



# NATIONAL AUDIT OFFICE



## REPORT ON THE AUDIT OF THE 2017 PUBLIC ACCOUNTS OF THE GOVERNMENT OF ST. KITTS & NEVIS



# **St. Kitts and Nevis**

## **National Audit Office**

Report by the Director of Audit  
On the Public Accounts  
For the year 2017





***ST. KITTS AND NEVIS  
NATIONAL AUDIT OFFICE  
P. O. Box 19, Basseterre, St. Kitts  
Tel (869) 467-1050 Fax (869) 466-8510***

September 28, 2018

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, 2017.

Respectfully,

.....*Carla*.....

Carla Berridge - Pike, CPA, FCPA

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, 2017.

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 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, FCPA

Acting Director of Audit

## Table of Contents

Analysis of the Financial Statements of the Government of St. Kitts and Nevis.....	1
Introduction.....	1
Opinion on the Financial Statements.....	3
Summary of Financial Information.....	5
Comparison to the Budget.....	11
Statement of Cash Receipts and Payments.....	20
Statement of Financial Assets and Liabilities.....	21
Public Sector Debt.....	27
Arrears of Revenue.....	29
Other Areas of Concern.....	30





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

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## **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, 2017 were submitted to the National Audit Office on June 28, 2018.

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 budget 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 the Annual Report on the 2016 Public Accounts, all statements listed above are shown in the Public Accounts. However, the Statement of Arrears is once again incomplete. There are notable omissions by the Government's revenue generating agencies such as Institution Based Health Services, the Customs and Excise Department, the Inland Revenue Department and the Water Services Department.

# **Opinion on the Financial Statements**

## **Audit Mandate**

In accordance with Section 76 (2) of the Constitution of St. Christopher and Nevis and Section 7 of the Audit Act No. 8 of 1990, we conducted an audit of the Public Accounts of St. Kitts and Nevis for the year ended December 31, 2017.

## **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.

## **Responsibility of the Auditor**

The National Audit Office's responsibility is to audit the financial statements and form an opinion based on the work conducted.

## **Basis for Opinion**

We conducted our audit in accordance with INTOSAI auditing standards. These standards require that we plan and perform the audit to obtain reasonable, rather than absolute assurance that the financial statements are free from material misstatement. It is not a guarantee that an audit conducted in accordance with International Standards on Auditing will always detect material misstatements arising from fraud or error.

We believe that our audit provides a reasonable basis for our opinion.

## Opinion

In our 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, 2017.

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

Carla Berridge - Pike, CPA, FCPA

Acting Director of Audit

September 28, 2018

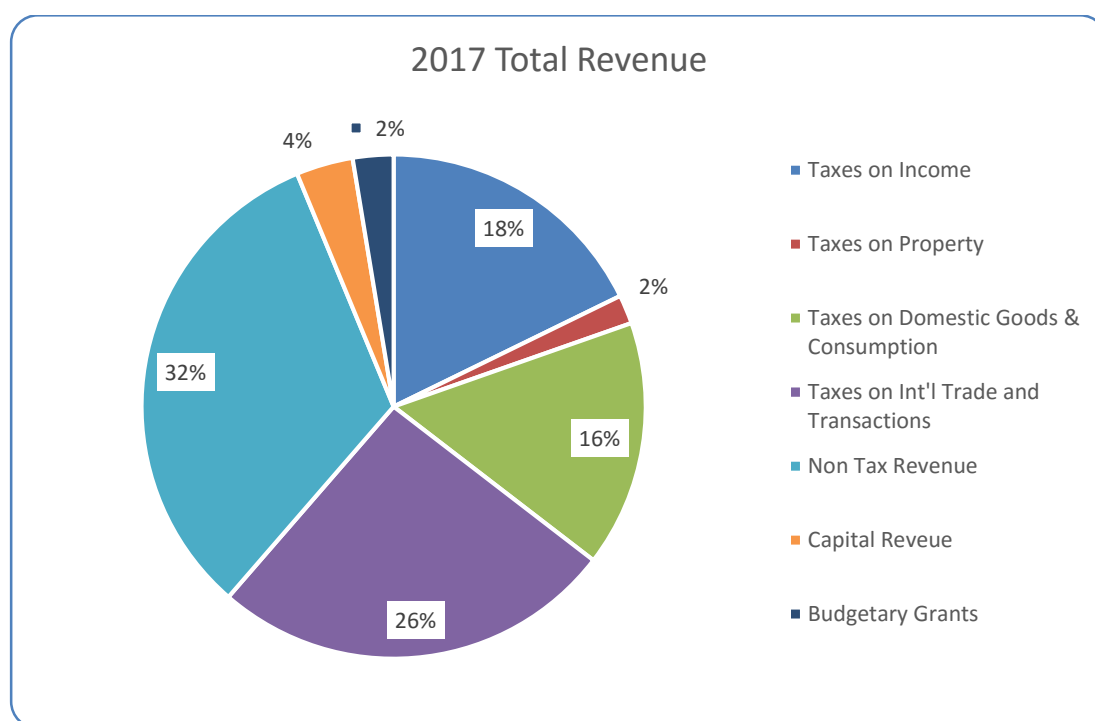
## **SUMMARY OF FINANCIAL INFORMATION**

In December 2016, Parliament approved the budget for the year 2017 with expenditure of \$713 million, which included \$57 million in debt repayment. Revenue for the year was estimated at \$694 million. During 2017, a further \$40 million of expenditure was approved by supplementary/appropriation warrants.

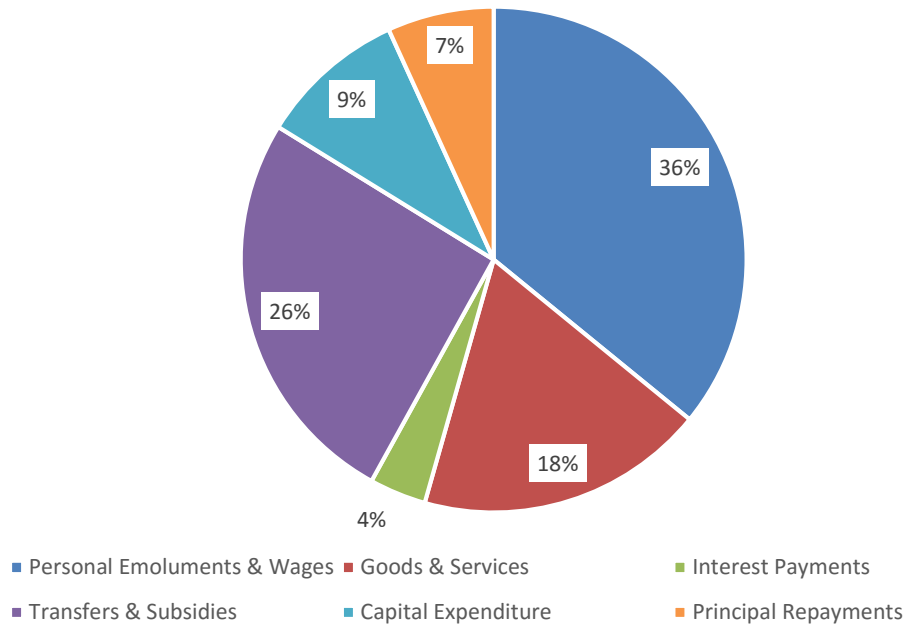
At the closure of the 2017 Public Accounts, actual revenue totaled \$662 million and actual expenditure amounted to \$632 million which resulted in an end of year surplus of \$30 million.

### **Graphical Presentation of Government Revenue and Expenditure**

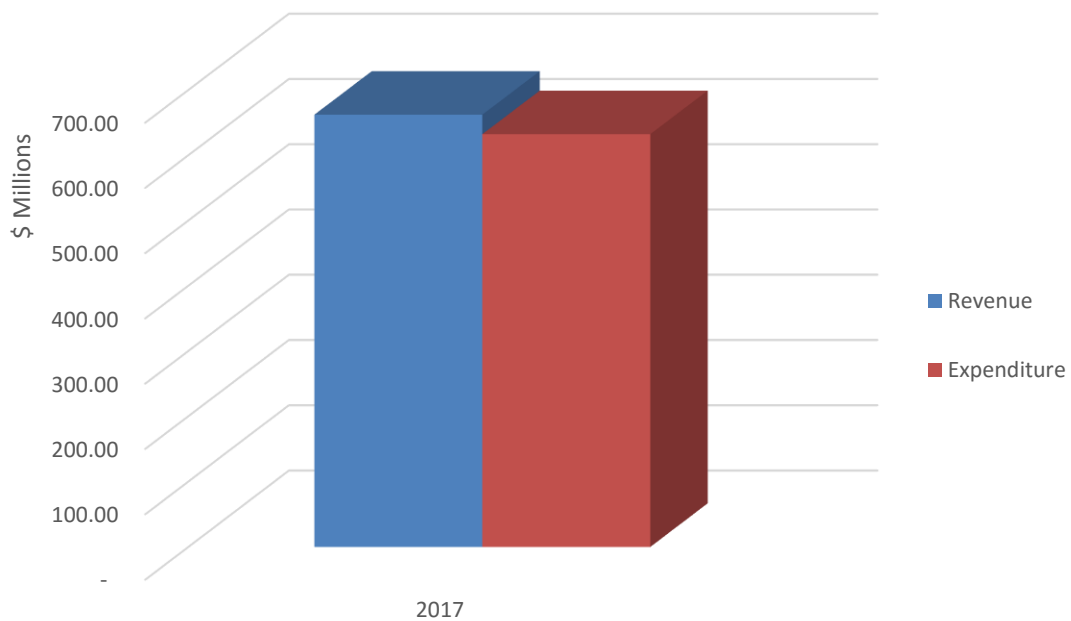
The following graphs represent the composition of the Government's revenue and expenditure at the end of the financial year 2017.



2017 Total Expenditure



Total Revenue vs. Total Expenditure 2017



## Revenue

Details of revenue collected during 2017, 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 13 beginning on page 57. Table 1 presents a comparative summary of total revenue received in 2017 relative to 2016.

**Table 1: Revenue for the year ended 2016 & 2017**

Revenue Type	2017 Revenue (\$ million)	2016 Revenue (\$ million)
<b>Tax Revenue</b>	406	406
<b>Non Tax Revenue</b>	214	250
<b>Capital Revenue</b>	24	19
<b>Budgetary Grant</b>	17	40
	<b>662</b>	<b>715</b>

The overall revenue for 2017 totaled \$662 million, which was \$53 million less than the amount collected in 2016. Actual Tax Revenue collected in 2017 remained constant when compared to 2016, however it was \$16 million less than the projection for 2017.

Non Tax Revenue decreased by \$36 million or 14% in comparison to 2016. \$26 million of this decrease was as a result of the reduction in Citizenship by Investment Fees collected during 2017.

Development Aid received in 2017 surpassed the 2016 figure by \$2.7 million but did not meet the projected target of \$48 million.

Actual revenue collected by the Government in 2017 did not meet the projected target of \$694 million. The shortfall in revenue collected in 2017 amounted to \$32 million.



## Expenditure

Actual expenditure for 2017 totaled \$632 million with personal emoluments and wages accounting for 36% of that total. Actual expenditure increased by \$5 million in comparison to the previous financial year. Personal emoluments and wages in 2017 were \$7 million in excess of the 2016 figure. The increase in expenditure for 2017 can be attributed to the changes in the following categories of expenditure relative to 2016.

**Table 2: Expenditure for the year ended December 2016 & 2017**

<b>Expenditure Type</b>	<b>2017 Actual Expenditure (\$ million)</b>	<b>2016 Actual Expenditure (\$ million)</b>
<b>Personal Emoluments &amp; Wages</b>	227	220
<b>Goods &amp; Services</b>	117	110
<b>Interest Payments</b>	23	26
<b>Transfers &amp; Subsidies</b>	163	151
<b>Capital Expenditure</b>	59	75
<b>Principal Payments</b>	43	45
	<b>632</b>	<b>627</b>

## Financial Indicators

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

### Surplus/Deficit

A surplus/deficit is an indication of whether or not a government is being effectively managed. 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 2017, the Government of St. Kitts and Nevis recorded a surplus of \$30 million in comparison to \$88 million in 2016. While the Government's surplus decreased, the revenues collected were able to cover all expenditures, including financing of the public debt.

**Table 3: Government's surplus/deficit 2016 & 2017**

	<b>2017 (\$ million)</b>	<b>2016 (\$ million)</b>
<b>Total Revenue</b>	662	715
<b>Total Expenditure</b>	632	627
<b>Surplus/(Deficit)</b>	<b>30</b>	<b>88</b>

### **Interest Costs to Operating Revenue**

Interest costs as a percentage of operating revenue decreased from 3.7% in 2016 to 3.6% in 2017. It must be noted that even though the Government's operating revenue decreased in comparison to 2016, the cost to service interest payments as a percentage of operating revenue also decreased. The reduction in the debt portfolio of the Central Government contributed to this positive outcome as this meant that less of the Government's receipts from revenues were used to service interest payments in 2017.

### **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 increased from a revised 59.5% at the end of 2016, based on updated GDP data, to 60.8% as at December 31, 2017. The reduced Debt to GDP ratios indicate that defaulting on loan payment is relatively low.

## **Net Assets**

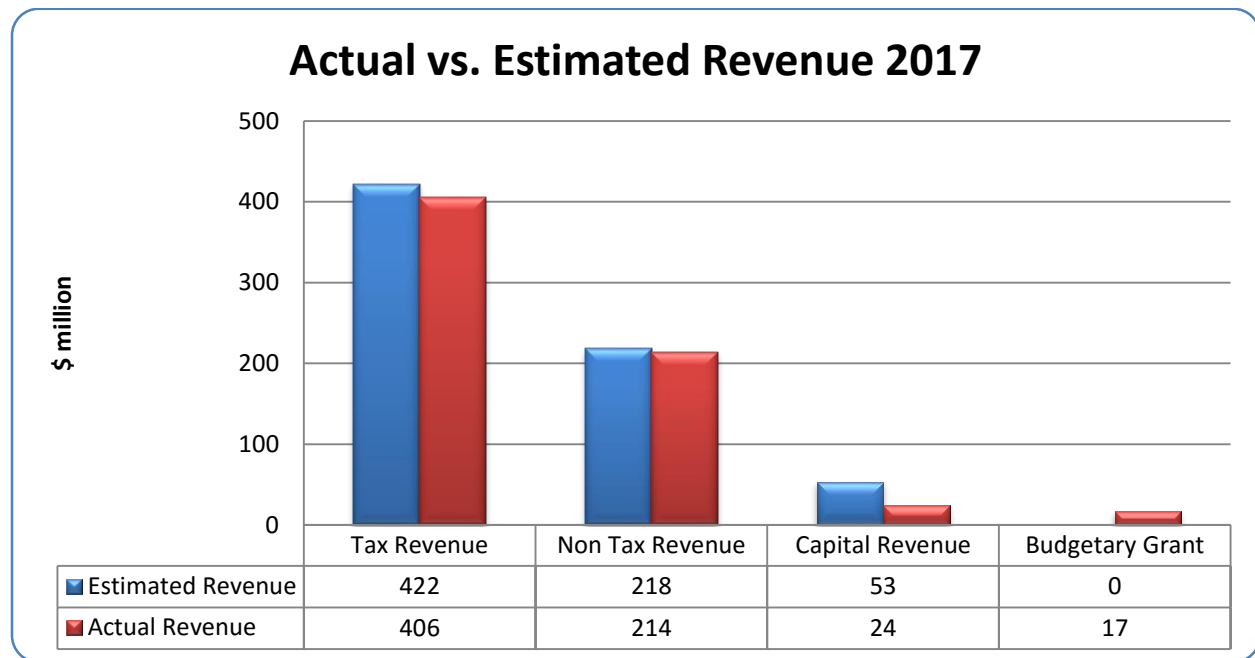
At the end of December 2017, net assets of the Government of St. Kitts and Nevis amounted to \$414 million, an increase of \$31 million over the previous financial year indicating that short term resources were more than adequate to satisfy the short term financial liabilities. This increase was largely due to the increase in cash resources during 2017.

## **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 short term obligations. In 2017, the cash ratio was 1.91 relative to 1.78 in 2016 indicating an increase in liquidity coverage relative to the previous year. The increase in cash ratio reflected a \$21 million increase in cash coupled with a \$15 million decrease in liabilities.

## **COMPARISON TO THE BUDGET**

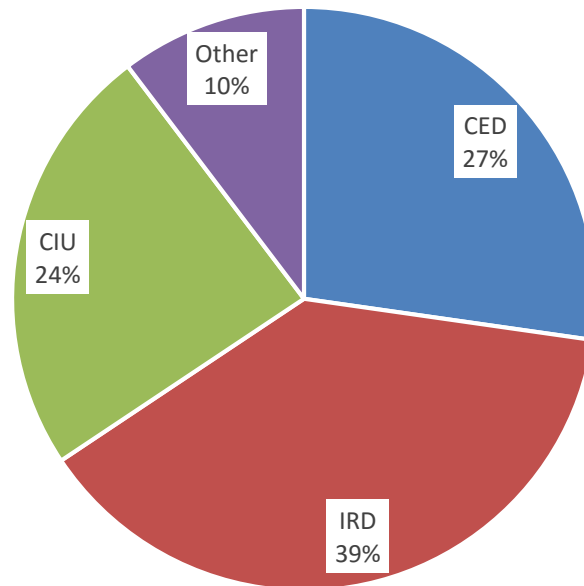
### **REVENUE**



### **Recurrent Revenue**

Recurrent revenue consists of Tax and Non Tax Revenue. Revenue from these sources totaled \$620 million for 2017. The performance of recurrent revenue was \$20 million less than the budget estimate for 2017. The three largest revenue collecting Departments within the Government: Customs and Excise Department (CED), Inland Revenue Department (IRD) and the Citizenship by Investment Unit (CIU) collected 90 percent of the Government's recurrent revenue for 2017.

Recurrent Revenue Collection by Department



The Customs and Excise Department on St. Kitts collected \$169 million in 2017. 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 (\$52 million), Customs Service Charge (\$34 million), Value Added Tax (\$57 million) and Excise Tax (\$13 million).

The total amount collected by the Customs and Excise Department on St. Kitts was \$6 million less in comparison to the amount collected in 2016. While the estimated revenue for the Department was reduced by \$2 million for 2017, the revenue collections failed to meet the target by \$12 million in four major revenue sources. Import Duties on Articles other than Alcohol, Customs Service Charge, Environmental Levy and Value Added Tax all fell below their respective targets.

The Inland Revenue Department collected \$238 million in taxes, licenses and fees in 2017. This represented a \$6 million increase in revenue collection over 2016. Stamp Duty (\$17 million), Value Added Tax (\$59 million), Corporate Income Tax (\$61 million), Withholding Tax (\$12 million) and Housing and Social Development Levy (\$44 million) all contributed significantly to the Inland Revenue Department's collection for 2017. The Inland Revenue

Department failed to meet its targeted revenue collection for 2017 by \$4 million as the 3% increase in actual revenue was less than the 11% increase in the revenue target.

Revenue collected by the Citizenship by Investment Unit fell short of its 2017 target by \$21 million. This represented a 30% decrease in revenue collection when compared to 2016. This was attributable to the lower volume of applications processed in 2017.

Other revenue collecting Departments contributed to the overall recurrent revenue collections including the Ministry of National Security (\$5 million) for Work Permit and Visa Extension Fees, the General Post Office (\$5 million), the Water Services Department (\$8 million) and Institution Based Health Services (\$3 million) for Hospital Fees.

### **Capital Revenue**

There was a shortfall of capital revenue compared to the estimated budget for 2017 as capital grants budgeted for were either not received or were less than estimated. Capital revenue was estimated at \$53 million for 2017 consisting of \$48 million in Development Aid and \$5 million from the sale of government lands. The amount received totaled \$24 million, creating an unfavourable variance of \$29 million. Thirteen (13) Ministries budgeted for capital revenue for 2017. Of these, five (5) Ministries with an accumulated estimate of \$11 million did not receive any capital revenue. The only favourable outturns for actual capital revenue in comparison to the budget for 2017 were:

1. Capital revenue received by the Ministry of Youth, Sports and Culture to host the Hero Caribbean Premier League (CPL) games and the lighting of sporting facilities in Sandy Point. These funds were received from the Sugar Industry Diversification Foundation (SIDF);
2. Revenues received from the sale of government lands.

### **Budgetary Grants**

There was no estimate for Budgetary Grants in 2017, however \$17 million was received from the SIDF for budgetary support and contribution towards CARIFESTA XIII.

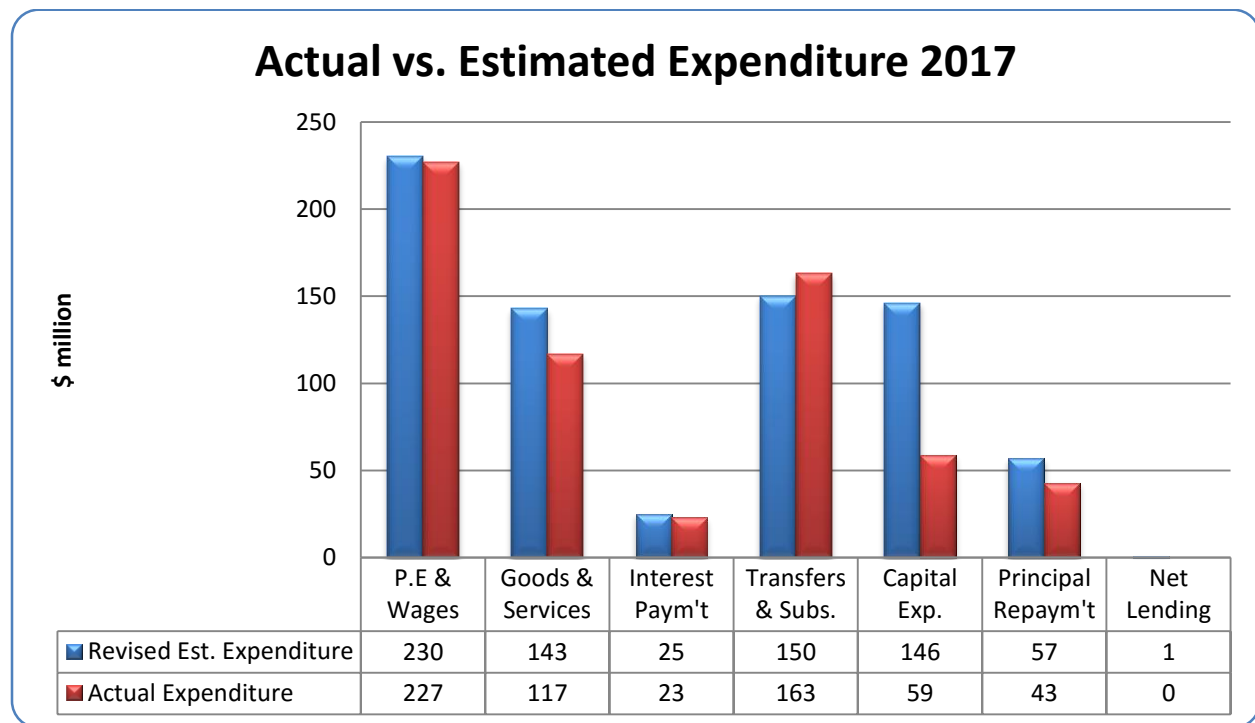
## EXPENDITURE

The appropriations for expenditure during 2017 are shown below.

Original Budget \$712,935,127

Supplementary Budget \$ 39,608,241

**\$752,543,368**



## Recurrent Expenditure

Actual recurrent expenditure totaled \$530 million in 2017. The budget for recurrent expenditure was revised and increased by \$39 million resulting in a revised estimate of \$548 million. This revision affected 9 Ministries. In comparison to the revised estimate, the Government achieved a savings of \$18 million. Areas resulting in savings where the actual amount spent was less than budgeted include: interest payments (\$2 million), professional and consultancy services (\$13 million), utility payments (\$2 million) and expenditures from the contingency fund (\$11 million).

In contrast, over expenditure (where the actual amount spent was in excess of the budgeted amount) resulted in the following areas: operating and maintenance services (\$2 million) and grants and contributions (\$13 million) and insurance (\$2 million).

Of the 9 Ministries which submitted Appropriation Warrants to meet additional expenditures, the warrants of 5 Ministries exceeded \$1 million. Table 4 below portrays the Ministries whose actual expenditure exceeded their original budget figures by over \$1 million.

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

<b>Ministry</b>	<b>Original Budget (\$)</b>	<b>Actual Expenditure (\$)</b>	<b>Variance (\$)</b>
<b>National Security</b>	52,656,824.56	57,641,947.92	4,985,123.36
<b>Finance</b>	172,738,392.00	192,285,364.79	19,546,972.79
<b>Tourism</b>	23,406,809.60	24,995,363.99	1,588,554.39
<b>Education</b>	70,911,054.14	77,236,217.86	6,325,163.72
<b>Health</b>	48,244,094.38	51,926,619.23	3,682,524.85

The following reasons, as stated in the appropriation warrants for 2017, are in respect of the five (5) Ministries whose actual recurrent expenditure exceeded their original budget by over \$1 million.

*Ministry of National Security*

Additional funds were requested to cover personal emoluments, to facilitate work done due to the passage of hurricanes Irma and Maria, to purchase equipment for the Police Department, to pay for uniforms, to cover professional and consultancy service fees and to cover medical expenses for officers.



### *Ministry of Finance*

Additional funds were requested for grants and contributions to local institutions to provide budgetary support to the Nevis Island Administration.

### *Ministry of Tourism*

Additional funds were requested to meet the expenditures in relation to the 2017 St. Kitts Music Festival.

### *Ministry of Education*

Additional funds were needed to meet the cost of salaries for teachers, contributions to the Clarence Fitzroy Bryant College and subventions to Early Childhood Centers.

### *Ministry of Health*

Additional funds were requested to meet the cost of wages, pharmaceutical and medical supplies and rent expenditure under Institution Based Health Services.

Compared with 2016, the supplementary estimates increased by \$7 million. Continuous overspending by Government Ministries and Departments raises questions about the credibility of the budget and expenditure control.

### **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 2017 was approved at \$145 million to support 133 projects. The budget was revised to \$146 million to include funds required in relation to the Rehabilitation of the Old Road Fisheries Complex project which exceeded the original budget by \$800 thousand.

Actual expenditure for capital projects for 2017 amounted to \$59 million representing 41% of the original budget. At the end of the 2017 financial year, 26 projects with an estimated budget of \$41 million had not been started. Of these 26 projects, 12 projects were included in the 2016 capital budget but were not implemented in that year. They were rolled over and included in the 2017 budget and were also not implemented.

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

Under the Office of the Prime Minister, \$2 million was expended on construction of the National Heroes Park.

The Ministry of National Security spent \$12 million of its \$19 million allocation for capital projects. Major expenditure included \$1.7 million on the Design of New Correctional facility project, \$1.4 million on purchase of vehicles and equipment and \$3 million on its Safety and Security Improvement Project.

The Ministry of Finance spent a total of \$5 million of its budgeted \$15 million. There was no expenditure for 4 of the 13 projects budgeted for this ministry. \$1.5 million was spent to upgrade the Customs and Excise Enforcement compound to create additional space for equipment, \$1m on the Renovation of the John Gumbs Building to house the offices of the Inland Revenue Department, \$800 thousand on the Network Enhancement project and \$700 thousand for Upgrade/Rehabilitation of Government Buildings.

The Ministry of Agriculture spent \$5.8 million of its revised budget of \$5.9 million. The ministry carried out 5 projects in 2017 including the Rehabilitation of the Old Road Fisheries Complex at a cost of \$2.8 million, the Improvement in Fisheries Management

Project at \$1.8 million and spent \$964 thousand on the acquisition of a marine vessel and trailer.

The Ministry of Tourism spent \$2.8 million of its budgeted \$6.5 million. The ministry spent \$1.6 million for the Refurbishment of Office Space at the Pelican Mall. This amount exceeded the budget by \$800 thousand. There was no expenditure for the Construction of Cockleshell Beach Lavatory project. Monies spent under the Coastal Erosion Mitigation project did not relate to this particular project.

The Ministry of Public Infrastructure et al spent \$9.3 million out of a budgeted \$24 million on capital projects. There was no expenditure on 7 projects, 2 of which had been rolled over from 2016 with no expenditure in that year as well. The ministry spent \$2.1million on the Upgrade of the Dr. Kennedy Simmonds Highway, \$1.1 million on the purchase of equipment for the Public Works Department and \$3.3 million on the Road Improvement Project which exceeded its budgeted amount by \$1.1 million.

The Ministry of Education spent \$1.8 million or 9.2% of its budgeted \$19.4 million. Construction of Education Building project did not materialize in 2017 as the decision was taken to observe proper procurement guidelines by introducing the tendering process. Construction of New Basseterre High School saw an expenditure of \$5,265 out of \$10 million allocated for the year.

The Ministry of Health spent \$2.4 million or 16.7% of its budgeted \$14.3 million. The \$3 million JNF General Hospital Phase III project did not materialize for the second year in a row. The ministry has stated that a new design is needed for the project. Capitalization of the National Health Insurance Scheme recorded less than \$300 thousand of expenditure out of the \$7 million budgeted for this project again. Institutional Enhancement project recorded an expenditure of \$1 million out of a budgeted \$2.3 million. The purpose of this project was to upgrade the hospitals on the island, however funds were also used for the clearing of lands to establish a new cemetery.

The Ministry of Youth, Sports and Culture spent \$11.1 million or 96% of their \$11.6 million capital expenditure allotment for 2017. The largest expenditures included \$3.9 million on

the Upgrade of Sporting Facilities, which was \$2.9 million over the amount budgeted for in 2017 and \$4.7 million on the Caribbean Premiere League (CPL) Games. There was no expenditure on the Upgrade of Carnival Village project as this was still in the design phase.

The Ministry of Sustainable Development spent \$1.9 million or 13.7% out of its budgeted \$13.9 million. There were no expenditures on 6 projects, including 2 projects that were brought forward from 2016. The largest expenditure for this ministry was for the Special Land Distribution Initiative of \$1.2 million.

The Ministry of Nevis Affairs et al did not spend any of its \$6 million capital budget allocation for 2017. The Capitalization of Unemployment Benefits Fund and the Capitalization of Long Service Gratuity and Severance Payment Fund were the two projects listed under this ministry. These two projects have consistently been included in the capital projects of this ministry since 2015. However there has been very minimal or no expenditure at all for these projects.

The implementation rate for capital projects decreased from 59% in 2016 to 41% in 2017. The fact that many of these projects are still in design and negotiation stages suggest that Ministries are not properly planning and budgeting for their capital expenditures. Having to roll over the same project from year to year also restricts the implementation of new projects and it also ties up resources that could be used in other areas of expenditure.

**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 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.**

## Principal Repayments

The budget for principal payments on outstanding loans of the Government of St. Kitts and Nevis for 2017 was approved at \$57 million with \$21 million budgeted for external debt principal payments and \$36 million for domestic debt principal payments. The actual expenditure totaled \$43 million with domestic debt principal payments accounting for 58% of the expenditure. This is a change in comparison to 2016 where domestic debt principal payments accounted for 1% of this 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 2017.

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**

	2017 (\$ million)	2016 (\$ million)
<b>Net Cash Flows :</b>		
<b>Operating Activities</b>	94	182
<b>Investing Activities</b>	(30)	(49)
<b>Financing Activities</b>	(43)	(45)
<b>Net increase/(decrease) in cash</b>	21	88
<b>Cash at beginning of period</b>	681	593
<b>Cash at end of period</b>	702	681

The Government's cash position improved from \$681 million at the end of 2016 to \$702 million as at December 31, 2017.

### **Net Cash Flow from Operating Activities**

Total receipts from operating activities totaled \$709 million in 2017 with tax revenues collected by the Inland Revenue and Customs and Excise Departments accounting for 57% of the total receipts from operating activities. Budgetary grants, non tax revenues and funds received from the repayment of advances accounted for the remainder. Payments on operating activities totaled \$614 million. This resulted in a net cash flow from operating activities of \$94 million in 2017.

### **Net Cash Flow from Investing Activities**

Receipts from investing activities totaled \$551 million which included proceeds from sale of government land, interest, dividends, return on investments and receipts from a bond issued by the Government of St. Lucia. Payments from investing activities which include capital expenditures and outflows from funds held by the Accountant General totaled \$581 million resulting in a net cash flow from investing activities of **(\$30)** 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 2017. Payments on financing activities totaled \$43 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 increased by \$21 million over the previous year. At the end of 2017, the Government of St. Kitts and Nevis had an accumulated cash balance of \$702 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.

The Government continues to hold large amounts of cash in non-interest bearing accounts. Cash balances of \$110 million in the Operating Account and \$278 million in the USD Call Account at the St. Kitts Nevis Anguilla National Bank are held in accounts that receive no interest. The accumulated balance of these two bank accounts (\$388 million) represents 55% of cash at the end of the year.

### **It is recommended that:**

**The Government consider avenues for investing a portion of the cash held in non-interest bearing accounts in order to receive a return. This should also be in line with an Investment Policy that outlines the goals, objectives and constraints of the Government.**

### ***Response by the Ministry of Finance***

*The Ministry of Finance notes the recommendation raised in the Audit Report pertaining to the holdings of cash balances in non-interest bearing accounts and advises that a portion of these funds is earmarked for the establishment of a Growth and Resilience Fund. Upon the request of the Ministry, the International Monetary Fund (IMF) provided technical assistance in February 2018 with respect to establishing and operationalizing the Fund. The Ministry is currently awaiting the final report from the IMF. After receipt of this report, a Cabinet Submission will be prepared and submitted for consideration, inter alia, of the development of the guiding policy, management structure, legal framework and governance structure of the Fund.*

*It should be noted that possible investment options were explored but it was found that market rates for US dollar deposits were extremely low (0% to near 0%).*

## **Advances**

### **Personal Advances**

At the end of 2017, personal advances given to civil servants totaled \$2.1 million. This amount represents 212 individual accounts of various amounts ranging from \$400 to \$47,000.

While the existing policy states that advances should be given for educational, legal and medical purposes, this practice is not being adhered to. Advances are approved and processed for 'personal' reasons and without adequate supporting documents.

Twenty-five (25) personal advance accounts with a total value of \$241,413.36 had no activity during the year 2017. The majority of these accounts have been dormant for 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 \$370,814.98 at the end of 2017. 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.

While the Government has taken steps to address the outstanding subsistence advances of previous Ministers of Government, the issue now turns to the outstanding advances of current Ministers of Government which stands at \$154,626.91.

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.

**It is recommended that:**

**A written policy be put in place to address the clearing of travel advances for 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**

<b>Advances</b>	<b>Balance (\$)</b>
<b>St. Kitts Tourism Authority – Enhancement</b>	14,107,701.38
<b>SSMC Severance Payment</b>	6,052,864.53
<b>Interest on Credit Facilities (SSMC)</b>	19,942,856.92
<b>Island Dredging Ltd.</b>	10,800,000.00
<b>Ex SSMC Workers Programme</b>	344,338.03

<b>Chairman La Vallee Greens</b>	1,572,828.33
<b>Nevis Island Administration</b>	1,500,000.00
<b>F/S Project YES</b>	3,815,708.66
<b>F/S for ABI</b>	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”.

### **Loan Receivable**

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 semi annual fixed payments of \$270,000 for 10 years at an interest rate of 7.5%. Both payments for 2017 were received in full and by the due date.

### **Trust Funds**

Trust Funds decreased by \$1 million in 2017 due to the payments exceeding the receipts for both the Savings Bank Trust Fund and the Severance Payment Fund.

As at December 31, 2017, the balance on the Severance Payment Fund was **(\$9.7)** million. The negative balance in this fund continues to increase as the payments made from the

fund exceed the receipts into the fund. This occurs because the fund is being used to pay both severance payments and long service gratuity payments.

The table below shows the receipts into and payments out of the Severance Payment Fund for 2017.

**Table 7: Severance Payment Fund Receipts and Payments**

	2017 (\$)
<b>Balance at 1/1/2017</b>	<b>(8,905,618.11)</b>
<b>Receipts:</b>	
<b>Severance Contributions from Social Security</b>	7,161,650.78
<b>Treasury Bills Interest</b>	42,187.50
	<b>7,203,838.28</b>
<b>Payments:</b>	
<b>Severance Payments</b>	4,788,714.39
<b>Long Service Gratuity</b>	3,244,076.62
	<b>8,032,791.01</b>
<b>Balance at 31/12/2018</b>	<b>(9,734,570.84)</b>

Although the Government provided a capital project (Capitalization of Long Service Gratuity and Severance Payment Fund) in 2016 and 2017 to provide an injection of \$2 million for each year into the Severance Payment Fund to cover payments of long service gratuity, the amounts were never transferred. This transfer would have reduced the over expenditure of the Fund.

The Severance Payment Fund has \$1.5 million invested in 91 day Treasury Bills earning an interest rate of 3.75% or \$56,250.00 per annum. Interest of \$14,062.50 is paid four times per year. For the year ending December 31, 2017, interest payments to the fund totaled \$42,187.50. The second interest payment of \$14,062.50 was not credited to the fund during 2017.

Although there was a decrease in the amount of severance and long service gratuity payments made from the fund in 2017, it is clear that the receipts from severance contributions and interest on treasury bills cannot provide for both types of payments.

This issue was highlighted in the last audit report. Management of the Labour Department has stated that the Department is still pursuing legislative reform with respect to severance and long service gratuity payments.

**It is recommended that:**

**Management of the Labour Department utilize the funds reserved for the Capitalization of Long Service Gratuity and Severance Payment Fund project to prevent further depletion of the fund until it can be revamped by legislative reform.**

**Other Public Funds**

Other Public Funds decreased by \$13.4 million which indicates the efforts of the Accountant General to purge the accounts of balances that have been dormant for years.

**PUBLIC SECTOR DEBT**

The Public Sector Debt is included in the Notes to the Financial Statements in the Public Accounts. Notes 9 and 10 beginning on page 40 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 2017, the Public Sector Debt of the Government of St. Kitts and Nevis amounted to \$1.6 billion, an increase of \$43 million or 2.7% over the previous year. Central Government debt decreased from \$907 million to \$902 million while guaranteed debt increased from \$646 million to \$694 million.

Total domestic debt of the Central Government increased by \$92 million due in part to the reclassification of a consolidated loan of \$98 million in Central Government Arrears to Petro Caribe – PSKN. Within the domestic debt portfolio of the Central Government, the Treasury Bills Portfolio decreased by \$6 million owing to a reduction in the amount held in the 91 day Treasury Bills portfolio.

Three loans of the Central Government were paid off in 2017; the OECS Development Project Loan, the HIV/AIDS Prevention and Control Project Loan and the Corporatisation of Electricity Department Loan. These loans carried a cumulative balance of \$1.8 million at the end of 2016.

Within the Central Government's foreign debt portfolio, the balances of two (2) loans were increased when compared to 2016. This was due to unfavourable exchange rates.

In the previous audit report, it was highlighted that the balances of five loans to Petrocaribe Energy Corporation had not changed during 2016. The Ministry of Finance stated that during 2016, negotiations were ongoing concerning these instruments hence the reason why payments were not made. Three of these loans have been consolidated and are designated as Central Government Arrears to Petro Caribe – PSKN in the domestic portion of the Central Government's debt for 2017. The other two loans which totaled \$41 million in 2016 are still included in the foreign portion of Central Government's debt. There was no change to this figure in 2017.

While the Central Government debt decreased by \$5 million relative to 2016, the guaranteed debt increased by \$48 million relative to 2016. Within the guaranteed debt portfolio, domestic debt increased by \$55 million with \$21 million stemming from the

increase in overdrafts by the Development Bank of St. Kitts and Nevis, Nevis Island Administration, ZIZ Broadcasting Corporation, Nevis Electricity Company and the Nevis Air and Sea Ports Authority. Particular attention should be paid to the impact of overdrafts on the quantum of the domestic portion of the guaranteed debt, since overdrafts have been increasing over the past four years.

It must be noted that guaranteed debt accounts for 43% of total public sector debt. Therefore efforts must be made to decrease the guaranteed debt to prevent undermining of the strides to decrease the total public sector debt.

### **ARREARS OF REVENUE**

The statement of arrears of revenue is a requirement of the Finance Administration Act, 2007. The statement however is incomplete. The statement shows arrears of revenue as at December 31, 2017 of \$1.6 million. A summary of the results is shown in the table below.

**Table 8: Arrears by Ministry**

<b>Ministry/Department</b>	<b>2017 Arrears Total (\$)</b>	<b>2016 Arrears Total (\$)</b>
<b>International Trade</b>	8,615	Not provided
<b>Finance – Customs Department</b>	Not provided	3,837,098
<b>Tourism</b>	298,405	197,586
<b>Public Infrastructure: Public Works</b>	720,924	588,040
<b>Public Infrastructure: Post Office</b>	75,726	464,043
<b>Education</b>	545,418	39,436
<b>Total</b>	<b>1,649,088</b>	<b>5,126,204</b>

While the table represents arrears of \$1.6 million, the figure is presumed to be greater as notable revenue collecting agencies such as the Inland Revenue Department, Customs and

Excise Department, Water Services Department and the Joseph N France General Hospital did not submit information concerning arrears of revenue.

With the exception of the General Post Office, arrears of revenue increased when compared to 2016 for the other Ministries listed above.

**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 significantly reduced.**

**OTHER AREAS OF CONCERN**

Payments out of the Contingency Fund totaled \$1.4 million in 2017. A contingency fund should be used for urgent, unavoidable and unforeseen needs for expenditure for which no other monies have been set aside or appropriated. However, the majority of payments from the Contingency Fund in 2017 were made for routine expenditure. Payments from this fund included:

- Payment to the CARICOM Secretariat for contribution to Bahamas and Haiti - \$1 million
- Payment to the Marriott for the COTA Technical Meeting that was held in July 2017 - \$68 thousand
- Payment for rent of the EC Daniel Building - \$177 thousand
- Payment to Government employees for work done on the Budget Estimates - \$87 thousand

**It is recommended that:**

**The Ministry of Finance refrain from using the Contingency Fund for routine expenditure.**

