

ST. KITTS & NEVIS NATIONAL AUDIT OFFICE

2019



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



St. Kitts and Nevis

National Audit Office

Report by the Director of Audit
On the Public Accounts
For the year 2019



***ST. KITTS AND NEVIS
NATIONAL AUDIT OFFICE
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November 16, 2020

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, 2019.

Respectfully,


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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, 2019.

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

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

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

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

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

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

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

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

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Carla Berridge - Pike, CPA, Forensic CPA

Director of Audit

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

INTRODUCTION

The Public Accounts of the Government of St. Kitts and Nevis are prepared by the Accountant General in accordance with Section 57 (2) (a) of the Finance Administration Act 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 Public Accounts for the financial year ended December 31, 2019 were submitted to the National Audit Office on June 30, 2020.

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, 2019, 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, 2019.

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, 1990.

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

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

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

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

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

Submission of Report

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

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Carla Berridge - Pike, CPA, Forensic CPA

Director of Audit

National Audit Office

Basseterre, St. Kitts

November 16, 2020

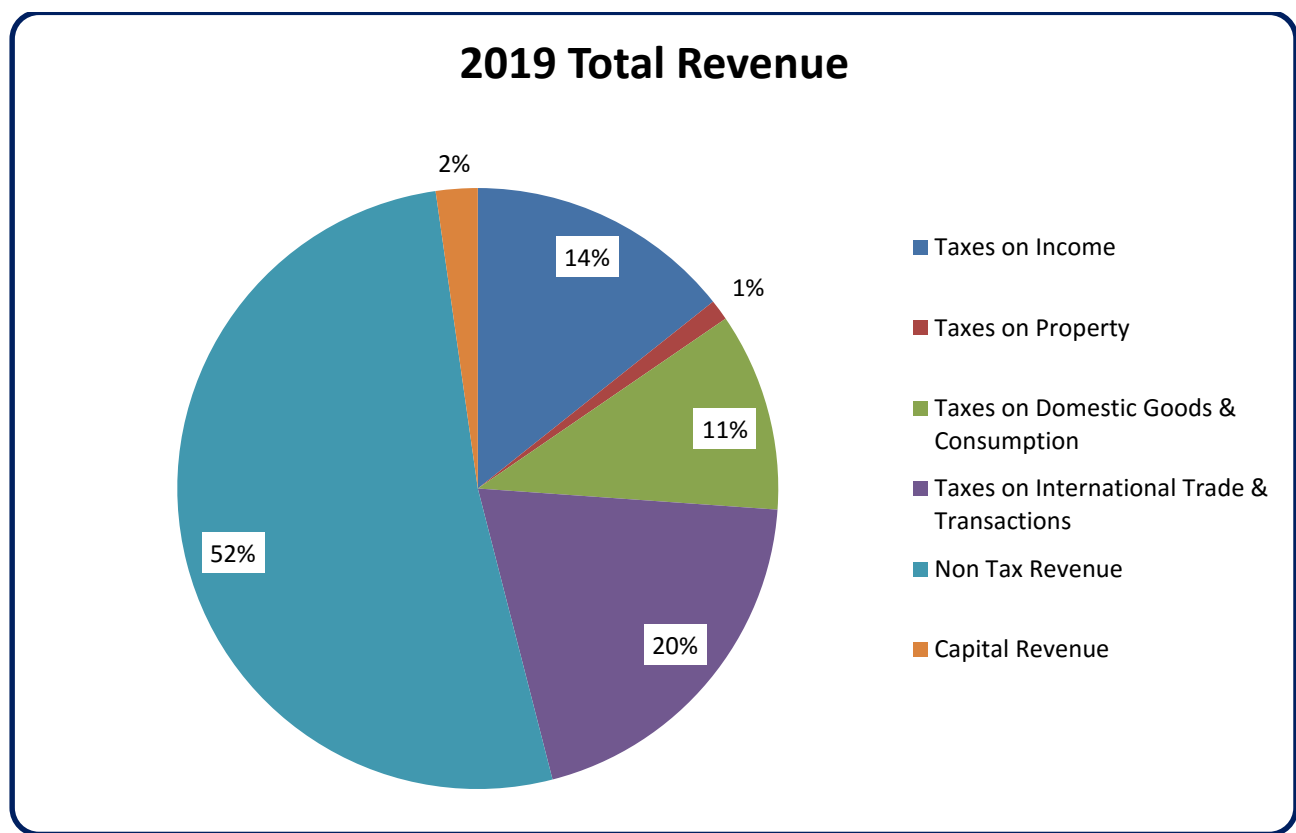
SUMMARY OF FINANCIAL INFORMATION

For the year 2019, Parliament approved an expenditure budget of \$773 million, which included \$30 million in debt repayment. Revenue for the year was estimated at \$791 million and this included the sale of government lands which was budgeted to bring in \$7 million. During 2019, a further \$208 million of expenditure was approved by supplementary/appropriation warrants.

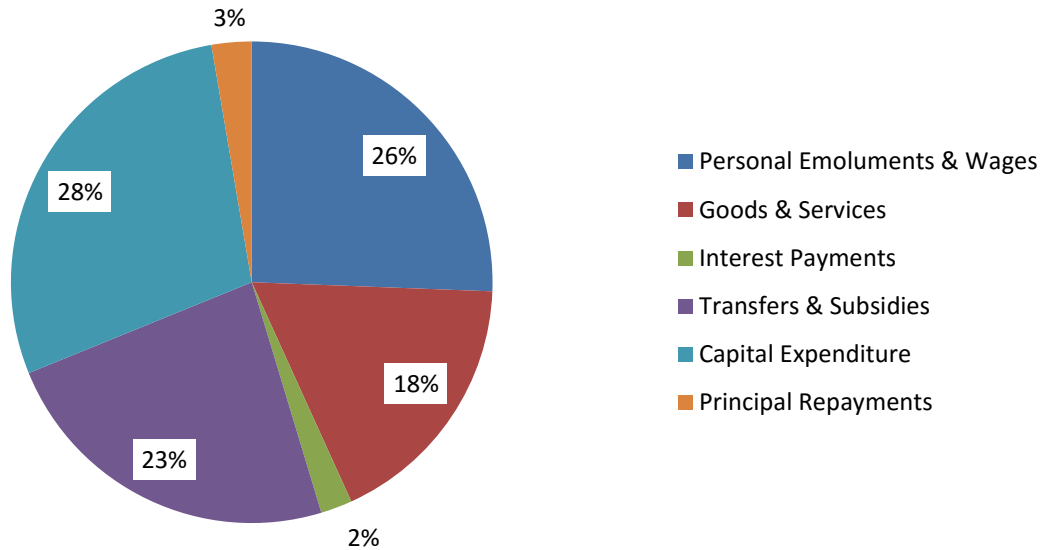
At December 31, 2019, actual revenue totaled \$977 million and actual expenditure amounted to \$937 million which resulted in an end of year surplus of \$40 million.

Graphical Presentation of Government Revenue and Expenditure

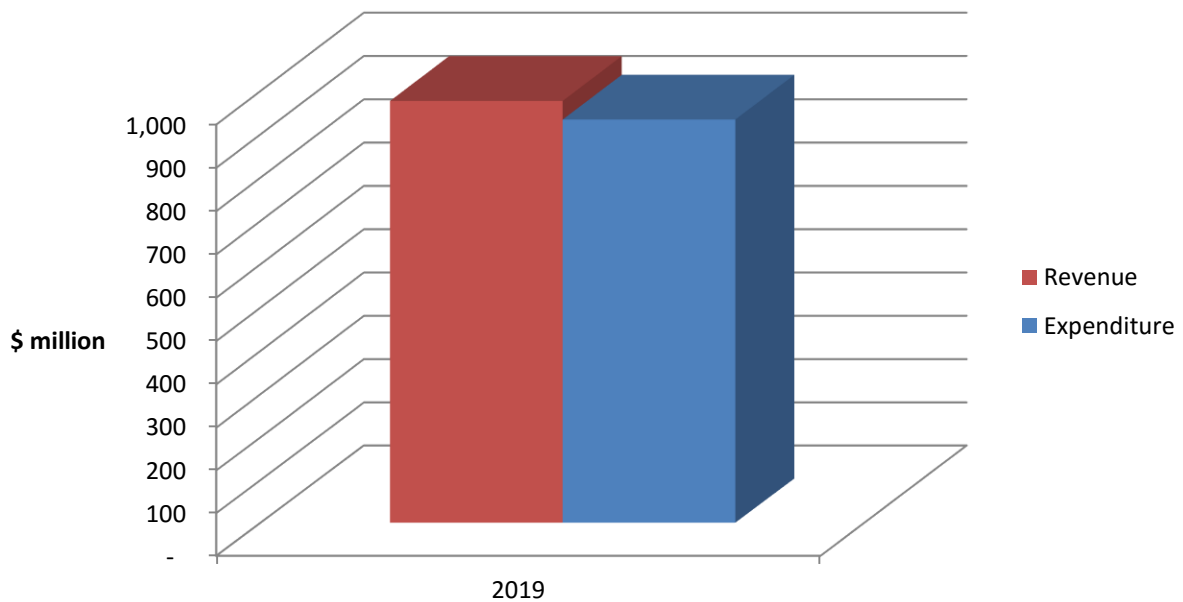
The following graphs represent the composition of the Government's revenue and expenditure for the financial year 2019.



2019 Expenditure



Total Revenue vs. Expenditure 2019



Revenue

Details of revenue collected during 2019, 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 2019 relative to 2018.

Table 1: Revenue for the years ended 2018 & 2019

Revenue Type	2019 Revenue (\$ million)	2018 Revenue (\$ million)
Taxes on Income	140	136
Taxes on Property	11	14
Taxes on Domestic Goods & Consumption	104	96
Taxes on International Trade & Transactions	194	187
Non Tax Revenue	505	483
Capital Revenue	22	40
Budgetary Grant	1	-
	977	956

The overall revenue for 2019 totaled \$977 million, which was \$21 million more than the amount collected in 2018. Actual Tax Revenue of \$449 million collected in 2019 increased by \$16 million when compared to 2018.

Non-Tax Revenue increased by \$22 million in comparison to 2018. There were notable increases in non-tax revenue from the St. Kitts Water Department which increased by \$2 million and revenue collected by the Citizenship by Investment Unit, which increased by \$25 million compared to the previous year.

The Government of St. Kitts and Nevis collected \$13 million in Development Aid and \$1.3 million in Budgetary Grants in 2019.

Actual revenue collected by the Government in 2019 surpassed the projected target by \$186 million.

Expenditure

Actual expenditure for 2019 totaled \$937 million with personal emoluments and wages, transfers and subsidies and capital expenditure accounting for over 75% of the total expenditure. Actual expenditure increased by \$14 million in comparison to the previous financial year. There were decreases in several components of total expenditure including goods and services, interest payments and loan principal payments in 2019. One component of expenditure increased significantly in 2019 and this was grants and contribution paid to local, regional and international institutions which increased by \$21 million. Capital expenditure rose by \$16 million in 2019. Table 2 shows a comparative summary of expenditure by type for 2018 and 2019.

Table 2: Expenditure for the year ended December 2018 & 2019

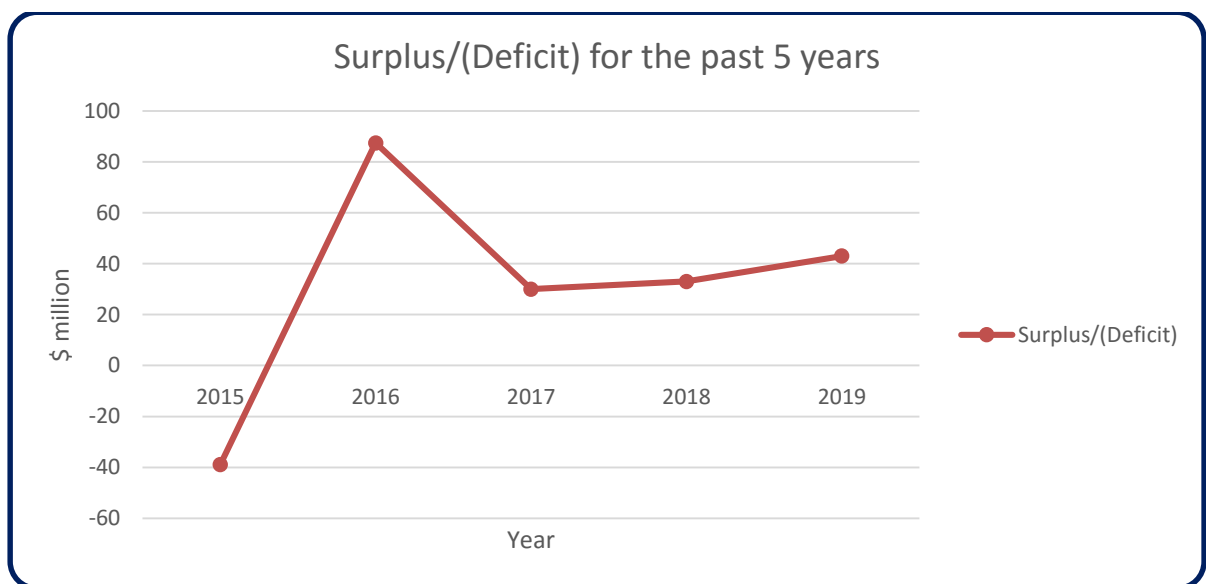
Expenditure Type	2019 Actual Expenditure (\$) million	2018 Actual Expenditure (\$) million
Personal Emoluments & Wages	240	231
Goods & Services	165	197
Interest Payments	20	21
Transfers & Subsidies	220	184
Capital Expenditure	267	250
Principal Payments	25	39
	937	922

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.

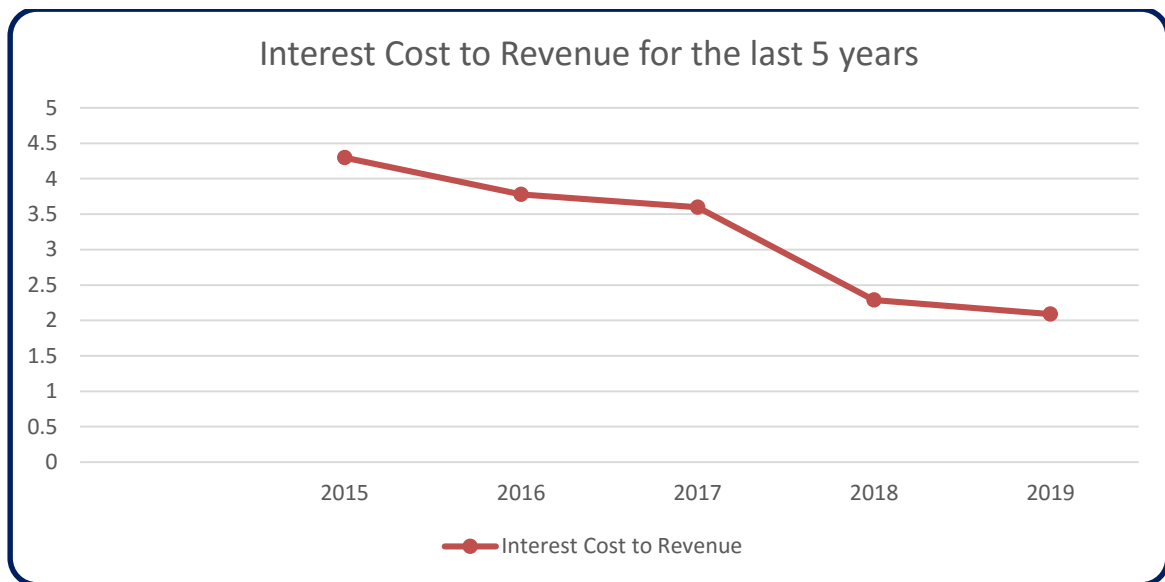
Surplus/Deficit

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 2019, the Government of St. Kitts and Nevis recorded a surplus of \$40 million which is an increase of \$6 million in comparison to the previous year.



Interest Costs to Operating Revenue

At the end of 2019, interest costs as a percentage of operating revenue decreased to 2.09% from 2.29% in the previous year. This was due in large part to the increase in Government's operating revenues in 2019 coupled with the decrease in interest payments. 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 55% for the Government of St. Kitts and Nevis as at December 2019 remained below the target of 60% for the Eastern Caribbean Currency Union (ECCU). It increased slightly from the revised Debt to GDP ratio for 2018 of 53.9%. This Debt to GDP ratio of 55% signifies that the Government of St. Kitts and Nevis' risk of defaulting on loan payments is relatively low.

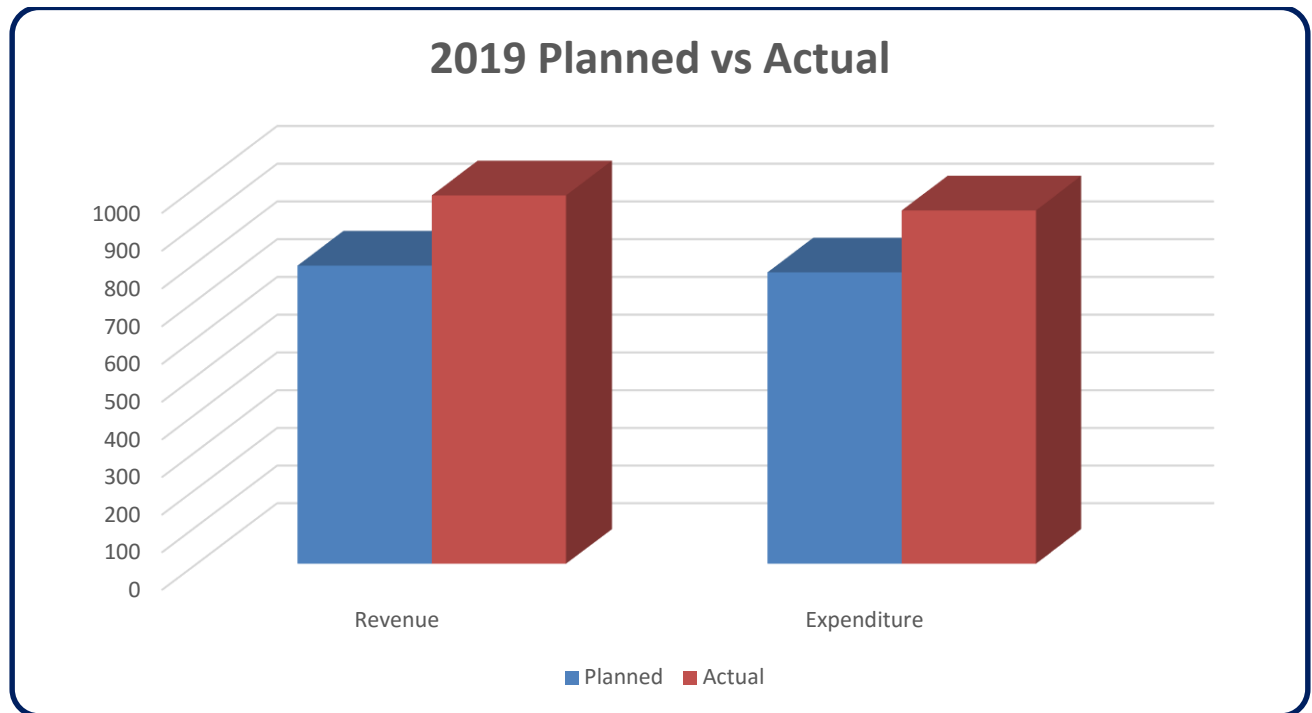
Cash Ratio

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 2019, the cash ratio was 2.26 relative to 2.1 in 2018 indicating an increase in liquidity coverage compared to the previous year. The cash and cash equivalents held by the Government increased by \$1 million and the current liabilities held decreased by \$22 million leading to a favourable outturn in the cash ratio.

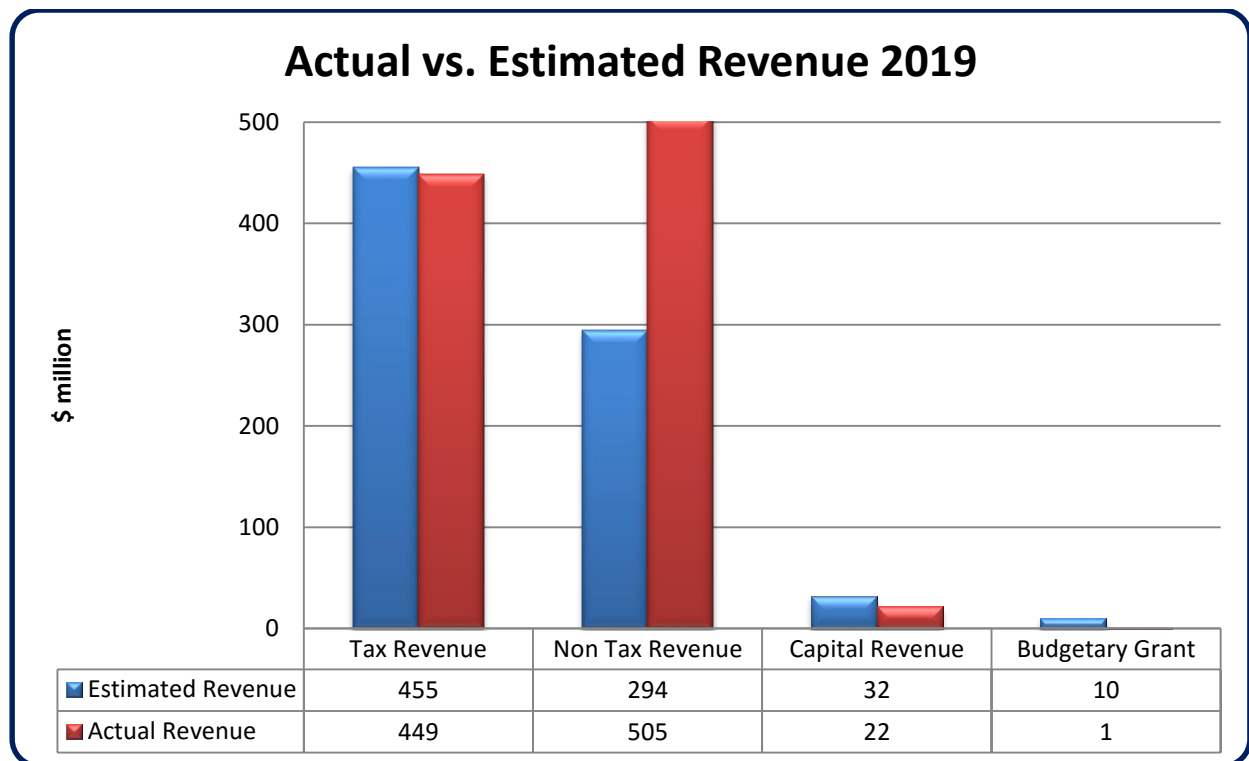
COMPARISON TO THE BUDGET

During the Budget Address in December 2018, the Government of St. Kitts and Nevis set out the planned budget for 2019 which included Revenue of \$791 million and Expenditure of \$773 million.

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



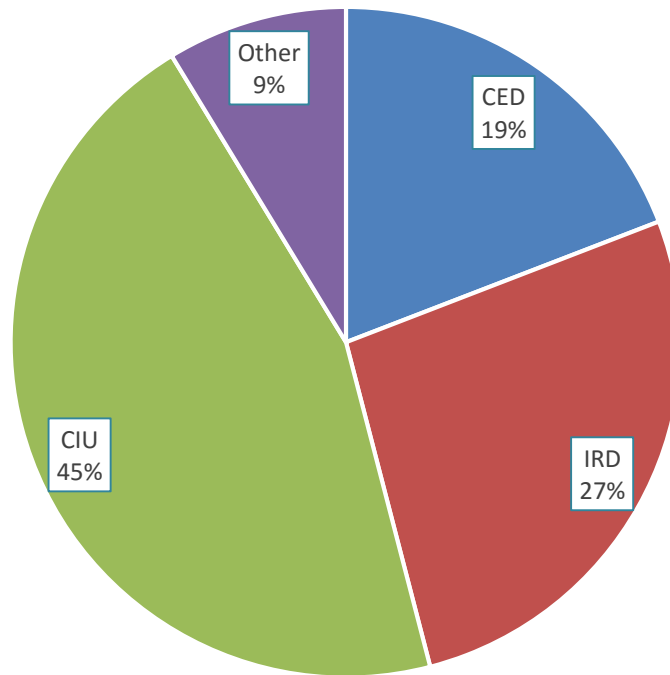
REVENUE



Recurrent Revenue

Recurrent revenue consists of tax and non-tax revenue. Actual revenue collected from these sources totaled \$954 million in 2019. The performance of recurrent revenue was \$205 million greater than the budget estimate for 2019. The Customs and Excise Department (CED), Inland Revenue Department (IRD) and the Citizenship by Investment Unit (CIU) collected 91% of the Government's recurrent revenue for 2019.

2019 Recurrent Revenue Collection by Department



Revenue collected by the Citizenship by Investment Unit contributed 45% to the Government's overall recurrent revenue collections for 2019. This Unit collected almost \$443 million in 2019. Actual Government fees totaled \$168 million. Fees collected for the Hurricane Relief Fund and the Sustainable Growth Fund totaled \$139 million and \$78 million respectively. Application fees collected amounted to \$12 million and fees collected for background checks were \$46 million. This represented an increase of \$25 million over the previous financial year. The collection of revenue by the Citizenship by Investment Unit surpassed its 2019 revenue projection by \$213 million.

The Inland Revenue Department collected \$262 million in taxes, licenses and fees in 2019. This represented an \$11 million increase in revenue collection over 2018. Stamp Duty (\$18 million), Value Added Tax (\$54 million), Corporate Income Tax (\$85 million), Withholding Tax (\$13 million) and Housing and Social Development Levy (\$41 million) all contributed significantly to the Inland Revenue Department's collection for 2019. The Inland Revenue Department exceeded its targeted revenue collection for 2019 by \$5 million. Corporate

Income Tax and Stamp Duty exceeded their projected revenue by \$18 million and \$6 million respectively.

The Customs and Excise Department on St. Kitts collected \$187 million in 2019. 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 (\$60 million), Customs Service Charge (\$37 million), Value Added Tax (\$62 million) and Excise Tax (\$13 million).

The total amount collected by the Customs and Excise Department on St. Kitts in 2019 exceeded its 2018 revenue collections by \$4 million. The revenue collections of this Department however fell below its 2019 projected revenue by \$12 million. With the exception of Import Duties on Articles other than Alcohol, all other revenue streams mentioned above fell below their respective targets.

Other revenue collecting Departments collected \$85 million or 9% of the overall recurrent revenue of the Government of St. Kitts and Nevis for 2019. These included the Ministry of National Security (\$7 million), the Accountant General Department (\$21 million), the Ministry of Public Infrastructure (\$21 million) and the Ministry of Health (\$5 million).

Capital Revenue

Revenue collected from the Sale of Lands and Property in 2019 amounted to \$9 million, surpassing its target of \$7 million.

Capital grants revenue was estimated at \$25 million for 7 Ministries in 2019. The actual amount collected was \$13 million, which presented an unfavourable variance of almost \$12 million. With the exception of the Ministries of Public Infrastructure and Education, the grant revenue projected for 2019 was not received.

Budgetary Grants

Budgetary Grants were estimated at \$10 million for 2019. The Government of St. Kitts and Nevis received a Budgetary Grant in the amount of \$1.3 million in 2019.

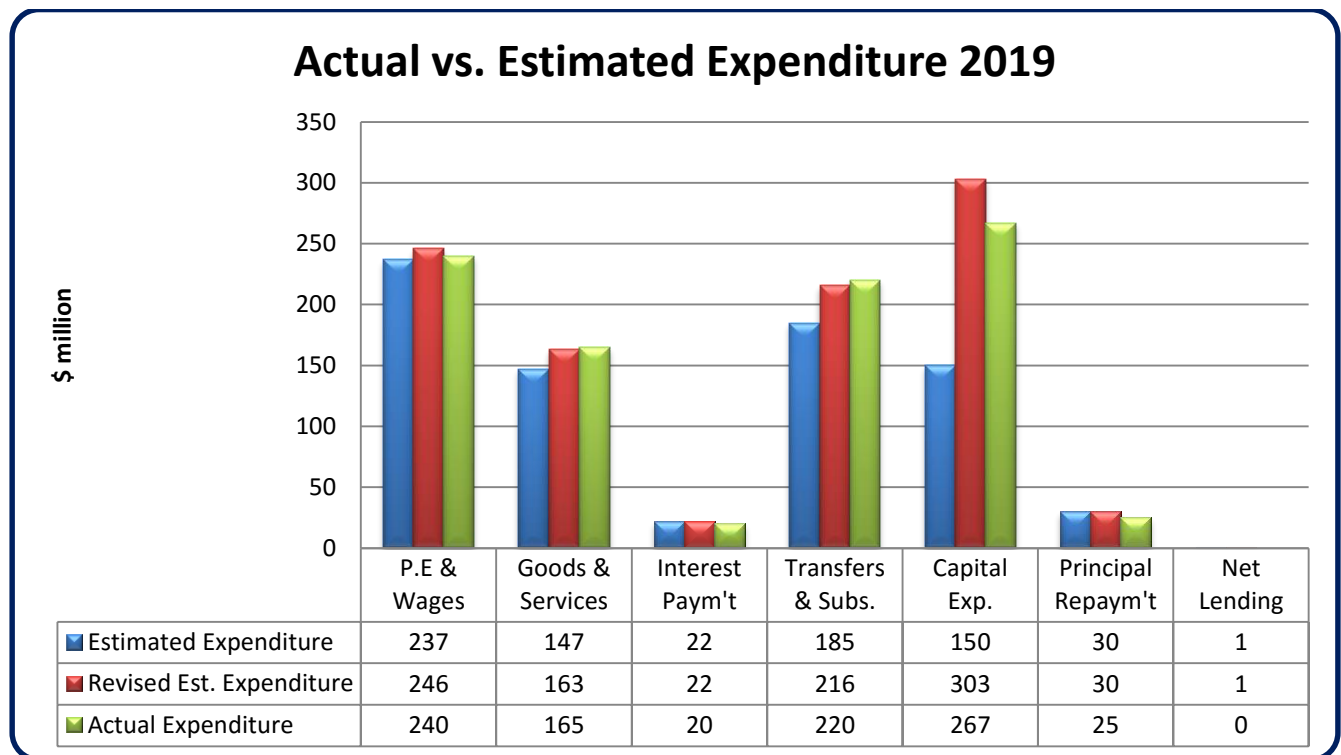
EXPENDITURE

The appropriations for expenditure during 2019 are shown below.

Original Budget \$772,881,833.00

Supplementary Budget \$207,887,372.28

\$980,769,205.28



Recurrent Expenditure

Actual recurrent expenditure totaled \$645 million in 2019.

The \$591 million budget allocation for recurrent expenditure was revised by Appropriation Warrants and increased by \$56 million resulting in a revised estimate of \$647 million. This revision affected 16 of the 19 Government Ministries.

Nine (9) Ministries submitted Appropriation Warrants in excess of \$1 million to meet additional expenditures. Table 3 below portrays the Ministries whose actual expenditure exceeded their original budgeted figures by over \$1 million.

Table 3: Ministries with actual recurrent expenditure in excess of \$1 million of their original budget

Ministry	Original Budget (\$)	Actual Expenditure (\$)	Variance (\$)
Governor General	1,335,454.00	2,790,272.17	1,454,818.17
Office of the Prime Minister	44,464,848.00	50,183,612.91	5,718,764.91
National Security	60,473,713.00	65,597,502.27	5,123,789.27
Finance	203,921,234.00	222,087,752.37	18,166,518.37
Community Development et al	33,470,192.00	35,152,234.77	1,682,042.77
Tourism	24,706,175.00	27,647,644.55	2,941,469.55
Education	73,061,213.00	78,970,582.70	5,909,369.70
Health	53,207,608.00	63,483,912.36	10,276,304.36
Youth, Sports, Culture	7,166,159.00	9,048,076.69	1,881,917.69

The following reasons, as stated in the appropriation warrants for 2019, are in respect of the nine (9) Ministries whose actual recurrent expenditure exceeded their original budget by over \$1 million.

Governor General

- *Additional funds to cover supplies and materials for Government House - \$225 thousand*
- *Settle outstanding invoices for maintenance works at Government House - \$156 thousand*
- *Funds needed for hosting and entertainment events held at Government House - \$820 thousand*

Office of the Prime Minister

- Funds required to provide for travel allowance and communication expenses - \$1 million
- Scholarship support to non-government students - \$434 thousand
- Additional funds required for Independence Celebrations 2019 - \$953 thousand
- Additional funds to facilitate the settlement of arbitration with Range Developments Limited for the lands at La Valle - \$414 thousand

Ministry of National Security

- Provide personal emoluments and increases in displacement and duty allowances to officers in the Security Forces - \$3 million
- Additional funds for uniform expenses - \$361 thousand

Ministry of Finance

- Facilitate financing to Belmont Resort Limited - \$18 million

Ministry of Community Development, Gender Affairs and Social Affairs

- Facilitate payment for the Poverty Alleviation Programme (PAP) for December 2019 - \$1.3 million
- Provide for personal emoluments and foster care allowances - \$342 thousand

Ministry of Tourism

- Support to the Frigate Bay Development Corporation - \$1.1 million
- Part payment to 2019 Music Festival artistes - \$1.4 million
- Additional funds requested to facilitate payroll for employees of Marriott Resort Golf Course for the period August to December 2019 - \$371 thousand

Ministry of Education

- Personal Emoluments for teachers at the Early Childhood, primary and secondary schools in St. Kitts - \$4.7 million

- Contribution to the Clarence Fitzroy Bryant College for extra month's salary in December 2019 - \$801 thousand
- Additional funds to facilitate subventions to the Early Childhood Unit for the months of October through December 2019 - \$367 thousand

Ministry of Health

- Facilitate payment to the Solid Waste Management Corporation (SWMC) in relation to the National Waste Bin Distribution Programme - \$6.8 million
- Purchase pharmaceuticals and medical supplies - \$3.5 million

Ministry of Youth, Sports and Culture

- Payment to the Carnival Committee for extra costs for 2018-2019 Carnival celebrations - \$1.5 million
- Facilitate travel arrangement to Trinidad for CARIFESTA 14 - \$377 thousand
- Hosting of 2 International Home Series - \$463 thousand

Compared with 2018, the supplementary estimates decreased from \$128 million to \$56 million in 2019. As with previous years, there is a concern that funds are being requested via Appropriation warrants to meet additional expenditure for Ministries and Departments which did not adequately plan and budget for their 2019 expenditures.

It is noted that several Ministries applied for Appropriation Warrants to cover additional costs of personal emoluments during 2019. This has been due in large part to the amount of arrears of salaries for government employees that were paid out during the year. This situation is more noticeable within the Ministry of Education where some teachers did not receive increments for several years. When this type of anomaly is discovered, the employee has to be paid for the years of missing increments. This of course has implications for the current budget of the Ministry.

It has been noted in previous audit reports that the National Audit Office is concerned that Departments are not adequately planning and budgeting for their expenditures. Apart from those explanations listed above, Departments are still requesting additional funds to meet

allowances, office expenditures, settle outstanding bills, and other expenditure that do not meet the criteria for issuing Appropriation warrants.

It is recommended that:

1. Ministries/Departments budget effectively for their recurrent expenditure.

Appropriation warrants should only be used in instances where:

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

2. Each Ministry/Department put systems in place to identify the period in which employee's increments are due so that payments can be processed within the correct period.

Capital Expenditure

The capital expenditure budget for 2019 was approved at \$150 million to support 116 projects. The budget was revised to \$303 million to include funds required in relation to the following projects:

- Purchase of Building for Ministry of Justice and Legal Affairs
- Hurricane Relief Programme
- Land Redemption Project
- Rehabilitation of Old Road Bay

With the exception of the expenditure on the Rehabilitation of Old Road project, the projects noted above were not budgeted for in 2019.

Actual expenditure for capital projects for 2019 amounted to \$267 million representing 88% of the revised budget. At the end of the 2019 financial year, 24 projects with a combined estimated budget of \$27 million had no expenditure. Of these 24 projects with no

expenditure in 2019; 5 were new projects, 7 were projects from the previous year that had some expenditure in 2018 and the remainder were projects which had no expenditure in 2018 but were rolled over to 2019 and still not implemented.

The following are some of the projects of the various Ministries in 2019.

The Ministry of Justice, Legal Affairs and Communications spent \$10 million in 2019. Its \$2 million budgeted amount was revised to \$10 million to facilitate the purchase of a building for the Ministry.

The Office of the Prime Minister's capital expenditure budget allocation was revised from \$4.1 million to \$25 million in 2019. There was an expenditure of \$6 million on Community – based projects, \$1 million to complete payments from the Sugar Workers Restoration Fund and \$17 million on the Hurricane Relief Programme.

The Ministry of National Security spent \$17 million or 87% of its \$19 million budget allocation for capital projects. Major expenditure included \$3 million on the Construction of Police Stations, \$6 million on the CCTV Surveillance and Traffic Management System and \$2 million on the Construction of the Newcastle Police Station.

The Ministry of Finance's capital expenditure budget was revised from \$12 million to \$110 million to provide for a \$102 million expenditure on the Land Redemption project. Other significant capital expenditures included \$2 million on the Tax Collection Analysis & IT System, \$1.5 million on the Construction of the Printery Building and \$2 million on the Upgrade/Rehabilitation of Government Buildings.

The audit revealed that the capital expenditure on the Tax Collection Analysis & IT System for the Inland Revenue Department was over reported by almost \$1.5 million. As at December 2019, the Department had spent \$580 thousand of its \$2 million budget for 2019. The difference between the amount budgeted and actual expenditure was transferred to a Below the Line Account at the end of December 2019. This gave the appearance that \$2 million was spent on the Tax Collection Analysis & IT System when only \$580 thousand had been spent for the year.

The Ministry of Agriculture's capital expenditure was revised from \$4 million to \$6 million in 2019. The Ministry spent \$4 million on the Rehabilitation of Old Road Fisheries Complex.

The Ministry of Tourism spent \$5 million or 83% of its budgeted \$6 million. The Airlift Support Project incurred the largest expenditure of \$2.3 million.

The Ministry of Public Infrastructure et al's capital expenditure budget was increased from \$51 million to \$75 million in 2019. The Ministry spent \$17 million on the Rehabilitation of Old Road Bay project, \$33 million on the Upgrade of the Island's Main Road, \$2.7 million on Well Drilling and Extension of Water Lines and \$2.5 million on Phase 2 of the Traffic Signalization Project.

The Ministry of Education spent \$3 million or 16% of its budgeted \$16 million. The largest capital expenditure of \$897 thousand was spent on Support for the Education Sector Plan project.

The Ministry of Health spent almost \$4 million or 50% of its budgeted \$7 million. The \$3 million JNF General Hospital Development Phase III project did not materialize for the fourth year in a row. The Health Sector Improvement project recorded \$2 million of expenditure.

The Ministry of Youth, Sports and Culture's budget was increased from \$6 million to \$7 million in 2019 to accommodate expenditure of \$1.5 million on the Upgrade of Lighting of the Verchild's Playfield project. The amount of \$1.5 million was also spent on the CPL games.

The Ministry of Sustainable Development spent \$2.9 million or 17% out of its budgeted \$17 million. The largest expenditure for this Ministry was on the Special Land Distribution Initiative of \$1.4 million.

The implementation rate for capital projects based on the revised estimates increased from 85% in 2018 to 88% in 2019. There is still a concern that projects are not being properly planned. This can be seen by the number of projects without expenditure and the number of projects that continue to be rolled forward from year to year without implementation.

It is recommended that:

- 1. Departments carefully plan their capital expenditure projects and only budget for projects that will commence or be executed within the financial year. Projects that are not properly planned and executed can cause large variances that undermine the budgeting process.**
- 2. Ministries utilize funds in respect of capital expenditure for the purpose for which they were granted.**
- 3. Ministries cease the practice of transferring funds from Capital expenditure accounts to Below the Line accounts unless the capital project was created to capitalize a Fund.**

Principal Repayments

The budget for principal payments on outstanding loans of the Government of St. Kitts and Nevis for 2019 was approved at \$30 million with \$19 million budgeted for external debt principal payments and \$11 million budgeted for domestic debt principal payments. The actual expenditure totaled \$25 million with domestic debt principal payments accounting for 34% of the expenditure.

STATEMENT OF CASH RECEIPTS AND PAYMENTS

The Statement of Receipts and Payments as presented in the Public Accounts, shows the cash receipts and payments of the Government sub-classified by operating, investing and financing activities. This statement also shows the opening and ending balances of cash for 2019.

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 4: Summary Statement of Cash Receipts and Payments

	2019 (\$ million)	2018 (\$ million)
Net Cash Flows :		
Operating Activities	305	266
Investing Activities	(279)	(257)
Financing Activities	(25)	(39)
Net increase/(decrease) in cash	1	(29)
Cash at beginning of period	673	702
Cash at end of period	674	673

There was an increase in the cash position of the Government by \$1 million at the end of 2019.

Net Cash Flow from Operating Activities

Total receipts from operating activities totaled \$1.2 billion in 2019. Tax revenues collected by the Inland Revenue and Customs and Excise Departments accounted for 37% and fees collected by the Citizenship by Investment Unit accounted for 36% of the total receipts from operating activities. Payments on operating activities totaled \$916 million. This resulted in a net cash flow from operating activities of \$305 million in 2019.

Net Cash Flow from Investing Activities

Receipts from investing activities totaled \$763 million which included proceeds from sale of government lands, interest, dividends, return on investments and receipts from a bond issued by the Government of St. Lucia. Payments from investing activities which included capital expenditures, monies invested at the Development Bank of St. Kitts and Nevis and outflows from funds held by the Accountant General totaled \$1 billion resulting in a net cash flow from investing activities of **(\$279)** 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 2019. Payments on financing activities totaled \$25 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 increased by \$1 million over the previous year. At the end of 2019, the Government of St. Kitts and Nevis had an accumulated cash balance of \$674 million consisting of deposits at local banks, deposits at the Eastern Caribbean Central Bank (ECCB) and fixed deposit accounts of various lengths and interest rates.

Advances

Personal Advances

At the end of 2019, personal advances given to civil servants totaled \$1.6 million. This amount represents 162 individual accounts with outstanding balances ranging from \$392 to \$41,000.

Twenty-three (23) personal advance accounts with a total value of \$203,772.32 had no activity during the year 2019. The majority of these accounts have been dormant for several years. Of these 23 personal advance accounts:

- 5 accounts totaling \$62,077.28 represent current employees of the Government of St. Kitts and Nevis

- 6 accounts totaling \$80,413.98 represent past employees of the Government who have retired or resigned.
- 12 accounts totaling \$61,281.06 represent names that are not listed in the Government's current payroll database, which means that they either retired or left the service before the migration of payroll data from the old system to the new in 2005.

It is recommended that:

- 1. A payment plan be put in place for the repayment of advances for those persons who are currently within the service.**
- 2. The feasibility of collection from past employees be examined. The amounts which appear to be uncollectible should be written off.**

Subsistence Advances

Subsistence advances are given to the Ministers of Government to cover travel related expenditures such as accommodation, per diem and incidentals in relation to overseas travel on government business.

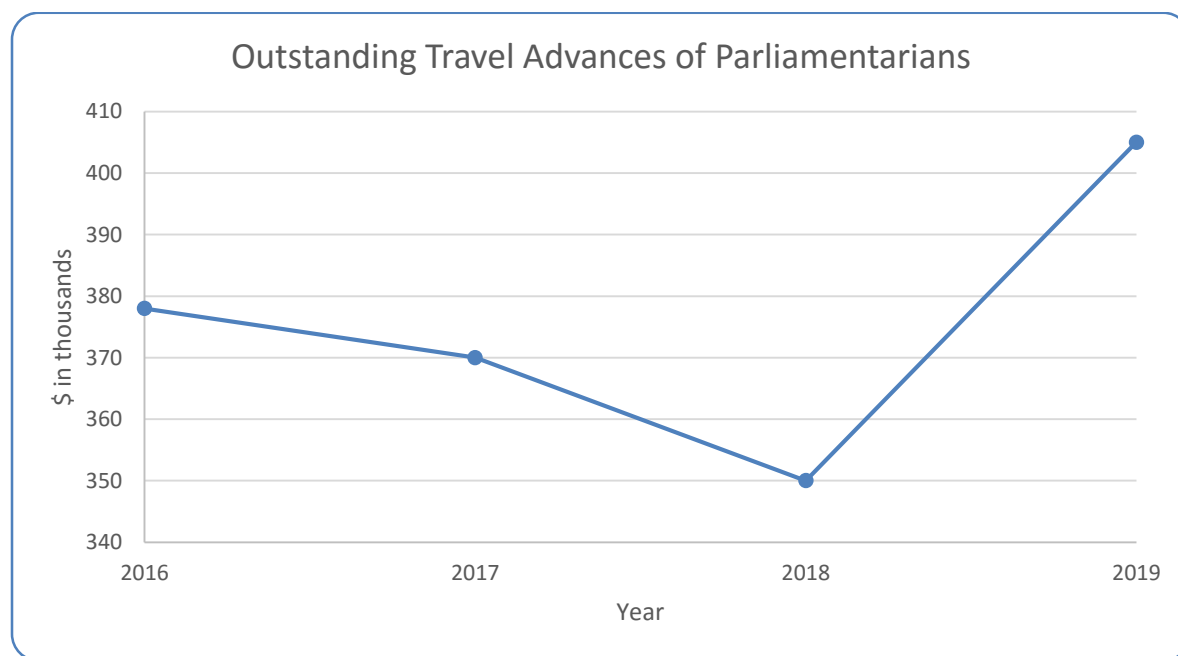
The funds are dispersed by way of an advance warrant and recorded as a receivable in the Government's financial management system until they are brought to account on the presentation of hotel bills, boarding passes and other related receipts.

On presentation of the travel-related receipts, the actual cost of trip (with the exception of airfare) is recorded as an expenditure against the parliament travel account. If the total of the bills and receipts differ from the amount of the advance, the Minister should either repay the difference or receive a reimbursement for the excess amount spent.

If the travel advance is not cleared, it remains as a receivable. Receivables represent amounts that the Government expects to collect in the short term. This presents 2 challenges:

1. The amounts of these advances represent actual costs for conducting government business overseas and they will not be recovered by the Government.
2. The actual expenditure on travel by parliament members is not reflected in the expenditures of parliament or expenditures of the Government in the year in which the travel takes place. This has the effect of understating expenditures and causing the surplus reported at the end of the year to be larger than it should be.

In the past three audit reports (2016 – 2018) the issue of outstanding subsistence advances by parliamentarians had been raised. In 2019, outstanding travel advances was recorded at its highest amount of \$405 thousand. The following Chart shows the outstanding travel advances for the period 2016 to 2019.



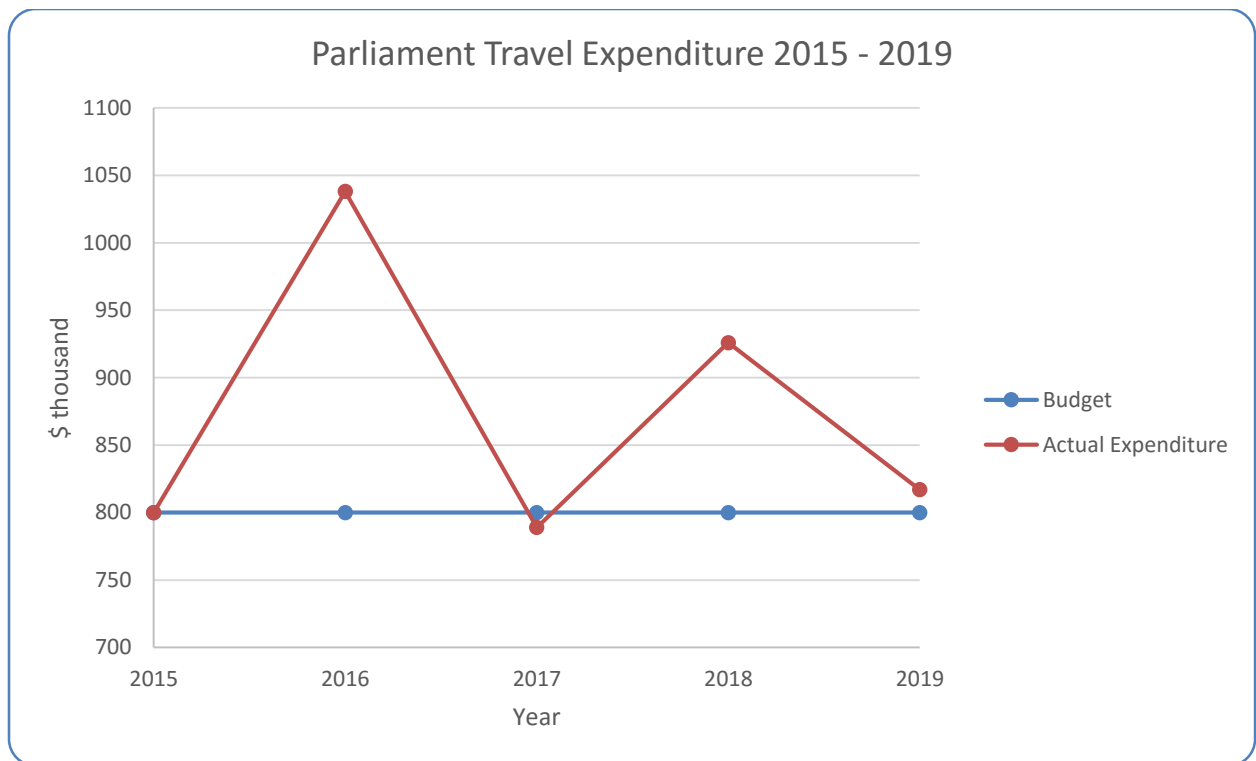
An examination of the subsistence accounts of the Ministers of Government revealed the following:

- A. Travel advances are not cleared in a pre-determined time.

Travel advances should be cleared immediately upon return. If not cleared within two weeks after travel, the risk of lost or misplaced bills and receipts greatly increase.

Most countries including those within the OECS have moved away from issuing travel advances to public officers and Ministers of Government. In fact, the Government of St. Kitts and Nevis ceased the practice of issuing travel advances to government employees since 2014. Government employees are now given a per diem based on the place of travel and the post of the travelling officer. The funds are taken directly from the travelling vote of the employee's Department and therefore correctly recorded as an expenditure in the period of travel.

As travel advances had not been consistently cleared, a true picture of the actual amount spent on travel was not known. This presented another issue in that the amount budgeted for travel expenditure under Parliament has been understated. For the past 5 years, 2015 – 2019, travel expenditure for the Ministers of Government has been budgeted at \$800 thousand each year. The following chart shows that during the period 2015 to 2019, there were only 2 years where the actual expenditures was less than or equal to the budgeted amount. However during these 2 years, there were outstanding travel advances that had not been cleared and therefore did not reflect in the actual expenditure totals for these years.



B. The amount of per diem is not consistently applied for all Ministers of Government

While a travel policy concerning per diem for government employees was established in 2014, a written policy does not exist for the Ministers of Government. The current per diem rates being used by Ministers of Government is EC\$100 per night for travel within the OECS and US\$100 for everywhere else.

It must be noted that the current per diem daily rates applicable to government employees are greater than the rates mentioned above.

There is also no consistency when it comes to submitting claims for subsistence advances. Some Ministers request additional funds for meals, transportation and incidentals outside of the per diem rate while others do not.

C. The per diem rates currently being used do not take into account the value of money in different countries.

The current fixed per diem rates being used for travel outside of the OECS do not take into account the country being travelled to and the purchasing power of the US\$ in that country. The purchasing power of US\$100 in Jamaica differs greatly to the purchasing power of US\$100 in the United Kingdom.

It is recommended that:

- 1. A comprehensive travel policy be developed that addresses the expectation of the Ministers of Government with respect to government related travel.**
- 2. Per Diem rates be revised taking into account the region/country travelling to.**
- 3. The budget for Parliament travel be revised to ensure that funds are available to meet travel expenditure for government business.**

Other Advances

According to notes of the Financial Statements, Other Advances totaling \$59,497,539.75 have been written off. These advances had been shown in the Public Accounts for a number of years and there was no indication of recovery. The recommendation had been made in previous audit reports to write off the respective amounts. This allows for accuracy in the presentation of the Public Accounts.

Table 5: Other Advances that have been written off

Advances	Balance (\$)
St. Kitts Tourism Authority – Enhancement	14,107,701.38
SSMC Severance Payment	6,052,864.53
Interest on Credit Facilities (SSMC)	19,942,856.92
Island Dredging Ltd.	10,800,000.00
Ex SSMC Workers Programme	344,338.03
Chairman La Vallee Greens	1,572,828.33

Advances	Balance (\$)
Nevis Island Administration	1,500,000.00
F/S Project YES	3,815,708.66
F/S for ABI	1,361,241.90

Other Investments

In 2019, the Government of St. Kitts and Nevis invested a total of \$18 million in the Development Bank of St. Kitts and Nevis, of which \$15 million was provided for the Government Employees Mortgage Loan Facility and \$3 million to establish the Alternative Lifestyle Pathway Fund to provide financing for small and medium sized projects.

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

The terms of repayment for the Alternative Lifestyle Pathway Fund states semiannual interest-only payments twice per year over a 10 year period at an interest rate of 2.5%.

Interest from both investments were received by the Government during 2019. The investments will be repaid at the end of the interest-only terms.

The Government of St. Kitts and Nevis invested in a \$5.4 million bond issued by the Government of St. Lucia in 2015. The terms of repayment states semiannual fixed payments of \$270,000 for 10 years at an interest rate of 7.5%. Both payments for 2019 were received in full and by the due date.

Trust Funds

Trust Funds decreased by \$600 thousand in 2019.

As at December 31, 2019, the balance on the Severance Payment Fund was **(\$5.9)** million with receipts into the Fund totaling \$8.2 million and payments from the Fund totaling \$9 million for the year. The Fund received an injection of \$1.5 million from the Capitalization of Long Service Gratuity and Severance Payment Fund project. The table below shows the receipts into and payments out of the Severance Payment Fund for 2019.

Table 6: Severance Payment Fund Receipts and Payments

	2019 (\$)
Balance at 1/1/2019	(5,243,512.01)
Receipts:	
Severance Contributions from Social Security	6,674,636.82
Transfer from Capital Account	1,500,000.00
Treasury Bills Interest	56,250.00
	8,230,886.82
Payments:	
Severance Payments	7,563,920.24
Long Service Gratuity	1,392,934.82
	8,956,855.06
Balance at 31/12/2019	(5,969,480.25)

Other Public Funds

Other Public Funds decreased by \$21 million in 2019. The balances of the Below the Line Deposit accounts constitute 88% of the balances of Other Public Funds.

During the audit of the Public Accounts, several Below the Line Accounts were examined and the following noted.

On December 31, 2019, a Below the Line Account with the name 'Office of the Prime Minister Grant from Taiwan' was created. The amount of \$1,659,955.79 was transferred from a recurrent expenditure account to the Below the Line Account. This amount represented part of the \$2.8 million received in 2019 from the Republic of China on Taiwan.

On December 31, 2019, a Below the Line Account with the name 'Tourism Development Project' was created. The amount of \$300 thousand was transferred to the account via an advance warrant to support Tourism Development.

On December 31, 2019, a Below the Line Account was created with the name 'Road Improvement'. The amount of \$1.5 million was transferred to this account via an advance warrant for the construction of a road in Conaree.

On December 31, 2019, a Below the Line account was created with the name Tax Collection and Analysis IT System. The amount of \$1.4 million was transferred to the account from the capital expenditure project 'Tax Collection Analysis & IT System'.

These Below the Line accounts were all created on the last day of the calendar year. Whether they were created via advance warrants or transfers from recurrent or capital accounts, it gives the appearance that there was expenditure on these particular projects or activities during the year when there was none. Not only will expenditure be recorded as being incurred in 2019 because of the transfer but also in 2020 when monies are spent from the Below the Line accounts.

These Below the Line accounts are being improperly used to facilitate the use of unspent budget allocations at the end of the year.

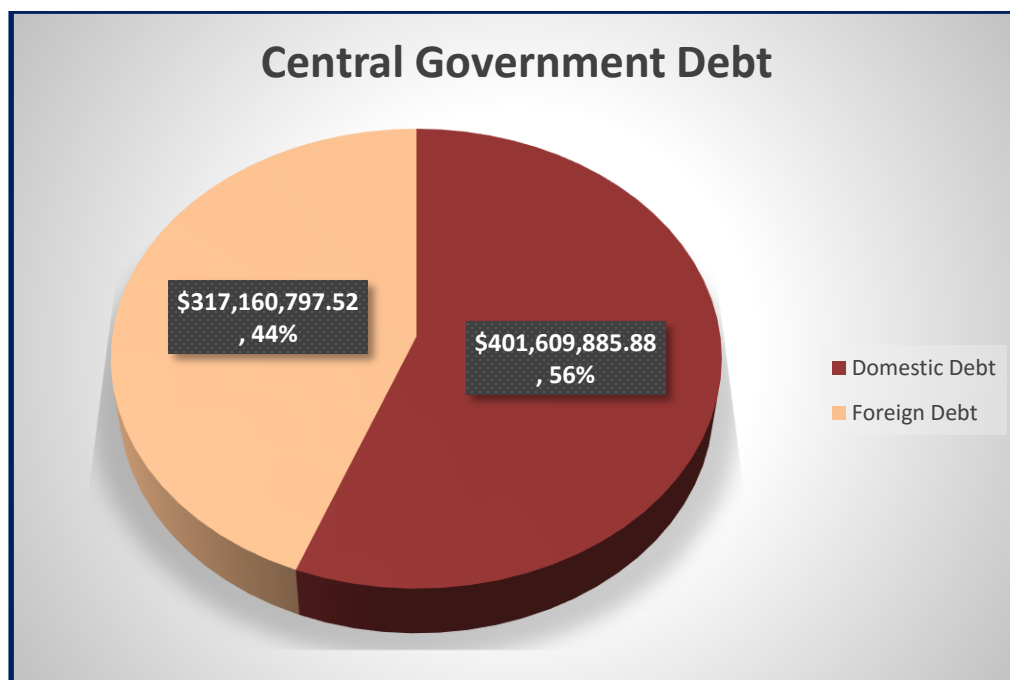
It is recommended that:

- 1. The practice of creating Below the Line accounts from transfers from expenditure accounts and advance warrants be stopped.**
- 2. All Below the Line Deposit accounts, except for payroll deduction accounts, be closed.**

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 2019, the Public Sector Debt of the Government of St. Kitts and Nevis amounted to \$1.62 billion, an increase of \$62 million over the previous year. Central Government debt which has domestic and foreign debt components decreased from \$734 million to \$719 million in 2019.



Total domestic debt of the Central Government decreased by \$6 million and the foreign debt component decreased by \$9 million in 2019.

Two loans carrying an accumulated balance of \$147,825 as at the end of 2018 were paid off in 2019.

While the Central Government debt decreased by \$15 million or 2% relative to 2018, the guaranteed debt increased by \$77 million or 9% relative to 2018. Within the guaranteed debt portfolio, domestic debt increased by \$88 million. This was largely due to an increase of \$13 million in domestic overdrafts of the statutory bodies and an increase of \$73 million in domestic loans of the statutory bodies as well.

Guaranteed debt now accounts for 56% of the total public sector debt as compared to 53% in 2018. In previous years, Public Sector debt remained constant as any increases in the guaranteed debt were offset by the decrease in the Central Government debt. However, in 2019, Public Sector debt increased by \$62 million. It is important that the Government monitor the borrowing levels of the statutory corporations in order 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, 2019 of \$81.2 million. A summary of the results is shown in the table 7.

Table 7: Arrears by Ministry

Ministry/Department	2019 Arrears Total (\$)	2018 Arrears Total (\$)
International Trade	Not provided	41,642
Finance – Inland Revenue	75,013,035	Not provided
Finance – Customs & Excise Department	1,769,916	560,325
Tourism	404,931	295,400
Public Infrastructure: Water	3,750,616	2,151,986
Public Infrastructure: Public Works	Not provided	412,760
Public Infrastructure: Post Office	299,999	168,623
Education	Not provided	259,474
Total	81,238,497	3,890,210

Arrears of revenue were not presented for the JNF General Hospital and for 3 other Departments which presented arrears of revenue in 2018.

The arrears of revenue include an amount of \$75 million of outstanding taxes that are expected to be collected by the Inland Revenue Department.

Approximately 54% or \$40 million of the outstanding taxes are 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 and stating the reasons for his decision.

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 years. Others have completed the administrative review stage but remain outstanding as the taxpayer is not in agreement with the assessment.

This 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 ensures 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 appeals process for taxes collected by the Inland Revenue Department.**

