# NATIONAL AUDIT OFFICE

2020

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

# St. Kitts and Nevis

# **N**ational **A**udit **O**ffice

Report by the Director of Audit

On the Public Accounts

For the year 2020

*ST. KITTS AND NEVIS*
*NATIONAL AUDIT OFFICE*
*P. O. Box 19, Basseterre, St. Kitts*
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October 29, 2021

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, 2020.

Respectfully,

..........CPike..........

Carla Berridge - Pike, CPA, Forensic CPA

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, 2020.

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 Cap 20.01. 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 the National Assembly in accordance with Section 7 (1) of The Audit Act Cap 20.01 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 Cap 20.01 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.

The Covid – 19 pandemic has resulted in delays, inaccessibility of information and personnel during periods of lockdown, and staff absences. The pandemic has shown that there is an urgent need to reinvent processes that rely on paper documents. At this time, there is a need for the Government to embrace digital technology that allows for operational efficiency and easy access to and sharing of information.

I extend my gratitude to the various Ministries and Departments with whom we interacted to complete this audit exercise. I wish to thank all for their assistance and patience.

I also take this opportunity to thank my staff for their hard work and dedication during this exercise.

................Pike................

Carla Berridge - Pike, CPA, Forensic CPA

Director of Audit

**Table of Contents**

# 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 Cap 20.13.

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 Cap 20.13. 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 Draft Public Accounts for the financial year ended December 31, 2020 were submitted to the National Audit Office on June 21, 2021.

The Public Accounts have been prepared using the cash basis of accounting. This method recognizes income when cash is received and expenditure when cash is paid.

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 7 and 8, the Statement of Comparison of Budget and Actual Amounts on pages 9 to 11 and the Accounting Policies and Notes to the Financial Statements beginning on page 14 of the Public Accounts are in compliance with Part 1 of Cash Basis IPSAS.

**Compliance with the Finance Administration Act Cap 20.13**

Section 57 (4) of the Finance Administration Act Cap 20.13 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.

The Public Accounts of the Government of St. Kitts and Nevis are in compliance with the Finance Administration Act Cap 20.13 in that it contains each of the required statements mentioned above.

# 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, 2020, 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, 2020.

## 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 Cap 20.13 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 Cap 20.01.

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 assesses 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.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.

- Evaluates 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 Cap 20.01, this report is being submitted to the Minister of Finance for presentation before the National Assembly.

..............CPike..............

Carla Berridge - Pike, CPA, Forensic CPA

Director of Audit

National Audit Office

Basseterre, St. Kitts

October 29, 2021

## SUMMARY OF FINANCIAL INFORMATION

### Impact of the Covid – 19 Pandemic

On March 11, 2020, the World Health Organization declared the Covid – 19 outbreak to be a pandemic. On March 25, 2020, the Minister of State with responsibility for Health confirmed the first 2 cases of Covid – 19 within the Federation. Covid – 19 related measures including the closure of the Federation's borders, closure of non-essential businesses and full and partial lockdowns were all instituted. These had an impact on both the revenues and expenditures of the Government for the period under review. The Government experienced a large decline in revenues and an increase in expenditure due to Covid – 19 related costs during the year.

While the financial information in this report for the year 2020 is being compared to the 2020 budget approved by the National Assembly in 2019 and also to the actual results of the prior year 2019, we must be cognizant of the fact that we are comparing a pre-pandemic period (2019) with a period during a pandemic.

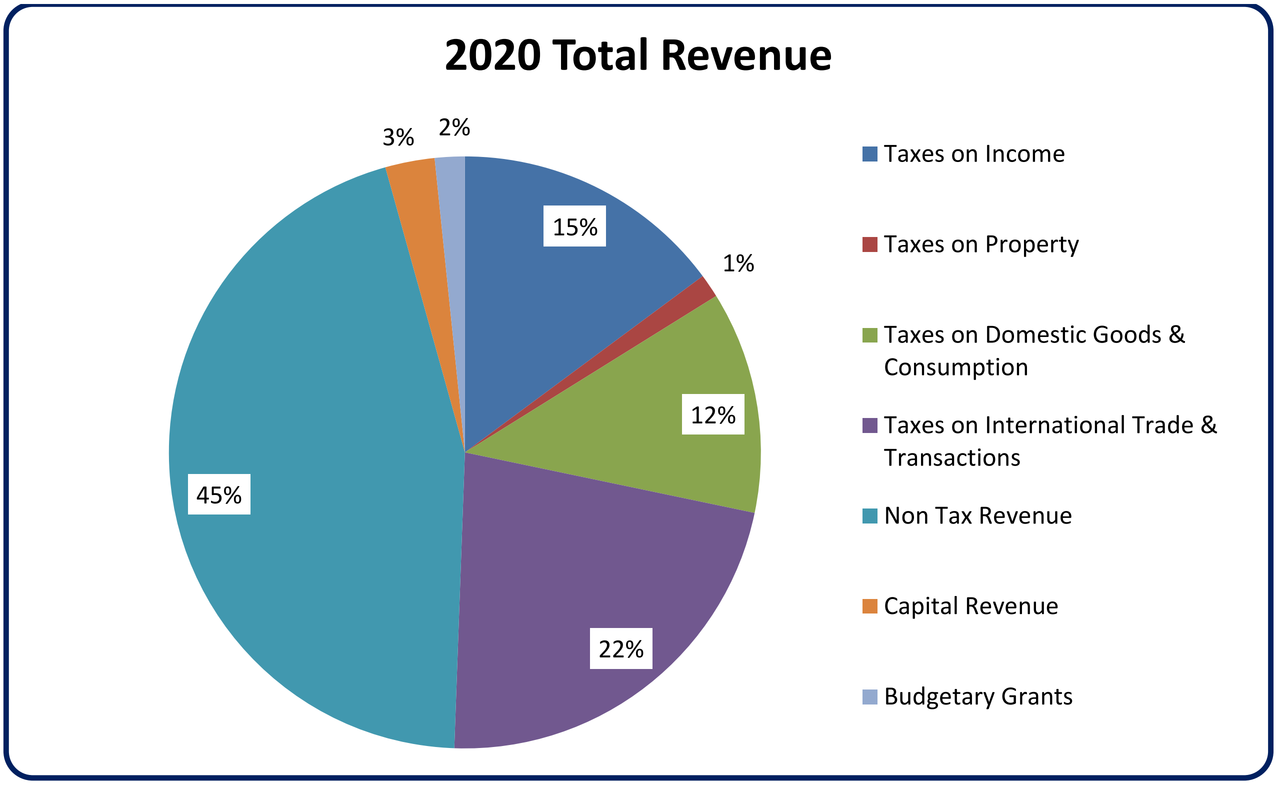
### Revenue and Expenditure

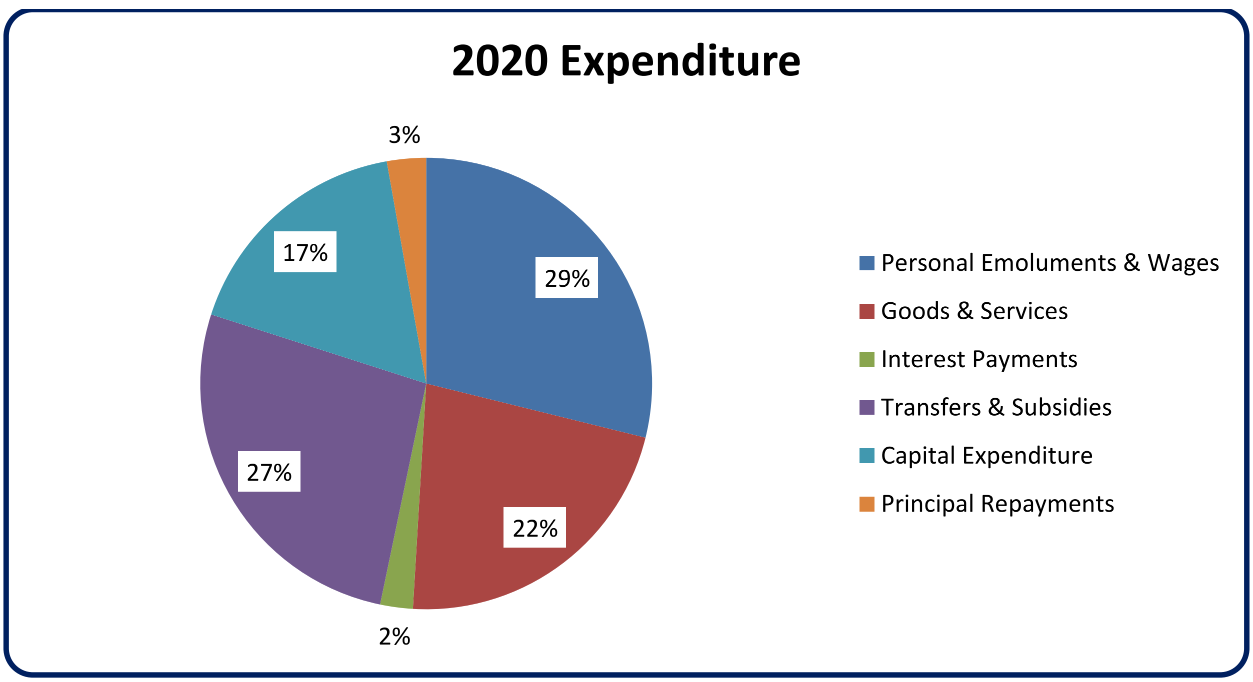
For the year 2020, the National Assembly approved an expenditure budget of $849 million, which included $40 million in debt repayment. Revenue for the year was estimated at $861 million and this included the sale of government lands which was budgeted to bring in $5 million. During 2020, a further $90 million of expenditure was approved by supplementary/appropriation warrants.

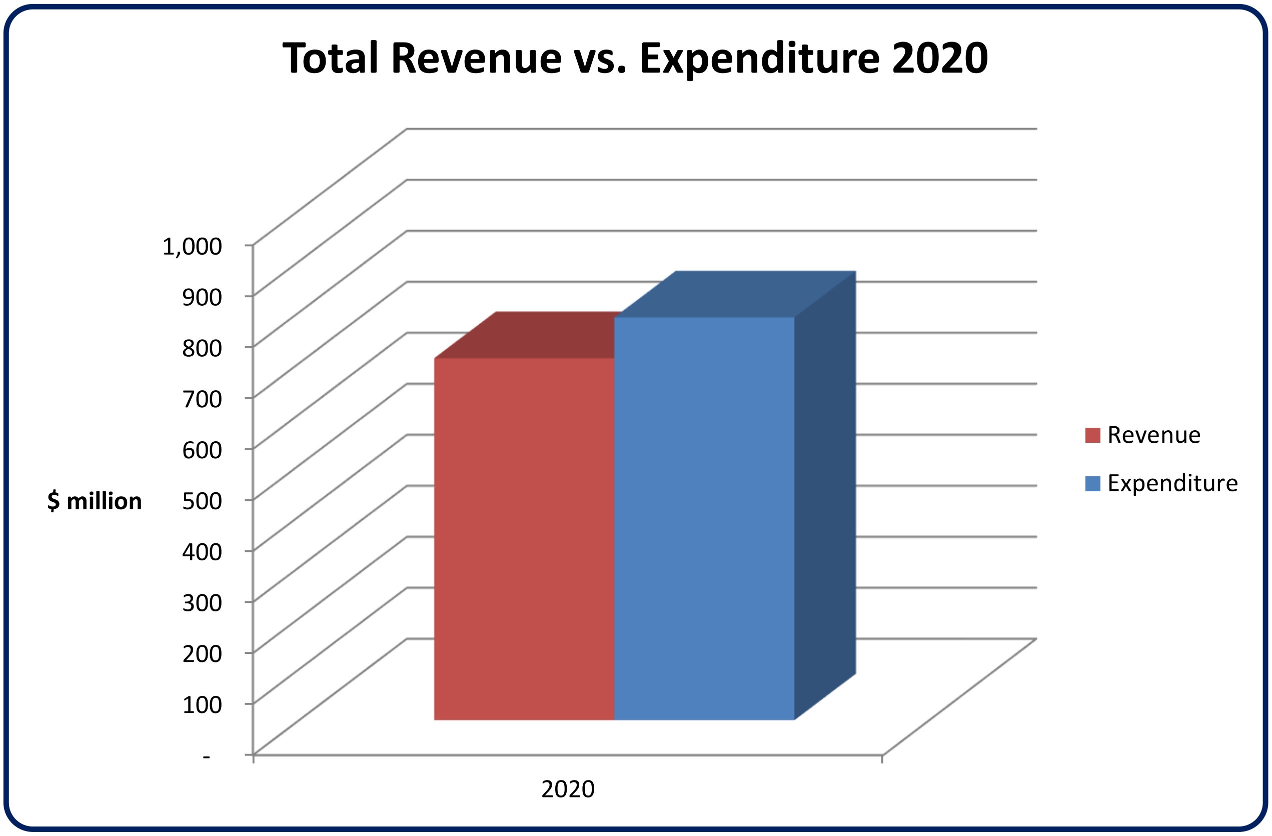
At December 31, 2020, actual revenue totaled $710 million and actual expenditure amounted to $790 million which resulted in an end of year deficit of $80 million.

### Graphical Presentation of Government Revenue and Expenditure

The following graphs represent the composition of the Government's revenue and expenditure for the financial year 2020.


2020 Total Revenue
3%
2%
15%
1%
12%
45%
22%
Taxes on Income
Taxes on Property
Taxes on Domestic Goods & Consumption
Taxes on International Trade & Transactions
Non Tax Revenue
Capital Revenue
Budgetary Grants


2020 Expenditure
3%
17%
29%
27%
22%
2%
Personal Emoluments & Wages
Goods & Services
Interest Payments
Transfers & Subsidies
Capital Expenditure
Principal Repayments


Total Revenue vs. Expenditure 2020
1,000
900
800
700
600
500
400
300
200
100
-
$ million
2020
Revenue
Expenditure

**Revenue**

Details of revenue collected during 2020, 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 2020 relative to 2019.

**Table 1: Revenue for the years ended 2020 & 2019**

| Revenue Type | 2020 Revenue ($) million | 2019 Revenue ($) million |
|---|---|---|
| | | |
| **Taxes on Income** | 106 | 140 |
| **Taxes on Property** | 9 | 11 |
| **Taxes on Domestic Goods & Consumption** | 86 | 104 |
| **Taxes on International Trade & Transactions** | 158 | 194 |
| **Non Tax Revenue** | 320 | 505 |
| **Capital Revenue** | 19 | 22 |
| **Budgetary Grant** | 12 | 1 |
| | | |
| | **710** | **977** |

The revenue collected during 2020 totaled $710 million, which was $267 million less than the amount collected in 2019.

Actual Tax Revenue of $359 million collected in 2020 decreased by $90 million or 20% when compared to 2019.

Non Tax Revenue decreased by $185 million in comparison to 2019.

The Government of St. Kitts and Nevis collected $19 million in Capital Revenue and $12 million in Budgetary Grants in 2020.

Actual revenue collected by the Government in 2020 was lower than the projected target by $151 million.

**Expenditure**

Actual expenditure for 2019 totaled $790 million with personal emoluments and wages, goods and services and transfers and subsidies accounting for over 78% of the total expenditure. Actual expenditure decreased by $147 million or 16% in comparison to the previous financial year. With the exception of Goods and Services, there were decreases in all other components of total expenditure when compared to the previous year. The most significant decrease occurred in capital expenditure which was reduced by $130 million in comparison to 2019. Table 2 shows a comparative summary of expenditure by type for 2019 and 2020.

**Table 2: Expenditure for the year ended December 2019 & 2020**

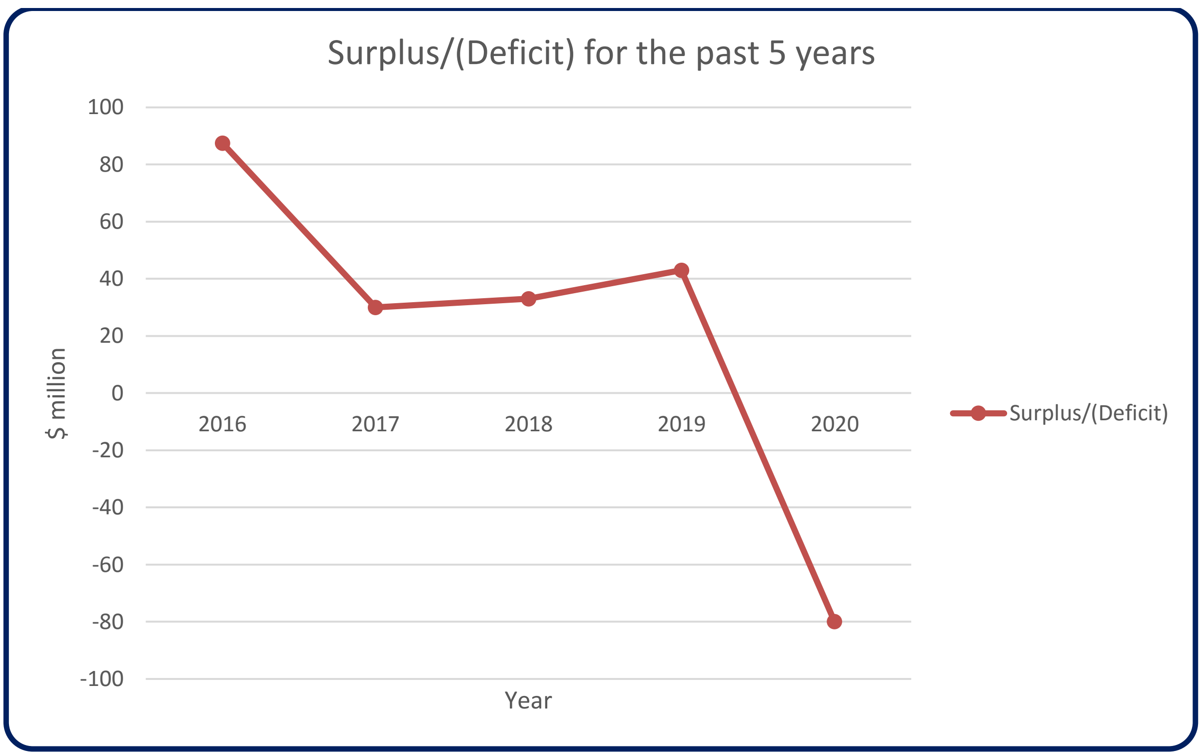
| **Expenditure Type** | **2020 Actual Expenditure ($) million** | **2019 Actual Expenditure ($) million** |
|---|---|---|
| | | |
| **Personal Emoluments & Wages** | 228 | 240 |
| **Goods & Services** | 174 | 165 |
| **Interest Payments** | 19 | 20 |
| **Transfers & Subsidies** | 211 | 220 |
| **Capital Expenditure** | 136 | 267 |
| **Principal Payments** | 22 | 25 |
| | | |
| | **790** | **937** |

## 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.

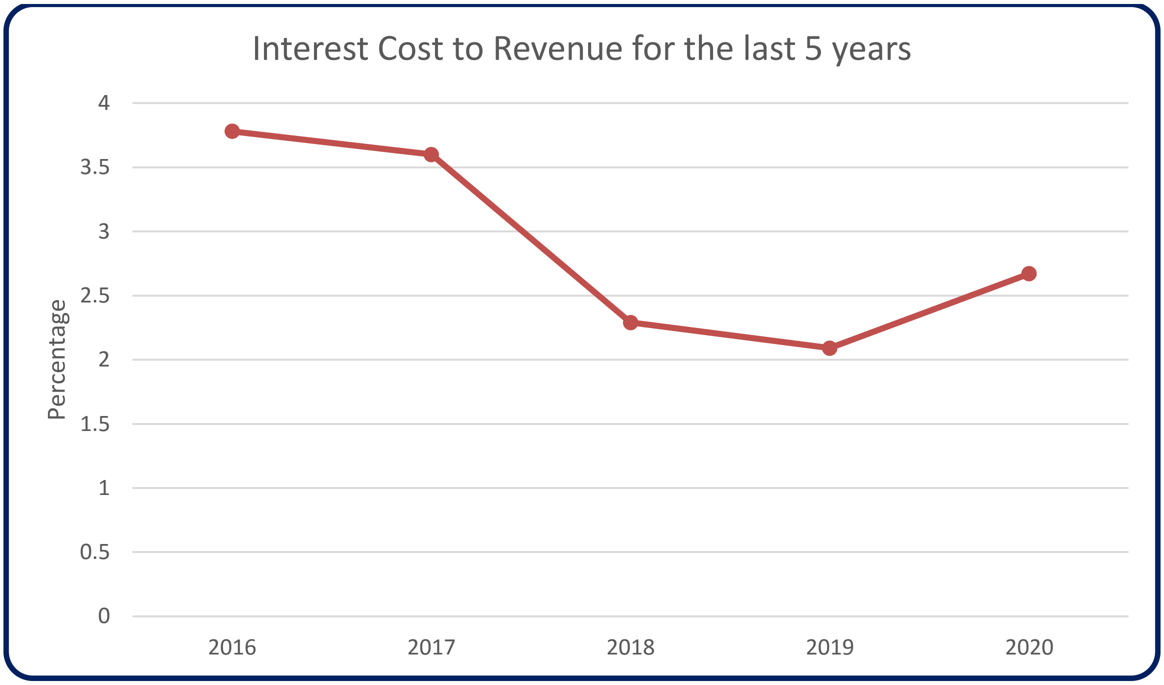
### Surplus/Deficit

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 2020, the Government of St. Kitts and Nevis recorded a deficit of $80 million compared to a surplus of $40 million in 2019. This meant that the Government's expenditures were greater than the revenue collected during the year. The graph below shows the Government's surplus/deficit for the past 5 years.




### Interest Costs to Operating Revenue

Interest costs as a percentage of operating revenue increased slightly as a result of decreased operating revenue collected in 2020. However, this ratio remained low as the costs to service the debt also decreased during 2020. The chart below shows the interest cost to operating revenue for the last 5 years.




**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 GDP of 54.3% at end December 2019 to 67.9% at the end of December 2020.

During the Ninety – Eighth Meeting of the Monetary Council of the Eastern Caribbean Central Bank (ECCB) held in February 2021, the Monetary Council approved the ECCB's recommendation to extend the date for the achievement of a 60% Debt to GDP ratio from 2030 to 2035 due to economic contraction as a result of the Covid – 19 pandemic.

In previous years, the Government of St. Kitts and Nevis was able to attain and surpass the Debt to GDP target ratio of 60% set by the Eastern Caribbean Central Bank (ECCB). Although there was a reduction in the amount of debt from 2019 to 2020, a 20% reduction in the GDP over the previous year resulted in an increase in this ratio.

## Net Assets

At the end of December 2020, net assets of the Government of St. Kitts and Nevis amounted to $342 million, an amount of $86 million less than the previous financial year. Although there was a decrease in the net assets, the financial assets were more than twice the amount of the financial liabilities indicating that the Government's financial assets were more than adequate to service the financial liabilities.

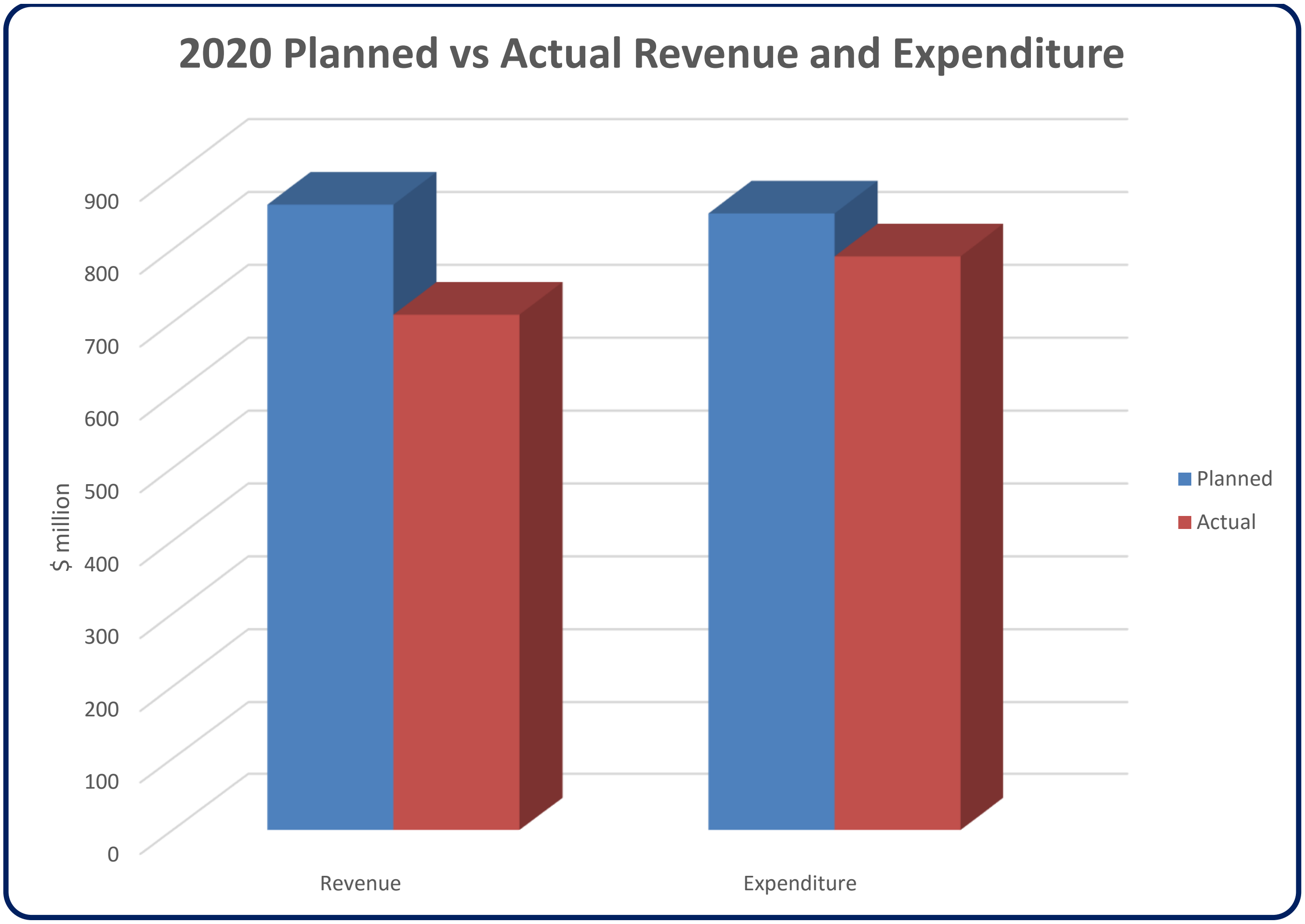
## Cash Ratio

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 2020, the cash ratio was 1.99 relative to 2.26 in 2019 indicating a decrease in liquidity coverage compared to the previous year. The cash and cash equivalents held by the Government decreased by $127 million and the current liabilities held decreased by $23 million.

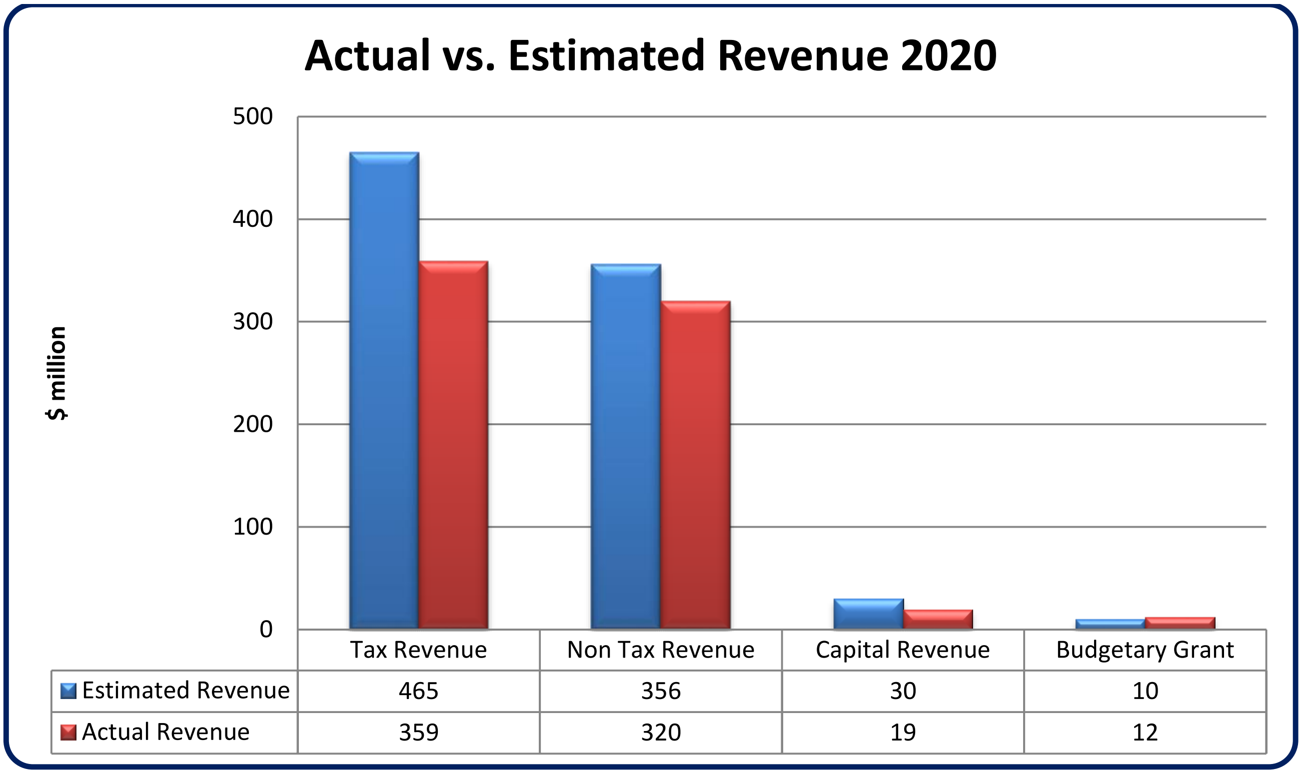
**COMPARISON TO THE BUDGET**

During the Budget Address held in December 2019, the Government of St. Kitts and Nevis set out the planned budget for 2020 which included Revenue of $861 million and Expenditure of $849 million.

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



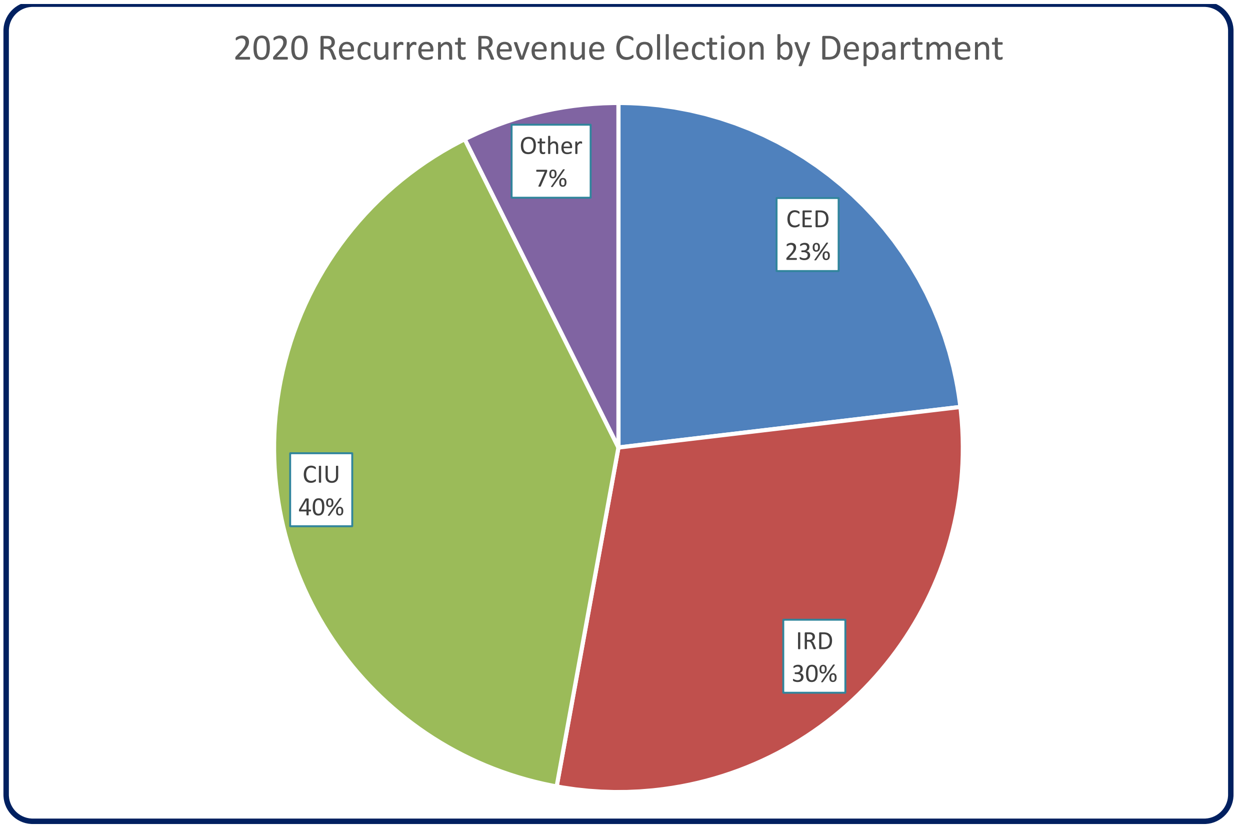
## REVENUE




| | Tax Revenue | Non Tax Revenue | Capital Revenue | Budgetary Grant |
|---|---|---|---|---|
| Estimated Revenue | 465 | 356 | 30 | 10 |
| Actual Revenue | 359 | 320 | 19 | 12 |

### Recurrent Revenue

Recurrent revenue consists of tax and non-tax revenue. Revenue from these sources totaled $679 million in 2020. The performance of recurrent revenue was $142 million lower than the budget estimate for 2020. The Customs and Excise Department (CED) on St. Kitts, the Inland Revenue Department (IRD) on St. Kitts and the Citizenship by Investment Unit (CIU) collected 93% of the Government's recurrent revenue for 2020. This is shown in the following graph.




The Citizenship by Investment Unit continues to be the largest contributor to the Government's overall recurrent revenue collections. As seen in the graph above, this department collected 40% of the government's recurrent revenue in 2020. This collection amounted to $270 million in 2020. The total revenue collected represented a decrease of $173 million over the previous financial year. The collection of revenue by the Citizenship by Investment Unit was $24 million lower than its 2020 revenue projection.

The Inland Revenue Department on St. Kitts collected $202 million in taxes, licenses and fees in 2020. This represented a $60 million decrease in revenue collection over the year 2019. Stamp Duty ($13 million), Value Added Tax ($48 million), Corporate Income Tax ($58 million), Withholding Tax ($10 million) and Housing and Social Development Levy ($37 million) all contributed significantly to the Inland Revenue Department's collection for 2020. The Inland Revenue Department on St. Kitts failed to meet its targeted revenue collection for 2020 by $68 million.  All tax types mentioned above fell below their projected target for 2020.

The Customs and Excise Department on St. Kitts collected $157 million in 2020. 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 ($51 million), Customs Service Charge ($31 million), Value Added Tax ($54 million) and Excise Tax ($8 million).

The total amount collected by the Customs and Excise Department on St. Kitts in 2020 was $30 million less in comparison to the amount collected in 2019. The revenue collections failed to meet the target by $38 million. All 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 ($14 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 $10 million, surpassing its target of $5 million.

There was a shortfall in capital grant revenue compared to the estimated budget for 2020 as capital grants budgeted for, were either not received or were less than estimated. Capital grant revenue was estimated at $25 million for nine (9) Ministries. However the actual collection amounted to $9 million, which led to an unfavourable variance of $16 million.

1. Four Ministries did not receive the capital grants revenue that had been budgeted for.
2. Four Ministries received significantly less in capital grant revenue compared to the amount budgeted.
3. The Ministry of Community Development, Gender Affairs and Social Services collected $2.4 million in excess of its budget amount.

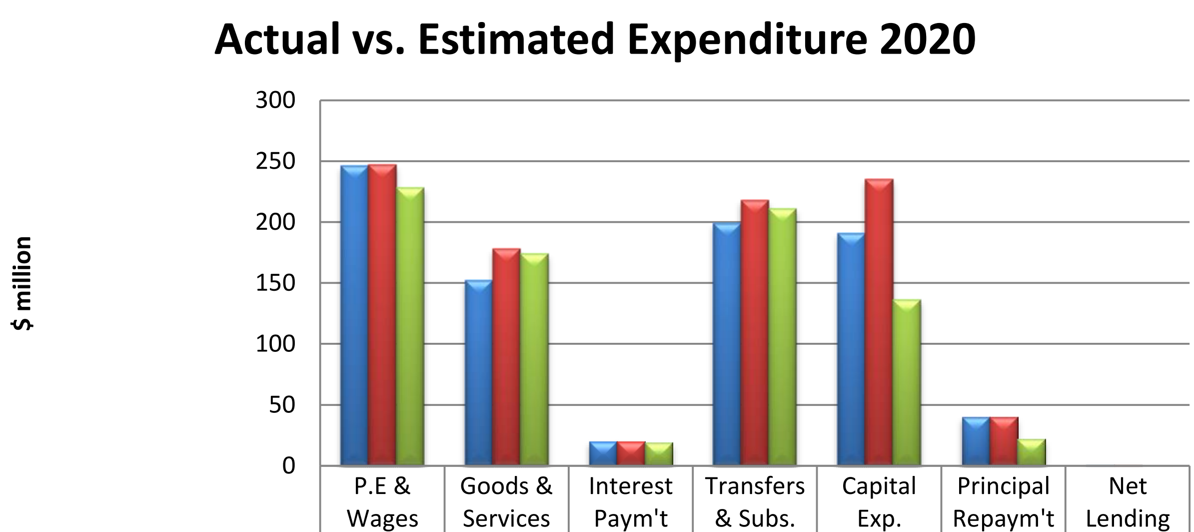
**Budgetary Grants**

Budgetary Grants were estimated at $10 million for 2020. Twelve ($12) million was collected during the year leading to a favourable variance. A budgetary grant in relation to the Covid-19 pandemic was received from the Eastern Caribbean Central Bank and budgetary support in the amount of $11.3 million was received from the European Union.

**EXPENDITURE**

The appropriations for expenditure during 2020 are shown below.

| | |
|---|---|
| Original Budget | $848,913,625.00 |
| Supplementary Budget | $ 90,019,431.87 |
| | **$938,933,056.87** |




| | P.E & Wages | Goods & Services | Interest Paym't | Transfers & Subs. | Capital Exp. | Principal Repaym't | Net Lending |
|---|---|---|---|---|---|---|---|
| Estimated Expenditure | 246 | 152 | 20 | 199 | 191 | 40 | 1 |
| Revised Est. Expenditure | 247 | 178 | 20 | 218 | 235 | 40 | 1 |
| Actual Expenditure | 228 | 174 | 19 | 211 | 136 | 22 | 0 |

**Recurrent Expenditure**

Actual recurrent expenditure totaled $631 million in 2020.

The budget for recurrent expenditure was revised by Appropriation Warrants and increased by $46 million resulting in a revised estimate of $663 million. This revision affected 7 of the 19 Government Ministries in 2020.

Five (5) Ministries submitted Appropriation Warrants in excess of $1 million to meet additional expenditures. Table 4 below shows 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** | 44,688,964.00 | 69,688,964.00 | 25,000,000.00 |
| **National Security** | 63,516,784.00 | 64,822,395.47 | 1,305,611.47 |
| **Finance** | 215,521,695.00 | 220,926,895.00 | 5,405,200.00 |
| **Community Development et al** | 34,058,814.00 | 39,847,199.47 | 5,788,385.47 |
| **Tourism** | 25,120,201.00 | 33,894,775.82 | 8,774,574.82 |
| | | | |

The following reasons, as stated in the appropriation warrants for 2020, are in respect of the five (5) Ministries whose actual recurrent expenditure exceeded their original budget by over $1 million.

*Office of the Prime Minister*

- Provide for additional funding to facilitate consultancy fees for due diligence and operational costs for citizenship by investment - $25 million

*Ministry of National Security*

- Provide funds to cover personal emoluments to support the increase in displacement and special assigned duties allowances - $1.3 million

*Ministry of Finance*

- Provide funds to facilitate financing to Belmont Resort Limited - $5.4 million

*Ministry of Community Development, Gender Affairs and Social Services*

- Provide additional funding for the Poverty Alleviation Programme - $5.8 million

*Ministry of Tourism*

- Additional funds to facilitate payroll and auditing fees for the Frigate Bay Development Corporation - $1.1 million
- Provide for wages and professional services performed in relation to Marriott Resort Golf Course - $710 thousand
- Additional funds to provide financial assistance to the St. Christopher Air and Sea Ports Authority (SCASPA) - $7 million

Compared with 2019, the supplementary estimates for recurrent expenditure decreased by $9 million or 17%.

## Recurrent Expenditure from the Contingency Fund

During the year 2020, the Government spent $8.9 million from the Contingency Fund that is managed by the Ministry of Finance.

The monies spent from this account can be separated into the following categories:

- Covid – 19 expenditure by the Ministry of Health - $8.3 million
- Expenditure by the Ministry of National Security - $31 thousand
- Expenditure on Election Expenses for the year 2020 - $540 thousand
- Expenditure on Election Expenses for the year 2015 - $44 thousand

A Contingency Fund is described as a fund to meet urgent and unforeseen expenditure by the Government of St. Kitts and Nevis. The expenditures in relation to the Ministries of Health and National Security fit the category of urgent and unforeseen. Election expenses are not unforeseen as the Government should have budgeted for this expenditure in 2020.

The Contingency Fund should mainly be used to finance spending in response to natural and environmental disasters and epidemics/pandemics. Outside of this, this fund should only be used if there is an urgent need and a delayed response would result in significant damage to the country.

Labeling expenditures as unforeseen is a very general and broad term that can include any expenditure, while although unforeseen may also be the result of poor budget planning.

**It is recommended that:**

> **The Ministry of Finance create a policy document which establishes the criteria for expenditure to be allowed from this account.**

**Capital Expenditure**

The capital expenditure budget for 2020 was approved at $191 million to support 124 projects. The budget was revised to $235 million to include funds required in relation to the following projects:

*Ministry of Justice, Legal Affairs and Communications*

- Additional funds needed to renovate the former C&C Building - $676 thousand

*Office of the Prime Minister*

- Additional funds needed to pay suppliers and contractors with regard to the Hurricane Relief Programme - $3 million

*Ministry of National Security*

Additional funds needed to:

- Renovate the residence of the Commissioner of Police - $389 thousand
- Fund the Alternative Lifestyle Pathway Fund held at the Development Bank of St. Kitts and Nevis - $9 million
- Cover expenses for quarantine sites and related expenditures of the COVID – 19 pandemic response - $479 thousand

*Ministry of Agriculture, Human Settlement, Cooperatives and Environment*

- Additional funds needed to purchase items in respect of the implementation of the stimulus package for support to the agricultural sector - $11 million

*Ministry of Education*

- Additional funds needed for the Support for the Advancement of Further Education (SAFE) programme - $466 thousand
- Funds needed to charter a flight from Jamaica during the COVID – 19 pandemic for University students - $202 thousand
- Funds needed to purchase a bus for the School Meals Programme - $81 thousand

*Ministry of Health*

- Additional funds needed to pay service providers in response to the COVID – 19 pandemic and costs associated with the Newtown and Tabernacle Health Centres - $682 thousand

*Nevis Affairs, Labour, Social Security and Ecclesiastical Affairs*

- To facilitate the payment of severance claims and to pay the Regional Security System (RSS) which assisted with the transporting of farm workers to Canada - $14 million

Actual expenditure for capital projects for 2020 amounted to $136 million representing 58% of the revised budget. At the end of the 2020 financial year, 35 projects with a combined estimated budget of $40 million had not been started. Of these 35 projects, 13 were entirely new projects and 11 were projects which had no expenditure in 2019. They were rolled over and included in the 2020 budget but were not implemented.

Projects budgeted for under the Governor General and Parliament were not implemented in 2020.

The Ministry of Justice, Legal Affairs and Communications spent $2.2 million or 54% of its revised $4 million budget. The Ministry spent $1.2 million on the Legal Service Complex project and $914 thousand on the Judicial Services Expansion project.

The Office of the Prime Minister spent $8.4 million or 76% of its revised $11 million budget. The majority of the funds was spent on the Hurricane Relief Programme project which actual expenditure equaled $8 million.

The Ministry of National Security spent $32 million or 70% of its revised $46 million budget allocation for capital projects. Major expenditure included $21 million on the Peace Initiative, $3.2 million on the Construction of Police Stations and $2 million on the Construction of the Explorers Campsite. The amount of $605 thousand was paid out for the

Construction of Roof for Her Majesty's Prison. This amount represented a mobilization payment of 60% for which work had not yet started when the Public Accounts were issued.

The Ministry of International Trade, Industry and Commerce spent $499 thousand or 99% of its $500 thousand capital budget on the Lab Accreditation Infrastructure and Equipment Upgrade project.

The Ministry of Finance spent $2 million or 14% of its $17 million capital expenditure budget for 2020. Expenditures included an amount of $717 thousand spent on the Construction of the Printery Building.

The Ministry of Community Development, Gender Affairs and Social Services spent $2.6 million or 72% of its $3.6 million capital expenditure budget allocation. Of the amount spent, $2.4 million was spent on the Construction of Lodge Community Centre.

The Ministry of Agriculture, Human Settlement, Cooperatives and Environment spent $14 million or 88% of its revised $16 million budget. Eleven ($11) million was spent on Agriculture and Fisheries Sectors Covid – 19 Response as part of the government's stimulus package.

The Ministry of Tourism spent $7 million or 70% of its revised capital expenditure budget of $10.2 million. Expenditure for this ministry included $4 million spent on the Coastal Erosion Mitigation Project at South Frigate Bay and Friars Bay and $2.4 million spent on the Airlift Support project.

The Ministry of Public Infrastructure et al spent $35 million or 56% out of a budgeted $62 million on capital projects. The Ministry spent $7.2 million on the Road Improvement project, $6 million on the Rehabilitation of Old Road Bay, $16 million on the Upgrade of the Island Main Road project and $3 million on the Well Drilling and Extension of Water Line project.

The Ministry of Education spent $1.6 million or 10% of its revised capital budget allocation of $16 million.

The Ministry of Health spent $9.3 million or 87% of its revised capital expenditure budget of $10.6 million. There was expenditure of $1.7 million on Health Sector Improvement, $3.4 million on Health Sector Covid – 19 Response, $2.3 million on the Institutional Enhancement project and $970 thousand on the Construction of the St. Peter's Health Centre.

The Ministry of Youth, Sports and Culture spent $2.3 million or 33% of its $7 million capital expenditure allotment for 2020. The largest expenditures included $1 million spent on the Tabernacle Playing Field, $393 thousand on Upgrading Sporting Facilities and $300 thousand spent on Upgrade of the Sandy Point Recreational Grounds.

The Ministry of Sustainable Development spent $3.2 million or 25% out of its budgeted $12.7 million. The largest expenditures for this ministry included the Special Land Distribution Initiative of $1.7 million and the Commercial Infrastructure Development Project of $1 million.

The Ministry of Foreign Affairs spent $339 thousand on the purchase of vehicles for its overseas missions. This represented an expenditure of 24% of its budgeted amount of $1.4 million.

The Office of the Attorney General spent $296 thousand of its budgeted $1.3 million on the Electoral Reform project.

The Ministry of Nevis Affairs et al spent 100% of its revised budget of $15.7 million dollars. One million, five hundred thousand ($1.5 million) was used to capitalize the Severance Payments Fund to facilitate the payments of Long Service Gratuities and Severance Payments. The remainder of the expenditure was spent on the ministry's response to the Covid – 19 pandemic.

**Principal Repayments**

The budget for principal payments on outstanding loans of the Government of St. Kitts and Nevis for 2020 was approved at $40 million with $31.2 million budgeted for external debt principal payments and $8.4 million budgeted for domestic debt principal payments. The actual expenditure totaled $22 million with external debt principal payments accounting for 81% of the expenditure.

## STATEMENT OF CASH RECEIPTS AND PAYMENTS

The Statement of Cash 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 2020.

The Statement of Cash Receipts and Payments is presented on pages 7 and 8 of the Public Accounts. A summary of that statement is presented in the following table.

**Table 5: Summary Statement of Cash Receipts and Payments**

| | 2020 ($ million) | 2019 ($ million) |
|---|---|---|
| **Net Cash Flows :** | | |
| | | |
| **Operating Activities** | 56 | 354 |
| **Investing Activities** | (160) | (328) |
| **Financing Activities** | (22) | (25) |
| **Net increase/(decrease) in cash** | (126) | 1 |
| | | |
| **Cash at beginning of period** | 673 | 672 |
| **Cash at end of period** | 547 | 673 |

There was a decrease in the cash position of the Government by $126 million at the end of 2020.

### Net Cash Flow from Operating Activities

Total receipts from operating activities totaled $780 million in 2020. Tax revenues collected by the Inland Revenue and Customs and Excise Departments on St. Kitts accounted for 46%

of the total receipts from operating activities respectively. Payments on operating activities totaled $725 million. This resulted in a net cash flow from operating activities of $56 million in 2020.

**Net Cash Flow from Investing Activities**

Receipts from investing activities totaled $155 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 $315 million resulting in a net cash flow from investing activities of ($160) 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 2020. Payments on financing activities totaled $22 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 Cap 20.13. 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 $126 million over the previous year. At the end of 2020, the Government of St. Kitts and Nevis had an accumulated cash balance of $547 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**

At the end of 2020, personal advances given to civil servants totaled $872 thousand. This amount represents 107 individual accounts with outstanding balances ranging from $264 to $30,000.

In 2020 the existing personal advance policy was updated. The updates included a reduction of the interest rate, an increase in the threshold ceiling, the expansion of eligible areas for an advance and the establishment of an Application Review Committee.

While the policy was updated, two areas noted in previous recommendations were excluded. Maximum repayment period and actions to be taken in cases of default were not addressed.

The audit exercise revealed that at the end of December 2020, there were 12 personal accounts with a total value of $41 thousand which had no regular activity during the year 2020. We noted that 3 of these accounts were cleared during 2021. The remaining 9 accounts have been outstanding for years, some as far back as 2007. Three (3) of these advances were for former employees and the remaining 6 of these inactive accounts belong to current employees.

**It is recommended that:**

1. **Personal advance warrants should only be approved by the Ministry of Finance upon the receipt of documentation to justify the use of the advance and the amount being requested.**
2. **Advance warrants should be reviewed on an ongoing basis by the Accountant General Department so that defaults in payments can be quickly identified and resolved.**
3. **A payment plan be put in place for the repayment of advances for those persons who are currently employed within the service.**
4. **The feasibility of collecting the outstanding balances of the past employees be examined. Amounts which appear to be uncollectible should be written off.**

### Subsistence Advances

Advances given to Government Ministers for work related travel totaled $356 thousand at the end of 2020. This was $49 thousand less than the previous year.

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 did not issue any subsistence advances to Ministers for travel during 2020. The decrease in the amount outstanding at the end of 2020 occurred as a result of previous subsistence advances, which were issued in 2019, being cleared.

This Office continues to note the issue of outstanding subsistence advances by our Ministers of Government. In the 2019 report, the recommendation was made to move away from a subsistence advance to a per diem system and that recommendation still stands. Nevertheless, the outstanding balances must be cleared.

### Other Investment

In 2020, the Government of St. Kitts and Nevis invested a total of $20 million in the Development Bank of St. Kitts and Nevis, of which $15 million was provided for the Mortgage Loan Facility for Citizens of St. Kitts and Nevis and $5 million to facilitate the continuation of the Fresh Start Project.

The terms of repayment for the Mortgage Loan Facility for Citizens of St. Kitts and Nevis 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 Fresh Start project states semiannual interest-only payments twice per year over a 10 year period at an interest rate of 2.5%.

During the period 2018 to 2020, the Government of St. Kitts and Nevis invested $54 million in five different instruments in the Development Bank of St. Kitts and Nevis. According to the supporting documents, the Government of St. Kitts and Nevis should have received $910 thousand in interest for the year 2020.

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 2020 were received in full and by the due date.

**Trust Funds**

Trust Funds decreased by $8 million in 2020.

As at December 31, 2020, the balance in the Severance Payment Fund was ($3.5) million with receipts into the Fund totaling $22 million and payments from the Fund totaling $19 million for the year. The Fund received an injection of $1.5 million from the Capitalization of Long Service Gratuity and Severance Payment Fund capital project. During the year, the Fund also received $14 million to cover Severance and Long Service Gratuity payments. Table 7 shows the receipts into and payments out of the Severance Payment Fund for the year 2020.

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

| | 2020 ($) |
|---|---|
| **Balance at 1/1/2020** | **(5,969,480.25)** |
| | |
| **Receipts:** | |
| **Severance Contributions from Social Security** | 6,112,563.54 |
| **Transfer from capital project** | 1,500,000.00 |
| **Treasury Bills Interest** | 56,250.00 |
| **Supplemental budget to cover payments from the Fund** | 14,174,379.64 |
| | **21,843,193.18** |
| | |
| **Payments:** | |
| **Severance Payments** | 17,206,216.78 |
| **Long Service Gratuity** | 2,153,356.94 |
| | **19,359,573.72** |
| | |
| **Balance at 31/12/2020** | **(3,485,860.79)** |

It can be seen from the table that without the Government's intervention and injection of over $15 million into the Severance Payments Fund, the contributions and investment income are not sufficient to cover the expenditures from this Fund.

**Other Public Funds**

Other Public Funds decreased by $19 million in 2020. The balances of the Below the Line Deposit accounts constitute 84% of the balances of Other Public Funds.

Deposit accounts are created for specific purposes and are not subject to the budgetary process.

During the audit, the Below the Line Deposit accounts of the Agricultural Department were examined. This Department has 3 Below the Line Deposit accounts with a total balance of $1.2 million at the end of 2020.

We found that the transactions in these accounts were of a recurrent nature. The funds in these accounts were used for the purchase of seeds, animal feed, medication, veterinary supplies and pharmaceutical items. These items are used to carry out the daily operations of the Department. Monies collected from the sale of these items to the farmers and the provision of services are also posted to these deposit accounts.

The purchases of these items should be budgeted for and procured using a recurrent expenditure account. Likewise the receipt of monies for providing goods and services to individuals should be part of the Department's recurrent revenue.

These accounts have been operating for more than a decade. They do not operate within the context of a deposit account. They are being used for routine purchases and they bypass the budgetary process. Most importantly, it understates Government's revenue and expenditure because these transactions are not categorized correctly.

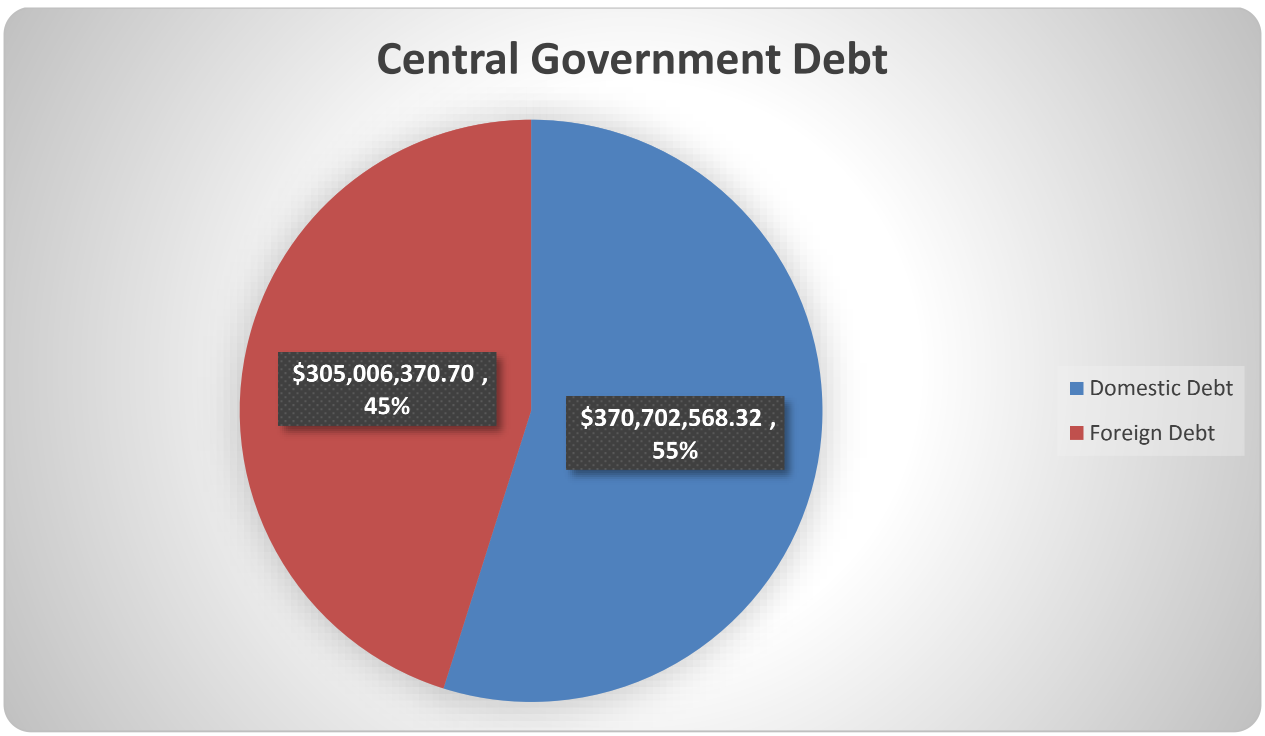
**It is recommended that:**

1. **The Below the Line Deposit Accounts should be closed.**
2. **All transactions of a recurrent nature should be paid from recurrent expenditure and funds received from operational activities should be posted to recurrent revenues.**

**PUBLIC SECTOR DEBT**

The Public Sector Debt is included in the Notes to the Financial Statements in the Public Accounts. Notes 10 and 11 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.

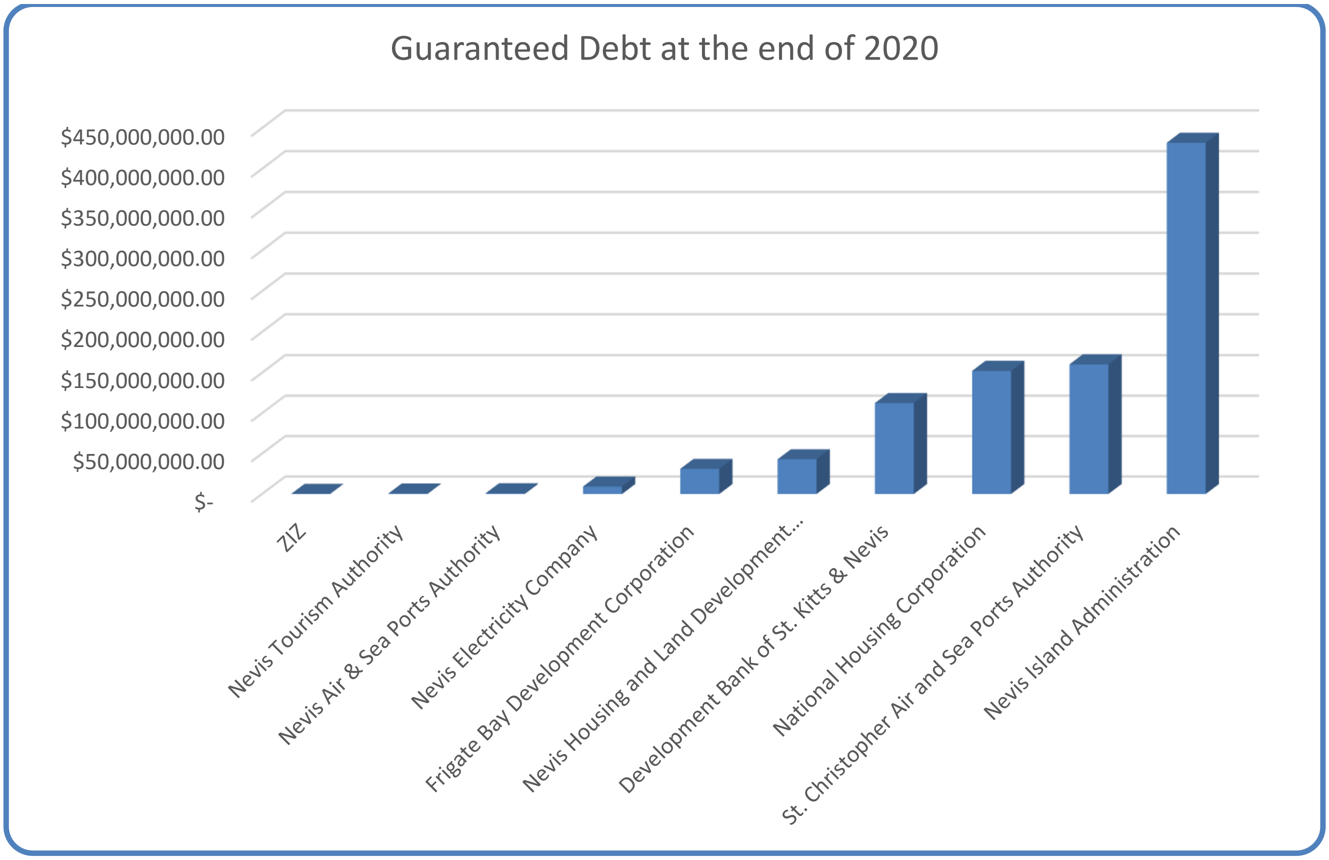
As at December 31st 2020, the Public Sector Debt of the Government of St. Kitts and Nevis amounted to $1.6 billion. The Public Sector Debt decreased by $7.5 million over the previous year. The Central Government's debt which has domestic and foreign debt components decreased from $719 million to $676 million in 2020. The chart below shows the two components of Central Government debt.




Total domestic debt of the Central Government decreased by $31 million. This was due in part to the decrease in the 365 day Treasury Bills portfolio with a maturity date in August of each year of $21 million. Foreign debt of the Central Government decreased by $12 million compared to the previous year.

One loan with a 2019 end of year balance of $79,169.40 was paid off during 2020.

While the Central Government debt decreased by $43 million or 6% relative to 2019, the guaranteed debt increased by $36 million or 4% relative to 2019. The chart below shows the guaranteed debt by entity.




As with the Central Government's debt, the guaranteed debt has a domestic and a foreign debt component. Within the guaranteed debt portfolio, domestic debt increased by $45 million. Domestic debt in the guaranteed debt portfolio includes overdrafts, treasury bills and domestic loans held by statutory bodies and government owned corporations. Although overdrafts held at local financial institutions decreased by $8 million, the treasury bills and domestic loans held by the statutory bodies and government owned corporations increased by $53 million, leading to an overall increase in the domestic guaranteed debt of $45 million.

Guaranteed debt now accounts for 58% of the total public sector debt as compared to 56% in 2019. For the past 4 years, the guaranteed debt as a percentage of total public sector debt has continually increased from 43% in 2017 to 58% in 2020. The continued trend has been a decreasing Central Government debt with an increasing guaranteed debt mainly due to the increase in the domestic debt which are vested in local banks, companies and other government owned corporations. We note that amounts owing to the SKN Sugar Industry Diversification Foundation, the Solid Waste Management Corporation and the Social Security Board in the amounts of $28 million, $4 million and $67 million respectively, have not changed since 2019. The Government should continue to monitor the borrowing levels of the statutory bodies and government owned corporations to ensure that the debt levels of these entities are sustainable.

## ARREARS OF REVENUE

The statement of arrears of revenue is a requirement of the Finance Administration Act Cap 20.13. The statement shows arrears of revenue as at December 31, 2020 of $122 million. A summary of the arrears is shown in the table below.

Table 7: Arrears of Revenue for 2020

| Ministry/Department | Arrears Total ($) |
|---|---|
| | |
| **Finance – Customs and Excise Department** | 33,866,761.88 |
| **Finance – Inland Revenue Department** | 85,057,112.91 |
| **Tourism** | 392,790.43 |
| **Public Infrastructure: Water** | 2,061,805.73 |
| **Public Infrastructure: Post Office** | 224,782.90 |
| **Total** | **121,603,253.85** |

Arrears of revenue were not presented for the JNF General Hospital.

It can be seen from Table 7 that the Customs and Excise and the Inland Revenue Departments on St. Kitts have significant amounts of revenue arrears totaling $33 million and $85 million respectively.

As with last year, a significant amount of these outstanding taxes by the Inland Revenue Department on St. Kitts is currently under an administrative review/objections process. The administrative review allows a taxpayer who is dissatisfied with an assessment to make a request to the Comptroller of Inland Revenue to review the assessment. The Comptroller is then responsible for making a decision concerning the assessment.

The Tax Administration and Procedures Act Cap 20.52 makes provisions for a taxpayer to make a further appeal to Commissioners whose main function is hearing appeals against tax assessments. If a taxpayer disagrees with an administrative review decision, an appeal can be made to the Commissioners.

We note that some of the outstanding amounts have been in the administrative review stage for a number of years. Others have completed this stage but remain outstanding as the tax payer is not in agreement with the assessment and therefore has not paid.

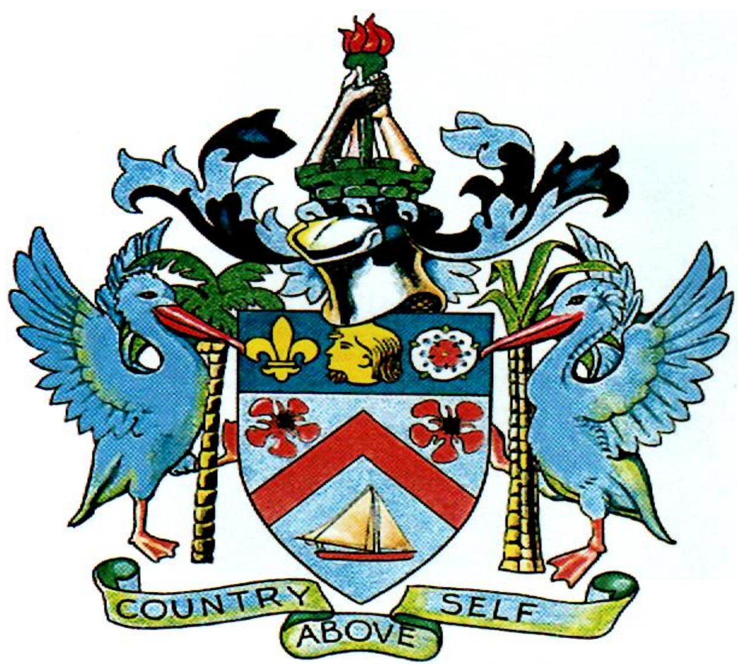
The second right of appeal is absent from the procedures of the Inland Revenue Department because there are no Commissioners in place.

**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. **Commissioners be appointed as per the provisions of the Tax Administration and Procedures Act Cap 20.52 to aid the objections and appeal process of the Inland Revenue Department.**
3. **The Ministries implement measures to collect the outstanding revenues due to the Government of St. Kitts and Nevis.**

# Report by the Director of Audit on the Audit of the Severance Payment Funds

# Ministry of Labour



**Executive Summary**

The National Audit Office and the Internal Audit Unit within the Accountant General's Department conducted an audit of the Severance Payments Fund for the period January to June 2020. The audit focused on the payments made from the Fund for Severance and Long Service Gratuities.

The main objective of the audit was to determine whether the payments made from the Fund complied with the requirements of the Protection of Employment Act Cap 18.27. We also looked at the sustainability of the Severance Payments Fund.

We concluded that all the requirements of the Protection of Employment Act Cap 18.27 were not being followed and this conclusion is based on the findings noted below.

**What we found**

| | |
|---|---|
| Over $128,000 paid out to claimants who did not qualify to receive benefits | $4,500 was overpaid in severance benefits and $24,000 underpaid in long service gratuities because the Department of Labour did not calculate benefits based on 52 weeks before the termination date |
| Errors in computation led to the overpayment of over $25,000 in benefits | Long Service Gratuity is not being calculated on the larger of the average wage or the last wage |

To address the non-compliance with the Protection of Employment Act Cap 18.27, we recommend the following:

## What we recommend

- The provisions of the Protection of Employment Act Cap 18.27 must be adhered to. The Department of Labour should train the staff to correctly compute total wages based on the 52-week period immediately before the date of termination.
- Every benefit computation must be verified by a designated officer within the Department of Labour.
- The Department of Labour needs to determine both the average wage and the last wage when computing Long Service Gratuity benefits. The larger of the 2 figures should be used.

# PART ONE

## Background

The Severance Payments Fund was established by the Protection of Employment Act Cap 18.27.

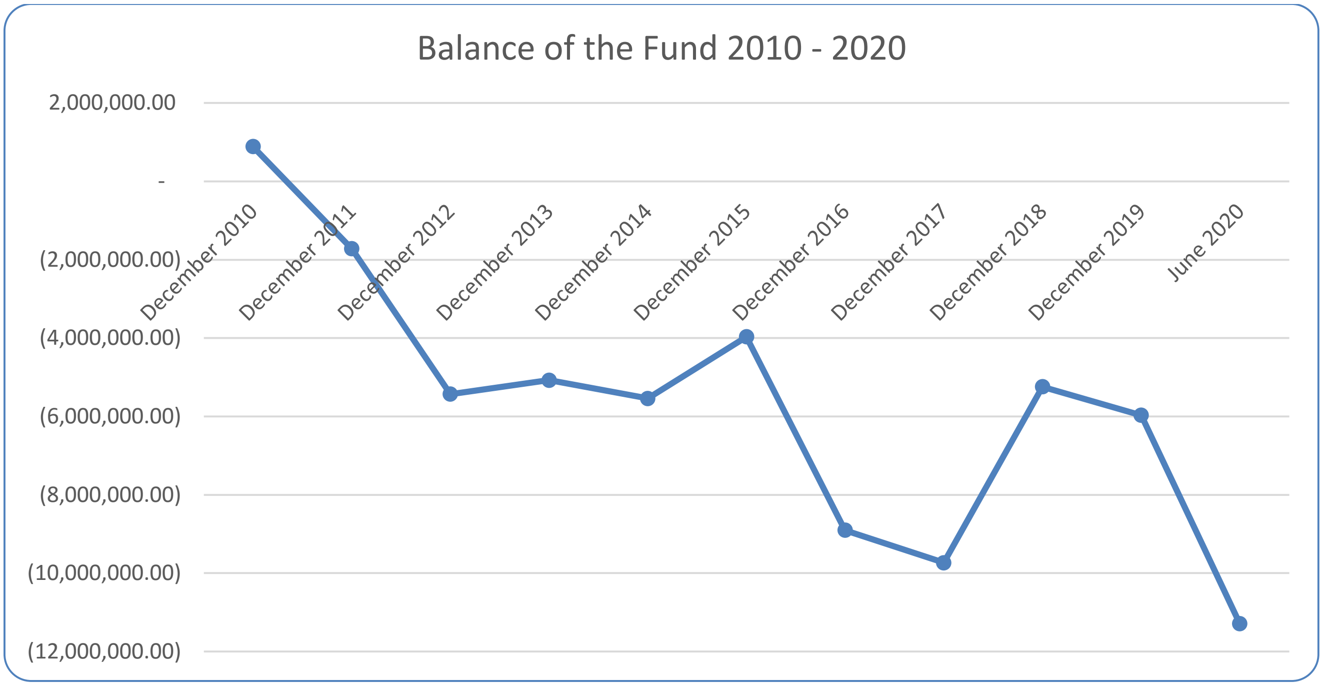
In accordance with the Act, a contribution equal to one percent (1%) of the wages of employees is payable by employers to the Government of St. Kitts and Nevis. The Social Security Board collects this contribution on behalf of the Government of St. Kitts and Nevis and then passes on the contribution to the Department of Labour monthly.

All contributions received by the Government of St. Kitts and Nevis are accounted for in a fund called the Severance Payments Fund which is managed by the Accountant General. The Government, through the Department of Labour, is responsible for paying severance payments out of this Fund to workers who are made redundant.

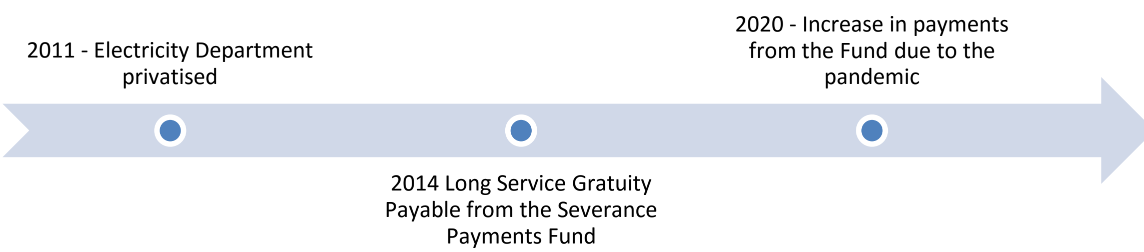
Long Service Gratuities are also paid from the Severance Payments Fund as provided by the Protection of Employment Act Cap 18.27. However, there are no contributions paid into the Fund on behalf of employees for this purpose.

The Severance Payments Fund has had a negative balance since July 2011, as the payments from the Fund continue to exceed the contributions to Fund. At January 1, 2020, the Fund had a negative balance of $6 million. By the end of June 2020, the negative balance in the Severance Payments Fund had increased to $11.2 million.

The illustration on the next page shows the balance of the Fund during the period December 2010 to June 2020.




The illustration below shows the three major events that have impacted the Severance Payments Fund over the past 10 years.




For the period under review, contributions into the Fund totaled $1.8 million, while payments made from the Fund for Severance and Long Service Gratuities totaled $7.2 million.

In previous years, $1.5 million was allocated to the Fund annually from the capital expenditure budget of the Ministry of Labour. That allocation has increased to $7.2 million in 2021. The Fund also received $28,000 in annual interest revenue from a $1.5 million investment in the Government of St. Kitts and Nevis Treasury Bills.

## 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, subsection 2(a) of the Constitution of the Federation of Saint Christopher and Nevis states that:

**“**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.”

The Protection of Employment Act Cap 18.27 section 5 states that:

“The Director of Audit shall annually conduct an audit of the Fund and his or her annual report shall be laid before the National Assembly.”

## Audit Objectives

The main objective of this audit was to determine whether amounts paid from the Severance Payments Fund for the period January to June 2020 were accurate and complied with the requirements of the Protection of Employment Act Cap 18.27.

To carry out our audit, the main objective was divided into the following sub-objectives to determine:

- Whether each computation had been verified by an officer of the Department of Labour.
- Whether normal wages were used to compute the severance and long service gratuity payments.

- Whether the 52-week period from the date of termination of services was used in the computation of benefits.
- Whether the correct rate of severance payment was used in the calculation of benefits.
- Whether the claimant's file contained adequate supporting documentation to verify that the claimant had been made redundant or had offered his resignation from the employer.
- Whether all persons who received severance and long service gratuity payments were eligible to receive the benefits.
- Whether the long service gratuity is being calculated using either the average earnings or last drawn wage or salary, whichever is more beneficial to the employee.

## Audit Scope

The audit focused on the payments made from the Severance Payments Fund for the period January to June 2020. Four payments of severance benefits amounting to almost $1.2 million were not included in this audit as they form part of a criminal investigation.

## Audit Criteria

The St. Christopher and Nevis Protection of Employment Act Cap 18.27 was used to conduct this audit.

## Methodology

To carry out this audit, we conducted meetings with staff of the Department of Labour and we recomputed the severance payments and long service gratuity payments made from the Fund.

## PART TWO

### Findings

1. **Over $128,000 was paid out to claimants who did not qualify to receive benefits.**

Section 5 of the Protection of Employment Act Cap 18.27 mentions what is considered as termination of employment. Sections 26 and 27 of the Act also documents who has the right to receive severance payments. Section 3 of the Third Schedule of the Act also states that Long Service Gratuity only applies to manufacturing and hospitality sectors.

We found that there were 5 persons who were paid severance and long service gratuity but did not qualify to receive the benefits. This information is shown in the table below.

| Type of Benefit | Payment Amount | Reason for disqualification |
|---|---|---|
| Severance | $36,507.24 | Claimant was still employed within the same company. Promoted with an increase in base pay plus commission. |
| Severance | $1,651.48 | Claimant was not employed for one full year. This person did not meet the criteria to qualify for the benefit. |
| Severance | $26,278.20 | Claimant resigned. |
| | | |

| Type of Benefit | Payment Amount | Reason for disqualification |
|---|---|---|
| Long Service Gratuity | $33,810.92 | Claimant was not continuously employed. This person did not meet the criteria for long service gratuity. |
| Long Service Gratuity | $30,605.29 | Claimant did not work within manufacturing or hospitality sectors. |
| | | |
| **Total** | $128,853.13 | |

We noted that 2 of these claims had been previously disqualified by the Labour Commissioner. These claims were processed after the Department of Labour received communication from the claimants' lawyers.

The Department of Labour is not adhering to the specifications of the Protection of Employment Act Cap 18.27 in terms of who can qualify for the right to these benefits.

Section 20 of the Protection of Employment Act Cap 18.27 mentions the right to appeal a decision of the Labour Commissioner to the Income Tax Commissioners. We note that this appeals process is not in place and the decisions on appeals were made by the Deputy Labour Commissioner during the period under review. We did not find any evidence that any of the cases mentioned above were referred to the Attorney General's Office for a legal opinion on whether the claimant qualified under the provisions of the Act.

**Recommendation**

*The appointment of the Income Tax Commissioners in accordance with the Tax Administration and Procedures Act Cap 20.52 will allow for the appeals process that is required by the Protection of Employment Act Cap 18.27.*

2. **$4,500 was overpaid in Severance benefits and $24,000 was underpaid in Long Service gratuities because the Department of Labour is not calculating benefits based on the last 52 weeks before the termination date.**

Section 32 of the Protection of Employment Act Cap 18.27 states that "a week's pay in the case of an employee not paid on a piece work basis, is equivalent to the aggregate of the employee's normal wages for the fifty-two weeks immediately preceding the termination of employment divided by the number of weeks worked;"

We found that 30% of the files sampled were not correctly computed because the 52 weeks before the date of termination was not correctly accounted for. We found that when the date of termination was at the end of the month, the Department of Labour correctly calculated the total wages. However, if the termination date was a date other than the end of the month, the Department of Labour did not count 52 weeks from the date of termination. We found that the Department of Labour always started their calculation from the first of a month regardless of when the claimant's job was terminated. However, if the claimant was made redundant or retired during the month, the calculation of 52 weeks requires that the wages be apportioned for the beginning and ending months. This was not done.

This led to an overpayment of severance benefits of $4,500 and an underpayment of long service gratuity payments of $24,000.

The staff at the Department of Labour has not been following the requirements of the Protection of Employment Act Cap 18.27. We noted that all computations were done in this manner and that the staff had not been trained on using the requirements of the 52 weeks correctly.

**Recommendations**

*The provisions of the Protection of Employment Act Cap 18.27 must be adhered to. The Department of Labour should train the staff to correctly compute total wages based on the 52-week period immediately before the date of termination.*

3. **Errors in computation led to the overpayment of over $25,000 in benefits.**

Section 30. (1-3) of the Protection of Employment Act Cap 18.27 states that: (1) The rate of severance payment shall be two weeks for each year of continuous service for a period of up to five years service, three weeks for a period of five years to ten years service and four weeks for any period of service in excess of ten years calculated backward from the date of the termination of employment, except in the case of seasonal workers, where the rate shall be one week's pay for each period. (2) Half of a year or more shall be counted as a full year and a period less than half of a year shall be ignored. (3) No employee shall be entitled to more than fifty-two weeks' severance payment.

We found that 23% of the files sampled had errors that could be categorized into 3 groups:

- Incorrect wage figures used – 11 severance and 7 long service gratuity files had errors in wages that led to an overall overpayment of more than $10,000 of severance benefits and $1,400 of long service gratuity benefits. We compared the wages used in the computations with those listed in the documents provided by the Social Security Board. We found differences in the amounts recorded. We noted that some wage figures were transposed and some figures were drastically different from those recorded in the documents received from the Social Security Board. We also noted differences in recorded wage amounts which were taken from bank statements of claimants because they were recorded at net amounts instead of gross.

- Incorrect period/years used - A small number of files had incorrect computations that resulted in an overpayment of over $13,000 in benefits due to errors in the benefit period used. We found that the number of years served was rounded up to the next full year even though the period was less than half of a year. Errors made in this category resulted in large differences in the computations as the benefits increase with the number of years served.
- Incorrect weeks used – We found errors in this category resulted from the incorrect calculations of the number of weeks in particular months. The number of weeks in a month is determined by the number of Mondays in that month. We found that errors resulted when the Department of Labour listed a month as containing 5 weeks when it should have been 4 and vice versa. This led to an underpayment of severance benefits of $1,200 and an overpayment of long service gratuity of $1,300.

Errors in these 3 groups resulted in the government paying out over $25,000 more than it should have.

The main cause of most of these errors is the lack of verification by the Department of Labour. Errors such as transpositions, incorrect recordings, incorrect weeks during a month and the incorrect calculation of benefit periods should be rectified by a verification process.

As it pertains to the incorrect wages, we noted that when contributions are not being paid by the employer to the Social Security Board, the Department of Labour seeks to obtain information from other sources including bank statements of the applicant. However, the amount deposited to a claimant's bank account will be the net amount and not the gross. Using the net amounts of wages in a computation will lead to an incorrect benefit calculation. We also noted that the Department of Labour contacts the Social Security Board by telephone to obtain wage information. However, when this was pointed out to us, the wages used in the computation was different from the wages figure in the data provided by the Social Security Board.

**Recommendation**

*Every benefit computation must be verified by a designated officer within the Department of Labour.*

*The Department of Labour should use documents from the Social Security Board to compute wages. A copy of all contribution filings is sent to the Department of Labour monthly. The Department of Labour should ensure that a filing and record system is in place to ensure that this information can be accessed when needed.*

*Requests made to the Social Security Board for wage information and the response should be documented.*

*In cases where employers have not paid their contributions, the Department of Labour should seek alternative methods of obtaining the correct information.*

## 4. <u>Long Service Gratuity is only being calculated on the average wage and not on the larger of the average wage or the last wage.</u>

Section 8 of the Third Schedule of the Protection of Employment Act Cap 18.27 states that; (1) Long service gratuity shall, as provided by section 35A.(1) of the Act, be calculated at the same rate as severance payment. (2) Without prejudice to the generality of sub-regulation (1) in calculating long service gratuity the average earnings or last drawn wage or salary, whichever is more beneficial to the employee, shall be used.

In a sample of 28 long service gratuity files, we found that the Department of Labour used the average wage for all computations of the long service gratuity benefits. We discovered that the last wage was higher than the average wage for 17 of those files. We noted however that most of the last wages of the claimants were significantly higher than the average wage because the last wage included other payments by the employer to the employee.

This resulted in the government underpaying claimants of long service gratuity by $369,000.

This occurred because the Department of Labour did not compare the last wage with the average wage to determine which is greater and therefore more beneficial to the claimant.

**Recommendation**

*The Department of Labour needs to determine both the average wage and the last wage when computing Long Service Gratuity benefits. The larger of the 2 figures should be used.*

## 5. Only 36% of the files had been signed as having been verified.

The Processing Form should be signed by the person computing the benefits and the person verifying the claim.

In a sample of 108 severance files, only 39 files or 36.1% had been signed at the back cover as having been verified by the Head of the Verifications Unit. Most of those that had been signed as verified were done during the first quarter of the year.

We noted that the staff of the Department of Labour worked from home during the second quarter of 2020 due to the pandemic. We could not determine if the remaining files had been verified. We did note however that the remaining Processing Form folders were complete.

Not verifying the computations could lead to incorrect calculations, errors and the processing of claims for which persons are not qualified. It could also lead to fraudulent activity if a critical step in the internal control process is being bypassed.

**Recommendation**

*We recommend that that every computation for benefits be verified by an authorized person within the unit before payment is processed. This also has the added control of holding someone accountable for errors.*

## 6. Documentation needed to calculate benefits were missing from the files.

The Processing Claim file should contain adequate documentation to allow for the processing of benefits for the claimant. The Department of Labour’s Severance Processing Checklist details the type of documents that need to be presented to the Department of Labour for a claim to be processed. These include a letter from employer, identification, residency documents, completed Claim Form, Social Security contribution sheets and data from Social Security C3 records.

We found that the Social Security Contribution sheets which show the period for which the claimant worked for a particular company were missing from most of the records. This piece of information is important as it shows whether the employment has been continuous and it supports the number of years worked that is listed on the claim form. We also found a few instances of missing letters of redundancy from the employer and missing identification.

The Department of Labour is not ensuring that all files are complete before they are processed. This could lead to a reliance on information provided by the employer which could be incorrect.

**Recommendation**

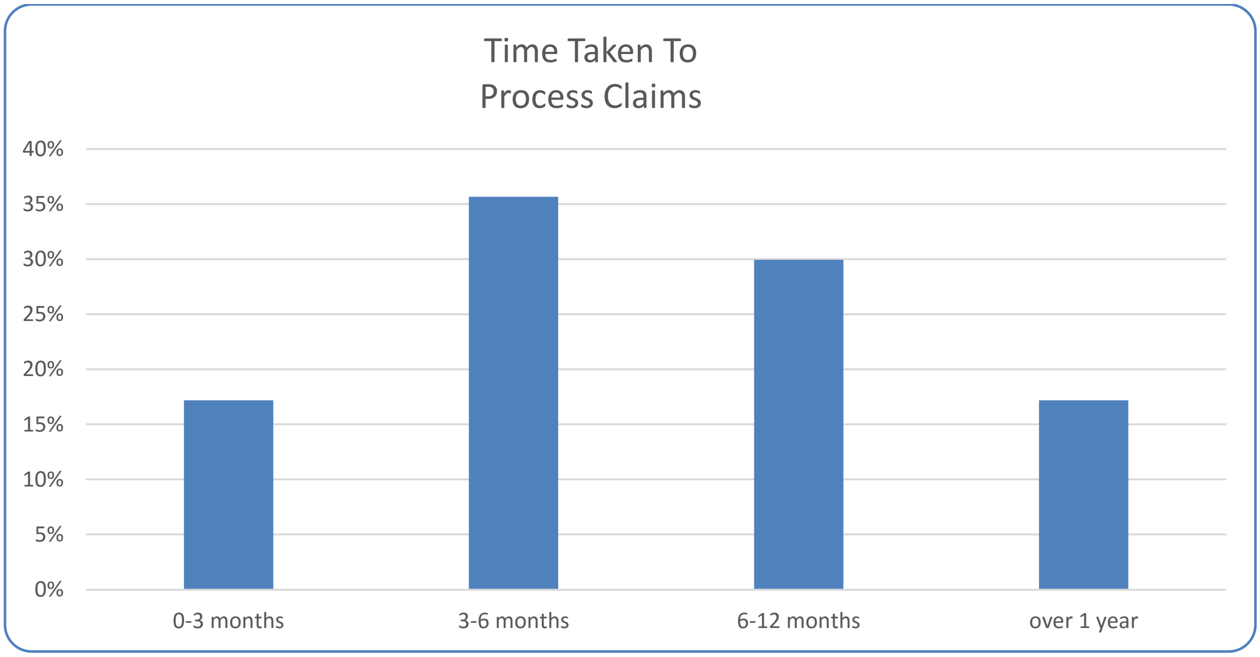
*The Department of Labour should ensure that files are complete before claims are processed.*

7. **Most of the claims paid by the Department of Labour took between three (3) to six (6) months to process.**

Section 7 of the Third Schedule of the Protection of Employment Act Cap 18.27 states that '…the Commissioner….shall ensure that the payment is made within sixty days…"

According to section 28 of the First Schedule of the Protection of Employment Act Cap 18.27, claims should not exceed three months.

We looked at the time taken to process claims by the Department of Labour by comparing the date the claim forms were received by the Department to the date the payments were approved. From a sample of 157 files, we found that most (36%) of the claims were processed over a three to six-month period. The results are shown in the graph on the next page.




The graph also shows that 83% of the files sampled were processed more than three months after the Department of Labour received the claim form.

We noted letters on files to claimants informing them of additional internal checks that needed to be completed. The letters seen were issued more than three months after the claims were received.

The Department of Labour needs to analyze and assess their process in the payment of claims to see where bottlenecks exist so that the Department can comply with the provisions of the Act and make the payments in a timely manner.

## 8. Legislative reform is needed for the Fund to be sustainable.

While the focus of the audit was largely on compliance with the Protection of Employment Act Cap 18.27 in terms of payments from the Fund, it is noted that the Fund has not been able to adequately provide for the payments since July of 2011.

The introduction of Long Service Gratuity in 2014 further increased the negative balance of the Fund as payments were being made from the Fund for this benefit, but no monies were being received into the Fund.

The COVID – 19 pandemic and the resulting job losses have placed a greater demand on the Severance Payments Fund and have underscored the fact that the framers of the Act had not envisioned the likes of a pandemic and its impact on such a Fund.

There are several other reasons why the Fund balance is still negative.

Some employers who should be contributing to the Fund are not doing so. However, employees should not be penalized from accessing the Fund if their employer did not contribute.

During the audit, we noted that the last 52 weeks of total wages of several claimants were high when compared to previous years or when compared to their normal monthly wage/salary. We also found that many claimants received some type of extra payment usually during the last month or week of employment in the form of holiday, bonus and terminal grant.

The Protection of Employment Act Cap 18.27 defines "normal wages" as 'includes any salary or money contracted to be paid or required by law to be paid or given as a recompense, reward or remuneration for any services, work or labour done or to be done.'

This definition of wages is not clear and the Department of Labour has been using whatever is reported as being paid to the claimant. As benefits are paid to claimants based on the average of the last year's wages, a large payment made during the 52-week period before termination will significantly increase the benefits to be paid to the claimant. One percent (1%) of a large one – time payment paid by the employer to the government cannot pay for the benefits that the government must pay out on the inflated figure.

The results of the audit for Long Service Gratuity showed a large difference in the amount that should have been paid to claimants if the last wage was used. Of the 17 files of which the last pay was greater than the average wage, 6 of those files had large lump sum payments included in the last pay. This resulted in a difference of over $260,000 underpaid in long service gratuity payments for those 6 claimants.

**Recommendations**

*The sustainability of the Severance Payments Fund needs to be taken into consideration. The Fund needs legislative reform that will address how the Fund will function. A clear definition of what constitutes wages, eligibility to receive benefits, provisions of the Fund in times of natural disasters and pandemics, and limits on contributions into and payments out of the Fund may have to be considered.*

## Conclusion

The findings of the report indicate that the Department of Labour is not in compliance with the provisions of the Protection of Employment Act Cap 18.27 in terms of payments of benefits from the Severance Payments Fund.

# Report by the Director of Audit on the Savings Bank and National Savings Scheme held at the Accountant General's Department

## Ministry of Finance

**Executive Summary**

We conducted an audit of the Savings Bank and National Savings Scheme held at the Accountant General's Department of the Ministry of Finance for the year 2020. The main objective of this audit was to determine whether the balances recorded as at December 31, 2020 were accurate and whether the operation of these accounts are in compliance with the Acts that govern them.

We concluded that the balances of both the Savings Bank and the National Savings Scheme do not reflect the true amount of the accounts. There were also areas where the Savings Bank Act Cap 21.15 and the National Savings Scheme Act Cap 21.13 were not being complied with. This conclusion is based on the following findings:

| Findings | Recommendations |
|---|---|
| Differences in the account balances and the individual accounts that make up the NSS and Savings Bank | Reconciliations should be performed on a monthly basis. |
| Too much monies were taken from the Consolidated Fund to pay interest to account holders of the Savings Bank | Interest income from the Savings Bank investment should be used to pay interest to account holders. Only when this is not enough should the balance come from the Consolidated Fund. |
| The deposit limit for Savings Bank and the contribution limit for the NSS were exceeded in 2020 | The Accountant General should discontinue the practice of accepting deposits over $4,800 and contributions over $200. |
| 285 inactive NSS accounts which should have been closed are still accumulating interest | All inactive accounts should be closed immediately. |

**PART ONE**

**Background**

**Savings Bank**

The Savings Bank was created by the Savings Bank Act Cap 21.15 which came into effect on 22nd June 1938. Since then, there have been six amendments to the Act with the last amendment dated 2016.

The Savings Bank is under the management and control of the Accountant General.

The interest rate on Savings Bank deposits is 2% per annum and this interest is paid once per year on December 31st. However, no interest is to be paid on accounts bearing less than $5.

At the end of December 2020, the value of the Savings Bank was recorded as $24.6 million. The Savings Bank also has an investment that is held at the St. Kitts – Nevis- Anguilla National Bank earning an interest of 2% per annum as well. At the end of December 2020, that investment totaled $2.7 million.

**National Savings Scheme**

The National Saving Scheme began on 11th June 1970 and is governed by the National Savings Scheme Act Cap 21.13.

As with the Savings Bank, the National Savings Scheme is under the management and control of the Accountant General.

National Savings Scheme accounts are created by contracts between the Accountant General and the contributor for a fixed term of 36 months. During the term of the contract, the contributor pays 36 equal payments into their NSS account. At the end of the contract period, the contributor receives the total amount of monies deposited into their account plus an interest of 2%.

All deposits, repayments, bonuses and interest are paid into and from the Consolidated Fund.

**Audit Mandate**

Savings Bank Act CAP. 21.15 states "Annual accounts of the revenue and expenditure of the Savings Bank and of deposits received and repaid and interest credited to depositors during the year ended on the thirty-first day of December, together with a statement of the assets and liabilities of the Savings Bank, shall, after being audited and certified by the Director of Audit, be laid by the Accountant General before the National Assembly not later than the thirtieth day of September ensuing in every year and shall as soon as practicable thereafter be published in the Gazette."

National Savings Scheme Act CAP. 21.13 states "The accounts referred to in subsection (1) shall form part of the Public Accounts of the State and shall be audited in the same manner by the Director of Audit as any other Public Account of the State."

**Audit Objectives**

The objectives of the audit were to determine:

1. The accuracy of the balances of the Savings Bank and the National Savings Scheme accounts.
2. Whether the requirements listed in the Savings Bank Act Cap 21.15 and National Savings Scheme Act Cap 21.13 were being complied with.
3. Whether internal control deficiencies noted by the Internal Audit Unit had been corrected.

**Audit Scope**

We examined Savings Bank and National Savings Scheme transactions for the period January 2020 to December 2020.

**Audit Criteria**

The criteria used included:

- Savings Bank Act CAP. 21.15
- Treasury Circular No. 03/2017 – Treatment of Government Revenue
- National Savings Scheme Act CAP 21.13
- Best Practices

**Methodology**

In order to achieve the audit objectives, we did the following:

- Examined receipts and withdrawal vouchers books.
- Traced amounts posted to individual accounts.
- Examined individual deposits and documented deposits in excess of $4,800.
- Examined monthly contribution amounts.
- Recalculated interest payments.
- Compared the details on file to the information recorded in ITMS.
- Observed the reconciliation and end of day processes.
- Cross referenced receipt books, deposit slips and postings to ITMS

# PART TWO

## Findings

### Savings Bank

1. **The Accountant General accepted individual deposits in excess of $4,800.**

The Savings Bank Act CAP. 21.15 states "No depositor shall be entitled to deposit at any time a greater sum than four thousand, eight hundred dollars or to increase by way of deposit the total amount standing in his or her name in the books of the Savings Bank beyond a sum of four thousand, eight hundred dollars".

We found that the Accountant General accepted 18 deposits above the $4,800 threshold for 2020. The total of these 18 deposits was $497,644.14 with the highest recorded single deposit being $178,002.49.

We found that the Cashiers in the Funds Unit accept all deposits regardless of the value. This is not in compliance with the Act and can result in excessive amounts being paid out in interest annually. This can also encourage money laundering as large sums of monies are being accepted and the customer does not have to declare the source of those funds.

***Recommendation***

We recommend that the Accountant General discontinue the practice of accepting deposits over $4,800.

***Management's Response***

*Traditionally, the Accountant General Department has facilitated large deposits of Pensions, Gratuities and Treasury Bills Interest to individual accounts. As the Government Savings Bank is not regulated by external regulators, there is no mandatory legal requirement for a depositor to declare their source of funds. The source of financing for* *the payment of Pensions, Gratuities and Treasury Bills Interest originates from proceeds of the Government and merely represent a transfer of those funds as opposed to the introduction of new monies, thereby alleviating the risk of fraudulent activity and the potential for money laundering. Nevertheless, the Accountant General Department fully intends to adhere to the stipulations outlined in the Savings Bank Act CAP. 21.15 and instruction has been given to discontinue the practice and to institute a deposit ceiling of XCD$4,800 per month effective 4$^{th}$ August 2021.*

**2. <u>There are no identification documents and letters on file to show proof of the authorized users of the accounts.</u>**

Records held by the Accountant General should be able to identify the Savings Bank account holders. These should include: -

- Valid government-issued identification.
- Signatures on file that match those on identification documents.
- Letters from groups/organizations showing the approved names and signatures of persons authorized to access the account.

Of the individual accounts sampled, we did not find any evidence of documents on file to confirm the identities of the authorized users of the accounts.

Currently, there is no requirement for identification documents to form part of the files held at the Accountant General's Department when accounts are opened. As a result, withdrawals may be made by unauthorized persons. This could occur where more than one person has the same name and there is no identification on file to match to the signature on the withdrawal slip.

***Recommendation***

To address this issue, we recommend that the steps for opening accounts and making changes to account holders such as additions and removals should be documented to allow for a consistent approach. This should include ensuring that copies of identification documents are attached to the account holder's file. For existing Savings Bank accounts, identification should be requested upon contact with account holders, recorded and attached to the account holders' files.

***Management's Response***

*The Accountant General Department acknowledges the need for the strengthening documentation as it relates to identification and authorization of account holders. To address this matter, effective 4th August 2021 all applicants for new accounts will be required to present two (2) copies of photo identification and proof of address in addition to the existing requirement of providing a specimen of their signature on the Signature Card. In addition, a letter will be prepared to present to all existing account holders upon presentation at the Department to conduct business, requesting them to furnish two photo identification and proof of address. Signature cards will also be updated upon interaction with existing account holders. To further strengthen internal controls and ensure standardized treatment and maintenance of the Savings Bank portfolio, a Procedures Manual will be developed to govern the creation of new accounts.*

**3. <u>Although the Savings Bank received interest from the investment account in 2020, the entire amount of $411,693.17 in interest payments to depositors was taken from the Consolidated Fund.</u>**

Section 13.1 of the Savings Bank Act Cap 21.15 states "If in any year the revenue of the Savings Bank is insufficient to defray the interest due to depositors and all expenses under the Act, such deficiency shall be met out of the Consolidated Fund.

Even though the Fund received interest income of over $25,000, the full amount of the interest due to depositors for the year 2020 was taken from the Consolidated Fund.

The interest income from the investment held by the Savings Bank totaled $25,992.29 in 2020. This amount was posted to the Savings Bank account. The interest due to depositors at the end of 2020 totaled $411,693.17. The amount that should have been posted to the Savings Bank account is $385,700.88, however the amount of $411,693.17 was posted to the account from the Consolidated Fund.

We noted that the balance of the Savings Bank account is $3.5 million more than the balance of the individual accounts that make up the Savings Bank. Both accounts should have the same value. The cumulative effect of posting interest income as well as the total interest due to the depositors into the Savings Bank could have contributed to this difference.

The interest income received by the Savings Bank from the investment is not being taken into consideration before transferring amounts to meet depositors' interest from the Consolidated Fund.

This also has the effect of overstating expenditures. In 2020, the Interest expense of the Government of St. Kitts and Nevis would have been overstated by $25,992.29.

***Recommendation***

We recommend that the total interest due to depositors at the end of the year should be paid using the interest income from the investment first. The balance needed should then be taken from the Consolidated Fund.

The Accountant General Department needs to review the Savings Bank individual accounts and the Fund account to determine why the difference occurred between the 2 balances in order to make the adjustments needed.

***Management's Response***

*In prior years, the operations of the Government of St. Kitts and Nevis were funded by overdraft with all expenditures, inclusive of Savings Bank interests being charged to the Consolidated Fund. When the Government began to operate without an overdraft facility and to generate a surplus, several accounts held at the St. Kitts Nevis Anguilla National Bank Limited, including the Savings Bank investment were converted to Term Deposits, attracting interest on a quarterly basis. This interest is applied to the investment account in the ledger to accurately reflect the bank balance at any given time. Further, with the introduction of a customized Integrated Financial Management System (ITMS) designed from the mapping of existing procedures, interest is automatically calculated and applied to each account, drawn on the Consolidated Fund in the ledger, with no manual intervention. Although this has always been the practice for several years, a core team has been identified within the Accountant General Department to assess practicality of implementing the transferring of interest earned from the Savings Bank investment account to the Consolidated Fund at SKNA National Bank, to offset the cumulative amount paid* *out annually to account holders, in order to achieve compliance with the legislation the end of this financial year.*

**National Savings Scheme (NSS)**

4. **There were 14 new contracts opened in 2020 that were above the $200 monthly contribution limit.**

The National Savings Scheme Act CAP. 21.13 Section 6 (1) states "Under a Savings Contract a contributor shall pay monthly to the Accountant General an amount not less than the sum of five dollars nor more than the sum of two hundred dollars as his or her monthly contribution to the Scheme: Provided that a contributor may, if he or she so desires, pay all of his or her monthly contributions, or any number of such contributions, before the date when such contributions would ordinarily become due and payable".

We found that a total of 87 NSS accounts were opened in 2020 and 14 of those accounts had monthly contributions above $200. The highest contribution amount noted was $500.

Staff in the Funds Section of the Accountant General Department were asked about the maximum contribution allowed for NSS accounts. The response was $500.

The effect of this will be seen in 2023 when these contracts mature and the interest has to be paid. If these 87 new accounts were opened with the maximum contribution of $200 and were held until the end of their contracts, the Accountant General would have to pay out $12,528 in interest out of the Consolidated Fund. However, with 14 NSS contracts that have contributions in excess of the maximum allowed, the interest payable by the Accountant General in 2023 will be greater.

***Recommendation***

We recommend that the Accountant General Department comply with the National Savings Scheme Act Cap 21.13 and only accept applications for new accounts up to a maximum contribution of $200.

***Management's Response***

*The practice of accepting National Savings Scheme (NSS) contributions above XCD$200 monthly contribution limit has been ongoing for decades and it was promoted using various pamphlets advertising a contribution limit of XCD$500 monthly in circulation well before the tenure of the existing management. To address the inconsistency, the Accountant General solicited the guidance of the Office of the Attorney General in February 2013 regarding discrepancies between the NSS Act and the documents circulated for promotion of the investment. The Accountant General established a Select Committee in March 2014 with representation from the Ministry of Justice and Legal Affairs to review the legislation governing the various savings and investments instruments including NSS managed by the Department. The resulting Revised National Savings Scheme Act, 2016 did not address the matter of the monthly contribution limit. The Accountant General Department has accepted the recommendation in accordance with the legislation and instructions have been given to establish maximum monthly contribution of XCD$200 on all new NSS contracts effective 4$^{th}$ August 2021.*

**5. <u>Only 10% of the sample of interest paid was accurate.</u>**

The National Savings Scheme Act CAP. 21.13 Section 7 (1) states "After the due completion of 36 monthly contributions, a contributor shall be entitled, upon application to the Accountant General to receive, in relation to his or her Savings Contract, repayment of the total amount of his or her contributions together with interest on such contributions amounting to two per centum thereof."

Section 8 (1), (2), (3) of the National Saving Scheme Act CAP. 21. 13 states: -

(1) "Where a contributor who has not completed the payment of 36 monthly contributions to the Scheme, gives written notice to the Accountant General that he or she intends to stop paying contributions, no further contributions shall be payable by that contributor after the expiration of thirty days from the date of his or her notice."

(2) "The contributor referred to in subsection (1) shall, at the expiration of the notice, be entitled on application, to repayment of all contributions made by him or her but shall not be entitled to any bonus in respect of those contributions."

(3) "Subject to subsection (1), where a contributor receives repayment of his or her contributions pursuant to subsection (2), then the contributor shall also be entitled."

We found that the interest was not calculated based on 2% for most of the transactions sampled. In a sample of 40 NSS accounts, only 10% of the interest paid out to contributors had been calculated accurately.

In 21 accounts or 52.5% of the sample, we calculated an overpayment of interest totaling $1,338.24. The interest paid on the remaining 15 accounts or 37.5% of the sample was lower than it should have been. The underpayment of interest amounted to $304.76.

We noted that the interest is calculated automatically by the ITMS when an account is selected to be closed. These calculations can only be produced based on the information or code that was entered into the system.

As a result, there were errors in the payment of interest to the contributors.

***Recommendation***

We recommend that interest payments be calculated at 2% in accordance with the Act. The interest calculations should be reviewed periodically to ensure accuracy.

***Management's Response***

*The interest earned on all NSS contracts is calculated and applied by the financial management system (ITMS). The change to the interest rate and movement from a two-tiered system to a flat rate as result of the revision of the NSS Act in 2016 required extensive testing and verification. The Accountant General Department was unaware of any instances of miscalculations. However, it is the duty of the Accountant General to ensure that customers are not disadvantaged, and that the Government is responsible and prudent in its expenditure. In this regard, a team spearheaded by the Systems Unit with the support of the Cash Management Unit have been mandated to develop a schedule to periodically verify the interest applied to accounts and make any necessary adjustments to build assurance and ensure accuracy.*

**6. <u>The balances of the NSS account in the trial balance and the total of the individual NSS accounts had a difference of over $2 million</u>**

The total of all individual NSS accounts should equal the balance of the NSS account in the trial balance.

We found that the trial balance had a balance of $815,610.70 on December 31, 2020 and the total of the individual NSS accounts showed an ending balance of $2,867,363.00 on that same date. There was a difference of $2,051,752.30 after comparing both balances.

We found that reconciliations were not being done between the individual accounts and the General Ledger account. As a result the NSS individual accounts balance and the NSS balance in the trial balance were not the same figure. This can result in an incorrect figure in the Public Accounts.

***Recommendation***

The balances of the individual accounts and the General Ledger account need to be reviewed to determine why there is a difference so that an adjustment can be made to correct the balance.

Reconciliations should be performed on a monthly basis to ensure that the balances are correct.

***Management's Response***

*The Accountant General Department has a high degree of confidence that the balance on the individual customer account is accurate and any variance from the amount in the Ledger may be attributed to incorrect treatment on the system side. A team comprising of officers from the Cash Management Unit, the Accounting & Reporting Unit and the Customer Service Unit were identified to work on the reconciliation of the balances. The task will be designed as a Special Project beginning with the December 2020 balances and working backwards to uncover any irregularities in accounting procedures and policies to determine the magnitude of the adjustment required. Monthly reconciliations capturing activity between the individual NSS accounts and the General Ledger will be performed by the Supervisor, Customer Service Unit.*

7. **<u>There are 285 inactive NSS accounts totaling over $1.3 million which are older than 4 years and appear to be accumulating interest.</u>**

Section 7 of the National Savings Scheme Act Cap 21.13 states "After the due completion of 36 monthly contributions, a contributor shall be entitled, upon application to the Accountant General to receive, in relation to his or her Savings Contract, repayment of the total amount of his or her contributions together with interest on such contributions amounting to two per centum thereof."

We found 285 accounts that were inactive because their savings contract would have ended by December 2020 and were still being held by the Accountant General. These individual accounts range from $180 to $18,000 and were opened from 1983 to 2017. These 285 accounts totaled $1,342,183.00.

Contributors have not collected their contributions and interest at the end of the 3 years (4 years before 2016) and it appears that the accounts are earning interest cumulatively. We noted a higher interest rate paid on inactive accounts in 2020. This was because the interest had been accumulating over the previous years even after the contract period had ended.

These accounts are being operated as a general savings account rather than a savings contract for a specific period. Some of these accounts were opened in 1983 and would have been earning 8% interest annually prior to the amendment of the Act in 2016.

***Recommendation***

The Accountant General should close all inactive National Savings Scheme accounts. All NSS accounts should be closed after the contract term is completed. Interest should not be accruing after the contract term is completed.

***Management's Response***

*The Accountant General has been strongly opposed to the practice of allowing NSS contracts to accumulate interest well beyond their four-year anniversary as has been customary for decades prior to the tenure of the existing management. To address this practice, the Accountant General sought the guidance of the Office of the Attorney General in February 2013. The matter was discussed extensively by the Committee established to review the legislation. To address this concern, the decision was taken to engage contract holders of old NSS accounts to close their accounts. This project resulted in the closure of several accounts; however, others resisted the closure of their accounts based on the acceptance of previous management to allow the account balances to increase indefinitely. The Accountant General Department agrees that the legislation is clear regarding the terms of the contract and will comply fully with the recommendation that all NSS accounts be closed upon the completion of the contract term. Further, upon closure of these inactive accounts, the names of the recipients will be published inviting them to collect their funds from the Treasury.*

**Conclusion**

We found that the internal control discrepancies noted in the Internal Audit Unit's report had been corrected.

We found that both balances for the Savings Bank and the National Savings Scheme were incorrect.

We also found that the operations of the Savings Bank and the National Savings Scheme in 2020 were not in compliance with the Acts that govern them.