

OFFICE OF THE DIRECTOR OF AUDIT

Audit Report No. 1 of 2009

**REPORT OF THE DIRECTOR OF AUDIT, GRENADA
ON THE STATEMENTS OF ACCOUNT OF THE
GOVERNMENT OF GRENADA FOR 2007**

The Director of Audit

Audit Department

Report of the Director of Audit on the Statements of
Account of the Government of Grenada for 2007

Anslem Joseph
Director of Audit
Audit Report No. 1 of 2009

30 January 2009

The Director of Audit is the head of the Audit Department. The staff of the Audit Department assists the Director of Audit to carry out his duties under Section 82 of the Grenada Constitution Order, which states:

(2) It shall be the duty of the Director of Audit to audit and report on the public accounts of Grenada, the accounts of all officers and authorities of the Government of Grenada, the accounts of all courts in Grenada (including any accounts of the Court of Appeal or the High Court maintained in Grenada), the accounts of every Commission established by this Constitution and the accounts of the Clerk to the Senate and the Clerk to the House of Representatives.

(3) The Director of Audit and any officer authorized by him shall have access to all books, records, returns, reports and other documents which, in his opinion relate to any of the accounts referred to in subsection (2) of this section.

(4) The Director of Audit shall submit every report made by him in pursuance of subsection (2) of this section to the Minister for the time being responsible for finance who shall, not later than seven days after the House of Representatives first meets after he has received the report, lay it before the House.

(5) The Director of Audit shall exercise such other functions in relation to the accounts of the Government of Grenada or the accounts of other authorities or bodies established by law for public purposes as may be prescribed by or under any law enacted by Parliament.

(6) In the exercise of his functions under subsections (2), (3) and (4) of this section, the Director of Audit shall not be subject to the direction or control of any other person or authority.

Mission Statement

Our mission is to bring about good governance through the promotion of greater accountability and transparency.

TABLE OF CONTENTS

LETTER OF TRANSMITTAL	5
ACKNOWLEDGEMENTS	6
CHAPTER	Paragraph Reference
INTRODUCTION	1.01 - 1.18
AUDIT PROGRAMME OF WORK	1.19 – 1.27
OVERALL PERSPECTIVE - INACCURACIES AND OPAQUENESS	2.01 - 2.03
STATEMENTS OF ACCOUNT	3.01 - 3.38
AUTHORITIES FOR EXPENDITURE	

Ref. No. (32) in AR/2007

30 January 2009

The Hon. Minister for Finance
Ministry of Finance
Financial Complex
Carenage
St. George's

Dear Sir,

In accordance with section 82 (4) of the Grenada Constitution Order 1973, and section 12 of the Audit Act No. 26 of 2007, I submit my Report on the accounts of the Government of Grenada for the year ended 31 December 2007 for laying before the House of Representatives.

Section 82(4) of the Grenada Constitution Order 1973 stipulates that this Report shall be laid before the House of Representatives not later than seven days after the House first meets after the receipt of the Report by you.

Yours respectfully,

.....
Anslem Joseph
DIRECTOR OF AUDIT

ACKNOWLEDGEMENTS

I wish to express my gratitude to the staff of the Audit Department whose dedication and hard work have facilitated the production of this Report. I also wish to thank the Government Printer, the Accountant General and her staff and other accounting officers for their courtesy and cooperation.

REPORT OF THE DIRECTOR OF AUDIT ON THE STATEMENTS OF ACCOUNT OF THE GOVERNMENT OF GRENADA FOR 2007

CHAPTER 1

INTRODUCTION

1.01 This Report has been prepared for laying before the House of Representatives in accordance with Section 82 (4) of the Grenada Constitution Order.

Mandate

1.02 I have audited the Statements of Account of the Government of Grenada for the year ended 31 December 2007 as required by Section 82 (2) of the Grenada Constitution Order and Section 12 of the Audit Act No. 26 of 2007.

Objectives and Scope of Audit

1.03 This Report is on the findings of my audit of the Statements of Account for the year ended 31 December 2007.

1.04 The audit was conducted as required by the Grenada Constitution Order and the Audit Act of 2007, applying International Organisation of Supreme Audit Institutions (INTOSAI) standards relating to public accounts and included such tests considered necessary to check compliance with statutory requirements.

1.05 The audit was not designed to disclose every error in the accounts but to ascertain that the accounts were maintained on acceptable systems, punctually and properly posted; that checks against irregularities and fraud were adequate and effective; and to assess whether the accounting policies were appropriate to the Government's circumstances, consistently applied and adequately disclosed. An audit does not in any way relieve Accounting Officers of their responsibilities to ensure that all appropriate accounting records including vote books are correctly and promptly posted and payments marked off. The Director of Audit is not responsible for the accuracy of the books of account so as to relieve the Accountant General, Heads of Departments or other accounting officers of their responsibility there-for, which primarily rests with them.

1.06 The Accountant General is responsible for the preparation of the Statements of Account. It is my responsibility to form an independent opinion based on my audit of those statements and to report my opinion to you.

1.07 I planned my audit so as to provide me with sufficient evidence to form an opinion.

1.08 In forming an opinion I also evaluated the overall adequacy of the presentation of information in the Statements of Account.

Submission of Accounts

1.09 The Public Finance Management Act No. 27 of 2007 requires that the Accounts should be submitted to the Director of Audit within six (6) months after the close of the financial year. It further provides that the Minister for Finance may extend the period within which the Accounts may be transmitted. The Audit Act also requires the Director of Audit to report on the Accounts no later than three (3) months after receipt of the certified Public Accounts from the Accountant General for that financial year; and also provides that an extension may be granted by the Minister for Finance.

1.10 The Statements of Account for 2007 were transmitted to the Director of Audit on 31 October 2008. An audit was conducted and a large number of errors were identified and reported. Meetings were held with the Accountant General's staff; and an agreement was reached on the way forward to improve the accounts. The decision was taken by the Accountant General to make some adjustments. For others, it was agreed that the adjustments would be reflected in subsequent accounts.

1.11 Extension was granted for the transmission of the Statements of Account for 2007, to the Director of Audit, to 31 October 2008. The Audit Report on the 2006 Accounts was submitted to the Minister for Finance on 27 December 2007 and was laid before the House of Representatives on 25 January 2008.

1.12 The audited Statements of Account are to be laid in the House of Representatives together with this report.

Public Financial Management

1.13 The Grenada Constitution Order requires:

all revenues or other moneys raised or received by Grenada (not being revenues or other moneys that are payable, by or under any law for the time being in force in Grenada, into some other fund established for any specific purpose) shall be paid into and form a Consolidated Fund.

It further requires that:

No moneys shall be withdrawn from the Consolidated Fund except:

- (a) to meet expenditure that is charged upon the fund by this Constitution or by any law enacted by Parliament; or
- (b) where the issue of those moneys has been authorized by an Appropriation law or by a law made in pursuance of section 78 of this Constitution.

1.14 The Grenada Constitution Order also provides for the procedures for the authorization of expenditure.

1.15 Within the general control framework set out in the Constitution, the Public Finance Management Act amplifies the method of control and management of public monies. Under the powers conferred by the Public Finance Management Act upon the Minister for Finance, he may make such regulations relating to the financial controls and management.

1.16 During 2007, the following pieces of legislation went through all their stages in Parliament. The Governor General had appointed 1 July 2008 for their commencement. These acts should improve accountability, transparency and good governance in the Public Service:

- Audit Act No. 26 of 2007
- Public Finance Management Act No. 27 of 2007
- Public Procurement Contract Administration Act No. 25 of 2007

However, it should be noted that the 2007 Statements of Account were prepared based on the old regulations, the Finance and Audit Act CAP 102 of the 1990 Laws of Grenada.

Public Accounts Committee

1.17 The Standing Orders of the House of Representatives provide for the appointment of a Select Committee, called the Public Accounts Committee (PAC), consisting of not less than three (3) members and not more than five (5) members. The Committee is selected by the House of Representatives. It shall be the duty of the PAC to examine the audited accounts of the State as well as the accounts of Corporations, Boards and other bodies appointed by Government, and report thereon to the House. The task of the PAC is one, which must be accomplished if the parliamentary system of accountability is to be meaningful and effective.

1.18 The Committee met regularly in the past and submits its reports to the Parliament. Our Parliament should be complimented because it was the only active Public Accounts Committee in the OECS sub region. However, after the July 2008 general elections, which brought about a change in Government and by extension, the

composition of the Public Accounts Committee, however I am anticipating the same level of dedicated service from the new members.

Audit Programme of Work

1.19 Although this report is on the Accounts for the year 2007, I think it is pertinent to give to the House of Representatives an up-to-date picture of the activities of Office of the Director of Audit during the period 1 January 2008 to 31 December 2008 and how the resources which were given to it was utilized.

1.20 The Parliament had voted \$1,003,723 for recurrent expenditure and \$113,200 for capital expenditure, to facilitate the delivery of audit services, by the Audit Department, during 2008. The budget and the actual expenditure are reproduced hereunder:

RECURRENT EXPENDITURE HEADS	ESTIMATES 2008	ACTUAL EXPENDITURE	VARIANCE
	\$	\$	\$
Personal Emoluments	772,956.00	662,309.00	110,647.00
Allowances	61,709.00	57,802.00	3,907.00
Local Travel & Subsistence	25,000.00	11,531.00	13,469.00
International Travel & Subsistence	16,000.00	-	16,000.00
Training	13,000.00	-	13,000.00
Supplies & Materials	15,000.00	9,232.00	5,768.00
Communication Expenses	12,468.00	1,204.00	11,264.00
Maintenance Services	7,000.00	1,146.00	5,854.00
Rental of Assets	-	66,640.00	(66,640.00)
Professional & Other Services	63,590.00	60,280.00	3,306.00
Insurance	10,000.00	-	10,000.00
Sundry	7,000.00	-	7,000.00
	<u>1,003,723.00</u>	<u>868,998.00</u>	
CAPITAL			
Purchase of Furniture & Fixtures	8,200.00	7,788.00	412.00
Purchase of Equipment	5,000.00	-	5,000.00
Support to Audit	100,000.00	-	5,000.00
Installation/Termination of computer data cabling system	-	17,926.00	17,926.00
	<u>113,200.00</u>	<u>25,714.00</u>	

1.21 There was no expenditure under international travel during 2008. All our international travel were funded externally during the year.

1.22 Training which is highly valued in the Audit Department, suffered during 2008 because of the uncertainty with regard to the date of the relocation of the office. Additionally, no provision was made for rental of assets during 2008. It was intended, that the office would have been relocated to Mt. Wheldale by December 2007.

However, the relocation did not materialized until October 2008. As a result, Warrants had to be raised for rental of office space for the period.

1.23 The amount of \$10,000.00 for insurance was not utilized because the building at Mt. Wheldale was not completed during the year.

1.24 There is an amount of \$100,000.00 which was voted for audit support but was not used. It was intended that, with the introduction of the new Audit Act, this amount would have been used to hire/delegate private auditors to audit the Statutory Bodies. The Audit Act came into force in July 2008.

1.25 An Expenditure of \$17,926.00 which had to be raised by Special Warrant, was expended on the newly refurbish building at Mt. Wheldale, for installing terminals and computer data cables.

1.26 The audit services performed during 2008 include:

- continuous audit of Treasury and Accountant General's Department;
- surprise surveys of all Ministries and Departments;
- pre audit of pensions and gratuities;
- audit of Government Information Service (GIS)
- audit of National Disaster Management Agency (NADMA)
- audit of the Safety Net Programmes; Ministry of Social Development
- audit of schools accounts, St. George's
- audit of Government Assets: Inventory of equipment

1.27 The staff of the Audit Department is now better trained and we are providing a wider range of audit services, including training, to our clients.

CHAPTER 2

OVERALL PERSPECTIVE - INACCURACIES AND OPAQUENESS

2.01 For any given financial year, the people of Grenada, through their representatives, approve estimated expenditure for the year. The representatives also approve revenue-collecting measures. The financial resources of the state must be managed with due regard to efficiency, economy and effectiveness. It is therefore imperative that the stewards of the public purse present on a timely basis an accurate report on their stewardship (function).

2.02 The accounts are prepared not only to satisfy statutory requirement but also to provide useful information to users. The main characteristics of useful information are relevance, reliability, comparability and understandability. These must be taken into account when the accounts are being prepared.

2.03 Although there were improvements in the overall accounts for 2007, we are some way off from presenting a clean set of accounts. However, the Accountant General and her staff should be recognized for the efforts they have made to achieve this goal, under trying circumstances and lack of full co-operation from some Accounting Officers and Sub-Accountants.

CHAPTER 3

STATEMENTS OF ACCOUNTS

Authority for Expenditure

3.01 Over one hundred and twenty (120) Special Warrants were approved in the year 2007. Of these, forty-nine (49) were to authorise the issue from the Consolidated Fund, amounts totaling over \$123 million in anticipation of grants being made by Parliament by way of a Supplementary Appropriation Act. The remaining warrants were required to transfer amounts, which were already appropriated, between votes and capital projects.

3.02 It should be noted that the Finance and Audit Act Cap 102 of the Laws of Grenada 1990, limits the authorisation of issues from the Consolidated Fund in anticipation of grants by Parliament, to fifty thousand dollars.

3.03 Section C of the Special Warrant form requires the officer requesting approval to state why the application is necessary. This section is frequently not properly completed. Reasons such as; “to bring funds received to account”, are written. The circumstances under which an application is necessary are clearly stated in the financial laws and regulations. Officers who prepare special warrants should be aware of these and be guided accordingly.

3.04 Section 5 (2) of the Finance and Audit Act states in part, that the Minister of Finance shall submit Supplementary Estimates for approval by Parliament as soon as possible after the issue of a Special Warrant. I have not seen supplementary appropriation for warrants totaling over sixteen million dollars (\$16m).

Estimates of Revenue and Expenditure

3.05 The Estimates of Revenue and Expenditure can be described as the Government’s plans for the year 2007, expressed in monetary terms. It is also a benchmark against which actual performance is measured. Therefore it is important that the budget be realistic. Unrealistic budgets can result in stakeholders losing confidence in the budgeting process.

3.06 The need to seek approval for additional expenditure, transfers between recurrent votes and transfers between capital projects, through Special Warrants, beginning as early as February without reasonable explanation, can be to some extent attributed to unrealistic budgeting.

3.07 With regard to revenue, receipts from loans of just over twenty six million (\$26m) was budgeted, however over seventy one million (\$71m) was received; whilst receipts from grants was budgeted at over ninety two million (\$92m) and only slightly over twelve million (\$12m) was received. It would have been useful for the Ministry of Finance to present along with the Statements of Account, a management report outlining the reasons for these large variances.

3.08 Environmental Levy is collected on behalf of the Solid Waste Management Authority and accounted for as a liability until the monies collected is paid to the Authority. Section 5 of the Environmental Levy Act 29 of 1996 refers. It is not Government's revenue, however it is shown in the Estimates of Revenue as \$5,775,512.00.

3.09 Vote 32: Post Office continues to be shown in the Estimates with, what appears to be a token budgeted expenditure. For the year 2007, this allocation totaled \$10,790.00. As outlined in previous Audit Reports, all postal services were placed under the Grenada Postal Corporation from 1997. No explanation is given for this allocation.

CASH

Cash in Hand

3.10 Cash in Hand is shown with a balance of \$2,705.00. This represents the cashier's balance at the General Hospital Steward's Office. The current accounting procedure is that a 'book deposit' is done at the end of each working day, which results in the zeroing-off of cashiers' balances, even when the cash is not yet deposited in the bank. While the probity of this procedure can be debated, there should be consistency in its application.

Cash at Bank

3.11 The asset Cash at Bank is shown on the Statement of Assets and Liabilities as at 31 December 2007 as \$40,012,028.16. There were significant differences between some of the bank balances as per records maintained by ministries and departments and the records kept by the Accountant General. Additionally the asset Cash at Bank is not clearly defined. For example, there are bank balances that are disclosed as Investments that is no different from others disclosed as cash at Bank. A list of bank accounts representing this asset is not maintained. As a result I am unable to verify the accuracy or completeness of the asset.

3.12 To avoid inaccurate disclosure, there should be clear, documented definitions for each asset or liability.

Imprest

3.13 There is general non-compliance by imprest holders and the Accountant General's Division with sections 52 and 53 of the Financial Rules. These Rules outlines the procedure for accounting for imprest. This non-compliance is largely responsible for balance of almost two million dollars (\$2m) as at 31 December 2007.

ADVANCES

3.14 The issue of advances from the Consolidated Fund in 2007 was governed by Section (3) of the Finance and Audit Act. Specific reference is made to public Officers in Section (3)(c).

3.15 Advances to Government Officers outstanding as at 31 December 2007 totaled \$1,656,422.38. Many of these advances were also outstanding as at 31 December 2006. To the extent that the Advances to Government Officers were not retired within a period of twelve (12) months; and along with advances outlined in Section 5(3) (b) of the Act, exceeds one million dollars (1m), the Act is not complied with.

3.16 Both Expenditure and the asset Cash are affected by the failure to retire and/or adequately account for the retirement of advances to Government Officers in a timely manner. Expenditure is understated and the asset Cash overstated.

3.17 The Statement of Advances shows amounts totaling \$12,208.21 under the heading:" Missions". I have not seen warrants authorising the issue of these amounts as Advances.

3.18 As in previous years returned cheques are listed as an advance on the Detailed Statement of Advances. This classification of returned cheques is not in accordance with the Section 5 of the Finance and Audit Act.

SHORT TERM BORROWING

Bank Overdraft

3.19 The liability, Bank Overdraft is shown as \$19,135,035.28 on the Statement of Assets and Liabilities. I have not been able to determine the completeness of this liability because a control list of overdrawn accounts is not maintained.

DEPOSITS

3.20 The liability Deposits is shown on the Statement of Assets and Liabilities as at 31 December 2007, as \$34,665,638.78. Departmental Accounts of \$22,607,174.94 consist of fifty-nine (59) separate accounts. Six (6) of these: Stale Dated Cheques; Confiscated Assets; Proceeds of Sale-Auction/fee; Miscellaneous Deposits; Returned Items for Repayment; and Environmental Levy totaled \$14,703,845.11.

3.21 There are no guidelines for the proper management of the Stale Dated Cheques' Account. With regard to the Proceeds of Sale accounts, the amounts entered, appears to be revenue; whilst Most of the entries in the Confiscated Assets and Miscellaneous Deposits are a result of incorrect classifications. Environmental Levy collected was not paid over to the Solid Waste Management Authority within the 10 days stipulated in Section 4 of the Environmental Levy Act 29 of 1996.

3.22 The Detailed Statement of Deposits should be reviewed to ensure that deposits are clearly described or named; and transactions are properly classified.

Other Liabilities

3.23 The liability Deposits is shown on the Statement of Assets and Liabilities as at 31 December 2007, as \$34,665,638.78. Departmental Accounts of \$22,607,174.94 consist of fifty-nine (59) separate accounts. Six (6) of these: Stale Dated Cheques; Confiscated Assets; Proceeds of Sale- Auction/fee; Miscellaneous Deposits; Returned Items for Repayment; and Environmental Levy totaled \$14,703,845.11.

3.24 There are no guidelines for the proper management of the Stale Dated Cheques' Account. With regard to the Proceeds of Sale accounts, the amounts entered, appears to be revenue whilst most of the entries in the Confiscated Assets and Miscellaneous Deposits are a result of incorrect classifications. Environmental Levy collected was not paid to the Solid Waste Management Authority within the 10 days stipulated in Section 4 of the Environmental Levy Act 29 of 1996.

3.25 The Detailed Statement of Deposits should be reviewed to ensure that deposits are clearly described or named; and transactions are properly classified.

Unexpended Grants

3.26 The liability unexpended Grants is shown as \$25,096,158.39 on the Statement of Assets and Liabilities. This amount represents Grants, which have been received but not disclosed as revenue because they were not expended. In 2007, thirty-two (32) of these grant accounts with balances totalling over twelve million dollars (\$12m) had no transactions. Proper procedures should be put in place to manage accounts that are classified as unexpended grants. These should include; mechanisms to properly account for monies that remain unexpended after projects have been completed. At present, these amounts continue to be disclosed as unexpended grants.

Unredeemed Debentures

3.27 Unredeemed debentures are debentures/bonds, which have matured (become payable) and have not yet been redeemed (paid). This liability is shown as \$2,966,632.00 in the Statement of Assets and Liabilities as at 31 December 2007. I have not been able to verify the completeness of this account.

3.28 It has been the practice to show unredeemed debentures on the Statement of Assets and Liabilities, however there is evidence that not all such liabilities were included in 2007, although I am not able to quantify the amount because of incomplete records. Accounting practices and policies should be applied consistently.

CONSOLIDATED FUND

3.29 An amount of \$13,330,232.41 is described as “Adjustments 2007” and is disclosed under Consolidated Fund on the Statement of Assets and Liabilities. I am unable to verify neither the accuracy nor the disclosure of this amount because of inadequate supporting documentations.

Expenditure on Non-Expendable Stores

3.30 Generally, compliance with the Store Rules in relation to the receipt, care, custody and disposal of nonexpendable stores was very weak. Inventories were not prepared and appropriately displayed. In the few cases where they were prepared, they were not maintained. Special Equipment Registers to record data on assets such as furniture, computers, appliances and other equipment were not maintained. Items that were not purchased; but otherwise acquired, were generally not recorded. Also, broken furniture and equipment were not recorded and disposed of in a timely manner.

3.31 Officers were not familiar with relevant sections of the Store Rules.

3.32 There was no system in place to ensure that furniture and equipment purchased or otherwise acquired by Ministries and Departments were easily traced.

3.33 Over four million dollars (\$4m) were expended on furniture and equipment in 2007 some of these items could not be traced.

3.34 I recommend that urgent action be taken to ensure that all relevant staff is familiar with the Store Rules; and comply with these rules and other good practices.

Variances

3.35 There were significant variances between budgeted amounts on some revenue subheads/accounts and actual reported revenue for 2007. Some of the reasons given by senior officers for these variances were: the use of incomplete data as the basis for the estimates; the failure to implement Value Added Tax, which also had an effect on the collection of other taxes; incorrect classification of transactions; unforeseen changes in legislation; and unrealistic budgeting of Receipts from Grants.

3.36 Capital expenditure variances were attributed to the following: Unrealistic budgeting, example monies owed to contractors were not budgeted for; unexpected delays in the implementation of project; Grant funding for projects were not received; and spending in preparation for Cricket World Cup 2007.

CONCLUSION

3.37 Although much effort was exerted on the production of the 2007 accounts, many shortcomings need to be addressed. These are highlighted in this report.

3.38 In my opinion, the financial statements do not properly present the state of affairs of the Government of Grenada for the year ended 31 December 2007. The financial statements have been prepared in accordance with Section 9 of the Finance and Audit Act CAP 102 of the Laws of Grenada 1990.

AUTHORITIES FOR EXPENDITURE

APPENDIX

1. **Estimates**
Approved by the House of Representatives 21 December 2006
Approved by the Senate 28 December 2006
2. **Appropriation Act No. 1 of 2007**
Passed by the House of Representatives 21 December 2006
Passed by the Senate 28 December 2006
Governor General's Assent Given 10 January 2007
3. **General Warrant**
Signed by Minister for Finance 10 January 2007
4. **Supplementary Appropriation (No. 1) 2007:
Act No. 23 of 2007**

Passed by the House of Representatives 19 July 2007
Passed by the Senate 3 August 2007
Governor General's Assent Given 28 August 2007
5. **Supplementary Appropriation (No. 2) 2007
Act No. 28 of 2007**

Passed by the House of Representatives 6 November 2007
Passed by the Senate 27 November 2007
Governor General's Assent Given 31 December 2007
6. **Supplementary Appropriation (No. 3) 2007
Act No. 29 of 2007**

Passed by the House of Representatives 4 December 2007
Passed by the Senate 13 December 2007
Governor General's Assent Given 31 December 2007