

ST. KITTS & NEVIS NATIONAL AUDIT OFFICE



2022

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 2022



***ST. KITTS AND NEVIS
NATIONAL AUDIT OFFICE
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December 4, 2023

Honourable Dr. Terrance Drew
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, 2022.

Respectfully,

A handwritten signature in blue ink, appearing to read 'Pike', followed by a dotted line.

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, 2022.

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 Parliament 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.

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

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

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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 Draft Public Accounts for the financial year ended December 31, 2022 were initially submitted to the National Audit Office on June 30, 2023. They were subsequently amended and re-submitted to our Office on September 15, 2023.

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 11 and 12, the Statement of Comparison of Budget and Actual Amounts on pages 13 to 15 and the Accounting Policies and Notes to the Financial Statements beginning on page 25 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, 2022, 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, 2022.

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 Departments' 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 Cap 20.01, 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

December 4, 2023

SUMMARY OF FINANCIAL INFORMATION

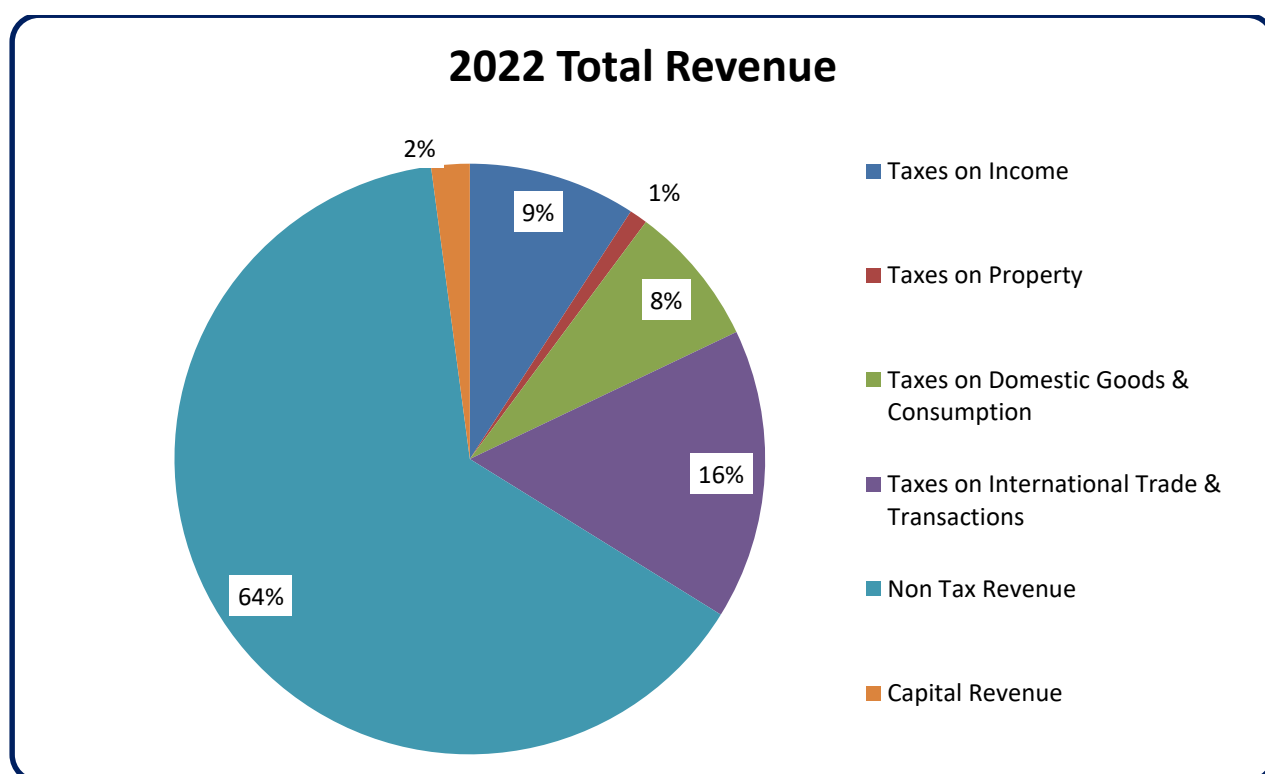
Revenue and Expenditure

For the year 2022, Parliament approved an expenditure budget of \$952 million, which included \$43 million in debt repayment. Revenue for the year was estimated at \$924 million and this included the sale of government lands which was budgeted to bring in \$10 million. During 2022, a further \$432 million of expenditure was approved by supplementary/appropriation warrants.

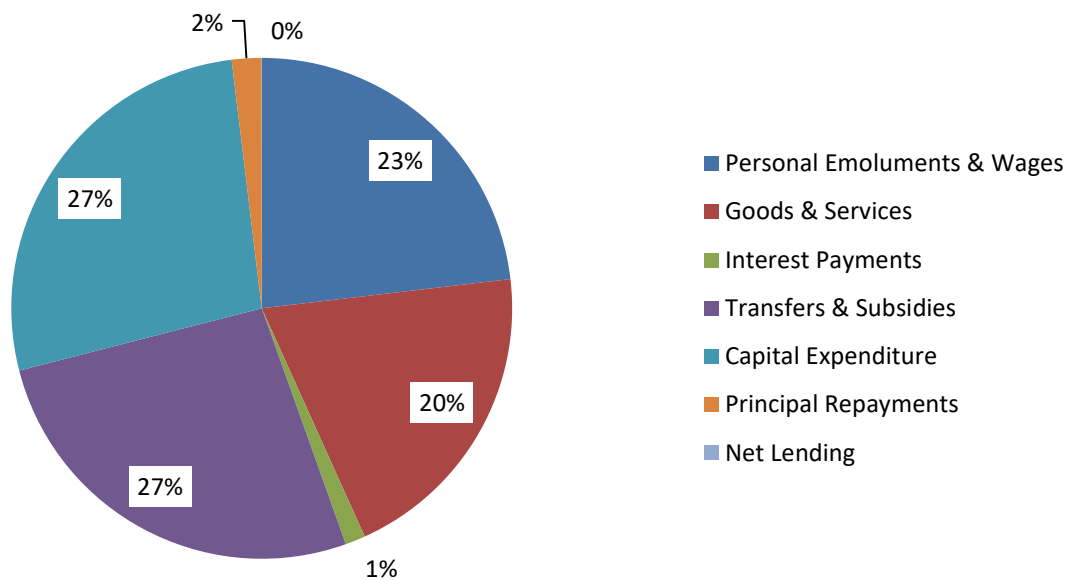
At December 31, 2022, actual revenue totaled \$1.13 billion and actual expenditure amounted to \$1.238 billion which resulted in an end of year deficit of \$107 million.

Graphical Presentation of Government Revenue and Expenditure

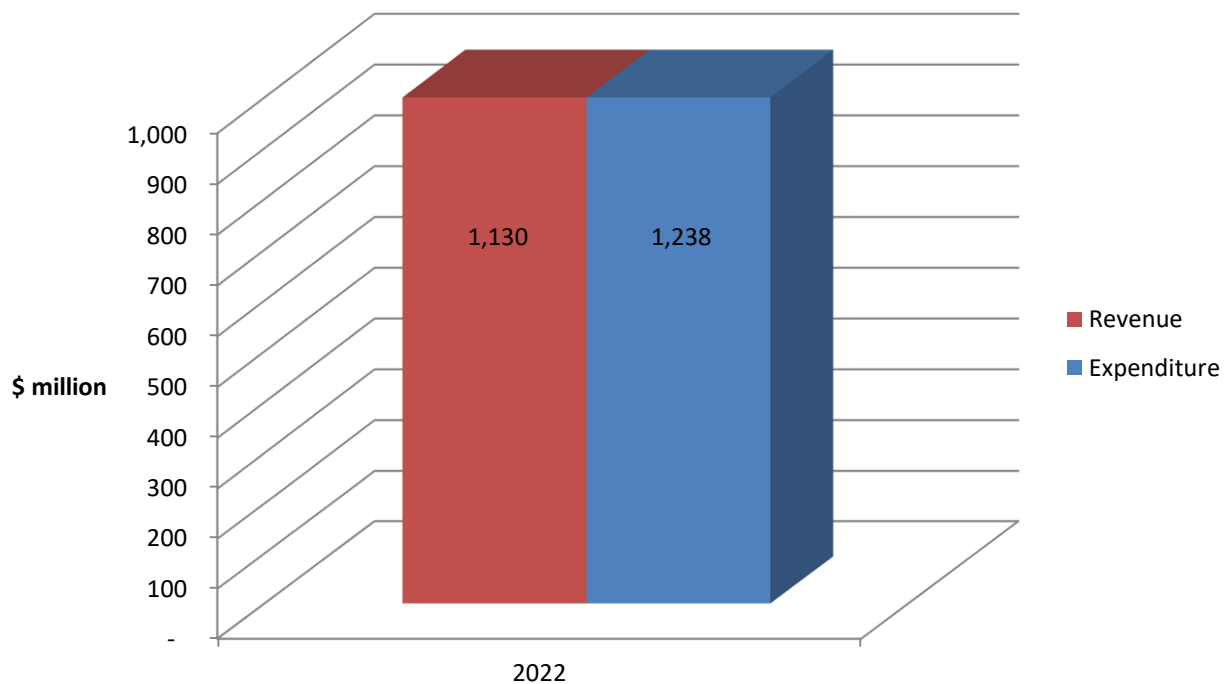
The following graphs represent the composition of the Government's revenue and expenditure for the financial year 2022.



2022 Expenditure



Total Revenue vs. Expenditure 2022



Revenue

Details of revenue collected during 2022, 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 2022 relative to 2021.

Table 1: Revenue for the years ended 2022 & 2021

Revenue Type	2022 Revenue (\$ million)	2021 Revenue (\$ million)
Taxes on Income	104	117
Taxes on Property	11	10
Taxes on Domestic Goods & Consumption	87	76
Taxes on International Trade & Transactions	180	150
Non Tax Revenue	724	610
Capital Revenue	24	32
Budgetary Grant	-	-
Total (includes rounding)	1,130	995

The total revenue collected during 2022 totaled \$1.13 billion, which was \$135 million more than the amount collected in 2021.

Actual Tax Revenue of \$382 million collected in 2022 increased by \$29 million when compared to 2021.

Non-Tax Revenue of \$724 million increased by \$114 million in comparison to 2021.

The Government of St. Kitts and Nevis collected \$24 million in Capital Revenue.

Actual revenue collected by the Government in 2022 exceeded the projected target by \$206 million.

Expenditure

Actual expenditure for 2022 totaled \$1.238 billion with personal emoluments and wages, goods and services and transfers and subsidies accounting for over 69% of the total expenditure. Actual expenditure increased by \$361 million or 41% in comparison to the previous financial year. With the exception of Interest & Principal Payments, there were increases in all other components of total expenditure when compared to the previous year. The most significant increase occurred in capital expenditure which increased by 119% in comparison to the previous year. Table 2 shows a comparative summary of expenditure by type for 2022 and 2021.

Table 2: Expenditure for the year ended December 2022 & 2021

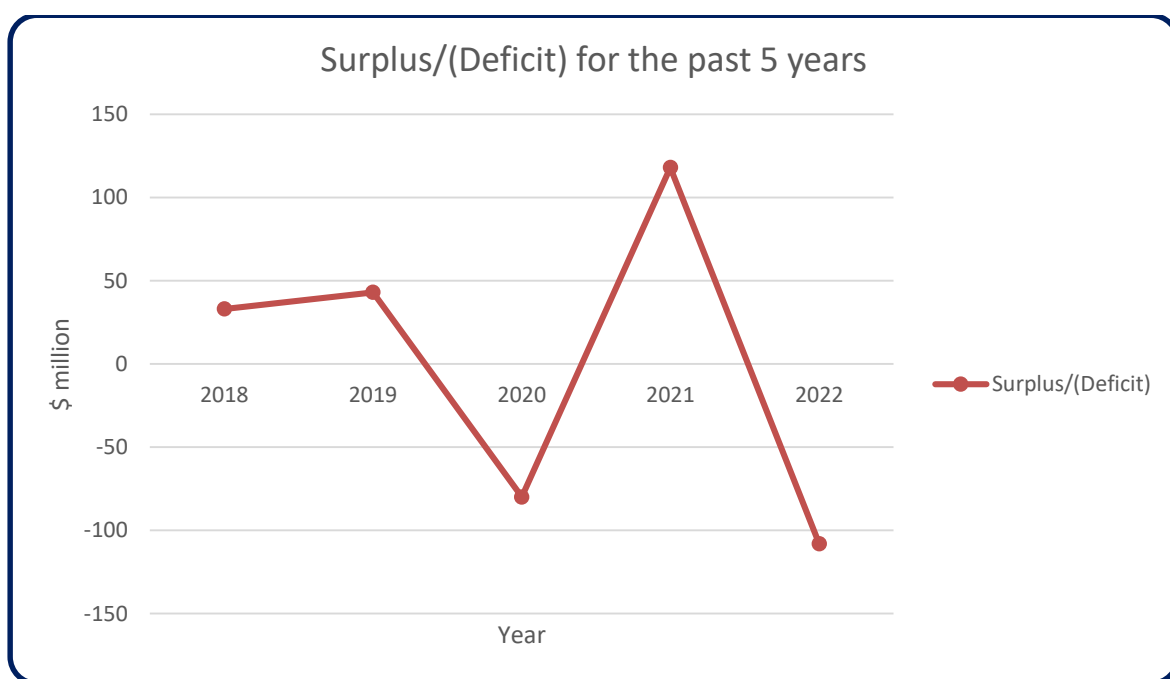
Expenditure Type	2022 Actual Expenditure (\$) million	2021 Actual Expenditure (\$) million
Personal Emoluments & Wages	286	245
Goods & Services	249	189
Interest Payments	16	17
Transfers & Subsidies	327	242
Capital Expenditure	335	153
Principal Payments	24	31
Net Lending	0.1	-
Total	1,238	877

Financial Indicators

The following indicators gives a snapshot of the health of the finances of the Government of St. Kitts and Nevis at the end of December 2022.

Surplus/Deficit

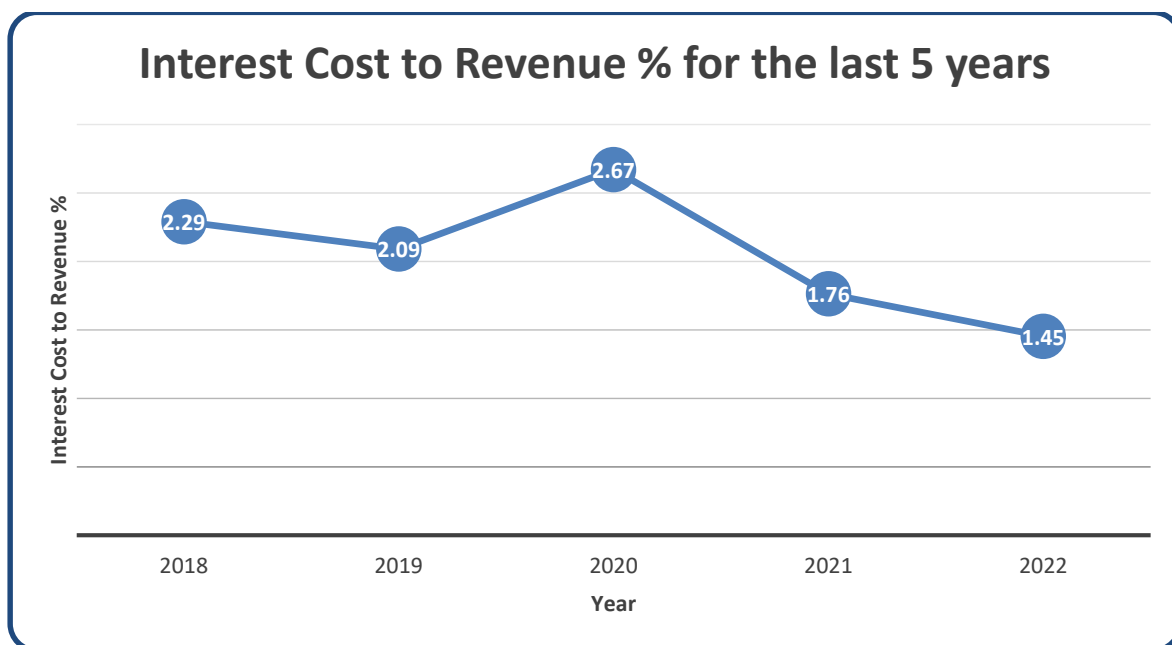
The surplus/deficit presented in the Statement of Revenue and Expenditure represents the difference between the revenues received and the expenditures paid for all budgeted accounts. In 2022, the Government of St. Kitts and Nevis recorded a deficit of \$107 million compared to a surplus of \$118 million in 2021. This meant that the Government's expenditures were greater than its revenues at the end of 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 decreased from 1.76% in 2021 to 1.45% in 2022. This was as a result of increased operating revenue and a decrease in interest cost when compared to the previous year. This meant that less of

Government's receipts from revenues were used to service interest payments on debt in 2022. 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 decreased from a revised GDP of 69.1% at end December 2021 to 60.6% at the end of December 2022.

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.

The Debt to GDP ratio is at target and indicates that the risk of debt default is relatively low for the Government of St. Kitts and Nevis.

Net Assets

At the end of December 2022, net assets of the Government of St. Kitts and Nevis amounted to \$358 million, a decrease of \$105 million over the previous financial year, which was largely due to a decrease in cash held by the government.

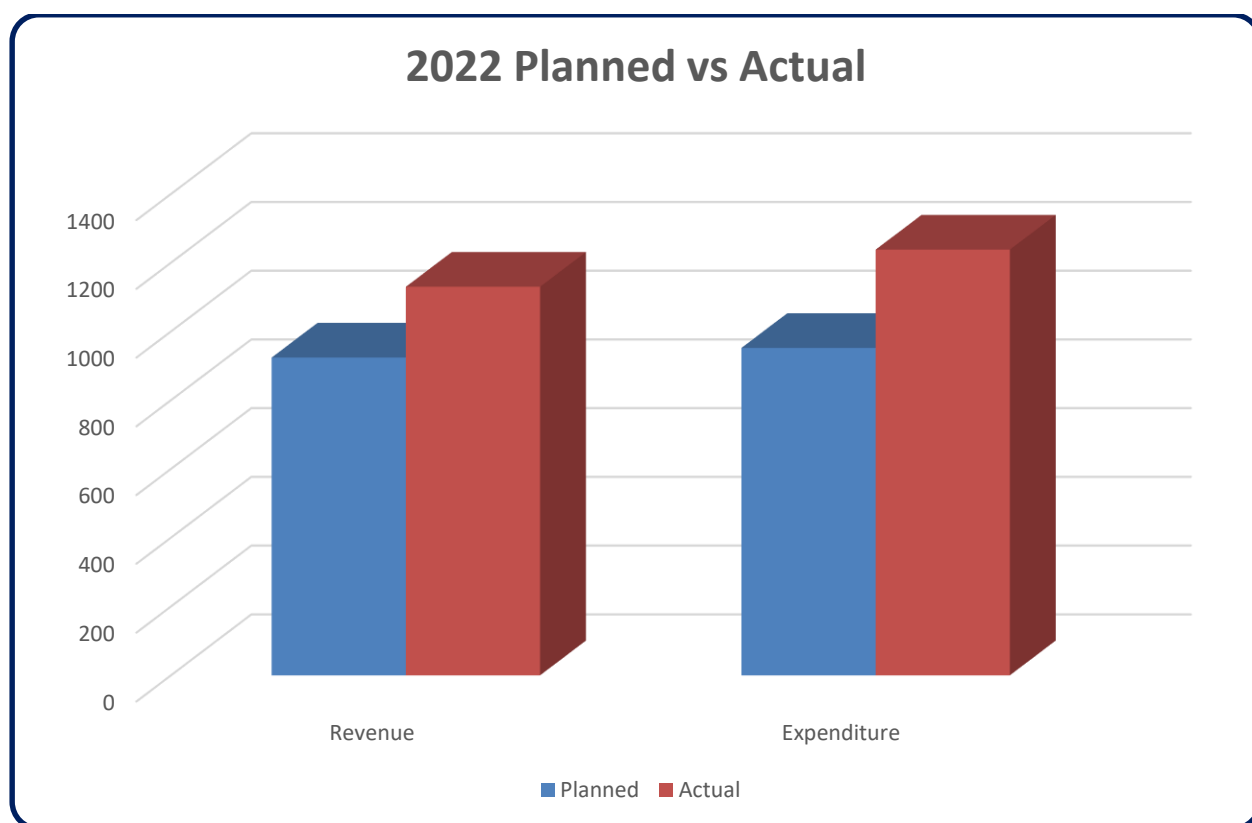
Cash Ratio

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 2022, the cash ratio was 1.96 relative to 2.39 in 2021 indicating a decrease in liquidity coverage compared to the previous year. The cash and cash equivalents held by the Government decreased by \$103 million and the current liabilities held increased by \$7 million when compared to the previous year.

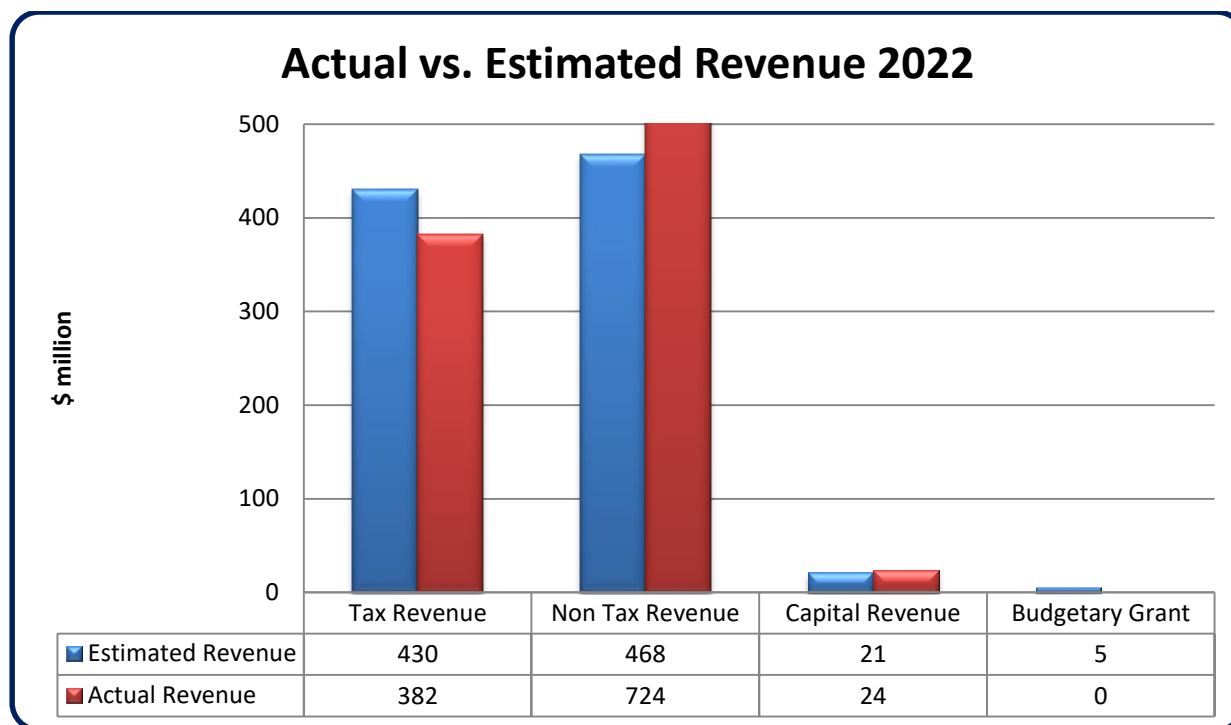
COMPARISON TO THE BUDGET

During the Budget Address held in December 2021, the Government of St. Kitts and Nevis set out the planned budget for 2022 which included Revenue of \$924 million (inclusive of \$10 million for Sale of Land) and Expenditure of \$952 million (inclusive of \$43 million of debt repayment).

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



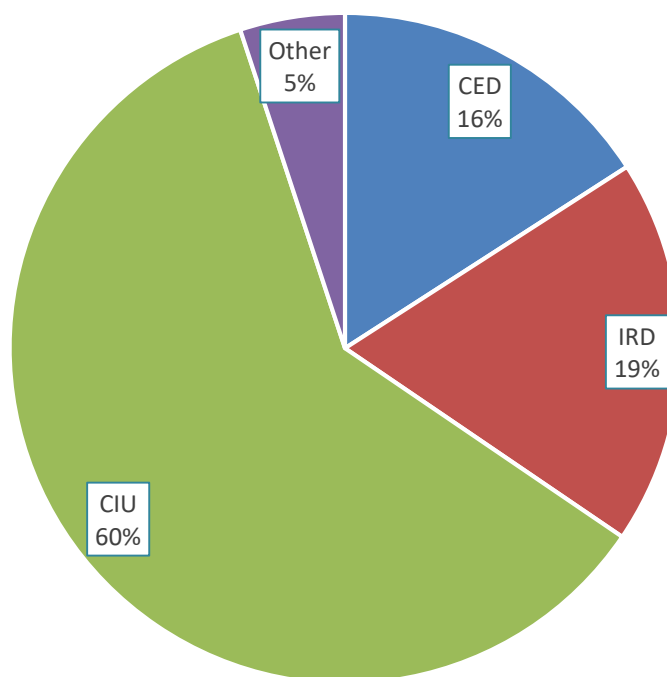
REVENUE



Recurrent Revenue

Recurrent revenue consists of tax and non-tax revenue. Revenue from these sources totaled \$1.107 billion in 2022. The performance of recurrent revenue was \$209 million more than the budget estimate for 2022. The St. Kitts Customs and Excise Department (CED), St. Kitts Inland Revenue Department (IRD) and the Citizenship by Investment Unit (CIU) collected 95% of the Government's recurrent revenue for 2022. This is shown in the following graph.

2022 Recurrent Revenue Collection by Department



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 60% of the government's recurrent revenue in 2022. This collection amounted to \$669 million in 2022. Actual Government fees totaled \$343 million. Fees collected for the Hurricane Relief Fund and the Sustainable Growth Fund totaled \$376 thousand and \$123 million respectively. Application fees collected amounted to \$29 million and fees collected from background checks were \$174 million. The total revenue collected represented an increase of \$126 million over the previous financial year. The collection of revenue by the Citizenship by Investment Unit was \$296 million more than its 2022 revenue projection.

The St. Kitts Inland Revenue Department collected \$206 million in taxes, licenses and fees in 2022. This represented a \$1 million increase in revenue collection over the year 2021. Stamp Duty (\$13 million), Value Added Tax (\$50 million), Corporate Income Tax (\$46 million), Property Tax (\$10 million), Withholding Tax (\$11 million) and Housing and Social Development Levy (\$42 million) all contributed significantly to the St. Kitts Inland Revenue

Department's collection for 2022. The Inland Revenue Department failed to meet its targeted revenue collection for 2022 by \$43 million. All tax types mentioned, with the exception of Withholding Tax and Housing and Social Development Levy, fell below their projected targets for 2022.

The Customs and Excise Department on St. Kitts collected \$176 million in 2022. The following four revenue streams contributed considerably to the overall collection of the Customs and Excise Department on St. Kitts: Import Duties on Articles other than Alcohol (\$59 million), Customs Service Charge (\$36 million), Value Added Tax (\$62 million) and Excise Tax (\$10 million).

The total amount collected by the Customs and Excise Department on St. Kitts in 2022 was \$27 million more in comparison to the amount collected in 2021. The revenue collections failed to meet the target by \$5 million.

Other revenue-collecting Departments contributed to the overall recurrent revenue collections including the Ministry of National Security (\$6 million), the Ministry of Agriculture (\$5 million), the Accountant General Department (\$11 million), the Ministry of Public Infrastructure (\$22 million) and the Ministry of Health (\$5 million).

Capital Revenue

Revenue collected from the Sale of Lands and Property amounted to \$13 million, surpassing its target by \$3 million.

Capital grant revenue received in 2022 was \$1 million more than the estimated budget for 2022. Capital grant revenue was estimated at \$10 million for six (6) Ministries. The actual collected amounted to \$11 million, which led to a favourable variance of \$1 million.

1. Five Ministries did not receive the capital grants revenue that had been budgeted for.
2. One Ministry received significantly more in capital grant revenue compared to the amount budgeted.
3. Five Ministries also received capital grant revenue that had not been budgeted for in 2022.

Budgetary Grants

Budgetary grants were estimated at \$5 million in 2022. The Government of St. Kitts and Nevis did not record any budgetary grants during 2022.

EXPENDITURE

The appropriations for expenditure during 2022 are shown below.

Original Budget	\$952,200,453.00
Supplementary Budget	<u>\$ 431,942,856.04</u>
	<u>\$1,384,143,309.04</u>

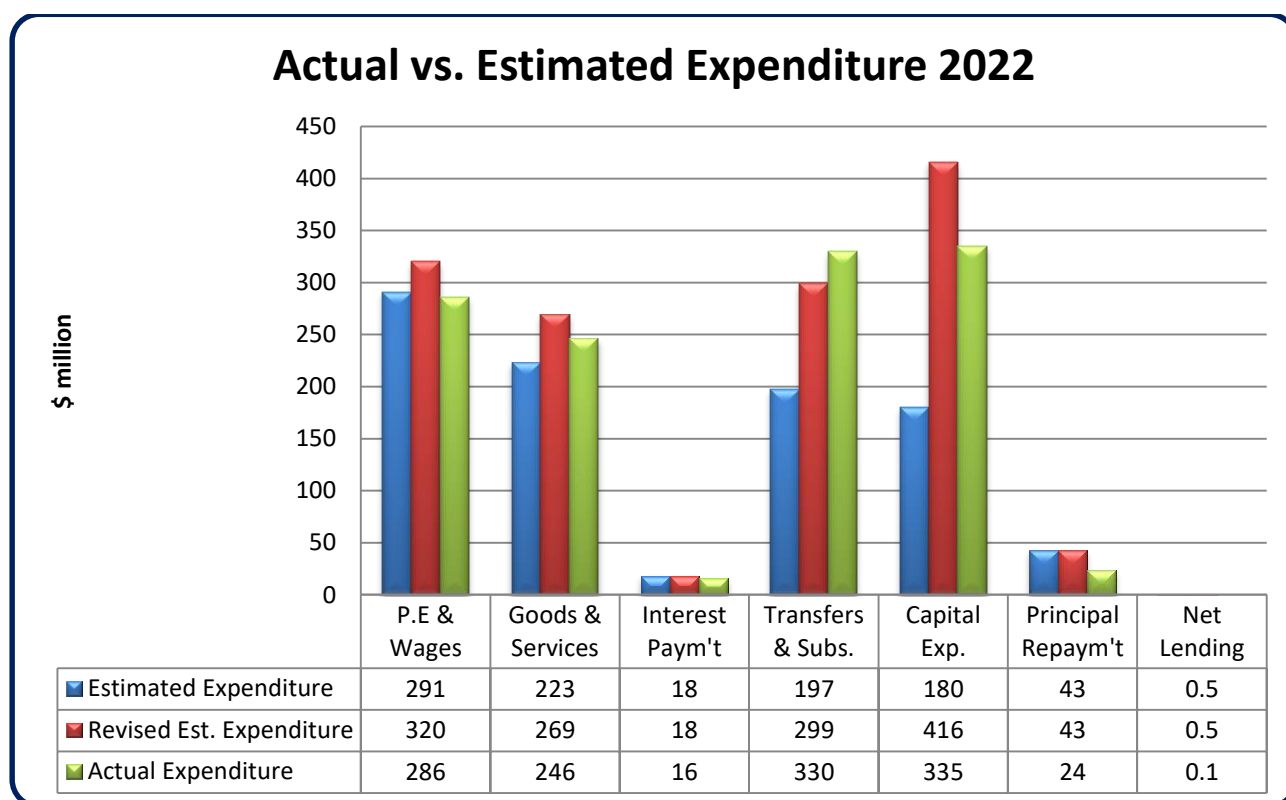
Appropriation warrants to supplement the original budget for 2022 totaled \$432 million, which increased the original budget by 45%. This amount is more than 25% of the annual estimate for 2022 and is not in compliance with section 32(1) of the Finance Administration Act which states "Subject to section 33, when in a financial year it appears to the Minister that –

- (a) an expenditure for a service not foreseen and not provided for, or not sufficiently provided for is urgently required for the public good; and
- (b) the circumstances are such that the expenditure cannot, in the opinion of the Minister, be postponed without injury to the public good, the Minister may cause estimates of the amount of the expenditure to be prepared and may, in anticipation of approval of the expenditure in a supplementary appropriation Act, issue a special warrant under his or her hand authorizing the expenditure to be made out of the Consolidated Fund, but the aggregate of the amounts authorized by special warrants issued under this section in the financial year shall not exceed twenty five percent (25%) of the annual estimated of the current year."

Office of the Financial Secretary's response:

The Ministry notes the observation and will put systems in place to adequately monitor the level of expenditure authorized by special warrants and to inform the Executive arm of the Government so that the appropriate action may be taken.

The chart below shows the estimated, revised estimated and actual expenditure for 2022.



Recurrent Expenditure

Actual recurrent expenditure totaled \$879 million in 2022.

The budget for recurrent expenditure was revised by Appropriation Warrants and increased by \$178 million resulting in a revised estimate of \$906 million. This revision affected 77% or 17 of the 22 Government Ministries in 2022.

The Ministries of Education and Foreign Affairs both had negative variances in respect of recurrent expenditure within the Public Accounts. This meant that the actual amount spent was greater than their revised budgets. The budgets of both Ministries were revised by appropriation warrants, however the appropriation warrants were insufficient to cover the additional expenditure. This also meant that some of the additional spending did not have the requisite authorization.

Office of the Financial Secretary's response:

In assessing the amount by which a Line Ministry would have exceeded its overall budget allocation, the Office of the Financial Secretary relied on the "Summary Statement of Expenditure for 12/2022 Under Programs as Compared with estimates" report that was printed on 4 May 2023 (see attached). The said report showed negative variances of \$14,020,421.84 for the Ministry of Education and \$230,739.15 for the Ministry of Foreign Affairs and Aviation. The revision of the budgets of the aforementioned Ministries via Appropriation Warrants was based on information that was shown in the report. The Office of the Financial Secretary was not aware of further revisions to the report.

Accountant General's response:

Please accept the Accountant General Department, Ministry of Finance's response to your Audit Query that outlines the matter of negative variances in respect of recurrent expenditure for both Ministries of Education and Foreign Affairs. As indicated in our previous correspondence, the Accounting and Reporting Unit, Accountant General Department has completed a comprehensive review and was unable to identify any single transaction that may have attributed to the existing variance. It would appear that the change in figures captioned in the selected report would have resulted from a timing issue.

In an effort to avoid any reoccurrence in the future, the Accountant General Department will issue the necessary confirmation to the Ministry of Finance regarding the completion of all adjustments by the Accounting and Reporting Unit and the completion of all posting and updates to account balances by the Systems Unit. The Accountant

General Department further commits to completing preparatory work regarding the Public Accounts by 30th April 2024 to allow for sufficient time for verification and any necessary adjustments that may be required prior to submission to the Director of Audit.

Eight (8) Ministries submitted Appropriation Warrants in excess of \$1 million to meet additional expenditures. Table 4 shows the Ministries who requested additional funding in excess of \$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	99,342,437.00	130,447,131.91	(31,104,694.91)
National Security	65,635,763.00	73,565,816.48	(7,930,153.48)
Finance	244,839,098.00	241,522,210.75	3,316,887.25
Social Development & Gender Affairs	42,018,901.00	49,362,934.87	(7,344,033.87)
Tourism & Transport	25,338,711.00	28,179,285.62	(2,840,574.62)
Public Infrastructure	22,137,344.00	96,941,201.13	(74,803,857.13)
Education	77,134,216.00	91,159,769.84	(14,025,553.84)
Health	60,655,330.00	79,379,015.00	(18,723,685.00)

The following reasons, as stated in the appropriation warrants for 2022, are in respect of the eight (8) Ministries whose actual recurrent expenditure exceeded their original budget by over \$1 million.

Office of the Prime Minister

- To facilitate payment for due diligence (Citizenship by Investment unit), other expenses and extra month's salary in November 2022 - \$31 million

Ministry of National Security & Immigration

- Additional funds needed for personal emoluments for the Police Department, Defence Force and the Prison - \$7.9 million

Ministry of Finance

- While the Ministry of Finance spent an additional 16.2 million to facilitate payments for the Income Support, Fuel Subsidy and Disabilities Support programmes in 2022, an appropriation warrant for additional expenditure was not needed as the Ministry had sufficient savings in its budget to accommodate these payment. The Ministry of Finance's original budget for was \$245 million. The Ministry spent \$242 million including the additional expenditure mentioned above. This meant that the Ministry had an under expenditure of approximately \$3 million. Appropriation warrants were prepared in the amount of \$16.2 million to increase and revise the Ministry's budget allocation to \$261 million when this was not necessary.

Office of the Financial Secretary's response:

On the directive of the Cabinet, the Ministry of Finance executed four (4) activities during the 2022 fiscal year for which there was no allocation in the 2022 Estimates. While it was recognized that sufficient funds were available under other Heads that could cover the unforeseen expenditure, the Ministry was of the view that, as the programs had not been approved in the 2022 Estimates by the National Assembly, for transparency purposes, the revision of the budget via Appropriation Warrants was the best option. The Ministry of Finance remains open to discussion on best practices for treating with matters of this nature.

Director of Audit's response:

Appropriation warrants were done under the Ministry of Finance to facilitate payments for the Income Support Programme, the Fuel Subsidy Programme and the Disability Support Programme in 2022. It is noted that these programmes were provided for in 2021 by way of appropriation warrants as well. If the decision was not taken to discontinue these programmes, they should have been provided for in the 2022 budget.

The credibility of the budget is at stake if programmes continue to be implemented year after year without inclusion in the budget.

Ministry of Social Development & Gender Affairs

- Additional funds needed to support the Poverty Alleviation Programme - \$6.4 million
- Additional funds needed to cover personal emoluments and medical expenses for the Ministry - \$895 thousand

Ministry of Tourism & Transport

- The Ministry of Tourism and Transport required an additional \$3.2 million to facilitate the payments of honorarium, wages and extra months' salary for entities outside of the Central Government including the St. Christopher Air and Sea Ports Authority (SCASPA), Frigate Bay Development Corporation and Marriott Golf.

Ministry of Public Infrastructure et al

- Funds needed to make payments to SOL EC Limited and Delta Petroleum for fuel and fuel variation charges and extra month's salary for the St. Kitts Electricity Company (SKELEC) - \$76 million

Ministry of Education

- Additional funds needed for payroll expenses for Early Childhood, Primary and Secondary schools and to cover student fees for the first semester of 2022 – 2023 school year at the Clarence Fitzroy Bryant College (CFBC) - \$14 million

Ministry of Health

- Additional funds needed to purchase pharmaceutical and medical supplies - \$18.7 million

Compared with 2021, the revised estimates for recurrent expenditure increased by \$191 million or 27%.

Capital Expenditure

The capital expenditure budget for 2022 was approved at \$180 million to support 120 projects. The budget was revised to \$435 million to include funds required in relation to the following projects:

Office of the Prime Minister

- To facilitate payments to contractors and suppliers for the Hurricane Relief programme - \$991 thousand
- To facilitate payments to the Alternative Lifestyle Pathway Fund at the Development Bank of St. Kitts and Nevis under the Peace Initiative Project - \$11.5 million
- To facilitate payments for consultancy services and work done on the Christina Disaster Memorial Monument - \$87 thousand
- To facilitate payment to TDC Automotive for a vehicle for the Office of the Prime Minister - \$195 thousand
- To facilitate two disbursements for the payment of Citizenship by Investment dividend to the citizens and residents of St. Kitts and Nevis - \$19 million

Ministry of National Security & Immigration

- Additional funds needed for the purchase of a fire truck - \$1.5 million
- Funds needed to purchase 3 Toyota Hilux Pick-up Trucks - \$299 thousand
- Funds needed for the payment of salaries to Compliance officers for the period October to December 2022 - \$231 thousand

Ministry of Finance

- Funds needed to facilitate the third and fourth tranches to Special Land Sales (St. Kitts) Limited under the Land Redemption Programme - \$205 million

Ministry of Health

- Additional funds needed to facilitate payments to service providers in response to the Covid-19 pandemic - \$3.3 million

Ministry of Youth, Sports & Culture

- Additional funds needed to pay CPL Limited for the hosting of the CPL 2022 Tournament - \$3.1 million

Ministry of Foreign Affairs and Aviation

- To facilitate payments made to a contractor and suppliers in relation to the renovation of the St. Kitts and Nevis Embassy in Washington D.C - \$4 million

Ministry of Labour

- Additional funds needed for Severance claims - \$982 thousand
- Funds needed to facilitate gratuitous payments to terminated unvaccinated workers - \$1.3 million

Ministry of Human Settlements, Ecclesiastical Affairs & National Health Insurance

- Additional funds needed to support the Solid Waste Management Corporation and the payment of extra month's salary in November 2022.

Actual expenditure for capital projects for 2022 amounted to \$335 million representing 77% of the revised budget. At the end of the 2022 financial year, 35 projects with a combined estimated budget of \$38 million had no expenditure. Of these 35 projects, 13 were entirely new projects and 10 were projects which had no expenditure in 2021 as well. They were rolled over and included in the 2022 budget but were not implemented.

It is clear that these capital projects which continue to be rolled over from year to year without implementation have no definite timeframes for the completion of these projects. Resources continue to be allocated to these projects while other projects do not receive the necessary funding due to the scarce allocation of resources.

The number of projects that were not implemented during 2022 shows that there are gaps in the planning and execution phases of the process that need to be addressed.

It is noted that several 'capital projects' included within the portfolio of projects do not meet the definition of capital expenditures. Capital expenditures should represent spending that creates long term assets in the economy of St. Kitts and Nevis, whether tangible or intangible assets such as buildings, roads, equipment, and IT software to name a few.

Included in the capital expenditures portfolio are activities, projects and programmes that represent expenditures on operations, routine activities and programmes that can be classified as recurrent expenditure.

We recommend that a criteria be developed for the inclusion of projects as capital expenditures within government's annual budget.

Actual expenditure on capital projects by Ministry is noted below.

The Governor General spent \$153 thousand or 31% of its \$500 thousand budget for Phase II of the Upgrade of Government House project.

Parliament spent \$18 thousand or 4% of its \$450 thousand budget to purchase an Automatic Transcription equipment.

The Ministry of Justice, Legal Affairs and Communications spent \$534 thousand or 17% of its \$3 million budget.

The Office of the Prime Minister spent \$43 million or 65% of its revised \$43 million budget. The majority of the funds was spent on the Peace Initiative project which had an actual expenditure of \$22 million. The Citizenship by Investment Dividend Payout showed an expenditure of \$19 million. A report was requested from the Office of the Financial Secretary

concerning the actual amount paid out by the Social Security Board for the dividend payout of December 2022. As of the date of a report from the Social Security Board, August 2023, over \$14.8 million had been paid out by the Social Security Board with respect to the December 2022 Dividend payout. Subsequent funds have not been returned to the government but were used in subsequent dividend payouts in 2023. Two million (\$2 million) was also spent on the Hurricane Relief Programme.

The Ministry of National Security spent \$7.3 million or 44% of its revised \$16.6 million budget allocation for capital projects. Major expenditures included \$1.5 million on the Refurbishment of Police Stations, \$2 million on the Purchase of Vehicles and Equipment and \$1 million on the National Security Covid-19 response.

We noted that monies (\$200 thousand) allocated to the Construction/Refurbishment of Camp Springfield Barracks capital project were used for other expenditures. During 2022, the payments made from this capital project included plumbing work at the Coast Guard premises and the payment of a retention fee that related to another project. The majority of the expenditures from this capital expenditure account however, which was approximately \$184 thousand, was used for the construction of a gym that was not budgeted for. There was no construction/refurbishment done on the barracks in 2022.

We continue to recommend that capital expenditure should only be approved and used for the purposes that it was intended for. While the line item in the capital expenditure schedule showed that work was carried out on the barracks because there was expenditure under that particular project, in reality no work had begun but all the funds were used up.

The Ministry of International Trade, Industry, Commerce and Consumer Affairs spent \$383 thousand or 96% of its \$400 thousand capital budget on Enhancing the National Quality Infrastructure and Equipment Upgrade project.

The Ministry of Finance spent \$210 million or 97% of its revised \$218 million capital expenditure budget for 2022. The major expenditure was \$205 million spent on the Land Redemption Programme.

The Ministry of Social Development & Gender Affairs spent \$211 thousand or 29% of its \$730 thousand capital expenditure budget allocation.

The Ministry of Agriculture, Fisheries and Marine Resources spent \$3.1 million or 48% of its \$6.5 million budget. The largest capital expenditure for this Ministry was \$1.8 million on the Agriculture Support project.

The Ministry of Tourism and Transport spent \$559 thousand or 7.2% of its revised capital expenditure budget of \$7.4 million. Expenditure for this ministry included \$534 thousand spent on the Support for Eco Park project and \$25 thousand spent on the Black Rocks Enhancement project.

The Ministry of Public Infrastructure et al spent \$17.6 million or 48% out of its \$37 million capital budget. The Ministry spent \$2 million on Well Drilling and Extension of Water Lines, \$4 million on the Rehabilitation of Old Road Bay and \$7 million on the Upgrade of the Island Main Road project.

The Ministry of Education spent \$3 million or 11% of its capital budget allocation of \$27 million. The Ministry spent \$2.7 million on the Construction of the New Basseterre High School Project which represented contract payments to Innotech Services Limited for the period January to June 2022 and \$80 thousand in contract payments for the removal of the school's roof.

The Ministry of Health spent \$9 million or 56% of its revised capital expenditure budget of \$16.3 million. There was expenditure of \$2.3 million on the Purchase of Medical Equipment and \$5 million on Health Sector Covid – 19 Response.

The Ministry of Youth, Sports and Culture spent \$4 million or 66% of its revised \$6.1 million capital expenditure allotment for 2022. The largest expenditure was \$3.1 million for the CPL games. This project was not budgeted for in 2022.

The Ministry of Sustainable Development spent \$6 million or 32% out of its budget of \$18.5 million. The largest expenditures for this ministry included the Special Land Distribution

Initiative of \$3.9 million and the St. Kitts and Nevis Population and Housing Census 2021 of \$1 million.

The Ministry of Foreign Affairs and Aviation spent \$9.8 million or 99% of its revised budget of \$9.9 million. Nine million, four hundred thousand (\$9.4 million) was spent on the renovation of the Embassy Building in Washington D.C.

The Office of the Attorney General spent \$15 thousand or 15% of its budgeted \$100 thousand on the Electoral Reform project.

The Ministry of Labour spent 99% of its revised budget of \$7.3 million dollars to facilitate the Capitalization of the Severance Payment Fund (\$5.9 million) and the provision of gratuitous payments to terminated unvaccinated workers (\$1.3 million).

The Ministry of Human Settlements et al spent 100% of its revised budget of \$12.2 million. The expenditure included payments to support the National Housing Corporation of \$10 million, the Solid Waste Management Corporation of \$2 million and the National Health Insurance Scheme \$100 thousand.

The Ministry of Environment and Cooperatives did not spend any of its budgeted \$1.5 million, similar to 2021.

The Ministry of Entrepreneurship and Communications spent \$561 thousand or 31% of its \$1.8 million. The Ministry spent \$199 thousand on E-Government Network Infrastructure Project, \$197 thousand on Creative Industry Development Project and \$102 thousand on Entrepreneurship & Innovation Development.

Principal Repayments

The budget for principal payments on outstanding loans of the Government of St. Kitts and Nevis for 2022 was approved at \$43 million with \$34 million budgeted for external debt principal payments and \$8.5 million budgeted for domestic debt principal payments.

The actual expenditure totaled \$24 million with external debt principal payments accounting for 80% 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 2022.

The Statement of Cash Receipts and Payments is presented on pages 11 and 12 of the Public Accounts. A summary of that statement is presented in the following table.

Table 5: Summary Statement of Cash Receipts and Payments

	2022 (\$ million)	2021 (\$ million)
Net Cash Flows :		
Operating Activities	223	248
Investing Activities	(303)	(124)
Financing Activities	(23)	(31)
Net increase/(decrease) in cash	(103)	93
Cash at beginning of period	640	547
Cash at end of period	537	640

There was decrease in the cash position of the Government by \$103 million at the end of 2022.

Net Cash Flow from Operating Activities

Total receipts from operating activities totaled \$1.5 billion in 2022. Tax revenues collected by the Inland Revenue and Customs and Excise Departments on St. Kitts accounted for 25% of the total receipts from operating activities respectively. Fees, Fines and Forfeitures accounted for 45% of the total receipts from operating activities. Payments on operating

activities totaled \$1.3 billion. This resulted in a net cash flow from operating activities of \$223 million in 2022.

Net Cash Flow from Investing Activities

Receipts from investing activities totaled \$176 million which included proceeds from sale of government lands, capital grants received, interest, dividends, 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 \$479 million resulting in a net cash flow from investing activities of **(\$303)** million.

Net Cash Flow from Financing Activities

There were no receipts from financing activities as the Government did not directly receive any monies from loans in 2022. Payments on financing activities totaled \$24 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 \$103 million over the previous year. At the end of 2022, the Government of St. Kitts and Nevis had an accumulated cash balance of \$537 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 2022, outstanding personal advances given to civil servants totaled \$414 thousand. This amount represents 48 individual accounts with outstanding balances ranging from \$115 to \$30,000.

The audit exercise revealed that at the end of December 2022, there were 15 personal accounts with a total value of \$153 thousand which had no regular activity during the year 2022. We note that some of these are educational advances that have not been cleared.

A repayment plan should be put in place for the repayment of advances for those persons who are currently employed within the service. If the others are deemed uncollectible, they should be written off.

Subsistence Advances

Advances given to Government Ministers for work related travel totaled \$291 thousand at the end of 2022.

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.

This Office continues to note the issue of outstanding subsistence advances by Ministers of Government. This becomes an increasing problem when Ministers of Government are not returned to office after a general election and a balance remains owing to the government for unclaimed travel advances. There were three such subsistence accounts at the end of 2022 amounting to \$207 thousand.

This office continues to recommend the development and implementation of a travel policy for Ministers of Government based on a per diem rate.

Other Investments

In 2022, the Government of St. Kitts and Nevis invested \$5 million in the Development Bank of St. Kitts and Nevis as Tranche II of the Small & Medium – Sized Business Support Fund.

The terms of repayment for the Small and Medium Sized Business Support Fund states semiannual interest-only payments twice per year over a 15-year period at an interest rate of 2.5%.

Over the period 2018 to 2022, the Government of St. Kitts and Nevis has invested a total of \$79 million in six different instruments in the Development Bank of St. Kitts and Nevis.

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 2022 were received in full and by the due date.

Trust Funds

Trust Funds increased by \$2.9 million in 2022 as a result of the increase in the balance of the Severance Payment Fund.

As at December 31, 2022, the balance in the Severance Payment Fund was \$4.8 million with receipts into the Fund totaling \$13 million and payments from the Fund totaling \$10 million for the year. The Fund received an injection of \$4 million from the Capitalization of Long Service Gratuity and Severance Payment Fund capital project. During the year, the Fund also received \$1.7 million to cover Severance and Long Service Gratuity payments. The table following shows the receipts into and payments out of the Severance Payment Fund for the year 2022.

Table 7: Severance Payment Fund Receipts and Payments

	2022 (\$)
Balance at 1/1/2022	2,485,681.59
Receipts:	
Severance Contributions from Social Security	6,479,582.21
Transfer from capital project	4,291,968.84
Treasury Bills Interest	56,250.00
Supplemental budget to cover payments from the Fund	1,690,198.55
	12,517,999.60
Payments:	
Severance & Long Service Gratuity Payments	10,189,643.39
Balance at 31/12/2022	4,814,037.80

Other Public Funds

Other Public Funds increased by \$4 million or 1.6% in 2022.

Accounts Payable is a subset of Other Public Funds on the Statement of Financial Assets and Liabilities in the Public Accounts. Despite its name, it is used as a holding account for cheques that have not been printed. The Public Accounts for 2022 showed this balance at \$38,594,955.11. However, the listing of transactions in this account shows a balance of \$28,466,057.81, a difference of \$10,148,897.30.

Accountant General's response:

Due to the vast number and frequency of transactions that are filtered through the Accounts Payable account on a daily basis, the account has taken on the functions of a typical Suspense Account. It must be noted that the Accounts Payable account is dynamic in nature, with its balance adjusting per transaction on a continuous basis. Further, some categories of transactions are updated according to their postdate, i.e. Date of posting, while others are updated as per their creation date, thus causing further variations which impact the overall accuracy and consistency of reporting as the balance is constantly adjusted for both current and prior periods. This adds another layer to the level of difficulty in producing a summary report to precisely replicate the end of the day balance, at a particular time, and for a prior period. To address this issue and to also better anticipate the needs of the Auditors and enhance the credibility of the balance provided, the Accountant General Department will institute the necessary systems to ensure that a summary report of Accounts Payable is printed at the end of the final day of each financial year.

Director of Audit's Response:

It is recommended that the Accountant General reconcile the account and pursue mechanisms to reduce the number of cheques held to be printed. An analysis of the cheques held in this account showed that 70% of the cheques were for businesses registered with vendor codes within the Financial Management System ITMS. The use of

electronic funds transfer could be utilized to decrease the number of cheques to be printed and also the decrease the balance held in this account at any one point in time.

The National Savings Scheme deposit account, which is also a subset of Other Public Funds showed a balance of **(\$780,480.30)** while a detailed listing of the individual balances of accounts within the National Savings Scheme portfolio showed a total balance of \$1,300,289.00, a difference of \$2,080,769.30.

Accountant General's response:

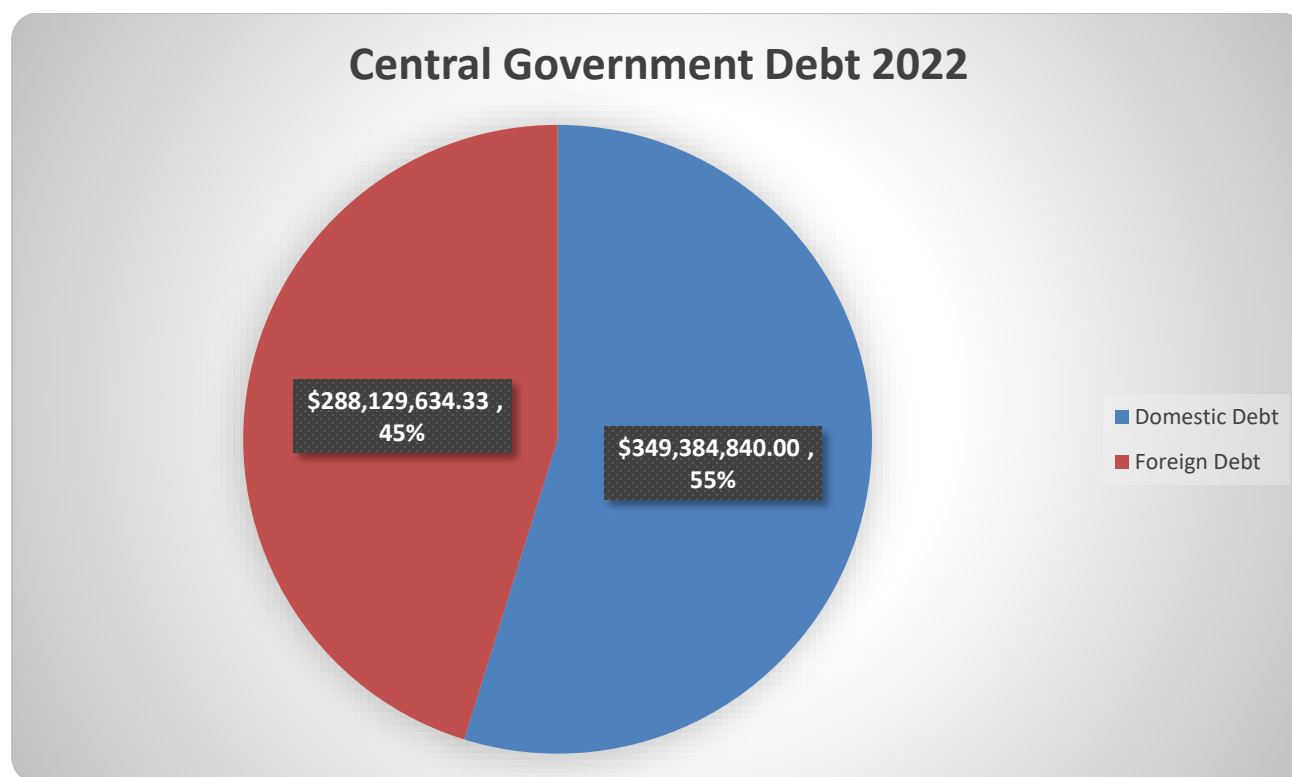
This is the result of a long outstanding matter that precedes the current Accountant General. To address this matter the decision was made to discontinue roll-over of the National Savings Scheme (NSS) accounts, as well as the enforcement of the statutory Two Hundred dollars (XCD200.00) maximum deposit as per the National savings Scheme Act and Regulations and as outlined in the Audit Report by the National Audit Office. The reduction in inflows and the insistence on the closure and pay out of old accounts revealed the true balance of the liability and the accurate value of the portfolio. It is the intention of the Accountant General Department to request the necessary resources to cover the shortfall through the application for Advance warrant to be cleared by a Supplementary Appropriation Warrant.

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 loans, the responsibility for payment of these loans would fall on the Central Government.

As at December 31st 2022, the Public Sector Debt of the Government of St. Kitts and Nevis amounted to \$1.6 billion. The Public Sector Debt decreased by \$5 million over the previous year.

The Central Government's debt which has domestic and foreign debt components decreased from \$650 million to \$638 million in 2022. The chart following shows the two components of Central Government debt.



Total domestic debt of the Central Government decreased by \$8 million. This was due in part to the repayment of the Central Government Arrears to Petro Caribe – PSKN loan instrument during the first quarter of 2022. Foreign debt of the Central Government decreased by \$4 million as well compared to the previous year.

In 2022, the Government of St. Kitts and Nevis entered into a new loan agreement with the Caribbean Development Bank (CDB) for the Enhancement Learning Continuity Project. The amount of USD \$3,524,408.21 or EC \$9,515,902.20 was transferred directly from the Caribbean Development Bank to the United Nations International Children's Fund (UNICEF) for information technology devices and equipment.

While the Central Government debt decreased by \$12 million or 2% relative to 2021, the contingent liabilities increased by \$7 million or 1% relative to 2021. The contingent liabilities now total \$957 million, \$320 million more than the Central Government's debt. The chart following shows the contingent liabilities by entity.



As with the Central Government's debt, contingent liabilities have a domestic and a foreign debt component. Within the contingent liabilities portfolio, domestic debt increased by \$10 million. Domestic debt in the contingent liabilities portfolio includes overdrafts, treasury bills and domestic loans held by statutory bodies and government owned corporations. Overdrafts held at local financial institutions decreased by \$2.7 million while the treasury bills and domestic loans held by the statutory bodies and government owned corporations also increased by over \$13 million, leading to an overall increase in the domestic contingent liabilities of \$10.3 million.

Contingent liabilities now accounts for 60% of the total public sector debt, compared to 59% in 2021. For the past 6 years, the contingent liabilities as a percentage of total public sector debt has continually increased from 43% in 2017 to 60% in 2022. The continued trend has been a decreasing Central Government debt with an increasing contingent liability mainly due to the increase in the domestic debts which are vested in local banks, companies and other government owned corporations. We continue to note that amounts owing to the SKN Sugar Industry Diversification Foundation totaling \$27.7 million are not being repaid.

Outside of the Nevis Island Administration, the three organizations with the largest contingent liabilities are the Development Bank of St. Kitts and Nevis, the National Housing Corporation and the St. Christopher Air and Sea Ports Authority. The Government needs to closely monitor and assess these organizations, as a default in loan payments would put a significant strain on the resources of the Central Government.

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, 2022 of \$87.9 million. A summary of the arrears is shown in the table below.

Table 8: Arrears of Revenue for 2022

Ministry/Department	Arrears Total (\$)
Finance – Customs and Excise Department	1,807,207.37
Finance – Inland Revenue Department	63,783,371.00
Tourism	523,666.48
Public Infrastructure: Water	19,476,694.28
Public Infrastructure: Post Office	886,623.69
Public Infrastructure: Public Works	505,400.00
Ministry of Health: Institution Based Health	1,007,601.75
Total	87,990,564.47

It can be seen from Table 8 that the Inland Revenue Departments on St. Kitts and the St. Kitts Water Department have the largest amounts of revenue arrears totaling \$63 million and \$19 million respectively.

There has been decreases in the outstanding arrears by the Customs and Excise Department and the Inland Revenue Departments on St. Kitts. However there is an upward trend for all the other departments that presented arrears data to the Accountant General's Department.

Even though the arrears of the Inland Revenue Department have decreased, they are still significant. It is noted that a large amount of these outstanding taxes by the Inland Revenue Department are still 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.

Significant outstanding amounts continue to be tied up in the administrative review stages.

The recommendation of the previous years' still stands. The Income Tax Commissioners need to be appointed to aid the objections and appeal process at the Inland Revenue Department.