordinating Committee be reconstituted in order to improve the planning and implementation of capital projects.**
- 3. Ministries utilize funds in respect of capital expenditure for the purpose for which they were granted.**
- 4. Ministries coordinate with their respective statutory bodies and government owned corporations in the facilitation of projects to ensure that the Government is not allocating resources to a Ministry and giving a subvention to a corporation to carry out the same project.**

Principal Repayments

The budget for principal payments on outstanding loans of the Government of St. Kitts and Nevis for 2018 was approved at \$42 million with \$23 million budgeted for external debt principal payments and \$19 million budgeted for domestic debt principal payments. The actual expenditure totaled \$39 million with domestic debt principal payments accounting for 58% of the expenditure.

STATEMENT OF CASH RECEIPTS AND PAYMENTS

The Statement of Receipts and Payments as presented in the Public Accounts, shows the cash receipts and payments of the Government sub-classified by operating, investing and financing activities. This statement also shows the opening and ending balances of cash for 2018.

The Statement of Cash Receipts and Payments is presented on pages 9 and 10 of the Public Accounts. A summary of that statement is presented in the following table.

Table 5: Summary Statement of Cash Receipts and Payments

	2018 (\$ million)	2017 (\$ million)
Net Cash Flows :		
Operating Activities	266	94
Investing Activities	(1)	(30)
Financing Activities	(39)	(43)
Net increase/(decrease) in cash	(29)	21
Cash at beginning of period	702	681
Cash at end of period	673	702

There was a decrease in the cash position of the Government by \$29 million at the end of 2018.

Net Cash Flow from Operating Activities

Total receipts from operating activities totaled \$1.3 billion in 2018. Tax revenues collected by the Inland Revenue and Customs and Excise Departments accounted for 33% and fees collected by the Citizenship by Investment unit accounted for 32% of the total receipts from operating activities respectively. Payments on operating activities totaled \$1 billion. This resulted in a net cash flow from operating activities of \$266 million in 2018.

Net Cash Flow from Investing Activities

Receipts from investing activities totaled \$883 million which included proceeds from sale of government lands, interest, dividends, return on investments and receipts from a bond issued by the Government of St. Lucia. Payments from investing activities which included capital expenditures, monies invested at the Development Bank of St. Kitts and Nevis and outflows from funds held by the Accountant General totaled \$1.1 billion resulting in a net cash flow from investing activities of **(\$257)** million.

Net Cash Flow from Financing Activities

There were no receipts from financing activities as the Government did not directly receive any proceeds from loans in 2018. Payments on financing activities totaled \$39 million which represented domestic and foreign loan principal payments.

STATEMENT OF FINANCIAL ASSETS AND LIABILITIES

A Statement of Assets and Liabilities is a requirement of the Finance Administration Act, 2007. It is a statement of end of year balances of the Below the Line Accounts, which are not subject to the budgetary process. Since the Government uses the cash basis of accounting, fixed assets (which are expensed) and balances that make up the Public Sector Debt (shown as separate schedules) are not included in the Statement of Financial Assets and Liabilities.

Cash and Cash Equivalents

Cash and cash equivalents decreased by \$29 million over the previous year. At the end of 2018, the Government of St. Kitts and Nevis had an accumulated cash balance of \$673 million

consisting of deposits at local banks, deposits at the Eastern Caribbean Central Bank (ECCB) and fixed deposit accounts of various lengths and interest rates.

Advances

Personal Advances

At the end of 2018, personal advances given to civil servants totaled \$2.2 million. This amount represents 206 individual accounts with outstanding balances ranging from \$65 to \$48,000.

We note that there has been a significant decrease in personal advances that fall outside of the criteria of 'legal, educational and medical' purposes. However, there is still a need for the existing policy to be updated as long as personal advances are being issued.

Twenty-five (25) personal advance accounts with a total value of \$241,413.36 had no activity during the year 2018. This was the same figure mentioned in the 2017 report. The majority of these accounts have been dormant for several years.

It is recommended that:

- 1. The Ministry of Finance review and update the existing policy for granting personal advances to establish eligibility, the maximum amount that can be extended, the maximum repayment period and actions to be taken in cases of default.**
- 2. An assessment is undertaken for those accounts that are currently not being serviced. A proposal should be developed to collect the amounts due from persons who are still in the service and a decision should be made as to the feasibility of collecting outstanding amounts from persons who are no longer employed in the Service.**

Subsistence Advances

Advances given to Government Ministers for work related travel totaled \$350 thousand at the end of 2018. These advances are given to the Ministers to cover accommodation, per diem and incidentals for their travels. Initially recorded as advances, they are then transferred to an expenditure account upon the submission of a Claim for Subsistence and Traveling Expenses form by the Ministers of Government.

The Government has taken steps to address the outstanding subsistence advances of previous Ministers of Government which have decreased from \$216 thousand to \$182 thousand during 2018. At the end of 2018, the outstanding advances of current Ministers of Government amounted to \$167 thousand which increased from the previous year's figure of \$155 thousand.

Subsistence advances should be cleared immediately upon return to the Federation. This would allow the amount given as an advance to be correctly charged to the expenditure account during the year in which travel occurs. Failure to clear these subsistence advances would understate travel expenditure for the current year.

The clearing of travel advances issued to Ministers of Government has been a long-standing issue. It has been mentioned in past audit reports and the outstanding amount has remained significantly high.

It is recommended that:

A written policy be put in place to address the clearing of travel advances for the Ministers of Government.

Other Advances

The following advances have been appearing on the Public Accounts for a number of years, some in excess of ten (10) years. The balances have remained the same over the years and there is no indication that recovery is imminent.

Table 6: Other Advances with outstanding balances

Advances	Balance (\$)
St. Kitts Tourism Authority – Enhancement	14,107,701.38
SSMC Severance Payment	6,052,864.53
Interest on Credit Facilities (SSMC)	19,942,856.92
Island Dredging Ltd.	10,800,000.00
Ex SSMC Workers Programme	344,338.03
Chairman La Vallee Greens	1,572,828.33
Nevis Island Administration	1,500,000.00
F/S Project YES	3,815,708.66
F/S for ABI	1,361,241.90

It is recommended that:

The Accountant General undertake an assessment to ascertain whether or not these funds can be recovered. If not, the Accountant General should seek permission to have these amounts written off to ensure accuracy and proper reporting. If these amounts cannot be collected and they are not written off, it will present inaccurate information in the financial statements. It must be noted that section 19 (2) of the Finance Administration Act, 2007 states “the write off of all or part of a debt does not extinguish the right of the Government to collect it”.

Other Investment

In 2018, the Government of St. Kitts and Nevis invested a total of \$16 million to the Development Bank of St. Kitts and Nevis, of which \$15 million provided for the Government

Employees Mortgage Loan Facility and \$1 million provided support for farmers under the Agriculture Support Fund respectively.

The terms of repayment for the Government Employees Mortgage Loan Facility states semiannual interest-only payments twice per year over a 25 year period at an interest rate of 2%.

The terms of repayment for the Agriculture Support Fund states semiannual interest-only payments twice per year over a 6 year period at an interest rate of 2.5%.

Interest from both investments were received by the Government during 2018. The investments will be repaid at the end of the interest-only terms.

The Government of St. Kitts and Nevis invested in a \$5.4 million bond issued by the Government of St. Lucia in 2015. The terms of repayment states semiannual fixed payments of \$270,000 for 10 years at an interest rate of 7.5%. Both payments for 2018 were received in full and by the due date.

Trust Funds

Trust Funds increased by \$4 million in 2018. This was largely due to the increase in the balance of the Severance Payment Fund. Although the Fund's balance is still negative, the injection of \$2.8 million from the Capitalization of Long Service Gratuity and Severance Payment Fund project increased the Severance Payment Fund's balance.

As at December 31, 2018, the balance on the Severance Payment Fund was **(\$5.2)** million. The table below shows the receipts into and payments out of the Severance Payment Fund for 2018.

Table 7: Severance Payment Fund Receipts and Payments

	2018 (\$)
Balance at 1/1/2018	(9,734,570.84)
Receipts:	
Severance Contributions from Social Security	7,118,312.18
Transfer from Capital Account	2,822,240.83
Treasury Bills Interest	70,312.50
	10,010,865.21
Payments:	
Severance Payments	3,034,678.94
Long Service Gratuity	2,485,127.74
	5,519,806.68
Balance at 31/12/2018	(5,243,512.01)

Other Public Funds

Other Public Funds decreased by \$51 million in 2018. The balances of the Below the Line Deposit accounts constitute 88% of the balances of Other Public Funds. These Below the Line accounts are not subject to the budgetary process and are used by some Departments to process routine expenditures. We continue to recommend the closure of non-essential Below the Line Deposit accounts.

PUBLIC SECTOR DEBT

The Public Sector Debt is included in the Notes to the Financial Statements in the Public Accounts. Notes 10 and 11 beginning on page 39 of the Public Accounts present the debt of the Central Government and contingent liabilities in the form of loan guarantees to statutory bodies, government owned corporations and the Nevis Island Administration respectively. In the event that the entities mentioned above are unable to repay their guaranteed loans, the responsibility for payment of these loans would fall on the Central Government.

As at December 31st 2018, the Public Sector Debt of the Government of St. Kitts and Nevis amounted to \$1.56 billion, a decrease of \$32 million over the previous year. Central Government debt decreased from \$902 million to \$734 million while guaranteed debt increased from \$694 million to \$830 million.

Total domestic debt of the Central Government decreased by \$155 million. This was due in part to the decrease in the 91 and 365 day Treasury Bills portfolio and a decrease in the Central Government Arrears to Petro Caribe – PSKN. The Central Government Arrears to Petro Caribe – PSKN decreased by \$71 million in 2018 as a result of debt relief in the amount of \$48 million and debt restructuring that resulted in an upfront payment of \$22 million in 2018.

There were no maturity dates for loans of the Central Government in 2018, therefore no loans were paid off in that year.

While the Central Government debt decreased by \$168 million or 19% relative to 2017, the guaranteed debt increased by \$136 million or 20% relative to 2017. Within the guaranteed debt portfolio, domestic debt increased by \$145 million. This was largely due to 3 new loans by government owned corporations totaling \$108 million. Overdrafts held by government owned corporations revealed a decrease of \$84 million as a result of the significant decrease in the overdraft held by the Nevis Island Administration in the St. Kitts Nevis Anguilla National Bank.

Guaranteed debt now accounts for 53% of the total public sector debt as compared to 43% in 2017. For the past 2 years, the public sector debt amount has remained constant even with

a decreasing Central Government debt portfolio as a result of the increasing guaranteed debt portfolio. While commendation must be given for the decrease in the overdrafts of the Nevis Island Administration and the Public Corporation, every effort must be made to ensure that the debt levels of these entities are sustainable.

SUBVENTIONS

As part of the audit of the Public Accounts for 2018, the National Audit Office requested copies of Financial Statements and status updates from the following entities that received subventions in 2018 as noted in the Public Accounts.

Entity	Last audited Financial Statements	Year Presented in Parliament
Children's Home	No response	No response
CARDI	2013	Last audited Financial Statements have not been presented to Parliament.
St. Kitts Tourism Authority	2016-2017	Presented to Parliament in 2019
Clarence Fitzroy Bryant College	No response	No response
Solid Waste Management Corporation	2017	Presented to Parliament in 2018
Handicraft & Cottage Industry	No audited Financial Statements	Accounts not presented to Parliament
National Carnival	No response	No response
St. Christopher National Trust	2017	Last audited Financial Statements have not been presented to Parliament.
Frigate Bay Development Corporation	2016	Presented to Parliament in 2019

ARREARS OF REVENUE

The statement of arrears of revenue is a requirement of the Finance Administration Act, 2007. The statement shows arrears of revenue as at December 31, 2018 of \$3.9 million. A summary of the results is shown in the table below.

Table 8: Arrears by Ministry

Ministry/Department	2018 Arrears Total (\$)	2017 Arrears Total (\$)
International Trade	41,642	8,615
Finance – Customs Department	560,325	Not provided
Tourism	295,400	298,405
Public Infrastructure: Water	2,151,986	Not provided
Public Infrastructure: Public Works	412,760	720,924
Public Infrastructure: Post Office	168,623	75,726
Education	259,474	545,418
Total	3,890,210	1,649,088

This statement is once again incomplete. While the table represents arrears of \$3.9 million, the figure is presumed to be greater as notable revenue collecting agencies such as the Inland Revenue Department and the Joseph N France General Hospital did not submit information concerning arrears of revenue.

It is recommended that:

- 1. The Accountant General ensure that all revenue-collecting entities submit their arrears of revenue information in a timely manner to be included in the Public Accounts.**
- 2. That Ministries and Departments employ efforts to have the amount of arrears reduced.**

OTHER AREAS OF CONCERN – Internal Controls

As part of the audit of the Public Accounts, the National Audit office assessed the internal controls within selected Ministries and Departments. The following issues were noted.

1. Recurrent Expenditure transactions were incorrectly classified.

This was a general finding throughout the Departments audited. Expenditure should be classified and posted to the account that best justifies the purpose and use of the funds. This allows for uniform presentation of financial data.

During the audit, it was noted that this practice occurred whenever funds from the appropriate expenditure account had been used up. Instead of transferring funds from an account that had monies into the correct account, the funds were spent from any expenditure account where funds were available.

Failure to properly classify expenditure leads to understated and overstated accounts.

2. An audit of the expenditures of the Office of the Attorney General revealed an amount of \$112 thousand paid for vehicle accidents caused by government employees.

Examination of expenditures of this Ministry revealed that in 2018, \$112 thousand in payments were made for 8 vehicular accidents involving government-owned vehicles. In each case, the driver was found to not have proceeded with due care and attention.

The audit conducted also noted that there was no firm policy that dealt with the use, maintenance and protection of government vehicles. The personal use of a government vehicle is a liability to the Government. Policies must address whether government owned vehicles can be used for personal business and outline disciplinary actions for the willful misuse and negligence while operating a government vehicle.

3. Severance payments and Long Service Gratuity payments were processed from a Capital Expenditure Account.

The Protection of Employment Act governs the use of the Severance Payment Fund. It states that all claims for benefits shall be paid out of the Fund. In 2018, \$2.2 million in severance and long service gratuity payments were processed and approved for payment to individuals directly out of the capital expenditure account budgeted to capitalize the Fund.

4. The Ministry of Labour, Social Security and Ecclesiastical Affairs continued to provide grants even though the terms of the grant had not been complied with.

In 2018, the Ministry of Labour, Social Security and Ecclesiastical Affairs provided grants to religious organizations as part of its Community Outreach Assistance Scheme (COAS) which provides a maximum of \$500 to support outreach events and activities. As part of the scheme, organizations that received funds were required to submit a report of the activity for which the funds were used upon completion. There were 67 payments made in 2018 to 48 organizations, however the audit noted that only one (1) report had been submitted. The audit noted that some organizations had received more than one grant even though they had not fulfilled the requirement of submitting a report for the first grant received.

5. The amount of \$50 thousand was processed and approved for the purchase of a vehicle that has not been received.

The audit noted that \$50 thousand was processed and approved from 2 different capital expenditure accounts of the Ministry of Agriculture et al in December 2018. A review of the capital profiles of these 2 projects did not mention a purchase of a vehicle. In an attempt to verify the existence of the vehicle, the audit revealed that the purchase of the vehicle was never completed. The vehicle was never collected even though the funds were paid to the vendor. These funds were not requested to be returned to the Government.

6. Internal controls were circumvented in the payment of salary arrears to 3 individuals within the Ministry of Health.

Payroll-related expenditures for the Government of St. Kitts and Nevis are only processed by the Human Resource Department in the Office of the Prime Minister. This ensures that necessary approvals have been obtained and that payroll deductions such as Social Security and Housing and Development Levy are dealt with properly.

The arrears of salaries were computed by the Human Resource Department. The files were then sent to the Ministry of Health to alert the Ministry as to the amount of the arrears and request the appropriate account from which to pay the arrears. The files should have then been returned to the Human Resource Department.

On December 28th 2018, the Ministry of Health processed arrears of salaries to 3 nurses totaling \$26 thousand. These payments were then approved by the Budget Division of the Ministry of Finance.

The payments made by the Ministry of Health were the gross payments and did not take into consideration Social Security and Social Development Levy for the years for which the arrears were paid. This could have implications for the individuals involved as their records at the Social Security Board will not reflect the correct salary and therefore could affect any claims to benefits from the Social Security Board.

7. The Ministry of Agriculture has not been collecting rent for all entities occupying space at the St. Kitts Sugar Manufacturing Corporation (SSMC) compound.

The audit found that 6 businesses operate from the SSMC compound. However during the year 2018, revenues were received from only 1 entity. Contracts were requested for all 6 entities. Two of the contracts were not provided. Two of the contracts that were provided were expired and one contract was invalid as it was not signed by the Permanent Secretary or the Minister responsible.

Based on the contracts and historical payment data, the Ministry of Agriculture should have collected \$250 thousand for the financial year 2018. The actual amount collected amounted to \$66 thousand. The National Audit Office requested but was not presented with a Statement of Arrears of Revenue.

Activities of the National Audit Office

This section of the report highlights the work and activities of the National Audit Office during the year 2018.

Our Mission

To promote good governance, accountability and transparency by conducting independent audits and examinations.

What we do

The duties of the Director of Audit, as laid out in the Constitution of the Federation of St. Christopher and Nevis, are to ensure that monies that have been budgeted for by the Parliament of St. Kitts and Nevis and disbursed have been used for the purposes that it was given. The Director of Audit is also required to audit the Public Accounts of the Government of St. Kitts and Nevis.

Our Guiding Legislation

The Constitution of the Federation of St. Christopher and Nevis - Section 76

- Section 76 requires the Director of Audit to satisfy himself that all moneys that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that expenditure conforms to the authority that governs it
- At least once in every year, audit and report on the public accounts of the Government.

The Audit Act, 1990

- Make examinations and enquiries of Public Bodies
- Examine the Annual Accounts and Express an opinion
- Examine or make additional examinations and enquiries of the accounts of Statutory Bodies
- Conduct audits of a company, institution, association or concern in respect of money provided to it by a Public Body

The year 2018 was undoubtedly a challenging year for the National Audit Office and some of the challenges have continued in 2019. Staffing the Office has been and remains a priority. However, the National Audit Office has not received any new staff since the first quarter in 2017. The shortage of senior staff coupled with the numerous requests for audits limits the scope of the audits that we do undertake.

The National Audit Office needs to be given more autonomy in the selection of individuals with the requisite skills and qualities that are needed to fulfill its mandate.

During 2018, the National Audit Office conducted a total of 8 audits and finalized 5 audit reports including the audit of the Public Accounts of the Government of St. Kitts and Nevis, compliance audits and special audits. Some of these audits have been undertaken on the initiative of the National Audit Office while others have been requested.

Budget

The National Audit Office received an expenditure budget of \$1.3 million in 2018, which included \$1 million in salaries, wages and allowances and \$262 thousand in other expenditure.

The actual expenditure of the National Audit Office amounted to \$857 thousand. The variance between the budgeted and actual expenditure resulted mainly from the \$400 thousand savings in personal emoluments from the unfilled positions at the National Audit Office.

Activities

The Office continues to train its staff and participate in regional and international activities of Supreme Audit Institutions.

In March 2018, the National Audit Office engaged in training courses in Modules 1 and 2 of Audit Fundamentals. These courses which included topics such as Corporate Governance, Audit Engagement Standards, Fieldwork and the Audit Reporting Process was facilitated by the Management Institute for National Development (MIND) out of the Jamaica. All officers of the National Audit Office who took the assessments passed successfully.

One of our officers participated in a four-month attachment at the Government Accountability Office (GAO) in the United States during the period March to July 2018.

Two officers participated in a Report Writing workshop facilitated by the Caribbean Organization of Supreme Audit Institutions (CAROSAI) and the Inter-American Development Bank. This workshop was held in Jamaica and it was the second phase of the parallel Procurement Audit programme that commenced in 2017. The National Audit Office participated in this programme.

Two officers attended a Supreme Audit Institution Performance Measurement Framework (SAI PMF) workshop in Suriname. The SAI PMF is an international framework for the assessment of a Supreme Audit Institution's performance against the International Standards of Supreme Audit Institutions (ISSAIs) and good practices.

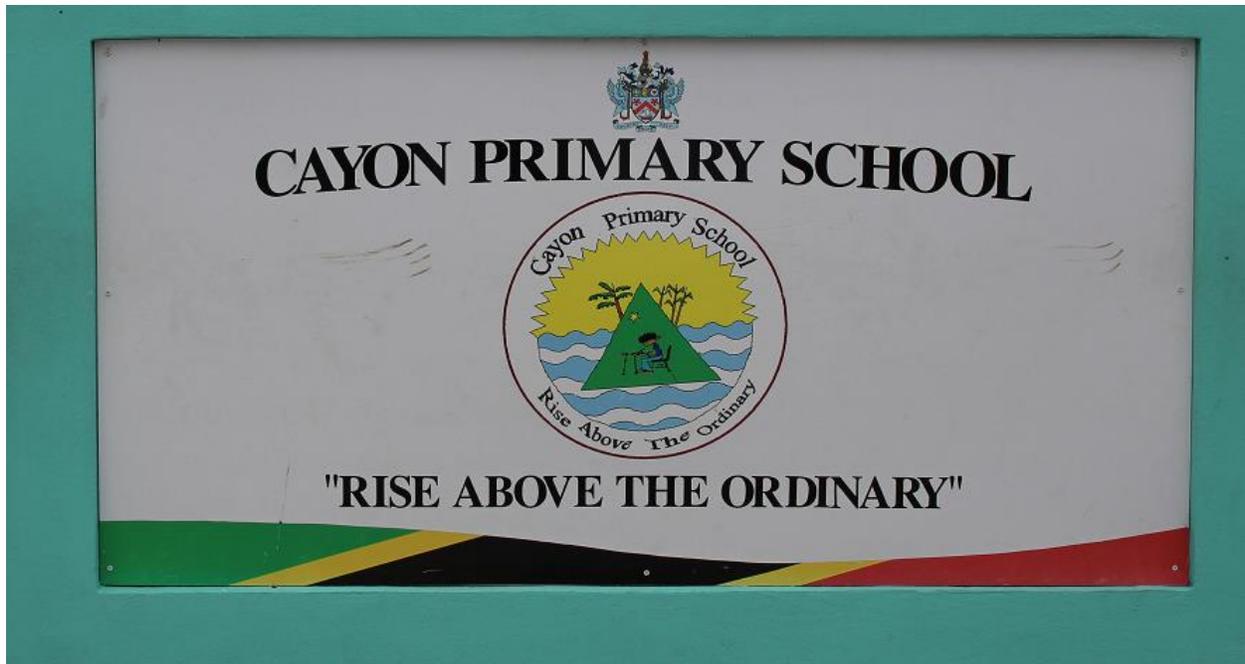
Two officers attended CAROSAI's 30th Anniversary Conference in Jamaica during the third quarter of 2018.

During the fourth quarter of 2018, all staff of the National Audit Office participated in training in Microsoft Office Excel which was conducted at the National ICT Centre in St. Kitts to enhance their use of spreadsheets specifically for the purpose of collecting and analyzing audit evidence.

Audits Conducted During the Year

The following audits were completed during the year 2018. Each Ministry/Department was given the opportunity to respond to the findings.

National Audit Office



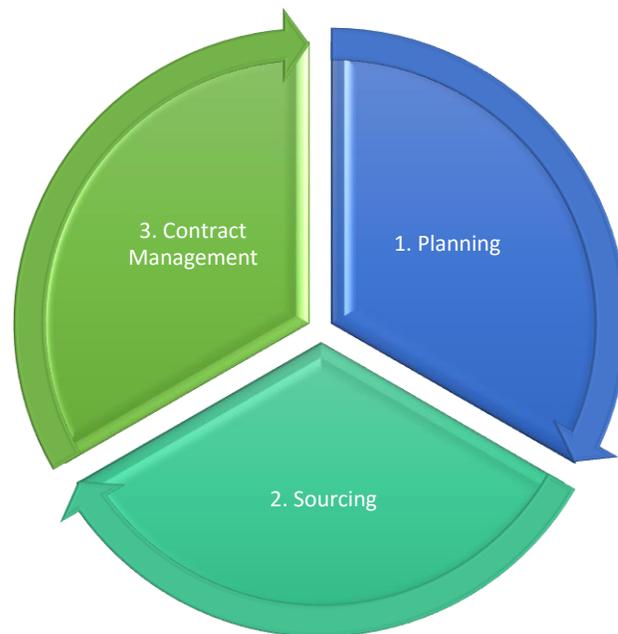
Audit of the Procurement Process of the Cayon Primary School Roof Renovation Project

EXECUTIVE SUMMARY

The St. Kitts and Nevis Basic Needs Trust Fund (BNTF) was an entity within the Ministry of Social Development, Community and Gender Affairs. The BNTF was a poverty alleviation programme funded by the Caribbean Development Bank and the Government of St. Kitts and Nevis. The projects implemented by the BNTF provided for critical infrastructure development as well as training to sections of the population.

We conducted a compliance audit on the Cayon Primary School Roof Renovation Project, a BNTF project. The audit was conducted to determine if the procurement activities of the Cayon Primary School Roof Renovation Project were done in compliance with the relevant regulations, policies, guidelines and best practices.

There are three main phases of the procurement process as shown in the diagram below.



The audit concluded that the BNTF met all the requirements of the Planning phase of the procurement process. However, the Sourcing and Contract Management phases of the procurement process presented areas for the management to strengthen controls over the processes.

While this report is directed to the Ministry of Social Development, Community and Gender Affairs, the findings and recommendations are applicable to all ministries and departments involved in the procurement of works.

A summary of significant audit findings and recommendations is presented in this section, while the details are presented in Part Two of this report.

Did the BNTF comply with the procurement law and guidelines of the Government of St. Kitts and Nevis and the Caribbean Development Bank in relation to the Cayon Primary School Roof Renovation Project?

What we found

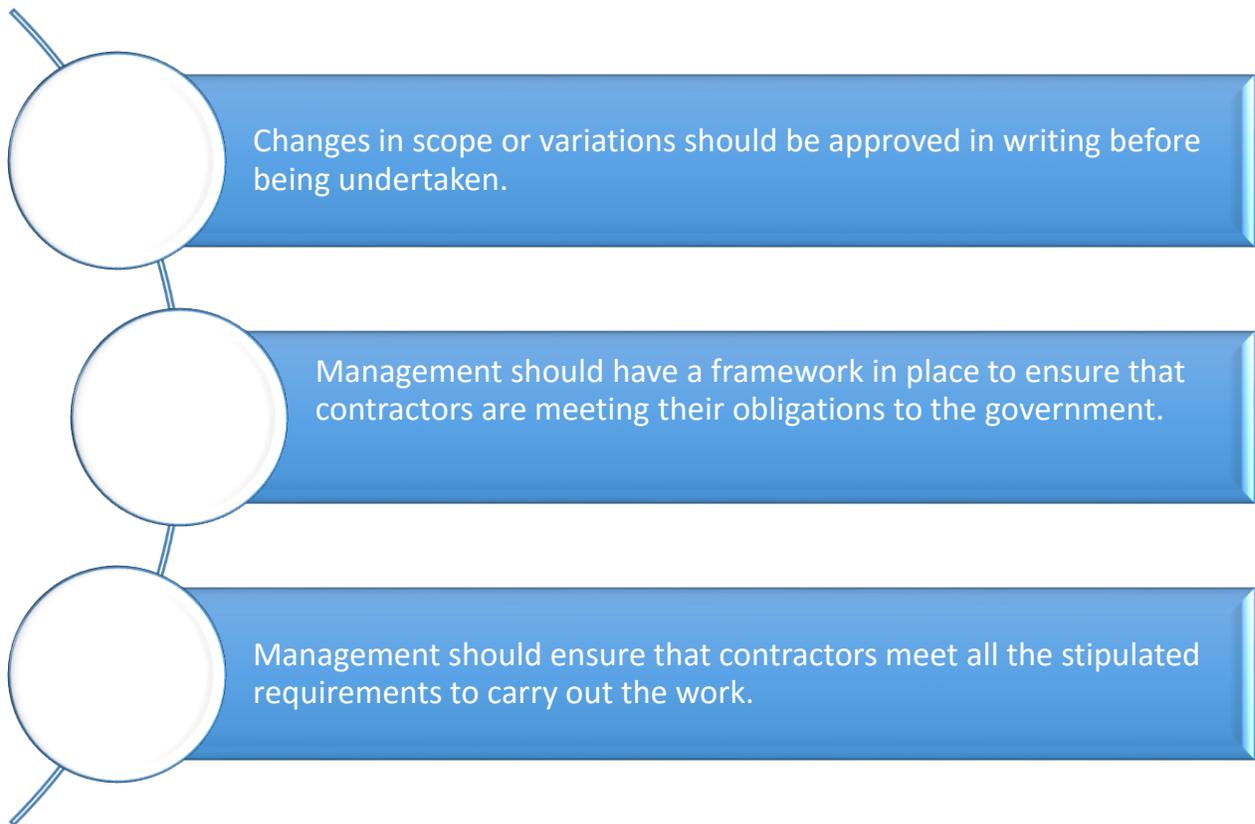


1. **Additional work was completed at the Cayon Primary School before the written authorization to do extra work was obtained from the Caribbean Development Bank.** This could have placed the contractor as well as his workers at risk of not being paid if the approval had not been granted.
2. **BNTF did verify that bidders were acceptable legal entities, however more should be done to assess whether bidders for government projects are in good standing with government departments and agencies.** Bidders are required to submit their business license as proof of their ability to carry out work in St. Kitts and Nevis. However, it is not a requirement that tax clearance certificates from the Inland Revenue Department and Letters of Good Standing from the Social Security Board be presented.
3. **The contract was awarded to the lowest priced bidder, however we noted that this bidder did not meet the specific work experience as set out in the bidding documents.** The bidding document for the Cayon Primary School Roof Renovation project outlined the qualifications that contractors should possess. Contractors were

to have specific work experience in three (3) projects of a similar nature, each worth ECD\$700,000 or more.

We found that the successful bidder fell below the specific experience threshold for all 3 projects noted in his submission.

What should be done



PART ONE - INTRODUCTION

Background

The St. Kitts and Nevis Basic Needs Trust Fund (BNTF) was an entity within the Ministry of Social Development, Community and Gender Affairs. The BNTF was a poverty alleviation programme funded by the Caribbean Development Bank and the Government of St. Kitts and Nevis. The projects implemented by the BNTF provided for critical infrastructure development as well as training to sections of the population.

The mission of BNTF is to provide resources to poor communities in order to:

- improve access to basic public services
- enhance employability
- reduce economic and social vulnerability to risks that impact income and well being

BNTF financed sub-projects facilitated the reduction of poverty in the following areas:

1. Education and Human Resource Development which includes rehabilitation, extending and refurbishing of existing schools
2. Basic Community Access and Drainage Enhancement
3. Water and Sanitation

The daily operations of the BNTF Office in St. Kitts were carried out by the Implementing Agency which comprised of a Project Manager, an Accounting/Administrative Officer and a Community Liaison Officer. The overseeing of the office and its activities was tasked to a locally appointed Project Oversight Entity (OE).

In 2016, the BNTF announced the receipt of USD\$2,066,342 to fund sub projects under BNTF Cycles 7 and 8.

In July 2016, the BNTF provided funding for the Cayon Primary School Roof Renovation sub-project through financing from the Caribbean Development Bank and the Government of St. Kitts and Nevis in the amount of ECD\$675,000 (USD\$250,473).

Four businesses submitted bids for the Cayon Primary School Roof Renovation Project. The contract for the work was awarded at ECD\$656, 804.60.

Audit Mandate

The Constitution of St. Kitts and Nevis establishes the mandate of the Director of Audit. This is further supported by the St. Christopher and Nevis Audit Act 1990 section 76 (2) of the Constitution of St. Kitts and Nevis which states “The Director of Audit shall:

- a) Satisfy himself that all moneys that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that the expenditure conforms to the authority that governs it.”

Objective and Criteria

The objective of this audit was to assess whether the BNTF Office planned, sourced and managed the contract for the Cayon Primary School Roof Renovation Project in compliance with applicable laws, guidelines, policies and best practices. Specifically, the audit assessed whether:

- Management control framework over procurement activities were adequate.
- Effective monitoring and reporting mechanisms were in place to ensure compliance with applicable laws, guidelines and procedures.

The audit criteria for this audit were:

- Mechanisms and controls were in place to manage risks associated with procurement activities
- Monitoring of compliance was formally documented
- The BNTF Office had the right human resources with the right skill set to manage the procurement activities
- A framework was in place to provide oversight of the Office's procurement activities
- A standardized approach to procurement which is based on competition, openness and transparency was used
- Required approvals were received for changes in scope of works
- Appropriate documentation was retained to support contractual arrangements
- Management reporting of contracting activities were carried out
- Noncompliance with regulations, policies and procedures were reported on and monitored

Audit Scope

The audit examined key activities and processes regarding the Cayon Primary School Roof Renovation Project covering the period May 2016 to April 2017. The planning, executing and reporting phases of the audit were conducted during the period of June 2017 to May 2018.

Audit Methodology

Our audit was planned and conducted in accordance with International Standards on Supreme Audit Institutions (ISSAIs) issued by the International Organization of Supreme Audit Institutions (INTOSAI). The standards used are applicable to Compliance Audits.

The audit included, but was not limited to, the following activities:

- Review of the applicable guidelines, laws, policies and procedures governing procurement by the BNTF office
- Interviews with staff of the Implementing Agency
- Examination of reports by the Consultant
- Review of documentation provided by the BNTF office
- Visit to the Cayon Primary School

PART TWO - FINDINGS

Planning

The Management must be commended for compliance in the planning phase of the procurement process.

We found that the BNTF fully complied with the requirements of the Caribbean Development Bank Operations Manual in planning for a list of sub projects including the Cayon Primary School Roof Renovation Project.

To obtain funding for various projects, the BNTF followed the activities listed below.

- Prepared a Poverty Reduction Action Plan (PRAP)
- Identified a list of sub projects
- Obtained approval of the Poverty Reduction Action Plan from the Caribbean Development Bank
- Prepared a Country Project Portfolio (CPP) with a list of sub projects
- Obtained approval of the Country Project Portfolio from the Caribbean Development Bank
- Prepared a Community Needs Assets Assessment
- Finalized a Financing Plan
- Obtained approval of the Sector Portfolio from the Caribbean Development Bank

This phase resulted in the Cayon primary School Roof Renovation sub project being approved at a cost of ECD\$675,000.00.

Sourcing

The bidding process was open and competitive. The Invitation for Bids was advertised and sufficient time was given for bidders to prepare a response. The bidding documentation provided to potential bidders provided information necessary for them to prepare a submission such as a clear description of the works to be performed, conditions for participation, evaluation criteria, details of qualification, details of information to be provided by bidders and closing date, time and place of submission.

The safety measures in place for securing bids until the bid opening were found to be adequate.

Four (4) businesses submitted bidding documents. The Consultant for the project conducted the evaluation of the bids as there was no bid evaluation committee. The contract was awarded to the business with the lowest bid of EC\$656,804.

The contract was awarded to the lowest priced bidder, however we noted that this bidder did not meet the specific work experience as set out by the bidding documents.

The Caribbean Development Bank's BNTF Procurement Guidelines states ".....the Recipient of CDB Financing shall determine whether the bidder whose bid has been determined to offer the lowest evaluated cost has the capacity and resources to effectively carry out the contract as offered in the bid. The criteria to be met shall be set out in the bidding documents, and if the bidder does not meet them, the bid shall be rejected."

We noted the successful bidder's failure to meet the specific work experience. According to the bidding documents, the bidder is required to have specific work experience in three (3) projects of a similar nature, each worth ECD\$700,000 or more. The contract was awarded to a contractor who fell below the threshold for specific work experience in all 3 listed projects. We noted the fact that the bidder did not meet the specific work experience was not included in the Evaluation of Bids report sent to the Caribbean Development Bank.

BNTF did verify that bidders were acceptable legal entities, however more should be done to assess whether bidders for government projects are in good standing with government departments and corporations.

The BNTF required bidders to submit their business licenses as proof that they are a legal entity authorized to operate in St. Kitts and Nevis. However, the BNTF did not require the bidders to submit tax clearance certificates from the Inland Revenue Department or Letters of Good Standing from the St. Christopher and Nevis Social Security Board.

The BNTF office relied upon the Public Works Department, which maintains a listing of contractors who are up to date with their business licenses, to verify that contractors are in good standing.

This exposes the government to risk of financial loss. Failure to find out whether contractors are in good standing with the tax authority and the Social Security Board

inhibits the government's ability to identify contractors who owe the government and are also receiving payments from the government for projects.

The Finance Administration Act, 2007 section 41 states that 'when a person owes money to the Government in a specific amount in this section referred to as the ("indebtedness") and that person is owed money by the Government in a specific amount, the Accountant General may exercise a right to set off in relation to the indebtedness.'

Failure to obtain these documents hinders the government's ability to offset the expenditure and collect outstanding revenues from contractors

Management's Response

The Office does not have any concerns with this finding. It reflects the process utilized and the risk caused by gaps in requested paperwork, namely Tax Clearance Certificates.

Contract Management

This section highlights issues that applied to the contract management phase of the procurement process.

Additional work was completed at the Cayon Primary School before written approval to do the extra work was obtained from the Caribbean Development Bank.

The contract was awarded at a cost of EC\$656,804. This resulted in a savings of EC\$18,196 as the total financing available from the Caribbean Development Bank and the Government of St. Kitts and Nevis was set at EC\$675,000.

During the construction period, the Ministry of Education requested that additional work be done at the Cayon Primary School. The additional work included installing kitchen cupboards, painting exterior walls and installing face boards. We found that the additional work was started and completed without the written approval of the Caribbean Development Bank.

The contractor submitted a request for payment for the additional works of EC\$24,110, however the contractor was paid EC\$18,196. There is no evidence to

suggest that an amount had been determined and agreed to before the additional works began.

This highlights an area of concern which is the breakdown in internal control as written approval was not obtained until after the contractor had completed the work.

If the Caribbean Development Bank did not approve the change in scope the works, the contractor as well as his workers would have been put at risk for not being paid.

Management's Response

It is being proposed that the recommendation for this finding should be for there to be proper documentation of all telephone conversation with the Bank and the CDB-retained Project Consultant about matters related to additional works. These conversations should have been noted by the office in reports to the Oversight Entity and formally for the project file to show the nature of discussions with the Bank prior to the submission of the formal paperwork requesting approval for the additional works.

As Project Manager I give the assurance that there were telephone conversations with the Caribbean Development Bank through the Portfolio Manager and former Country Supervisor for St. Kitts and Nevis about the request from the Ministry of Education for additional works to be undertaken utilizing the cost saving on the project. As the cost of these additional works did not exceed the amount approved for the project, there were no objections to the inclusion of the works. The Office accepts that it was not best practice to have proceeded with the works prior to the receipt of the formal indication of no objection from the Caribbean Development Bank. However, relying on past practices where once the additional works did not exceed the approved sub project amount that no objections were provided, the works proceeded the approved sub project amount that no objections were provided, the work proceeded as the contractor was prepared to proceed and to avoid any further delays.

The staffing arrangement of the Implementing Agency did not comply with the Grant Agreement

The requirements and qualifications for the staff of the Implementing Agency are set forth in the Grant Agreement between the Caribbean Development Bank and St. Kitts and Nevis. Schedule 2 of the Grant Agreement states that the Administrative/Accounting Officer is responsible for the operations of the financial and administrative systems, preparation of budgetary and financial reports, financial statements, the annual budget, withdrawals and disbursement requests and

preparation for the financial and performance audits. This is a senior level position that requires an individual with a bachelor's degree.

We noted that the Administrative/Accounting Officer position was filled by a Junior Accounts Clerk. The lack of qualifications and experience increases the risk of errors. This has to be mirrored with vigilant supervision.

Management's Response

The office has no objections to the finding.

BNTF did not update the financial records in QuickBooks in a timely manner.

The retention payment of \$33,750.04 which was paid out to the contractor in April 2017 had not been entered in the QuickBooks accounting software as at March 2018. This resulted in errors in the financial reports where project expenditures were understated.

We noted that the financial transactions were not verified by Management. Verification of these transactions were only done during the annual audit of the financial statements by an external accountant.

Management's Response

The office has no objections to this finding.

Management did not have a risk management framework in place.

Mechanism and controls to detect and manage risks associated with procurement activities of projects should be in place. This allows management to respond correctly to any risks that could occur in order to prevent substantial losses and mitigate the risk of noncompliance.

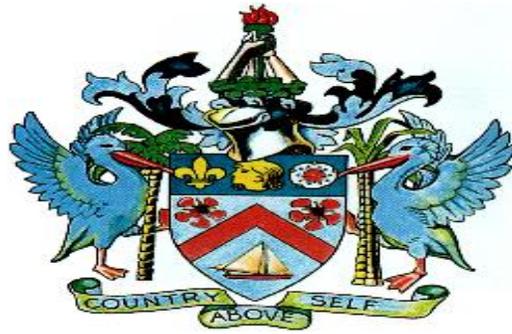
Management's Response

The conduct of a risk analysis and assessment is not requirement for the country team to perform when submitting projects to the Caribbean Development Bank for approval. However, recognizing the challenges experienced with this project, the recommendation is noted and can be provided to the Caribbean Development Bank for inclusion on the regional level.

CONCLUSION

We conclude that the BNTF was not in compliance with all laws, guidelines and best practices for procurement of the Government of St. Kitts and Nevis and the Caribbean Development Bank.

PAYROLL AUDIT REPORT



NATIONAL AUDIT OFFICE

EXECUTIVE SUMMARY

As a request from the Public Service Commission (PSC), the National Audit Office completed an audit of the payroll-related tasks within the Human Resource Management Department in Office of the Prime Minister.

The overall objective of the audit was to determine whether the Payroll Unit is complying with practices and procedures applicable to the processing of payroll.

Based on our audit we have concluded that the internal controls within the Payroll Unit need to be strengthened in order to ensure the proper functioning of the Unit.

Key Findings

The audit identified several internal control deficiencies within the Payroll Unit and the Payroll module of the Intelligent Treasury Management System (ITMS) database.

The overriding of controls within ITMS, the absence of an approvals process, lack of segregation of duties and the absence of a policy and procedures manual all contributed to unauthorized changes to payroll data during 2017. The detection and correction of errors is not as effective as it could be because verification of the payroll by the Payroll Unit is not being conducted in a timely manner.

Recommendations

Management needs to implement a policy and procedures manual that would guide the operations of the unit and allow all payroll transactions of a similar nature to be processed in the same manner.

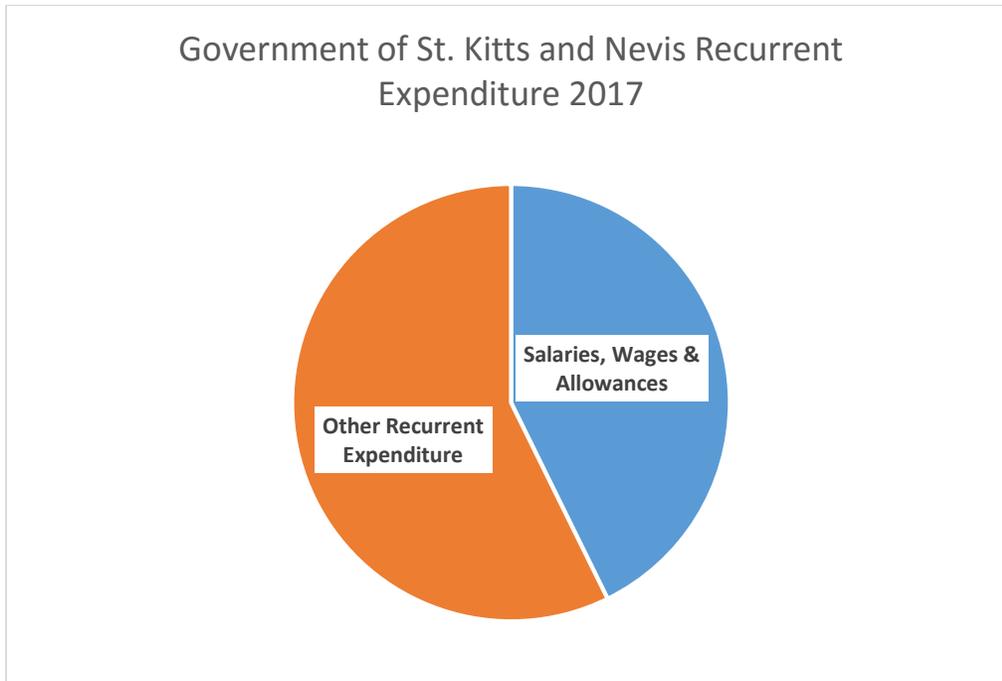
Verification of the payroll transaction needs to be completed in a timely manner in order to detect and correct errors.

The Payroll database needs to be improved to include an approvals process so that changes to payroll data can be approved by management.

PART ONE

Background

Expenditure on salaries, wages and allowances represented almost half of Government's \$529 million recurrent expenditure in 2017.



The processing of the payroll for employees of the Government of St. Kitts-Nevis is managed by the Payroll Unit within the Human Resource Management Department. Currently the Payroll Unit is staffed by one Human Resource Manager, one Assistant Human Resource Manager and six Human Resource Payroll Technicians.

This unit is responsible for the processing of salaries, wages and allowances to almost 5000 government employees through ITMS, which is the government's financial management

system. Four technicians are assigned to process the payroll of salaried employees and two technicians are assigned to process the weekly employees' payroll.

Audit Mandate

"The Director of Audit shall:

- b) Satisfy himself that all moneys that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that the expenditure conforms to the authority that governs it."

Audit Objectives

The overall objective of the audit was to assess whether the Payroll Unit is complying with practices and procedures applicable to the processing of payroll.

The specific audit objectives were to determine whether:

- Changes made to salaries and wages are done with proper authorization.
- There is supporting documentation to justify changes to payroll data.
- Payroll tasks are separated.
- Controls are in place to detect and correct errors.

Audit Scope

We conducted our audit for the period January to December 2017.

Limitation

We did not review the supporting documentation of two Payroll Technicians who are currently on suspended leave. These two individuals were the subject of an internal audit investigation completed in 2017.

Audit Criteria

- Management authorizes changes to payroll data.
- Supporting documentation exists for changes to payroll data.
- Policies and procedures are in place for payroll related tasks.
- Payroll duties are segregated.
- There is a process for the identification and correction of errors.

Audit Methodology

To accomplish our objectives, we performed the following:

- Conducted interviews with staff of the Payroll Unit.
- Conducted tests of payroll records to ensure transactions were properly authorized.
- Traced payroll information to source documents.
- Observed the payroll process.

We conducted this compliance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusion based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusion based on our audit objectives.

PART TWO

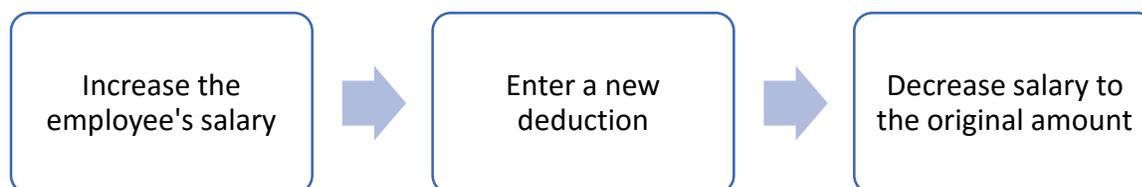
Findings

1. Changes were made to salaries without the authorization to do so.

We found that the Payroll Technicians made changes to the payroll data that were not authorized by management. Currently there is no system control within the payroll database that requires approval of transactions that are entered. This effectively means that all transactions entered into the payroll database are approved.

During the audit we found that changes were made to salaries, without the authorization and approval of management, to accommodate deductions that would not be allowed.

There is a built-in control within the payroll module of ITMS that prevents an employee's net pay from going below 25% of their total salary. At this point the payroll module will not allow any further deductions to be made from an employee's salary. However, we found that deductions were entered by the Payroll Technicians even though this would result in the employee's net pay falling below the 25% threshold. This was accomplished by the following sequence of events:



This manipulation of payroll data poses a significant risk. It can result in overpayment of salaries if the Payroll Technician fails to return the employee's salary to the original amount. We found instances of this in 2017 where an employee's salary was changed from \$4,495 to \$6,000 in October of 2017. The salary figure was returned to the original amount in November 2017, but this occurred after the employee had been overpaid by \$1,505.00 during that month. In another instance, an employee's salary was changed from \$2,750 to \$4,000. The employee's salary was not reverted to the original figure until 2 months after the initial change took place, resulting in an overpayment of \$2,500. While these amounts are small compared to the total of the monthly payroll, the accumulation of changes like these can have a significant effect on government's expenditure.

It can result in losses to the Government if the amounts which are overpaid cannot be recouped.

2. Supporting documents to verify changes in payroll were missing.

Supporting documents provide a vital audit trail. Each change to the payroll data should be evidenced by a written record. We found that documents were missing to justify deductions, changes in salaries, stoppage of salaries and recovery of overpayments.

We also found that forms for changes to the payroll (both temporary and permanent) were incomplete. Information such as the date, prepared by field, codes and amounts for earnings and deductions were not filled in on the forms.

3. The duties of the payroll unit are not segregated.

A good system of internal control maintains adequate segregation of duties so that no single employee has complete control over a financial transaction from beginning to end. Good internal control over the payroll processing function ensures that an employee is not able to initiate, approve and execute transactions.

We found that all officers within the Payroll Unit have unrestricted access to all components of the payroll module. These include entering payroll information, updating payroll records and deleting payroll data. The Payroll Technicians can also make changes to their own payroll data.

Verification of the payroll is done by the Assistant Manager who also enters, updates and deletes payroll transactions.

Relying on a single Payroll Technician to undertake all types of payroll transactions could result not only in abuse but also in a failure by the Technicians to recognize their own mistakes such as entering an incorrect salary figure or forgetting to record salary information.

4. The Payroll Unit does not have manuals to guide the operations of the unit.

Written policies and procedures help to ensure that management directives are carried out. Well written policies and procedures allow employees to clearly understand their roles and responsibilities within limits. Policies and procedures can identify acceptable activities, remove undesirable practices and make individuals accountable. A procedures manual can

provide descriptions of activity related tasks, best practices and provide instructions and directions for the day to day operations of the unit.

We found that management has not created any policy manuals, procedures manuals or training manuals for the unit.

We found that staff within the unit follow certain practices based on the training they would have received from someone else. For example, we found that some technicians update the 'Notes' field within the payroll module while some do not. The 'Notes' field within the payroll module provides an area where the Technicians can record information on changes made to the payroll data. It presents a summary of changes made and it includes the reasons for the changes. This is considered to be an integral part of the process as it provides information to the users of the database when the physical file is not present. The 'Notes' field should fully explain the changes to the payroll data as well as who recorded the changes.

We found that information concerning changes to payroll data were not always entered. Where information did exist, it was not always complete and it was not recorded in a uniform manner. The Technicians did not always record the date the information was entered and by whom. While we found information pertaining to increments, maternity leave, overpayments, information concerning deductions were missing. We also found instances where the same information was recorded in the 'Notes' field twice.

When interviewed, the Technicians who did not update the field stated that they were not told to do so by the person who trained them.

Without a policy and procedure manual, institutional knowledge will continue to be passed on. Institutional knowledge can become problematic, as persons often teach what they know and not necessarily what should be. This can lead to inconsistencies in approach.

The failure to have written policies and procedures may result in processes being followed which are contrary to best practice and result in inconsistencies in the payroll function. Failure to have such documents in place can lead to errors, gaps in controls and little or no accountability.

5. Payroll data is not verified before the payroll is finalized and reconciliation of the payroll is several months behind.

There are numerous payroll changes that are processed by the Payroll Unit on a monthly basis. These changes are labeled as either 'permanent changes' or 'temporary changes'. Permanent changes occur during the month and remain fixed from one month to the next. Temporary changes are one-off changes that will not be carried over to the next month, such as arrears of salaries and overtime.

We found that the processing of temporary changes is very time sensitive as the Payroll Unit only has 2 to 3 days to process these changes before the payroll is closed and the process is turned over to the Accountant General to disburse the payments to the banks.

We found that there was no verification of payroll data before the process is turned over to the Accountant General Department. We noted that a report cannot be generated within ITMS that shows temporary changes made by the Payroll Technicians. While we

acknowledge that the time for the temporary changes is short, a review of a report showing the temporary changes would enable the unit to detect and resolve obvious errors such as duplications before the payroll process is complete.

Monitoring is an important part of any process. Reconciliations are important for evaluating, monitoring and improving internal control. This process ensures that irregularities are spotted and rectified quickly.

Reconciliation of payroll data should be done in a timely manner to detect and correct errors.

We found that the reconciliation/review of the payroll data was 2 to 3 months behind. This increases the risk that inaccurate or inappropriate payments will not be quickly identified and corrected. This also increases the risk that corrective action will be ineffective, thereby making recovery difficult.

Conclusion

We concluded that the internal controls over payroll processing within the Payroll Unit and ITMS must be strengthened to ensure the proper functioning of the unit and the accuracy of the payroll data. Management needs to ensure that there are systems in place to minimize the risk of errors or fraud.

Recommendations

We recommend that:

1. Management develop and implement a policy and procedures manual to guide the day to day operations of the Payroll Unit.
2. Training of the Payroll Unit staff should be done on a continuing basis to reinforce the policies and practices of the unit.
3. The Accountant General Department upgrade the payroll database to ensure that there is an approvals process for payroll transactions. A report should also be created to view temporary changes.
4. Verification of payroll data be done as soon as possible after the payroll is processed in order to detect and correct errors in a timely manner.
5. Duties of the unit be segregated as much as is feasible.
6. Access to the system in terms of deleting entries be restricted to management.

St. Kitts and Nevis High Commission London

Compliance Audit Report



EXECUTIVE SUMMARY

The National Audit Office completed an audit of the St. Kitts and Nevis High Commission in London. The overall objective of this audit was to determine whether the financial management of the St. Kitts and Nevis High Commission in London is in compliance with established laws, policies and procedures.

The results of our procedures indicated that the financial management practices of the St. Kitts and Nevis High Commission in London are not in compliance with applicable laws, policies and procedures as noted in the following findings.

The major findings listed below, as well as other findings are discussed in Part Two of this report.

What we found

Revenues collected are not being remitted to the Consolidated Fund

Funds are being spent from revenue without the authority to do so

The petty cash funds are not being managed properly

What we
recommend

Revenues collected should be remitted to the Consolidated Fund at least biannually

Funds from revenues should not be used unless authorized by the Ministry of Finance

Policies and procedures for the use of the petty cash fund should be developed

PART ONE

Background Information

The St. Kitts and Nevis High Commission (High Commission) in London is the diplomatic and consular representation of St. Kitts and Nevis to the United Kingdom of Great Britain. Its mission is to safeguard the interests of the Government of St. Kitts and Nevis and the welfare of its citizens in the United Kingdom.

The consular services of the High Commission include notary services, advice on acquiring citizenship, advice on visa and immigration procedures and birth and marriage certificates.

The High Commission is located at 10 Kensington Court, London, UK. The Governments of St. Kitts and Nevis and St. Vincent and the Grenadines jointly own the building which houses the offices of the High Commission. This arrangement has allowed both High Commissions to share two administrative staff members.

The High Commission in London is staffed by 7 full time employees including the 2 employees who are shared between the High Commissions of St. Kitts and Nevis and St. Vincent and the Grenadines.

The High Commission falls under the remit of the Ministry of Foreign Affairs and Aviation. The Government of St. Kitts and Nevis, through budgetary allocations to the Ministry of Foreign Affairs and Aviation, fully funds the operations of the High Commission.

Audit Mandate

The Audit Act of 1990, part 1, section 6 (1) states that:

“The Director of Audit shall make such examinations and enquiries of Public Bodies as he considers necessary to enable him to report as required by this Act.”

Section 76, part 2 (a) of the Constitution of the Federation of St. Christopher and Nevis states that:

“The Director of Audit shall:

- c) Satisfy himself that all moneys that have been appropriated by Parliament and disbursed have been applied to the purposes to which they were so appropriated and that the expenditure conforms to the authority that governs it.”

Audit Objectives

The objectives of the audit were to determine:

1. Whether internal controls are adequate to safeguard assets.
2. Whether expenditures are incurred and paid in compliance with established laws, policies and guidelines.
3. Whether revenue is received and remitted in compliance with established laws, policies and guidelines.
4. Whether the petty cash account is properly maintained.
5. Whether the High Commission properly accounts for capital assets in its custody.

Audit Scope

The audit covered the period January 2016 to June 2018.

Audit Criteria

1. All revenues should be deposited to the Consolidated Fund and in a timely manner
2. A government issued receipt should be provided for funds received from revenues.
3. Reconciliations should be done in a timely manner.
4. All payments of expenditure should be authorized.
5. Supporting documentation should exist to verify payments.
6. A Fixed Asset Register should be maintained.

Audit Methodology

In conducting the audit, the audit staff reviewed quarterly financial reports sent to the Ministry of Foreign Affairs and Aviation, reviewed employee files, confirmed the existence of the assets of the High Commission, reconciled revenue receipts with bank deposits and inspected invoices and expenditure records.

PART TWO

Findings

1. Revenues collected are not being remitted to the Consolidated Fund.

Section 17 of the Finance Administration Act, 2007 states that “All public money shall be paid into the Consolidated Fund”.

The High Commission collects monies from passport fees, attestation fees, notarization fees and other fees. These funds are deposited into two bank accounts held by the High Commission. At the time of this audit, the accumulated balances on these bank accounts totalled £68,478.28, or approximately EC\$239,670. These funds were collected over several years and had not been remitted to the Consolidated Fund.

Failure to transfer these monies into the Consolidated Fund and bring them to account in the Government’s financial management system results in the understatement of the revenue of the Government of St. Kitts and Nevis during the year in which the revenue is collected.

Recommendation

We recommend that revenues collected by the High Commission be transferred to the Consolidated Fund on a biannual basis.

Management's Response

As pointed out to the Audit Team, these funds are regularly accounted for and remain available for transfer as and when required by the Ministry of Foreign Affairs or the Ministry of Finance through the Ministry of Foreign Affairs. Since such a request has not been made, the funds continue to be deposited and accounted for accordingly. A copy of the most recent NatWest bank statement is attached. However, the High Commission stands ready to remit these funds annually or biannually as determined by the Ministry of Foreign Affairs.

2. Revenues collected are not being deposited in a timely manner.

Treasury Circular No. 03/2017 from the Accountant General's Department, which outlines the treatment of government revenue, states that all revenue should be deposited to the Ministry or Department account held at the bank on the same day of collection.

When comparing the dates that monies from revenues were received at the High Commission and the dates that these monies were deposited on the bank accounts, we noted that during the period under review revenues received from visa and passport fees, notary fees, assessment fees and courier fees were not always deposited to the bank account on the same day or the day after receiving the funds.

The holding of cash should be discouraged and all monies collected should be banked promptly. Depositing funds daily minimizes the amount of cash held on the premises.

Recommendation

We recommend that monies received from revenues should be consistently deposited to the bank account of the High Commission in a timely manner as outlined by the Treasury Circular.

3. The High Commission collects and uses revenue fees without prior approval.

Revenues must not be utilized, under any circumstance, without the prior approval of the Ministry of Foreign Affairs and Aviation and the Ministry of Finance.

The High Commission collects a separate courier fee with passport applications. These fees are deposited into one of the High Commission's revenue bank accounts. During the audit we noted that the courier fees were transferred from the revenue bank account to the operating expenditure bank account.

The High Commissioner has stated that he has written to the Ministry of Foreign Affairs and Aviation concerning the collection of these fees but has not received a response. We also found no evidence to suggest that the use of these funds was approved.

Recommendation

We recommend that the practice of transferring funds from the revenue bank accounts to a bank account used for expenditure payments cease immediately. The revenue bank accounts should be used as deposit-only accounts. Funds designated as revenue should not be used for any other purpose, unless written approval is given by the Ministry of Foreign Affairs and the Ministry of Finance. If a need arises for extra funds to supplement operating expenditures, this should be requested from the Ministry of Foreign Affairs and Aviation.

Management's Response

This, too, was discussed with the Audit Team. Circa 2012 - 2013, in discussion with the Ministry of Foreign Affairs, a decision was made to charge fees for certain services carried out within the High Commission, inclusive of costs associated with courier services for sending passports to St. Kitts for processing and to the individual applicants once completed.

In light of the above, a decision was made internally to account for the courier costs separately which would eventually be transferred back to the corporate account. On one occasion, an amount of just over £5000 (representing costs previously absorbed by the corporate account) was transferred to the corporate account to meet recurrent expenses due to the delay in funds arriving from St. Kitts.

In its recent visit, the Audit Team advised that all funds received, irrespective of the source, must be regarded as revenue and therefore barred from use to cover corporate expenses.

The High Commission accepts this recommendation and has already taken steps to ensure that these funds [Revenue] are ring-fenced to be remitted eventually to Capital.

4. The Petty cash fund is not being properly managed.

A petty cash fund should be used to provide for small amounts of cash to cover minor expenditures. It should be used in instances where it is not feasible to make payments using a cheque.

During the audit, it was observed that the petty cash fund was not being used as intended.

During the period audited, the fund was used to make the following payments:

- Wages for temporary staff
- Salary increase for January 2016
- Servicing of the office vehicle
- Salary for the Secretary
- Biweekly travel allowance for an officer
- Temporary cleaner for the High Commissioner's residence
- Reimbursement expenses of £1,260 to the High Commissioner for taxis services during his driver's sick leave.

The above listed payments ranged from £167.50 to £1,260.00. Due to these high value payments, the petty cash limit was increased from £1,200 in January 2018 to £2,000 in March 2018.

While majority of petty cash payments had attached receipts, no receipts were available in cases where salaries/wages and travel allowance were paid from the petty cash. Inspection of the supporting documents for the disbursement of petty cash revealed that some petty cash vouchers were incomplete. The space to document whom the transaction was prepared by was often left blank. Also, the payment vouchers were not numbered and in instances where the High Commissioner was absent and therefore could not sign a cheque, payment was made from the petty cash fund.

The process for replenishing the petty cash and overall petty cash management was not clearly outlined. There was no procedural document that stated when the petty cash should be replenished. The audit uncovered that the petty cash is replenished by a constant figure whenever the cash is considered to be low instead of by the amount of monies used from the petty cash.

We also noted that the petty cash was replenished frequently as a result of the large number and value of transactions that were being paid from it. The petty cash was replenished four (4) times in January 2018 with £1,200 each time. For the period January to June 2018, a total amount of £16,800 was transferred into the petty cash fund. Expenditure from the petty cash for the months of January to June 2018 totalled £16,547.91 with 57 transactions.

Recommendation

We recommend that a policy be created to outline the procedures for petty cash management. A limit should be set for the amount that can be paid from the petty cash for each transaction. Major expenditures on stationery, repairs, allowances, salaries and wages, should be made using cheques or direct deposits through the banking system.

A payment voucher should be kept for each payment from petty cash. This lists the name of the individual receiving the funds, the date of the disbursement, purpose for disbursement, the amount being disbursed, the signature of the officer receiving the funds and the signature of the individual approving the funds. The vouchers should be numbered and the receipts of purchases made with petty cash funds should be attached to the payment vouchers.

Management's Response

The Audit Team has clarified expectations and obligations that should govern the use of Petty Cash. This advice has informed procedures which have been adopted and communicated to staff.

Petty Cash is now being operated as a float and cannot exceed £500.00 to cover unexpected expenses. It will, in future, be topped up only to that specified amount (£500.00) to cover only those funds expended within the specified £500.00 limit. Additionally, there is to be a maximum limit of £75.00 for Petty Cash payment.

5. Accounting records are not properly maintained.

a) Reconciliations were not being done before 2018.

Reconciliation ensures that the actual monies received and spent matches the monies deposited to the bank account and the cheques written from that account over a specified period, usually monthly.

As part of the audit fieldwork, the bank statements for 2016 and 2017 were reconciled with the revenue receipts on file. This was done after it was noted that the bank accounts had not been reconciled during those two years. If reconciliations were being done at that time, the High Commission would have noticed these errors and would have been able to take corrective measures in a timely manner.

We commend the High Commission for having implemented bank reconciliations in 2018.

b) Revenue receipt books used are not government-issued receipt books.

Receipts provide the Government with the purpose and value of each transaction. Government issued receipts should be used for all transactions where monies are received. Receipts should be used in numerical order to aid in cross referencing and reconciling and they should be complete.

In conducting the audit, we found that the receipt books used by the High Commission were not government-issued receipt books. These were generic receipt books purchased by the High Commission. We noted that two of the receipt books were being used at the same time. We also noted that a few of the receipts were not dated and information such as dollar

amounts were missing. Other receipts were not readable as the information printed on the copy was not clear.

When dates and other details are not recorded or are not visible on receipts it makes it difficult to verify when the transaction occurred, who conducted the transaction and the purpose of the transaction. This would affect the High Commission's ability to reconcile and properly account for Government's revenues.

c) Payment vouchers were not supported by invoices

Payments made from the operating expenditure account should be supported by invoices which clearly detail the items purchased or services received, the date the transaction took place and the amount of the transaction.

Invoices to support credit card payments were not attached to the payment vouchers. Payments should not be made without adequate supporting documentation.

Without supporting documents, it could not be determined if the transactions were legitimate, accurate or complete.

d) Lack of proper authorisation on Payment Vouchers.

Every expenditure should be authorized for payment by the High Commissioner or another senior staff before it is processed. Authorisation of payments should be separated from the process of making payments, with appropriate validation and recording at each step.

We noted payment vouchers that were not authorized to be paid but verified that the payments were made. This highlights a breakdown in internal controls where a payment can be made without management's approval. Effective internal control over expenditures must be maintained at all stages.

Recommendation

We recommend that government-issued receipt books should be procured and used in sequential order. The management of the High Commission should ensure that all receipts are complete with respect to the information required.

The management should ensure that efficient controls are put in place so that payments are supported by invoices that justify the payments being made. Payments should also be authorized before they are processed.

Management's Response

(a) Accounting records

As observed by the Auditors, the High Commission has since, January 2018, adopted QuickBooks as the accounting tool to manage the accounts, expenditures, revenues and reconciliations. QuickBooks was first introduced for use at the High Commission in 2011 but later discontinued. Its absence was due to the lack of familiarity with the tool and of human resource capacity within the Office.

(b) Receipt Books

The High Commission has long been practiced in using receipt-books secured via its printers here in London. The High Commission was never made aware that it is required to use only government issued receipt books. Notwithstanding, the High Commission eagerly looks forward to receiving copies of the government-issued receipt books which would be immediately put into use.

(c) Payment vouchers and invoices

While the High Commission concedes that a few receipts could have been misfiled; it is the practice of the High Commission to prepare payment vouchers which are appended to the relevant invoices and accounted for at the end of each month. To further strengthen controls, additional efforts are being made internally to ensure that vouchers and invoices are

immediately affixed together and appropriately filed the same day. A copy of the payment voucher is attached with this Memo for ease of reference.

(d) Proper authorization on payment vouchers

Payment Vouchers are habitually authorized by the Head of Mission before payment is affected. However, the High Commission accepts that there have been the infrequent instances, when due to work/meeting schedules and staffing, oral/telephone authorization had been granted to extend payment and the form signed later upon the Head of Mission return to Office. However, it must be clarified that at all time, permission was secured beforehand. In future, every step will be taken to ensure that no payment is made until the payment voucher has been appropriately signed by the Head of Mission even if it means a delay in processing payment.

6. Budgetary funds are received late and currency fluctuations are not taken into consideration.

Monies are sent by the Ministry of Foreign Affairs and Aviation on a quarterly basis, via bank transfer, to fund the salaries and operating expenses of the High Commission.

During the audit, it was noted that the funds were being received well into the first month of each quarter instead of the first week of every quarter. For example, the funds for the period January to March 2017 were received by the High Commission on January 31, 2017.

The value of the Pound Sterling to the Eastern Caribbean Dollar changes constantly. However, we found that monies are being sent to the High Commission based on a set quarterly amount in Eastern Caribbean Dollars without regard to the exchange rates.

This poses a challenge particularly where salaries are concerned as expenditure on salaries are paid in pound sterling. During the year 2017, we noted that monies received by the High Commission for each quarter fluctuated by approximately £8,000.

Both issues have had some implications on the operations of the High Commission especially since salaries are paid in pound sterling and are paid on a biweekly basis. We noted that

during the period 2016 to 2017, the bank account where salaries were paid from went into overdraft status 5 times as salaries had become due before funds were received from the Government or the funds received were insufficient to pay salaries because of the exchange rate changes.

Section 15 of the Finance Administration Act states that:

- (1) When the Financial Secretary has delegated authority to operate a government bank account to an accounting officer, the accounting officer shall ensure that the government bank account is not overdrawn.
- (2) The accounting officer shall check the balance regularly and, if a government bank account is, or is expected to be overdrawn, the accounting officer shall promptly
 - a) Report the matter to the Financial Secretary: and
 - b) Take corrective action in accordance with the directions of the Financial Secretary.

To address this situation, the High Commission has been transferring funds to and from the different bank accounts to offset its payments for salaries and operating expenditures. During the periods 2016 and 2017, there were 21 transfers between accounts ranging from £5,000 to £63,000. This has led to the High Commission incurring charges for overdrafts and other bank related charges for transfers.

The High Commission is not in compliance with the Finance Administration Act, 2007 as it is not authorized to operate an overdraft account.

Recommendation

The Ministry of Foreign Affairs and Aviation should ensure that budgetary allocations for the High Commission are sent in a timely manner. The exchange rate should also be taken into consideration when sending funds for salaries to the High Commission.

Management's Response

(a) Transfer of funds between accounts

As the Audit Team had been made aware, for several consecutive quarters, allocations for salaries/allowances and corporate expenses were routinely received late from Headquarters. As a result, it had become necessary to move funds across accounts. The High Commission has always resisted pursuing an overdraft facility. However, this matter has been largely addressed as funds are now being disbursed from Capital in a timelier manner.

The High Commission anticipates that there will no longer be a need to effect such transfers. Funds which would be transferred will be between the corporate expenses account into the salaries and allowances account, in those occasions when the entirety of the funds from capital are sent directly to the corporate account. In the unlikely event that such action is required, permission will be sought from the Permanent Secretary in the Ministry of Foreign Affairs.

(b) Foreign Exchange Fluctuations.

The High Commission welcomes this recommendation as a way to better ensure that Capital is aware of the implications of the foreign exchange fluctuations on Revenue, and bearing this in mind, Capital will ensure that adequate resources are disbursed in a timely manner to meet the demands of the Office.

7. The High Commission does not maintain a Fixed Asset Register and there is no policy outlining the process for the disposal of assets.

A Fixed Asset Register is used to keep track of assets, namely equipment and furniture, of an entity. It records the date the asset was purchased, the cost of the asset, a description of the asset, unique identifiers, item code etc. The High Commissioner provided a listing of assets for both the Office of the High Commission and residence of the High Commissioner. The listing stated the name of the item and the quantity on hand.

Thirty-five (35) assets were found which were not recorded on the listing. The assets shown on the listing were identified however they were not labelled or uniquely coded for verification purposes.

Without a well-functioning fixed asset register, management would have a difficult task of tracking assets, identifying assets and determining information such as date of purchase, cost, specifications etc. for future reference or comparisons.

We noted that there were 13 assets that were set aside to be disposed of. These were not on the listing provided to the audit team. These items are being stored within a room at the High Commission.

Recommendation

We recommend that a Fixed Asset Register be maintained. The register should capture the name and description of the asset, original purchase cost and date of acquisition, unique identifier number, location of the asset and authorization for disposal of assets.

We recommend that the High Commission submit a report to the Ministry of Foreign Affairs and Aviation on the condition of these assets held for disposal.

Management's Response

The High Commission does maintain a Fixed Assets Register and its operation of this register will continue to be informed by the policy for procurement and disposal of such assets. A copy of said register is being attached herewith for ease of reference and information.

8. Payments to staff

- a) The High Commission pays its staff on a biweekly basis via direct deposit into their bank accounts. However, we noted that the salaries of two locally engaged employees

are being paid by cheques. The High Commissioner has stated that this issue has been brought up with both persons before.

- b) An employee with a two - year contract that ended on May 31, 2018 was still employed at the time of the audit in July 2018. A new contract was not present on the employee's file nor was there a letter expressing interest to renew the contract. The High Commissioner stated that the employee would be remaining on staff until August 31, 2018 and the contract would not be renewed.

Recommendations

We recommend that the High Commission adopt a consistent approach to the payment of salaries, wages and allowances.

The terms of employees' contracts should be adhered to.

Management's Response

(i) Payment of Salaries

The High Commission has undertaken to standardize payment of salaries to ensure that payments are effected by direct deposit.

CONCLUSION

The results of our procedures indicated that internal control measures are needed to safeguard the assets of the High Commission and ensure that revenues and expenditures are collected and spent in accordance with rules and regulations.

Follow up Audit Report by the Director of Audit on the Recommendations made to the St. Kitts Water Services Department.



Executive Summary

The National Audit Office conducted a follow-up audit of the St. Kitts Water Services Department with respect to its revenue collection as part of its Annual Plan for 2018. This report is a follow-up to the report on Revenue Collections of the St. Kitts Water Services Department that was tabled in Parliament in December 2017. That report highlighted several findings and provided recommendations addressing internal controls, performance monitoring and reporting of information. In response to the initial Audit Report, the management of the St. Kitts Water Services Department committed to the implementation of the recommendations made. This report seeks to examine the Department’s status of implementation of the recommendations made in the initial report to address key internal control and cash management weaknesses.

**What
we
Found**

**8 recommendations
implemented**

**10 recommendations have not
been implemented**

We recommend that the St. Kitts Water Services Department implement the recommendations provided in the previous audit report. This will ensure that they strengthen their internal controls and improve on weaknesses.

PART ONE

Background

The Water Services Department is part of the Ministry of Public Infrastructure, Post, Urban Development and Transport. The Department is a revenue collecting agency with two cashiering sections: one at the main office in Needsmust and the other located within the General Post Office in Basseterre. The Department uses a utility billing system called Continental Utility Solutions Incorporated (CUSI) to generate bills and receive payments. This Department has collected \$15.5 million in revenues for 2016 and 2017 combined.

Audit Mandate

The Audit Act of 1990, part 1, section 6 (1) states that:

“The Director of Audit shall make such examinations and enquiries of Public Bodies as he considers necessary to enable him to report as required by this Act.”

Audit Objective

The audit objective was to determine whether the recommendations provided in the initial audit report have been implemented.

Audit Scope

The follow up audit covered the period July 2017 to June 2018.

Audit Criteria

The criteria used was a set of requirements and procedures that should be in place at the St. Kitts Water Services Department based upon the recommendations in the initial audit report.

Methodology

In order to achieve the follow-up audit objective, we did the following:

- ❖ Examined receipts.
- ❖ Examined the payments made through the banking system and compared the dates the payments were received to the dates they were entered into the CUSI system.
- ❖ Observed the operations and the balancing process at both revenue collection points.
- ❖ Conducted cash counts of each Cashier.
- ❖ Conducted interviews with the Cashiers, the Customer Service Supervisor, the Supervisor at the General Post Office, the Customer Service Manager, the Systems Administrator and the Manager/Water Engineer.
- ❖ Checked customer complaint log books and system downtime log books
- ❖ Compared the funds recorded in the Treasury's financial management system (ITMS) to the funds recorded in the CUSI system.

- ❖ Analyzed the Below the Line Account in ITMS to assess whether transactions were still being recorded to that account.

PART TWO

Findings

This section focuses on the recommendations made and the status of implementation.

1. Establish a Policy and Procedures Manual – Not Implemented

We recommended that the Department establish a policy and procedures manual for the collection of revenue. We also recommended that these policies and procedures should be maintained, distributed, accessible and consistently enforced.

We noted that the Department has completed a draft manual. However, there was no evidence to suggest that the manual has been distributed to the Cashiers. Failure to distribute the manual and put the policies and procedures into practice may result in operational inconsistencies.

2. Implementation of Departmental Stamp with Date - Implemented

We recommended that the Department use a stamp that not only contains the emblem of the St. Kitts Water Services Department but also the date so that transactions can be properly documented.

We have observed that this recommendation has been implemented but with the use of 2 stamps, one with the Department's emblem and a date stamp.

Although this recommendation has been implemented and all cashiers were instructed to use both stamps, we noted instances where receipts were not stamped, or some were stamped with the departmental stamp but not the date stamp while others were stamped with an incorrect date. These instances were all below an approximate 10% of the overall sample that was examined.

3. Generate a Government Issued Receipt for all Transactions - Implemented

We recommended that the Department issue a government-issued receipt for all transactions where monies are received. This recommendation was made because we had previously noted that receipts were not generated for payments made through the banking system.

We noted that this recommendation has been implemented. Issuing government receipts confirm that the transaction took place and it ensures customers that their accounts have been updated with the payments made. This has been employed and the receipts are consistently being generated and distributed to all customers.

4. Post Online Payments to Customers' Accounts Daily - Not Implemented

We recommended that payments received through the banking system should be posted to customers' accounts daily to keep the accounts up to date.

The posting of transactions daily as recommended in the initial audit report has not been met. Over the period covered in this follow-up audit, payments made through the banking system were processed on an average of 7 days after receipt by the Department. As a result, the accounts were not being kept current.

5. Actively Supervise the Cashiers - Implemented

In the previous report, we noted that there was limited supervision of the balancing process at both revenue collection points.

We have observed that this recommendation has been implemented. A Supervisor from the St. Kitts Water Services Department has been stationed at the General Post Office to supervise the Cashiers there. The Supervisors at both collection points are proficient in CUSI system and the balancing process is supervised.

6. Standardize the Cashiers Float – Not implemented

We recommended an equal amount of cash be held as float for all Cashier after we found that the Cashiers all had different float amounts during the previous audit. Cash counts were difficult to conduct as it was not easy to determine the amount of float given to each Cashier.

We have observed that this recommendation has not been fully implemented. While most of the Cashiers' floats were increased to \$200, we found that 2 Cashiers had floats of a lesser value.

7. Remove Cashiers Ability to Delete Transactions - Implemented

In the previous audit report, we recommended that management remove the Cashiers access to delete transactions.

We have observed that this recommendation has been implemented. System deletions are actions that are expected to be done by authorized persons only. Changes were made to the system that disabled the Cashiers from being able to delete their own transactions. This reduces the risk of manipulation of transactions within the system.

8. Reconcile Revenue Collected Daily- Not Implemented

We recommended that revenue collected be reconciled daily in order to ensure that the correct amount was posted to the customer's account. We also noted that there was a discrepancy in the total revenue recorded in the CUSI system and the revenue recorded in the ITMS system.

We have observed that this recommendation has not been implemented. Daily revenue reconciliation ensures that discrepancies are detected in a timely manner. It was recommended that reconciliations be done by the end of the following day. However, this has not been happening. There is a risk that errors have occurred that would remain undetected.

9. Include Cash Handling Procedures in Manual – Not Implemented

We recommended documenting, maintaining and enforcing controls for cash handling procedures in terms of the recording of float, the reversal of transaction and the reporting of cash differences.

We have observed that this recommendation has not been fully implemented. We were provided with a copy of the Water Services Department Cashiers Operating Guidelines, however the document was not complete and has not been circulated to all Cashiers. The Cashiers are still operating based on the informal procedures they would have learned through training. Not having formal procedures can lead to inconsistencies in the cash handling procedures in the Department.

10. Maintain a Record of all Returned Cheques - Implemented

We recommended in the previous audit report that the Department should maintain a record of all cheques that have been returned so that it can actively follow up on each returned cheque.

We have observed that this recommendation has been implemented. There is a returned cheque log book that records each cheque, the fees associated with the returned cheque, the accounts that would be affected and how the issue was resolved. This log has been successfully implemented and all records are being kept. The log can be used as a mechanism to keep customer account balances accurate.

11. Undertake an Assessment of the Arrears Portfolio – Not Implemented

We recommended that an assessment of the arrears portfolio be carried out after establishing that the arrears of the Water Services Department had risen to \$14 million at the end of 2016. The assessment should first determine what amount is collectible and what amount is uncollectible.

We have observed that this recommendation has not been implemented. No assessment has been done.

12. Reduce the System Downtime

We recommended that the Department formulate an approach to reduce the system downtime. This was recommended after we found that numerous manual receipts were being issued as a result of the system being down.

The Department initiated a downtime log book to record the times when the system goes down and the durations. However, we noted that there was only one entry in this log. The interview with the Systems Administrator revealed that several upgrades to the system were carried out after our initial audit and this had greatly reduced the system downtime.

The manual receipt books requested from the Department were not presented to the auditors. Due to this and the lack of entries in the log book, we cannot independently determine that there was a reduction in the system downtime.

13. Establish a Plan of Action for the Discontinuance of the One and Two Cent Coins - Implemented

We recommended that the Department make a decision concerning the one and two cent coins whose issuance had been discontinued by the Eastern Caribbean Central Bank (ECCB). This posed a problem as some Cashiers were accepting the coins while others were not. Some Cashiers were also rounding up or down to the nearest five cent while others were not. The approach was inconsistent.

We have observed that this recommendation has been implemented. The Water Services Department has ceased accepting the one and two cent coins and the practice of rounding up or down to the nearest five cents. If excess monies are received, the difference is applied to the account. For example, if a customer pays \$20.05 for a bill of \$20.02, the \$0.03 is credited to the customer's account.

14. Ensure Adequate Staffing to Cover the Lunch Periods - Implemented

During the initial audit, we noted that the Cashier stations were closed during the lunch periods as there was no Relief Cashier to continue operations during this time.

In conducting this follow up audit, we have observed that this issue has been rectified. A relief cashier system has been implemented to cover these periods to ensure that operations continue uninterrupted.

15. Post Revenue Collected for Water Connections and Repairs to the Revenue Account in ITMS - Not Implemented

During the initial audit, we noted that revenue was being posted to a Below the Line Account in ITMS even though the Department had a revenue account. We recommended that all revenues be posted to revenue accounts and the use of the Below the Line Account be discontinued.

We have observed that this recommendation has not been implemented. The Below the Line Account continues to be used for the receipts from Water Connections and Repairs. As at June 2018, the balance in the Below the Line Account stood at \$27,392.85.

16. Implement a System for Recording Customer Complaints - Not Implemented

We previously recommended that the Department implement a system for recording customer complaints and soliciting feedback from customers in relation to the payment of bills. This recommendation was made because customer transactions were being deleted by the Cashiers without approval to do so.

We have observed that this recommendation has not been implemented. Recording of customer complaints is useful for improving the efficiency of the operations within the Department. A log book was made available to facilitate this initiative, however, there was only one entry made in the book. The name of the customer was noted but the complaint made and the date it was made were not recorded.

17. Provide Qualitative Monthly Report to the Permanent Secretary and the Minister - Not Implemented

We have observed that this recommendation has not been implemented. The qualitative monthly report gives the Permanent Secretary and the Minister an idea of the Department's current position on meeting its objectives where the collection of revenue is concerned, and it also improves decision making. As it stands, these reports are not being generated. This can lead to critical decisions being made without having a full understanding of the Department's current status.

18. Create a Disaster Recovery and Management Plan for Revenue Collection - Not Implemented

We have observed that this recommendation has not been implemented. We acknowledge that the Department has a plan to deal with the impact of a disaster on the water supply in St. Kitts. However, as a major revenue collecting department, the Water Services Department needs to have a plan that would address how the Department would collect the Government's revenue if there is an attack on the system, corruption of data or a natural disaster. This plan would greatly minimize disruptions to the collection of revenue if any of the above should occur.

CONCLUSION

Implementation Status

Number	Recommendations	Status	
		I	N
1	Establish a Policy and Procedures Manual		✓
2	Use a Departmental Stamp with Date	✓	
3	Generate government issued receipts for all monies received	✓	
4	Post online payments to customers' accounts daily		✓
5	Actively supervise the Cashiers	✓	
6	Standardize the Cashiers float Amount		✓
7	Remove the cashiers ability to delete transactions	✓	
8	Reconcile revenue received daily		✓
9	Include cash handling procedures in manual		✓
10	Maintain a record of all returned cheques	✓	
11	Undertake an assessment of the arrears portfolio		✓
12	Reduce system downtime	✓	
13	Establish a plan of action for the discontinuance of the one and two cent coins	✓	
14	Ensure adequate staffing to cover lunch periods	✓	
15	Post revenue collected for water connection and repairs to the revenue account and discontinue the use of the Below the Line Account.		✓
16	Implement a system for recording customer complaints		✓
17	Provide qualitative monthly report to the Permanent Secretary and the Minister concerning steps taken to recover arrears, delinquent accounts receivables collected, resource constraints and proposals for ensuring that the department meets its objectives where revenue collection is concerned.		✓
18	Create a Disaster Recovery Plan		✓

Key:

I: Implemented

N: Not Implemented

Overall, we found that efforts were made by the Water Services Department to implement some of the recommendations made by the National Audit Office. However, more needs to be done to improve the system of internal controls and management practices. We recommend that the Department implement all the recommendations made by this Office in order to reduce risks associated with weak internal controls and poor management practices.