



# **Report of the Auditor General**

on the Work of the

**Office of the Auditor General**

For the Financial Year Ended

**March 31, 2019**

**January 30, 2020**



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## OUR MISSION

**The mission of the Office of the Auditor General,  
derived from its legislative mandate, is  
to add credibility to the Government's financial reporting and  
to promote improvement in the financial administration  
of all Government Ministries, Departments and all other entities  
for which the Government is accountable to Parliament.**





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Speaker of the House of Assembly  
Sessions House  
21 Parliament Street  
Hamilton HM 12

Honourable Speaker:

In accordance with Section 101(3) of the Bermuda Constitution Order 1968 and Section 10 of the Audit Act 1990, I have the honour to submit herewith my Annual Report for the year ended March 31, 2019.

Respectfully submitted

Heather Thomas, CPA, CFE, CGMA  
Auditor General

Hamilton, Bermuda  
January 30, 2020





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# 1. INTRODUCTION

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## 1. Auditor General's Comments

### 1.1. Introduction

This Annual Report for the year ended March 31, 2019 covers the audit work completed by the Office during the fiscal year, including the results of the audit of the Government's Consolidated Fund's financial statements for the year ended March 31, 2018. It also includes information about the administration of the Office during the year.

As I explained in the introduction to my 2018 Annual Report, we keep the format of the Report somewhat consistent among the reporting years to assist in ensuring interpretability and understandability for the public, elected or appointed representatives and other users of our Reports such as statisticians and financial advisors. I wish to remove the need for complex reconciliations of the report that could reduce understanding and impair the accountability to the users of the Report.

With respect to ensuring the best infrastructure for our work is in place, a few critical success factors collectively allow us to complete our work efficiently and effectively. The Office plays a critical role in protecting and enhancing the trust that citizens and other stakeholders of Bermuda have in our public sector. As reported previously, I believe that we are well positioned to achieve the success factors, although there are matters that need increased attention, such as modernising the Audit Act 1990, regularising performance audits, and attracting and retaining more Bermudian audit staff. These matters are discussed further in the Report that follows.

### 1.2 My Strategic Focus

My objective is to serve the people of Bermuda and the officials who represent them in Parliament by focusing on three broad areas:

- promoting accurate, timely and comprehensive financial information to support decision making;
- examining the extent to which Government programs are designed and carried out with due regard to value-for-money (i.e., economy, efficiency and effectiveness) and in accordance with legislation and regulations governing Government activities, making recommendations for improvement where necessary, and
- reviewing the extent to which Government ministries and departments are measuring and reporting on the effectiveness of their programmes (i.e., is it clear what the programs are supposed to achieve and what they are actually achieving?).

These areas of focus are essentially the same as those adopted by my predecessor; I believe they continue to make sense and, they are consistent with the approach taken by legislative audit offices across Canada and the rest of the Commonwealth.

These three areas of focus are discussed further in section 5 of the Report.

### 1.3 Resourcing the Office

I believe that, for the present, the Office is managing the staff turnover adequately. The challenge is to fill the posts for which we have been funded. For example, at the end of March 31, 2019, we had eight vacancies.

We recognise that we are unable to compete with the private sector on salary and so we focus on our strengths such as public service and work-life balance. This is a challenging area for the Office, especially as there is a shortage of professional accountants internationally. As at March 31, 2019, there were 307 Bermudians, which included PRC holders and approximately 832 guest workers registered with Chartered Professional Accountants (CPA) Bermuda. The market for professional accountants and those training to become professional accountants is competitive. Due to a shortage of people choosing to study accounting in college, while after college, there are not enough graduates choosing a career in accounting, or staying in the profession when they join the workforce.

The Office has implemented more targeted recruiting strategies. For example, outside of Bermuda, we actively recruit in certain Canadian provinces where Bermudians may have studied, relocated and currently work. Additionally, we have reinvigorated and stepped up the recruitment, training and development of Bermudians interested in pursuing a career in accounting.

### 1.4 Financial Statement Audits Completed During the Year

The primary function of the Office is to audit the annual financial statements of the Government and its organisations. Although an organisation's audited financial statements depict the financial effects of past transactions, they also demonstrate how the entity has exercised its *stewardship over public resources*. Organisations are encouraged to lay their annual reports, audited financial statements in the House of Assembly in a timely manner and upload them to their respective websites. People outside the public entity are interested and have a right to know how each public entity is spending and managing the public resources entrusted to it. After all, moneys to fund the public sector entities comes from the taxpayers, local and overseas investors, lenders, and others.

As at March 31, 2019, there were 39 organisations falling under my mandate that were at least one year behind with their financial statements (with a total of 139 sets of financial statements in arrears as at March 31, 2018). This situation is of great concern to me and, I suggest it should be of concern to legislators and the people of Bermuda. Timeliness is one of the qualitative characteristics of financial information, which affords decision makers to hold persons to account, and make informed decisions with relevant information. Financial statements become less relevant and impactful when not made available within a reasonable period. The accountability process needs to be improved.

As discussed in more detail in Section 3, during the year ended March 31, 2019, my Office completed 48 quality audits or reviews and provided audit or review opinions on the annual financial statements of Government-controlled and other organisations, funds, parish councils and aided schools' capitation grant accounts, of which 9 were qualified opinions or disclaimers of opinion. Unfortunately, this number included the Government's Consolidated Fund financial statements for the year ended March 31, 2018. Details of my qualified audit opinion thereon are included at Section 3.2.1 of this report. Appendix 1 of this report contains a full list of organisations audited by the Auditor General as at March 31, 2019.

The significance of qualified opinions and disclaimers of opinion is explained in section 3.1 of this report. However, in a general sense they mean that not all is well and that typically, sufficient, appropriate documentary support for amounts recorded in the financial statements is not available.

This is not surprising given that in many cases a number of years has passed between transactions taking place and the financial statements being prepared for audit. In the short term, even with significant effort to bring financial statements up to date, there are likely to be many more audit opinions qualified or disclaimed.

The Government has taken some steps but stronger action is required to bring all Government organisations' financial statements up to date. My specific recommendation is included at Section 2.2 of this Report.

Section 2 of this Report contains six matters of special importance that I wish to highlight for the attention of legislators. For each of the matters included, I have set out my recommendations. I believe that if the recommendations are implemented, the result will be a significant improvement in Government financial accountability and performance.

## 1.5 Working with the Public Accounts Committee

The Parliamentary Standing Committee on the Public Accounts (Public Accounts Committee or PAC) is a committee of seven members of the House of Assembly and is chaired by a member of the Opposition. According to the Standing Orders of the House of Assembly, the Committee is to examine, consider and report on:

- the accounts showing the appropriation of the sums granted by the Legislature to meet the public expenditure of Bermuda;
- such accounts as may be referred to the Committee by the House, and
- the Report of the Auditor for any such accounts.

After the audited financial statements of the Consolidated Fund and the Auditor General's Annual Report are tabled, the PAC reviews them and issues a report to the House of Assembly. Those reports ask the Minister of Finance to respond to recommendations contained in the Committee's reports. The Speaker of the House has ruled the House cannot take up matters in my public Reports until the Public Accounts Committee has issued its report thereon. Unfortunately, this means that, unless the Committee's reports to the House are timely, discussion in the House on matters in my Reports can be delayed until they are no longer relevant. It also means that any timely discussion of Auditor General's Reports is forced into the media.

During the period covered by this Report, the PAC did not produce any reports based on formal PAC deliberations.

The PAC has not yet been able to examine the Report of the Auditor General on the Work of the Office of the Auditor General for the years ended March 31, 2011 to March 31, 2017, the Report of the Auditor General on the Audits of the Financial Statements of the Consolidated Fund of the Government of Bermuda for the years ended March 31, 2013, March 31, 2014, March 31, 2015 and March 31, 2016 or my predecessor's Report of the Auditor General on the Consolidated Fund of the Government of Bermuda for the financial years ended March 31, 2010, March 31, 2011 and March 31, 2012). It should be noted that the last report named was the report that was the focus of a Commission of Inquiry.

An effective PAC is an important factor in the work of an Auditor General. If the Committee and the Auditor General work together, ensuring timely, public discussion of the Auditor General's Reports and effective follow-up of the Auditor General's recommendations, the positive impact of the Auditor General's work is enhanced significantly.



I continue to work on strengthening the Office's interdependent relationship with the PAC through both formal and informal working relationships and joint training sessions.

It is only through this non-partisan Committee, working on behalf of the House of Assembly that the Ministries, Departments, Commissions, and Authorities will be held to account.

## 1.6 Acknowledgement

I want to take this opportunity to recognise publicly the hard work of my staff and to thank them all for their professionalism and commitment to the work of the Office. We look forward to the coming year when we hope to see the Government provide the strong leadership required to finally clear the financial statement backlog.



Heather Thomas, CPA, CFE, CGMA  
**Auditor General**

Hamilton, Bermuda  
January 30, 2020



## **2. MATTERS OF SPECIAL IMPORTANCE**

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### **2.1 Overview**

The matters of special importance discussed in this section of the Report cover the same issues included in Section 2 of my 2018 Annual Report (and in my earlier reports). This, along with the fact the indicators of financial condition set out in section 4 of this Report continue to demonstrate a level of unsustainability and impaired flexibility, causes me concern.

The matters of special importance show that Government is making decisions without knowing the combined financial position of all the organisations that make up the Government entity. It is not providing the House of Assembly or the public the analytical information that would help them understand Government's financial statements and its financial condition.

There are Government plans but no effective, comprehensive long-term plans for reducing the annual and accumulated deficits or the associated debt, the unfunded liabilities of its major pension plans or the size of taxpayer indebtedness, all of which continue to grow unsustainably.

Consequently, the resources available to carry out Government programmes effectively continue to be impacted by debt-servicing costs. Government needs to be clear about how its goals and priorities will be affected by fewer resources and needs to ensure that the reduced resources are aligned in a way that maximises their effectiveness and has the least impact on the quality of its service delivery.

Each year of inaction exacerbates the problems. The problems are serious. In my view, Government should make getting to grips with the debt and the deficit its highest priority.

Out of necessity, my recommendations are set at a high-level. The specific plans, policies, goals, programmes and resource allocations are those for the Government of the day to decide and the Legislature and the public to debate.

### **2.2 Financial Statements in Arrears**

As at March 31, 2019, there were 39 organisations (2018: 40 organisations) falling under my mandate that were at least one year behind with their financial statements. In total, the organisations had arrears of 139 sets of financial statements (2018: 133). This indicates that the backlog is getting worse. Not only does this backlog offend the basic principle of Government accountability and so should be unacceptable to legislators across the spectrum and to the public, it is also a significant deterrent to the Government's ability to prepare summary financial statements for the whole of Government (see section 2.3 below).

As the last few years have shown, unfortunately there is no quick fix. I believe that the root cause of this fundamental lack of accountability can be attributed to ineffective leadership practices and mindsets. It is of concern to me that within the public service those who have failed to carry out their basic responsibilities effectively are not being held to account through disciplinary or other measures. The time for action is now!

In response to the recommendation in my 2018 Annual Report that Ministers responsible for organisations in arrears with their financial statements and the respective Boards of Governance should take all possible steps to bring financial statement preparation up to date as soon as possible, the Ministry of Finance stated:

*The Government understands the importance of timely financial information. The Ministry of Finance will encourage relevant government entities to play their part to rectify this problem by bringing all outstanding accounts up to date and delivering them in an auditable state to the Office of the Auditor General.*

I believe that the situation requires a stronger response from Government than encouragement.

### **Recommendation No. 1:**

**The Ministry of Finance should assign a senior official to be responsible for overseeing the work required to eliminate the financial statement backlog. Organisations with backlogs should be required immediately to provide action plans for bringing their financial statements up to date. If action plans are not provided within a reasonable period of time, appropriate disciplinary action should be taken and enforced. Once the action plans have been approved, they must be monitored to ensure that action actually takes place.**

### **Ministry of Finance Response**

*This is an ongoing and longstanding matter which has plagued successive governments and it will take time to resolve. However, the Government commits to taking the necessary steps to remedy this situation.*

*In a recent press statement, The Minister of Finance has pledged to “fix” the problem of publicly funded organisations failing to keep up to date with their annual audits.*

*The Accountant-General/Ministry of Finance and the Auditor-General have met and agreed on a plan to have all public funds under the responsibility of the Accountant-General delivered to the Auditor by the end of 2020.*

*The Ministry of Finance will encourage relevant government entities to play their part to rectify this problem by bringing all outstanding accounts up to date and*

*delivering them in an auditable state to the Office of the Auditor General.*

### **2.3 Summary Financial Statements for the Whole of Government**

In addition to the Consolidated Fund, Government business is transacted through other public funds and Government-controlled organisations such as the Bermuda Housing Corporation and the Bermuda Land Development Company Limited.

Government's financial statements do not currently consolidate the results of these organisations with the Consolidated Fund. Consolidating these funds and organisations with the Consolidated Fund would mean that each organisation's assets, liabilities and operating results would be incorporated into a set of summary financial statements that show the operating results and the financial position of the whole of Government.

The Standard on Financial Statement Objectives (PS 1100) states that Government financial statements should:

*Provide an accounting of the full nature and extent of the financial affairs and resources, which the Government controls, including those related to the activities of its agencies and enterprises.*

The standard also states that:

*To assess the management of the public financial affairs and resources entrusted to the Government, the financial statements would account for the full nature and extent of the financial affairs and resources which a government controls.*

Until summary financial statements are presented, there is a risk that those reading and relying on the financial statements of the Consolidated Fund may mistakenly view them as the consolidated financial statements of the whole of Government. More importantly, the public is not provided with full disclosure regarding the accumulated deficit or surplus of its Government.

As a result of this failure to conform to the standards of disclosure generally accepted in Bermuda, I included the following explanatory paragraph in my Auditor's Report on the Consolidated Fund's financial statements for the year ended March 31, 2018:

*As described in Note 2, these financial statements represent the financial transactions of the Consolidated Fund and have been prepared primarily to provide accountability for the financial resources appropriated by the Legislature of Bermuda. These financial statements are not summary financial statements of the Government of Bermuda. Significant financial activities of the Government occur outside the Consolidated Fund. As such, the financial statements of the Consolidated Fund for the year ended March 31, 2018 do not represent the full nature and extent of the overall financial affairs and resources of the Government of Bermuda.*

In 2014, the Public Treasury (Administration and Payments) Amendment Act 2014 (The Act) was enacted. The Act directs the Accountant General to prepare consolidated financial statements including the accounts of all Government departments and public authorities.

The Act states that the consolidated financial statements “shall be prepared in accordance with the reporting standards adopted by the Accountant General and based on the Public Sector Accounting Standards set by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada”. It also requires the Auditor General to examine and prepare a report in writing on the consolidated financial statements (i.e., to audit them).

This legislation could be an important step forward. However, the legislation also provides that the Minister shall decide the date or dates that the provisions of the Act come into operation. Five years after the enactment of the legislation, no such dates have been announced.

In my 2018 Annual Report, I recommended that to enable Government’s production of summary financial statements for the Government as a whole, starting with the year ending March 31, 2019, the Minister of Finance should establish the dates when the provisions of the Public Treasury (Administration and Payments) Amendment Act 2014 pertaining to the production and audit of full consolidated financial statements for the Government of Bermuda will come into operation.

In its response, the Ministry of Finance stated that:

*It is acknowledged that the production of annual consolidated financial statements for the Bermuda Government are prescribed and would provide users of those financial statements with necessary additional context when evaluating the financial condition and operations of the Government. It is also noted that the Auditor General acknowledges the complexity involved in the preparation of consolidated statements for the Government. It is important for the readers of this report to understand that in order to achieve the objective of consolidated statements, each of the governmental units in the government reporting entity must have completed audits, or some other agreed-upon level of assurance, prior to the sign-off date of the consolidated financial statements. In order for those financial statements to maintain their relevance, they must be published within a reasonable timeframe.*

*At this time, it is difficult to predict when even the significant governmental units, notwithstanding the minor units, will have complete audited accounts abreast the year of the Consolidated Fund. Note that it is at the Consolidated Fund level that detailed annual estimates are prepared, and that the Consolidated Fund reflects the national debt. The Auditor General notes above that 133 sets of audited financial statements are in arrears by at least one year. It is more appropriate to identify a date, in coordination with the Auditor General, by which Government anticipates the governmental units' audited financial statements will be alongside that of the Consolidated Fund.*

*The Ministry of Finance will commit to the preparation of consolidated financial statements as of the year ended immediately subsequent to that first year in which all governmental units are up to date.*

I have indeed recognised that moving to summary financial statements is a complex task. Government organisations are not homogeneous and dedicated resources will be required to complete the task in a reasonable time. I acknowledge that it will not be possible to prepare timely consolidated financial statements until at least the “significant governmental units” have brought their financial statements up to date.

However, the wording of the Ministry of Finance’s response to my 2018 recommendation suggests a passive response on the part of the Ministry with respect to getting government organisations’ financial statement up to date. I disagree with that position. I believe that only strong leadership from the Ministry and Government ministers, will break the impasse regarding outstanding financial statements (see Recommendation 1 above).

***Recommendation No. 2:***

***Pending implementation of Recommendation 1, Government should develop a detailed, achievable and resourced plan for producing consolidated financial statements for the whole of Government as soon as possible.***

**Ministry of Finance Response**

*Preparation of summary financial statements (SFS) has been impossible to date, as the component Government Entities have never been concurrent in their reporting with the Consolidated Fund. The only way that this will be possible, is if every entity has reported for the same year. The goal for audited SFS is be for the year ended March 31, 2021, with a release date of March 2022. The CF financial statements will be published in November 2020 as required per the borrowing covenant. The SFS would follow four months later.*

*This is contingent on the availability of audited financial statements of Government-controlled entities.*

## **2.4 Financial Statement Discussion and Analysis**

Annual financial statements are a key accountability document for governments. However, financial statements alone do not provide the breadth of information needed for users to fully understand government finances.

I believe that Government should prepare and publish a Financial Statement Discussion and Analysis (“FSD&A”) document at the same time as it publishes its annual financial statements. The purpose of such a document is to expand on and explain information contained in financial statements, making them more understandable to the public. The FSD&A would provide a robust analysis of what the financial statements mean and what the long-term trends are, and is vital if readers are to understand the Government’s financial position and results. It should also include the key indicators of Government’s financial condition.

If the FSD&A was issued in conjunction with summary financial statements for the whole of Government (see Section 2.3 above), this would represent a very significant enhancement of the Government of Bermuda’s accountability.

The Chartered Professional Accountants of Canada has issued Statements of Recommended Practice (SORP) entitled “Financial Statement Discussion and Analysis” and “Indicators of Financial Position”.

For a number of years, my predecessor and I have recommended that Government develop and publish a Financial Statement Discussion and Analysis document at the same time as its annual financial statements. I was encouraged by the Ministry of Finance’s response to my recommendation in my 2018 Annual Report. It stated that: “A financial statement discussion and analysis will be included in the March 31, 2020 financial statements for the Consolidated Fund, for the first time”.

I understand that the responsibility for developing an FSD&A document has been assigned and that the Ministry is working toward meeting its March 31, 2020 commitment.

## **2.5 Borrowing and the Plan to Reduce the Deficit and Public Debt**

In order to finance its annual operating deficits, replace maturing debt and acquire capital assets, Government has borrowed money from various lenders. The accumulated deficit and the related debt continue to grow.



The accumulated deficit as at March 31, 2018, has grown to \$3.07 billion, up by \$1.06 billion (52.7%) in the five years then ended. The borrowing and, more specifically, the public debt and net debt amounted to \$2.42 billion and \$3.80 billion respectively, at March 31, 2018 and the public debt was close to the legislated borrowing limit of \$2.5 billion. The interest-bearing debt resulted in interest costs of \$117.7 million for the year ended March 31, 2018, about 10.2% of the total expenses of the Consolidated Fund.

In my 2018 Annual Report, I had to repeat a long-standing recommendation that, in order to ensure the sustainability of public services, Government should develop as soon as possible a long-term strategic plan to reduce the deficit and the level of public debt, aimed not only at adapting to the current and future economic environments but also at influencing those environments.

In its response the Ministry of Finance stated:

*Government has been making good progress in its efforts to eliminate the deficit. The results show that at the end of the 2018/19 fiscal year the Current Account is projected to record its fourth straight annual surplus before debt service. In fact, the surplus will cover all of the interest charges.*

*And, from 2013/14 to 2017/18, the total deficit has been reduced from \$299 million to \$66.5 million representing a reduction of \$232.9 million or 78%. Further, the 2019/20 budget, with a current account surplus of \$188.6 million, represents an improvement over the fiscal 2018/19 surplus, with sufficient revenue to cover not only the day-to-day running of government, but also interest on debt and capital expenditure.*

*Also, on April 26, 2018 Standard and Poor (“S&P”) revised their outlook on Bermuda to positive from stable. S&P noted the following in their press release:*

- Bermuda's credit story is improving thanks to a return to positive real economic growth in 2017 and 2018.*
- We also view the continuation of prudent fiscal policy by the new Progressive Labour Party government as positive. Accordingly, we are revising our outlook on Bermuda to positive from stable, and affirming our ratings, including our 'A+' long-term sovereign credit rating, on the territory.*
- The positive outlook reflects our expectations that, in the next 12-to-24 months, real GDP growth will remain moderately positive, fiscal deficits will continue to narrow, approaching balance, and Bermuda's net general government creditor position will improve modestly.*

It should be noted that the figures quoted in the Ministry of Finance's response above are calculated on a "modified cash" basis of accounting, as opposed to the "accrual" basis of accounting used in the preparation of the Consolidated Fund's audited financial statements. The "modified cash" basis of accounting although per the Ministry of Finance is accepted by the rating agencies is not recognised as part of the public sector accounting standards generally accepted in Bermuda and Canada.

The annual financial statements of the Consolidated Fund show that:

- the public debt is continuing to increase;
- the annual deficit continues to be significant, and
- the accumulated deficit has grown by over 50% over the last five years.

We recognise that the rates of increase in the public debt and accumulated deficit are slowing, but the fact remains that they continue to increase. In Section 4 of this Report (Key Indicators of the Financial Condition of Government's Consolidated Fund), we conclude that the indicators of financial condition continue to demonstrate a level of unsustainability and impaired flexibility, which Government must make every effort to address.

Consequently, I find it necessary to repeat my recommendation from my previous report.

***Recommendation No. 3:***

***To ensure the sustainability of public services, Government should develop as soon as possible a comprehensive and realistic long-term strategic plan to reduce the deficit and the level of public debt, aimed not only at adapting to the current and future economic environments but also at influencing those environments.***

**Ministry of Finance Response**

*The Government remains committed to prudently managing the public finances, eliminating the deficit and paying down on our debt.*

*The current account balance (excluding debt service) indicates whether revenues can support the day-to-day running of Government, excluding interest on debt, capital expenditure and the mandatory sinking fund contribution. The actual 2018/19 current account surplus was \$169.1 million, with sufficient revenue to cover not only the day-to-day running of government, but also interest on debt and a part of the capital expenditure. Borrowing was incurred to fund a part of the capital spend and the annual Sinking Fund contribution.*

*The all-inclusive result from government operations on the “modified cash” basis was a deficit of \$77.7 million. This compares to a deficit of \$89.7 million that was originally budgeted. Therefore, the actual overall deficit was down by \$11.9 million or 13.3% when compared to the original estimate. The decreased deficit is a result of prudent management of discretionary current and capital expenditures. The modified cash basis is the format that Government performance is presented to the credit rating agencies.*

*Also, on May 10, 2019 Standard and Poor (“S&P”) affirmed their rating and noted the following in their press release:*

- Fiscal results, which have been improving for the past five years, should be near-balanced in 2019, setting the stage for further improvements in the territory's net general government debt burden.

*Finally, there was a successful Bermuda Government public debt issue of \$620 million in November 2018. The majority of the proceeds were utilised to retire higher interest-bearing debt saving the Government just over \$1.0 million in interest expense.*

*This transaction confirmed that the market has a very favourable view of this Government's economic and fiscal plans. The success of this transaction is an independent, objective validation of these plans.*

## **2.6 Pensions and Other Employee Future Benefits**

### **2.6.1 Public Service Superannuation Fund, Ministers and Members of the Legislature Pensions Fund and the Government Employees Health Insurance Fund**

The Public Service Superannuation Fund (PSSF) provides pensions for retired Government and quango employees. The Ministers and Members of the Legislature Pensions Fund (MMLPF) provides retirement pensions for the Ministers, Members and Officers of the Legislature. In addition to the pension plans, the Government Employees Health Insurance Fund (GEHI) provides health insurance benefits for Government employees, Ministers and Members of the Legislature and their dependents.

Legislation relating to the PSSF and the MMLPF provides that, if at any time the funds accumulated to pay pensions are insufficient, the Consolidated Fund will make up the deficiency.

An unfunded liability exists when the benefits to be paid out exceed amounts available to pay. The unfunded liability is therefore the amount of pension benefits, which have been earned by current and former employees net of the value of assets held to pay for those benefits.

At March 31, 2018, the combined unfunded liability for the PSSF, the MMLPF and the GEHI stood at \$1.47 billion, as shown in Table 1 below. The unfunded liability is recognised in the Consolidated Fund financial statements, and therefore has a significant negative effect on the Fund's statement of financial position.

In 2014, the Pensions (Increase) Amendment and Suspension Act 2014 (the Act) was enacted. The purpose of the Act was to remove from the PSSF and the MMLPF the cost of living adjustment for both current and future pensioners until such time as the sustainability of the plans has improved. This change had the impact of reducing plan liabilities by \$432.7 million. This reduction, along with some increases in liabilities, was recognised in the Consolidated Fund financial statements for the year ended March 31, 2014, as discussed below.

With respect to Table 1 below, it should be noted that in the year ended March 31, 2014 there was a \$214.1 million credit resulting from the cost of living adjustment being removed for both current and future pensioners for the PSSF and the MMLPF (\$432.7 million) offset by net unamortised experience losses (\$173.5 million) and past service costs in the GEHI (\$45.1 million).

**Table 1: Unfunded liability – pension/health plans**

\$ millions						
As at March 31	2013	2014	2015	2016	2017	2018
Unfunded liability:						
PSSF	954	797	834	873	919	955
MMLPF	23	18	18	19	19	20
GEHI	262	331	398	436	464	491
<b>Total unfunded liability</b>	<b>1,239</b>	<b>1,146</b>	<b>1,250</b>	<b>1,328</b>	<b>1,402</b>	<b>1,466</b>

In our 2018 Annual Report, we recommended that Government should complete its promised reviews as soon as possible, and establish and implement a long-term plan to ensure the sustainability of the Public Service Superannuation Fund, the Ministers and Members of the Legislature Pensions Fund and the Government Employees Health Insurance Fund ("the Funds").

In its response to our recommendation, the Ministry of Finance provided the following response:

*Government is sensitive to the challenges facing pension plans of this nature and has already taken appropriate steps to preserve the long-term financial viability of the fund.*

*For example, the following actions have been taken over the years in order to improve the sustainability of the Public Service Superannuation Fund (PSSF):*

- In 2006–2008, PSSF contribution rates were increased from 5% to 8% and 9.5% for regular members and uniformed officers, respectively. The increase in contributions resulted in an improvement in the cash position of the PSSF.*
- In June 2014, the automatic Cost of Living Adjustment (COLA) increases were suspended for pensioners until such time as the sustainability of the PSSF has been improved. The COLA provision added about 23% to the PSSF liabilities and this change improved the sustainability of the fund.*

*Despite these actions, the PSSF remains underfunded and there are no simple remedies to resolve the underfunded position of the plan. To assist with the review of this pension plan, a Pension and Benefits Working Group (PBWG) was established by the former administration. The purpose of the PBWG was to review all public sector pension plans, and make recommendations to the Minister of Finance and to Cabinet in order to ensure the sustainability of these plans and benefits in a manner that is responsible and fair to both the pensioners and members of the plans and Bermuda taxpayers.*

*Following this review, the PBWG proposed the following changes to the plan:*

- Change the final average earnings (FAE) definition from “the salary payable to him immediately preceding the date of his retirement” to an average of his earnings over the five years preceding his date of retirement (or termination).*
- Increase the age at which an unreduced pension is payable from 60 to 65 (55 to 60 for special groups).*
- Apply actuarial reductions on early retirement prior to age 65 (60).*
- Increase contributions.*

*Finally, this Government has also decided to explore the option of increasing the retirement age on a voluntary basis to 67 and assess the impact that this action would have on the plan.*

*The Ministry of Finance has engaged the Government’s actuary of record to consider the impact that the above-mentioned changes to the plan would have on the long-term sustainability of the fund. This engagement has been completed and is currently being reviewed by the Ministry and the Pension and Benefit Working Group.*

*As per this Government's normal custom and practice, the appropriate consultation with the various stakeholders, specifically the public sector unions, will be conducted before any changes are made to the provisions of the plan.*

The first three recommendations listed in the above bullets were approved by the Pension and Benefits Working Group and submitted to the Ministry of Finance and Cabinet for consideration and approval for implementation, with the fourth recommendation being subjected to further research.

Also, subsequent to the year ended March 31, 2019 (the period covered by this annual report), the Public Service Superannuation Amendment Act (that increased the age of mandatory retirement from 65 to 68 for some public officers) became law.

It should be noted that subsequent to the Ministry's response above, the Accountant General and the actuary determined that there was insufficient data for a fulsome impact assessment. The assessment has been postponed and will be incorporated into the next actuarial review of the Funds due to be carried out in 2020. Despite a reduction in the five-year rate of increase of the total net unfunded liability and despite the changes to the PSSF made recently, the size of the liability indicates a need for Government to continue its focus on ensuring the sustainability of these plans.

**Recommendation No. 4:**

***The Government should continue to monitor closely the sustainability of the Public Service Superannuation Fund, The Ministers and Members of the Legislature Pensions Fund and the Government Employees Health Insurance Fund.***

**Ministry of Finance Response**

*Owing to the risk that these unfunded liabilities present to the Government, the Ministry recognise that it is fiscally prudent for us to adequately fund and to plan for these, albeit long-term, obligations and maintain the funding ratio at an acceptable long-term target level. However, it is important to note that to achieve sustainable solvency, it is not necessary that all accrued benefits be fully funded.*

*It should also be noted that these plans are partially funded and as at December 31, 2019, the PSSF Fund had net assets of over \$622.1 million, representing approximately 13.10 times the annual value of benefits paid in the 2018/19 fiscal year.*

*The Government is continuing the close monitoring of the sustainability of the Public Service Superannuation Fund, The Ministers and Members of the Legislature Pensions Fund and the Government Employees Health Insurance Fund. As illustrated in previous instances, we will take the appropriate steps to enhance*

*the benefits paid from the plans as well as ensure the Plans have the ongoing ability to pay for such benefits.*

The last audited financial statements for the PSSF, the GEHI and the MMLPF were for the years ended March 31, 2011, 2012 and 2013 respectively. Correcting this unacceptable situation by bringing all the financial statements up to date should be a priority for Government. The 2012 PSSF and the 2014 MMLPF audited financial statements were signed off January 2020 and March 2020, respectively and will be included in the Work of the Office for the year ended 2020.

**Recommendation No. 5:**

**The Government should give priority to bringing the annual financial statements for the Public Service Superannuation Fund, The Ministers and Members of the Legislature Pensions Fund and the Government Employees Health Insurance Fund up to date.**

**Ministry of Finance Response**

***PSSF – audited financial statements through March 31, 2011***

*Fieldwork is complete for the March 31, 2012 audited financial statements, which are awaiting a final draft package from the OAG and signoff is imminent. The 2012 accounts were signed off January 2020. This is a high priority for Government. The Government continues to work closely with the OAG to bring the PSSF financial statements current. This has been a challenging undertaking with changes in reporting standards in the intervening period, particularly regarding investments disclosures. This is an ongoing process, with good progress being made. It may be necessary to waive audits of certain years in order to bring reporting up to current day. It should be noted that major elements of the PSSF are reviewed in conjunction with the audit of the Consolidated Fund, albeit at a lower level of scrutiny. It should also be noted that actuarial valuations of the PSSF continue to be performed on the scheduled 3-year cycle and that the results of the actuarial reviews are made public.*

***MMLPF – audited financial statements through 2013***

*Fieldwork is complete for the March 31, 2014 audited financial statements, which are awaiting a final draft package from the OAG and signoff is imminent. The 2014 accounts were signed off March 2020. This is a high priority for Government. The Government continues to work closely with the OAG to bring the MMLPF financial statements current. Unlike the PSSF discussed above, the MMLPF has been more straightforward, as it is less impacted by the changes in disclosure. Good progress*

*continues to be made on the MMLPF and a schedule between Government and OAG is in place whereby the subsequent year is provided for audit following signoff of the year prior. This is necessary in order to incorporate any adjustments in the subsequent year. It should be noted that major elements of the MMLPF are reviewed in conjunction with the audit of the Consolidated Fund, albeit at a lower level of scrutiny. It should also be noted that actuarial valuations of the MMLPF continue to be performed on the scheduled 3-year cycle and that the results of the actuarial reviews are made public.*

### **GEHI – audited financial statements through March 31, 2012**

*It has admittedly been difficult to gain footing in the financial reporting for the GEHI Fund. Due to diminished resources in the Accountant General's Department, the audits of the GEHI have not been progressed in recent years. This is a high priority for Government. Due to the difficulty in establishing resources internally, Government will be seeking services from the private sector in order to bring the GEHI financial statements and audits current. It may be necessary to waive audits of certain years in order to bring reporting up to current day. It should also be noted that actuarial valuations of the GEHI continue to be performed on the scheduled 3-year cycle and that the results of the actuarial reviews are made public.*

### **2.6.2 Contributory Pension Fund**

The Contributory Pension Fund (CPF) provides old age pensions, disability and death benefits for the general workforce. The Contributory Pensions Act 1970, the governing legislation for the CPF, does not require the Consolidated Fund to provide for any shortfall if, at any time, the CPF has insufficient funds to meet its current legislated obligations.

According to the latest audited financial statements for the CPF, “the sustainability of a national social insurance scheme is customarily based on the adequacy of the current and projected contribution rate to provide for future benefits. Funding of the Scheme is on a pay-as-you-go basis, where essentially contributions of the current workforce are used to meet the obligations to the current beneficiaries”.

The SAGE Commission focused in part on the CPF. It concluded that the-then current contributions were insufficient to allow the CPF to survive for the near future, under the current long-term assumptions.



It also found that demographic projections regarding expected lifespans of pensioners (aged 65 and over) were not current and so did not reflect the increased lifespans experienced in many of the Organisation for Economic Co-operation and Development (OECD) countries that had resulted in retirement ages being increased over time to 68 and beyond.

The SAGE Commission recommended that the-then current annual increase in the contribution rate of 1.75% per year above any benefit increase rate be changed to an increase in contribution rate of at least 3% above any benefit increase for a number of years. In addition, it recommended the establishment of a specific strategy to increase the retirement age for the CPF to 68 consistent with other OECD countries.

Subsequent to the SAGE Commission report, Morneau Shepell Ltd, a Canadian company, carried out an Actuarial Review as at August 1, 2014. The review, which was completed in May 2016, presented the financial status of the CPF and provided projections of the CPF for the next 50 years to 2064.

The 2014 Actuarial Review recommended that:

- *In light of the fact that the current benefit and contribution structure is made up of flat rate amounts and the Government's policy is to increase both rates relative to inflation, with contributions increasing faster than benefits, the Government should set a target "benefit/contribution ratio" as part of the policy. This would ensure that any increases to both amounts would not result in the contribution rate exceeding the benefit rate at any point.*
- *The projected contribution rates should also be compared to projected national average wages to ensure that they are feasible and affordable.*

In our previous (2018) Annual Report, we recommended that Government should consider and act upon the recommendations of the SAGE Commission and the Actuarial Review as at August 1, 2014, with respect to the CPF contribution rates and the retirement age.

In its response, the Ministry of Finance stated:

*The Government will take the appropriate steps to ensure that the fund has the ongoing ability to pay for prescribed benefits.*

*The Contributory Pension Fund in principle relies on current contributors or workers paying for current pensioners and for the most part is a Pay-As-You-Go financed plan. However, the policy of increasing contribution rates by 2.5% above the rate of pension increases has allowed a significant level of fund to build up and thus the plan is partially funded, which provides further security of benefits.*

*In the short-term, the CPF is in good financial shape. As at December 31, 2018, the CPF total assets represented approximately 11.1 times the annual value of benefits to be paid in the fiscal year; this is a relatively high level of funding.*

*The 2014 actuarial report of the fund indicated that the viability of the fund in the short to medium term is good, with the fund being positive for the next 25 years. However, recognising the long-term challenges of the fund, the Ministry will continue to closely monitor its performance. The next actuarial report for the CPF is due for the period August 1, 2017 and is currently underway. This report will be tabled in the legislature as soon as it is completed. Following this review, the Ministry will propose changes to the fund to ensure its sustainability in the long term.*

**Recommendation No. 6**

***We recommend that the Government review and propose changes to the Contributory Pension Fund at its earliest opportunity once the actuarial report is completed and tabled in the House of Assembly.***

**Ministry of Finance Response**

Based on the 2017 Actuary Report the viability of the Fund in the short to medium term is good with the Fund being able to cover at least 11 years of the current expenditure and being positive for the next 29 years. However, recognising the long-term demographic challenges of the Fund the Ministry will continue to closely monitor the performance of the Fund.

The funding policy for the Fund is not based on full actuarial funding but based on sustainable funding. That is, contributions plus investment income should cover benefits and administration expenses on an annual basis while the fund builds up sufficient reserves to cover several years of benefits and expenses to withstand future adverse circumstances.

In order to improve the projected financial position of the Fund in the long-term, the Report has laid out various alternative scenarios that will be considered by the Ministry in seeking to preserve the long-term financial viability of the Fund.

Recent pronouncements about a change in the CPF contribution structure from a fixed-rate structure to one based on a percentage of income have not been included in the 2017 report.

The actuaries have started modelling the effect of changing the CPF from a flat-rate contribution to one based on a percentage of income, but more work has to be done on this proposal.

The CPF was established in 1970 and thus has a rather simplistic design. Since the CPF was established, there have not been any meaningful reforms to the Plan, even after the mandatory National Pension Scheme (Occupational Pensions) Act was introduced.

Accordingly, the Ministry is of the view that any reform of the CPF should take a holistic view of pensions for the various categories of workers to reduce coverage gaps, excessive amounts and/or anomalies. With the CPF as the first pillar of retirement income, reformed CPF benefits together with other pensions could provide for progressive benefits and a contribution formula at levels that can lead to the sustainability of the CPF in the long-term. Meanwhile it is important that Government review the 2017 Actuary Report and take the required actions to enhance sustainability of the Fund.

Accordingly, the Ministry is of the view that any reform of the CPF should take a holistic view of pensions for the various categories of workers to reduce coverage gaps, excessive amounts and/or anomalies. With the CPF as the first pillar of retirement income, reformed CPF benefits together with other pensions could provide for progressive benefits and a contribution formula at levels that can lead to the sustainability of the CPF in the long-term. Meanwhile it is important that Government review the 2017 Actuary Report and take the required actions to enhance sustainability of the Fund.

The Ministry of Finance propose to engage the Government's actuary of record, and any other service provider required, to conduct a comprehensive review of all pensions in Bermuda.

### **2.6.3 Contributory Pension Fund Financial Statements**

Since the CPF cannot rely on the Consolidated Fund to meet its pension obligations, it is essential that it be well managed. Unfortunately, the last audited financial statements for the CPF were for the year ended March 31, 2012.

More disturbingly, my predecessor's audit report on those financial statements included a disclaimer of opinion. The Auditor's Report stated that:

*Due to serious deficiencies in the accounting records of the CPF and in the system of internal controls, I was not able to satisfy myself that all assets, liabilities, revenues and expenses of the Contributory Pension Fund had been reflected, nor was I able to satisfy myself that recorded transactions represented valid transactions of the Contributory Pension Fund for the year then ended. As a result, I was unable to determine whether adjustments were required in respect to*

*recorded or unrecorded assets, recorded or unrecorded liabilities and the components making up the statement of financial position and the statements of changes in net assets available for benefits and changes in pension obligations.*

*Because of the significance of the matters described above, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.*

Given that Bermuda's aging population relies on the CPF for a minimum income after retirement and will continue to do so into the future, the situation described above is unacceptable.

For a number of years, I have recommended that the Government take immediate steps to bring the CPF annual financial statements up to date, and review, and take appropriate steps to improve the administration of the CPF.

In its response to our 2018 recommendation, the Ministry of Finance stated that, "*the Accountant General continues to dedicate resources to bring the CPF annual financial statements up to date*". However, the Accountant General has informed us that recruitment efforts were unsuccessful in this competitive market and that there is still no dedicated resource to bring the CPF statements up to date.

It is inexcusable that the CPF has not produced annual financial statements since those for the year ended March 31, 2012. My recommendation from prior years stands and has been enhanced.

***Recommendation No. 7***

***Government should take immediate steps to ensuring the Accountant General has the financial resources to recruit staff to bring the CPF annual financial statements up to date. If an inability to recruit externally continues then the Government should consider finding a suitable resource internally. To not bring the financial statements up to date should not be an option.***

**Ministry of Finance Response**

*It has admittedly been difficult to gain footing in the financial reporting for the CPF. Due to diminished resources in the Accountant General's Department, the audits of the CPF have not been progressed in recent years. This is a high priority for Government. Due to the difficulty in establishing resources internally, Government will be seeking services from the private sector in order to bring the CPF financial statements and audits current. It may be necessary to waive audits of certain years in order to bring reporting up to current day. It should also be noted that actuarial*

*valuations of the CPF continue to be performed on the scheduled 3-year cycle and that the results of the actuarial reviews are made public.*

## 2.7 Taxpayer Indebtedness to Government

Arrears of payroll and other taxes and pension contributions also continue to increase. Measures to reduce taxpayer indebtedness to Government have been largely unsuccessful. More effective collection of outstanding revenue by Government would help reduce the need for borrowing along with its associated finance costs.

Table 2 below shows Payroll, Hotel Occupancy, Corporate Services and Land Tax **greater than 90 days** in arrears as at March 31 of each year shown:

**Table 2: Outstanding Taxes**

\$ millions						
As at March 31	2013	2014	2015	2016	2017	2018
Payroll, Hotel Occupancy and Corporate Services Taxes	44.2	47.4	54.7	54.9	56.0	53.9
Land Tax	23.2	26.4	31.6	35.7	26.5	31.3
<b>Total Outstanding Taxes</b>	<b>67.4</b>	<b>73.8</b>	<b>86.3</b>	<b>90.6</b>	<b>82.5</b>	<b>85.2</b>

As at March 31, 2018, the amount of payroll, hotel occupancy, corporate services and land taxes greater than 90 days in arrears was \$85.2 million compared to March 31, 2013, when the comparative amount owed was \$67.4 million.

In our 2018 Annual Report, we recommended that the Government should establish, communicate and resource appropriately a plan to address the significant taxpayer indebtedness.

In its response to our recommendation, the Ministry of Finance agreed that tax collection, accounts receivable has been a considerable problem for the Government for years, and it is time to take corrective action.

The Ministry stated that Government has taken further action to resolve this problem by adding to the Office of the Tax Commissioner (OTC) five new temporary additional staff members for a one-year period.

The Ministry of Finance also referred to a proposed reform and modernisation implementation plan for the OTC, outlining reform priorities with a view to executing such plans in the short, medium, and long term. An important part of the reforms will be the selection and implementation of a commercial off-the-shelf technology solution to support the operations of the tax administration. One year later, we are informed by

the OTC that reforms are still in the planning stage and the business case and programme proposal document are still being developed.

We were told that the Government had also taken additional action by looking at all accounts that are listed as “provision for bad debt”. Accounts that are deemed collectible and do not have payment plans in place will be handed over for the Debt Enforcement Unit in the Attorney General’s Chambers to take action. We have been informed by the OTC that the results of this exercise were that \$843 thousand accounts receivable was transferred to the Debt Enforcement Unit and that through November 2019, \$280 thousand had been collected.

Whatever actions were taken in the intervening years, Table 2 shows little success.

**Recommendation No. 8:**

***Notwithstanding the recent steps taken by Government, we continue to recommend that the Government should establish, communicate and resource appropriately a plan to address the ongoing significant taxpayer indebtedness.***

**Ministry of Finance Response**

*The Ministry agrees with this recommendation and can advise as follows:*

*In their recent report, the Fiscal Responsibility Panel Report noted the following:*

*“The Budget (2019/20 Budget) does, as recommended in several of our previous reports and by the TRC, incorporate a much more determined effort to improve the efficiency and timeliness of tax collection, by increasing the resources of the Office of the Tax Commissioner, modernising payment methods, and improving enforcement. We are impressed by the pace of the modernisation effort in the Tax Commissioner’s Office. The Government should continue to attach a high priority to ensuring that this work has the necessary political and financial support.”*

*Despite this endorsement the Government recognises there is much more work to be done in this area and as announced in the 2020/21 budget based on recommendations from the Caribbean Technical Assistance Center (CARTAC for Tax Authorities – c/o the IMF) and the Efficiency Committee, the Office of the Tax Commissioner has decided to modernise its tax administration into an organisation that operates according to modern standards and that is enabled by powerful information technology support.*

*It was also announced that the Government would use all available means to collect overdue taxes, thereby improving the Government's cash flow. To this end, the Government is currently considering ways to supplement and enhance the debt collection function within government and is working through the procurement process to engage relevant service providers that can assist with this matter.*

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## 3. Financial Statement Audits Completed During the Year Ended March 31, 2019

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This section of our Annual Report provides the results of our audits of:

- The Government of Bermuda’s Consolidated Fund financial statements for the year ended March 31, 2018;
- Government-controlled organisations;
- Public funds (other than the Consolidated Fund);
- Parish Councils;
- Aided Schools’ Capitation Accounts, and
- Other organisations.

The section begins with an explanation of the significance of a modified audit opinion.

### 3.1 Modified Audit Opinions

Section 9(2) (a) of the Audit Act 1990 (see Appendix 2) requires the Auditor General to provide details in Annual Reports of any reservations (i.e., modifications) of opinion in auditor’s reports on financial statements.

#### 3.1.1 What is a Modified Audit Opinion?

A modified audit opinion is expressed when the auditor concludes either of the following based on the audit evidence obtained:

- The financial statements as a whole are not free from material misstatement.
- Sufficient appropriate audit evidence is unable to be obtained to conclude that the financial statements as a whole are free from material misstatement.

There are three types of modified opinion:

1. Qualified opinion
2. Adverse opinion
3. Disclaimer of opinion

**Qualified opinion** – applies in either of the following situations:

- Sufficient appropriate audit evidence is obtained, but the auditor concludes that misstatements exist, individually or taken together, that are material but *not pervasive* to the financial statements.

- The auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion. The auditor concludes that the possible effects of undetected misstatements (if any) on the financial statements could be material but not pervasive.

Example of Wording – “Except for the effects (or the possible effects) of the matter described in the Basis for Qualified Opinion paragraph...”

**Adverse opinion** – applies where sufficient appropriate audit evidence is obtained but the auditor concludes that misstatements, individually or taken together, are both material and pervasive to the financial statements.

Example of Wording – “In my opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion paragraph ... the financial statements do not present fairly ...”

**Disclaimer of opinion** – applies where the auditor is unable to obtain sufficient appropriate audit evidence on which to base the opinion and concludes that the possible effects of undetected misstatements (if any) could be both material and pervasive. This also applies in rare circumstances where it is not possible to form an opinion due to the potential interaction of multiple uncertainties and their possible cumulative effect on the financial statements.

Example of Wording – “Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, I do not express an opinion on the financial statements.”

### **Modified opinions between April 1, 2018 and March 31, 2019**

During the period covered by this report, the Auditor General issued eight qualified opinions and two disclaimers of opinion. The details are set out in the rest of section 3 that follows.

## **3.2 Audit of the Consolidated Fund Financial Statements**

The annual financial statements of the Consolidated Fund of the Government of Bermuda account for the financial affairs of Bermuda’s ministries, departments, Legislature and other offices. The audited financial statements of the Consolidated Fund for the year ended March 31, 2018, are included in Appendix 4.

### **3.2.1 The Auditor General's Audit Opinion on the Consolidated Fund Financial Statements for the Year Ended March 31, 2018**

The Auditor General issued a qualified opinion on the Consolidated Fund financial statements for the year ended March 31, 2018. The qualified opinion read as follows:

#### ***Basis for Qualified Opinion***

*I qualified my auditor's opinion on the financial statements of the Consolidated Fund for the year ended March 31, 2018, on the basis that I was unable to obtain sufficient and appropriate audit evidence to support the accuracy and completeness of capital development expenditures incurred during the year, amounting to \$10.3 million. Purchases of a capital nature initially recorded as capital development expenditures are adjusted later to tangible capital assets once analysed by management at year-end. Management did not complete this analysis of capital development expenditures. As a result, I could not determine whether adjustments might be necessary to tangible capital assets, capital development expenses, amortization expense, total non-financial assets, annual deficit and accumulated deficit.*

*At year-end, management performs the payroll tax returns validation process, which is critical in identifying errors and ensuring the reasonableness of payroll tax accounts receivable and revenue. This validation process was not completed and I was unable to determine whether adjustments might be necessary to revenues and related accounts receivable, total financial assets, annual deficit, accumulated deficit and net debt.*

#### ***Qualified Audit Opinion***

*In my opinion, except for the effect of the two matters described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Consolidated Fund as at March 31, 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.*

The full Independent Auditor's Report is included as part of the Consolidated Fund financial statements shown in Appendix 4.

### **3.3 Observations and Recommendations arising from the Audit of the Consolidated Fund Financial Statements**

At the conclusion of the annual Consolidated Fund audit, we document our observations and provide recommendations to address issues identified. We discuss these matters with the Accountant General and/or management of the relevant ministries and departments. Although we expect our recommendations to be implemented, our primary concern is that the Accountant General and the ministries and departments select the best course of action to address the issues identified in a timely basis.

Included in this section are those matters arising from the audit that we consider significant enough to warrant the attention of the House of Assembly. As in our past reports, many of the observations point to a failure to follow the rules (Financial Instructions) established by Government for the safeguarding of public assets.

The Financial Instructions (“FIs”) are rules that govern the custody, handling and accounting of public money, including the management of capital development projects. They have been established under the general authority of the Public Treasury (Administration and Payments) Act 1969 by the Accountant General to “improve and clarify the standard of financial control within Government consistent with international best practices and to provide for appropriate levels of public finance control and governance”.

The FIs that were in force for the year ended March 31, 2018 were those dated March 31, 2013 (as amended in November 2016). All references to FIs in this section of our report are to the 2013 version. In June 2018, an updated set of FIs was introduced and will form the basis of our audit commentary in our Annual Report for the year ended March 31, 2020.

### **3.4 Compliance with Legislation**

Section 32A (1) of the Public Treasury (Administration and Payments) Act 1969 (the “Act”) states that “The Accountant-General shall, within the statutory period after the last day of each financial year, sign and deliver to the Minister and to the Auditor accounts showing the financial position of the Consolidated Fund on the last day of that year”.

Section 32A (3) of the Act states: “The expression “statutory period” in subsection (1) means four months or, if in relation to a particular financial year the Minister approves in circumstances explained to him by the Accountant-General affecting that year, six months”.

We have previously reported that the Consolidated Fund annual financial statements are not being produced within the established statutory period. The first draft of the financial statements for the year ended March 31, 2018 was provided to the Auditor General on August 13, 2018. This exceeded the statutory period without any request to the Minister for an extension of the period from four to six months.

We recommended again to the Accountant General that, in future years, if the Consolidated Fund financial statements cannot be produced within four months of the year-end, formal approval to extend the deadline should be sought from the Minister of Finance.

### **3.5 Spending Controls**

A basic principle of expenditure control for Government is that no spending may take place without the approval of the Legislature.

Sections 95(2)(a) and 96(3)(b) of the Bermuda Constitution Order 1968 provide that every item of expenditure must be authorised by an Appropriation law or by a supplementary estimate approved by resolution of the House of Assembly.

The general intent of the legislation and supporting rules is that monies may only be spent from the Consolidated Fund if there is prior legislative approval in place. However, the Bermuda Constitution Order 1968 (Section 96.3(b)) states that: "If in respect of any financial year it is found that any moneys have been expended for any purpose in excess of the amount appropriated to that purpose by the Appropriation law or for a purpose to which no amount has been appropriated by that law, a supplementary estimate, showing the sum required or spent, shall be laid before the House of Assembly".

#### **3.5.1 Staying within the Legislature's authorised spending limits**

Table 3 below shows that although total expenditures have remained fairly constant over the last five years, the amount of overspending in relation to limits set by the Legislature has declined. In the last five years, total spending was lower than the adjusted estimates and, in the last three years, the current expenditure spending authorised by supplementary estimates required has fallen to a more reasonable level.

Schedule 12 to the 2018 Consolidated Fund financial statements show that although a number of departments were overspent by approximately \$3.3 million this is not inconsistent with the FI. FI allows budget virements from one or more approved estimates within a ministry and/or department's total budget.

According to Schedule 12, the Ministry of Education was overspent by \$469,837. A technical supplementary estimate was approved in March 2019. A technical supplementary estimate indicates that the requirement for additional funding can be met within the original appropriated estimates. However, it cannot be transferred, since they are appropriated within another ministry and or capital account.

**Table 3: Current Expenditures to Adjusted Estimates**

	14/15	15/16	16/17	17/18	18/19
Original Estimates	1,118	1,107	1,083	1,109	1,110
Approved frozen funds			(6)		
Supplementary Estimates	50	17	25	15	12
Total Estimates	1,168	1,124	1,102	1,124	1,122
Expenditures	1,118	1,094	1,070	1,091	1,072
(Over)/Under	50	30	32	31	50

Controlling expenditures so that they do not exceed planned or approved limits is an important step to reducing the annual and accumulated deficit.

### **3.6 Lack of a signed Agreement with the Corporation of Hamilton**

According to the Corporation of Hamilton's (the Corporation) financial statements for the year ended December 31, 2017, the Government has a contingent liability of \$4.5 million related to the rental of the Corporation's fire service property. As a lease agreement between the Government and the Corporation has not yet been finalised, and the Government has paid no amount in relation to this rent, and no amount has been recorded as a liability for the use of the property in the Consolidated Fund's financial statements.

On the other hand, the Government has recharged to the Corporation the costs incurred to respond to fire calls within the city of Hamilton. Approximately \$600,000 a year is charged by the Government to the Corporation. As at March 31, 2017, \$6.3 million is due to the Government. This amount is provided for in the financial statements, as the Corporation makes no payment. Thus, there is no impact on the revenues or on the assets of the Government. October 2017, the Minister of Finance approved the write off of \$6.3 million due from the Corporation, contingent to the Corporation making a similar adjustment. This required adjustment was made subsequently during the completion of the Corporation's financial statements for the year ended December 31, 2017.

There has not been a signed lease agreement between the parties for the rental of the property since November 2008 (the date the former lease expired).

The Government and the Corporation have refused to pay any recharges prior to having a final agreement and therefore no assets or liabilities are recognised in the Consolidated Fund financial statements.

Without a written signed agreement, it is unclear with both parties the precise extent of the terms and conditions and the respective rights, duties and obligations. It is unfortunate that a new lease agreement has not been signed for over ten years. We have recommended that immediate action be taken in previous reports to complete a signed agreement with the Corporation.

As at December 31, 2018, the Corporation continues to accrue tipping fees due to the Government as no waiver has yet been agreed. Tipping fees accrued by the Corporation as at December 31, 2018 was \$3.6m (2017 - \$2.9m).

### **3.7 Weaknesses in the Government's IT Structure**

We performed a review of the Government Information Technology (IT) practices through an IT General Controls Review of the Department of Information and Digital Technologies (IDT), the Accountant General (AcG) and Office of the Tax Commissioner (OTC).

The objectives of the review were:

- to obtain an understanding of the Government's IT Entity Level controls and its governance practices, and
- to obtain an understanding and test the effectiveness of controls over the Change Management process, Access Management, Business Continuity and IT Operations that affect the financial statements.

Currently, the IDT department serves as the custodian of the Government's IT infrastructure and as a consultant to the ministries and departments. The Government has eleven ministries that between them manage approximately fifty departments. Each ministry and department can procure its own IT applications, contract with its own IT vendors and manage its operations. This approach to IT management broadens the Government exposure to a number of different types of risks.

Examples of these risks are listed below:

- Exposures to a wide range of Cybersecurity threats due to varying technologies
- Duplication of platforms and their use
- Incompatible systems and data structures
- Inconsistent service delivery to end users and to the public
- Overspending on IT projects
- Data leakage due to numerous points of contact
- Aging infrastructure and the inability to synchronise modernization

In March 2019, we issued to the AcG a detailed report of the findings from our review, along with one recommendation. Set out below is a listing of the topics discussed in our report. We have not included the detailed discussion in this Annual Report to avoid information regarding specific weaknesses falling into the wrong hands.

The issues discussed in our report were:

- Lack of centralised governance structure with accountability for Enterprise-wide IT
- Lack of approved IT strategy, policies and procedures
- Lack of communication of Enterprise-wide IT Objectives and Direction
- Strategic placement of the IT function
- Lack of implementation roadmap
- Absence of a sound Business Continuity Management framework
- Weak vendor management practices

Our sole recommendation was that the role, oversight and accountabilities of IDT as it pertains to the Government's IT Enterprise architecture needs to be clearly defined. This would provide a structure for the Government to ensure the investment in IT generates value, and to mitigate the risks that are associated with IT – whilst sustaining the Government's strategies and objectives.

The Government's response is included in its entirety below:

**Background**

*In response to The Bermuda Government 2015 ITO/IDT Internal Audit report, The Department of Information and Digital Technologies (IDT) commenced effort in 2016 and 2017 to address observed absence of a formal and Government wide IT Governance Structure.*



*Information Technology (IT) is pervasive and critical to supporting the operations of the Government. IT security is critical to sustaining availability and reliability of IT Systems and associated department services and to maintaining the reputation of government as it relates to the prudent protection of information. Investment in IT can enhance management information and improve the delivery of services. However, IT investment needs to be aligned with business plans and carried out in a cost effective and risk averse manner. IT assets must be managed efficiently, and audit standards demand that IT Governance is addressed as a priority.*

*Given the situation above, it has been determined that a team of senior managers be established to assure good governance of IT. IT Governance is realised by establishing the environment in terms of plans, policy and controls and then evaluating outcomes to gauge the success of IT.*

*The team will be referred to as the Information Technology Governance Team or ITGT and will be focused on new purchases, controlling the growth in the Total Cost of Operations (TCO) for systems and ensuring value for money. The ITGT will replace IT Secretariat and modernise the IT governance function.*

#### **Mandate**

*The ITGT mandate will be to advance Government thinking and standards in directing and controlling enterprise Information Technology. Ensure that IT supports business goals, optimises business investment in IT, and appropriately manages IT-related risks and opportunities. The ITGT offers research, electronic resources, case studies and access to consulting expertise to assist Government enterprise leaders, Directors and other Government-affiliated stakeholders in their IT governance responsibilities.*

#### **Authority**

*The Information Technology Governance Team derives its authority from 'Establishing an Information Technology Governance Team' – Cabinet Memorandum, submitted to Ministry of National Security, May 7, 2018.*

#### **Next Steps**

*Currently, IDT is awaiting on subsequent Cabinet conclusion of 'Establishing an Information Technology Governance Team' memorandum. A comprehensive ITGT Terms of Reference, processes and procedures have been developed and pressure tested by way of eGazette, Boards & Committees and Border Security System Government IT projects and is ready for release if approved by Cabinet.*

### **3.8 Inadequate Procedures for Bank Reconciliations**

Financial Instruction 20.2.5 (Bank Reconciliations) requires that departments ensure that all bank transactions are recorded in the Government accounting system on a timely basis, and in the financial month that they occurred.

We have reported previously significant issues related to the bank reconciliation process. These issues have not been resolved and so continue. Deficiencies for the year ended March 31, 2018, included:

- insufficient efforts to investigate and resolve bank reconciling items;
- lack of reconciliation and monitoring of non-moving cash accounts;
- numerous and significant unrecorded additions and deductions to the General Ledger balance;
- long-outstanding book and bank reconciling items;
- improper treatment of reconciling items;
- unadjusted suspense accounts at year-end;
- cancelled or stale-dated cheques that have been cashed, and
- delays in providing bank reconciliations to us for audit.

Failure to prepare complete bank reconciliations on a timely basis and to follow up reconciling items increases the risk of errors and irregularities going undetected. On a number of occasions, we have recommended to the Accountant General (AcG) that procedures required under Financial Instructions are performed and that a more robust control environment be developed.

Unfortunately, the deficiencies remain. However, the AcG has agreed to improve the bank reconciliation and review processes. We hope to see significant progress in our audit of the Consolidated Fund financial statements for the year ended March 31, 2019.

### **3.9 Operating Expenditures and Accounts Payable**

During our audit of operating expenditures and accounts payable, we noted the following issues of concern:

- lack of year-end certification and reconciliation;
- lack of quotations for goods and services in excess of \$5,000;
- lack of contracts for goods and services in excess of \$50,000;
- lack of Cabinet Conclusion for goods and services in excess of \$100,000;
- lack of Government indebtedness check documentation;
- numerous issues concerning payments made by the Department of Financial Assistance, and
- non-compliance with the terms and conditions of grant agreements.

### **3.9.1 Lack of Year-End Certification and Reconciliation**

Financial Instruction 14.2 (Balance Sheet Accounts: Assets and Liabilities – Year End: Certification and Reconciliation) requires that, as at March 31 of each fiscal year, Accounting Officers must:

- certify that balances on the accounts in their respective Department are correct, and
- provide a reconciliation of those balances to supporting documentation.

We found instances in three departments (Accountant General, Public Lands & Buildings, and Works & Engineering) where the required certification and/or reconciliation had not been done. In all instances of non-compliance with the Year-End Certification and Reconciliation instructions, we noted errors or misstatements. Reconciling of these accounts would aid in ensuring the accuracy of account balances.

We found the same issues in previous years. Lack of appropriate certification procedures could result in erroneous accruals and payments and, ultimately, material misstatements in the financial statements.

We recommended that the Accounting Officers ensure compliance with FI 14.2. The three departments accepted our recommendations and so we hope to find an improvement in the degree of compliance with the FI in future years.

### **3.9.2 Lack of Quotations for Goods and Services in excess of \$5,000**

Financial Instruction FI 8.2.3 (Purchase of Goods and Services) requires that goods and services with an estimated value in excess of \$5,000 shall be obtained based on at least three quotations.

In three departments (Transport Control Department (TCD), Child and Family Services (C&FS), Public Lands and Buildings (PL&B)) we found instances of non-compliance with this FI.

Quotations provide an avenue for one to consider various vendor offers and to help ensure value for money. Absence of required quotations or lack of documentation may increase the risk of fraudulent procurement transactions.

In response to our recommendation, TCD and PL&B have agreed to take steps to ensure compliance with FI 8.2.3.

C&FS pointed out that the transactions that we had noted as not compliant with the FI were for overseas treatment facilities. These are specialised residential treatment programs where children are enrolled based on their assessed psychological or

psychiatric needs. Facilities are selected based on recommendations from their referral assessment. Three quotes cannot be obtained.

We were informed that the Department is working with the Project Management and Procurement Office in the Ministry of Finance to be given exemption to FI 8.2 with respect to overseas facilities so that the facilities can be sole sourced based on their specialised ability to meet client need.

### **3.9.3 Lack of Contracts for Goods and Services in excess of \$50,000**

Financial Instruction FI 8.3.1 (Contracts/Agreements for Goods or Services in Excess of \$50,000) requires that goods or services in excess of \$50,000 must be supported by a contract or written agreement.

In the Department of Child and Family Services, we noted a series of payments totalling more than \$150,000 for which the Department was not able to provide a contract.

The lack of a proper contract increases the risk of misappropriation of government assets and/or fraudulent transactions being recorded in the financial statements.

We recommended that the Accounting Officer ensure that agreements with service providers likely to require payments in excess of \$50,000 are supported by a written contract.

The Department agreed with our recommendation and indicated that enhanced procedures have been implemented to ensure that suitable contracts are obtained and that department file audits include an increased focus on compliance with FIs.

In the Department of Public Lands and Buildings, we noted two cases of non-compliance with FI 8.3.1.

We recommended that the Accounting Officer ensures that any agreement (as defined by the FI 8.3.1) entered into by the Government with third parties is documented by way of a contract.

The Department agreed with our recommendation.

### **3.9.4 Lack of Cabinet Conclusions for Goods and Services in excess of \$100,000**

Financial Instruction 8.3 (Purchase of Goods and Services: Contracts/Agreements for goods and services in excess of \$100,000) requires that contracts totalling over \$100,000 (including those with multiple payments) must be approved by Cabinet before the agreement or contract is assigned. This includes contracts or agreements for the same/related goods or services (i.e. same vendor, purchased at the same time, for the

same purpose) wherein the delivery and receipt of those same goods and services by Government are separated on different dates.

We found two instances (one in the Department of Public Lands and Buildings and one in the Department of Works and Engineering) where no Cabinet Conclusion or Cabinet Conclusion reference was provided for the payments in excess of \$100,000 made to suppliers.

Lack of Cabinet approval, where stipulated by the FI's, increases the risk of unauthorised expenditure as well as misappropriation of government funds.

We recommended that the Accounting Officer in both the above departments should ensure that all contracts/agreements for goods and services in excess of \$100,000 are presented to Cabinet for approval.

The Departments agreed, and indicated that they now have a list of all contracts and will be updating that list with expiry dates to ensure that the tenders for renewal are done in a timely manner.

### **3.9.5 Lack of Government Indebtedness Check Documentation**

Financial Instruction 8.2 (Purchase of Goods and Services: Procedures) requires that for all contracts, the Office of the Tax Commissioner, the Department of Social Insurance and the Accountant-General's Department should be contacted for clearance and/or information regarding Government indebtedness before the contract is awarded and this must be documented and kept with the contract. If debt exists, arrangements for repayment must be agreed and included in the contract (as appropriate for offset) before the contract is awarded.

We noted a number of instances in the Ministry of Public Works where indebtedness checks were not carried out as required.

Lack of proper indebtedness checks could result in missed opportunities for collections of amounts owed to Government.

We recommended that the Accounting Officer in the Ministry ensure that proper indebtedness checks are performed and documented before contracts are awarded and payments made to vendors.

The Ministry agreed to implement our recommendation.

### 3.9.6 Numerous Issues concerning Payments made by the Department of Financial Assistance

#### **Lack of formal policies and procedures**

The Department of Financial Assistance (DFA) lacks formal policies and procedures that integrate the implementation of various legislation (i.e., the Financial Assistance Act 2001, Financial Assistance Regulations 2004, Child Day Care Allowance Act 2008, and Child Day Care Allowance Regulations 2008) in its operations and utilisation of resources.

The impact of the lack of formal policies and procedures is evident in the following areas:

- approvals of rental awards beyond the legislated maximum rate;
- payments made for awards covering prior years;
- Child Day Care payments made for awards covering prior terms;
- lack of completeness and inconsistency in the determination of income for the purpose of calculation of recommended assistance;
- payments made for financial assistance awards with outdated supporting document, and
- payment of awards directly to applicants rather than paying the vendors on behalf of the applicants.

Lack of formal policies and procedures could result in inconsistencies in processing Financial Assistance (FA) and Child Day Care Allowance (CDA) awards and ultimately result in invalid or over-payments.

We recommended that the DFA should finalise and implement formal policies and procedures and train its employees to comply with its policies and procedures.

We were informed that new policies and procedures were in full effect by September 2018 and that training is ongoing.

#### **Overpayment made to vendors not identified in a timely manner**

We identified awards for the year ended March 31, 2018, totalling \$99,332, paid to vendors on behalf of 12 deceased applicants, whose deceased dates pertained to March 2017 or earlier. Upon further review, we concluded that there had been no financial misappropriation.

Lack of appropriate monitoring procedures for deceased applicants are likely to result in invalid or over-payments to vendors.

We recommended that the DFA implement controls to monitor information on applicants' deceased dates to avoid payment of awards to deceased awardees.

Our recommendation was accepted and we were informed that the Department has implemented a policy requiring the Investigative Officers to review the Royal Gazette for the purpose of determining if any of the 'death notices' pertain to its client list.

**Lack of supporting documentation**

Our testing identified instances where supporting documentation for award payments was lacking for CDA and FA payments.

Lack of appropriate supporting documentation could result in incorrect or invalid payments.

We recommended that the DFA strengthen its information retention and file management processes.

The Department agreed with our recommendation and informed us that lack of documentation is being addressed by the recent implementation of policies and procedures for documentation recently implemented. Employee training has also commenced. We were also informed that it would be at least six months to a year before any significant improvement can be expected to be realised.

**3.9.7 Non-compliance with the Terms and Conditions of Grant Agreements**

Financial Instruction 10.7.7 (Breach of Conditions of Grant) states that: "Where the Ministry/Department is satisfied that the recipient has failed to comply with the conditions of any grant made by the Bermuda Government, the department or ministry may decide not to make releases of current Grant Funds until satisfied that the recipient has taken steps to remedy the situation which caused the breach".

In our previous Annual Report, we reported that, during the year ended March 31, 2017, grants totalling \$800,000 were paid by the Department of Youth, Sport and Recreation to the National Sports Centre despite non-compliance with the terms and conditions of the grant agreement.

Breach of the terms and conditions of grants could result in improper payments and/or grantees not complying with the terms and agreements.

We had recommended that the departmental Accounting Officer ensure adherence to grant procedures before grants are disbursed.

During our audit of the Consolidated Fund financial statements for the year ended March 31, 2018, we noted that the Department's Grant agreements with the National Sports Centre and Bermuda Football Association included a clause that states, "The final two instalments will be available after approval of your mid-term reports". The final grant

payments were released to the grantees without evidence of approval of mid-term reports.

We recommended again that the Accounting Officer adhere to the required internal control mechanisms to ensure that grantees comply with the requirements of the grant agreements, before any grant payments are released by Government.

Management has accepted the recommendation and has indicated that immediate measures have been taken to ensure future compliance so that mid-term reports and financial details are received on a timely basis and prior to the release of further grant funding.

### **3.10 Revenues and Accounts Receivables**

During our audit of revenues and accounts receivables, we noted a number of instances of concern that occurred and/or reoccurred in a number of ministries and departments, including:

- lack of oversight for a significant change in the way that payroll tax is calculated;
- important data validation not completed by the Office of the Tax Commissioner (OTC) on a timely basis;
- lack of review of the OTC accounts receivable and allowance for doubtful debts;
- lack of processes to ensure completeness of tax filings;
- lack of reconciliations between control accounts and subsidiary ledgers;
- inconsistent application of estimating required provisions for doubtful accounts receivable;
- inconsistent treatment/follow up on delinquent accounts receivable;
- no formal documentation of the OTC's accounts receivable estimate process, and
- receipts for annual fees from companies recorded in the wrong fiscal year.

#### **3.10.1 Lack of Oversight for a Significant change in the way Payroll Tax is calculated**

Section 14 of the Payroll Tax Amendment Act 2017 (Payroll Tax Act) revised the tax rates used in calculating the employees' and deemed employees' share of payroll tax from a single rate of 6% to progressive tax rates based on a table of standard rate bands, effective July 1, 2017. The progressive tax rates under the Payroll Tax Act introduced a complexity in the calculation of payroll tax rates and thus increased the risk of inaccuracies of the payroll tax reported by taxpayers.



The payroll tax return form (form) was modified to accommodate the progressive payroll tax rates. However, the form does not provide sufficient information to readily recalculate the employee portion of the payroll tax and thus limits the ability of the Office of the Tax Commissioner (OTC) to quickly assess the reasonableness of the payroll tax being remitted and to take appropriate action.

In addition, the OTC did not perform audits for payroll tax returns filed using the progressive tax rates under the Payroll Tax Act.

Timely audits of the payroll tax returns submitted by the taxpayers would identify any misstatements in the payroll tax and would allow OTC to promptly take corrective action.

A comparison of information received from the top four taxpayers and the recorded payroll tax revenues resulted in an extrapolated misstatement of \$5 million for payroll tax revenues and the related accounts receivable, which was included in the summary of identified misstatements.

We recommended that the OTC should perform timely audits on payroll tax returns submitted using the progressive tax rates.

Management agreed with the recommendation but indicated some extenuating circumstances:

- The OTC did not have sufficient audit staff for the majority of the fiscal year and the staff involved were working closely with the Minister to work out the many factors related to the payroll tax change. The Audit and Compliance section has eight posts of which four have been vacant for years, including 2017-18. Three of those vacant posts are mainly responsible for conducting taxpayer audits. One post was filled in January 2018 and three were filled in April 2018. Therefore, through the 2017-18 fiscal year tasks were prioritised to ensure that taxpayers continued to register, file and pay tax, be assessed and file returns and pay assessments, assist existing taxpayers with filing and becoming current, manage the changes to the legislation and the major change to the tiered tax while working through the relevant changes with the Ministry of Finance.
- The new legislation does not require personal information to be provided. Staff review tax returns prior to keying either at the counter when receiving or upon receipt from the AcG Cashiers for completeness and correctness, as much as can be determined without the supporting documentation.
- Supporting documentation was required for all changes to Section M (Employee Section) of the return form before taxpayer adjustments were accepted. Therefore, some ad hoc audits occurred during the year.

We were informed that an audit plan has been developed and audits are in progress in the current fiscal year. The OTC will continue to perform audits in line with its plan and resources.

**3.10.2 Important Data validation not completed by the Office of the Tax Commissioner on a timely basis**

The data processing cycle for payroll tax, hotel occupancy tax and corporate service tax includes data validation on a quarterly basis. The validation identifies underpayments, penalties and errors that were encountered during the data processing that need to be reviewed and cleared.

This task is the ultimate quality verification step in the data processing cycle and is therefore critical to ensuring that tax revenues and related accounts receivable are accurate.

The validation process had not been completed as of September 2018. Without this validation process, we were unable to determine the extent of the misstatements in the OTC revenue and related accounts receivable. This was a significant issue since OTC revenues are material to the Consolidated Fund as a whole.

As a result, we were unable to determine whether adjustments might be necessary to revenues and related accounts receivable, total financial assets, annual deficit, accumulated deficit and net debt. This led to the Auditor General's audit opinion being qualified (see Section 3.2.1).

We recommended that, in future years, the OTC should complete the validation process prior to the start of our year-end audit of payroll tax balances.

The OTC did not accept the recommendation, claiming that the validation process had been completed in September 2018. However, during the course of our audit, we had noted that the OTC had in October 2018 submitted to the Accountant General a memorandum entitled "Analysis of Payroll Tax balances in advance of completion of all validations". We understand that the memorandum had been prepared because the validation process had not been completed. The OTC also informed us that the change to payroll tax from a flat rate to a tiered annualised rate caused major disruption to the OTC's automated processes.

We noted the desirability of more effective communications between the Ministry of Finance and the OTC to help ensure that the OTC has the resources and time needed to implement and test implemented changes for accuracy – thus reducing the risk of financial statement inaccuracies.

### **3.10.3 Lack of review of the OTC Accounts Receivable and Allowance for Doubtful Debts**

Financial Instructions 4.3.3 (Control Procedures) states that control procedures should be established including independent checks on performance, proper verification of recorded amounts and procedures to prove that control procedures are achieved. It further states that person's independent of the individuals originally responsible for preparing the data should compare records with related assets, documents, or control accounts periodically.

The Assistant Tax Commissioner prepares the Accounts Receivable and Allowance for Doubtful Accounts schedules. However, there is no evidence that these schedules were reviewed and they contained multiple errors.

If this lack of review is repeated in the future, it will increase the risk that tax revenues and accounts receivable balances may be materially misstated.

We recommended that the OTC should comply with FI 4.3.3.

Management agreed with the recommendation and informed us that a temporary additional post has been approved and staffed with a knowledgeable staff member to work closely with the Assistant Tax Commissioner – Operations.

### **3.10.4 Lack of processes to ensure completeness of Tax Filings**

Financial Instructions 13.1.1 (Revenue Process) states that Accounting Officers must identify the sources and amounts of revenue authorised by legislation so the department will claim all money to which it is entitled. It further requires Accounting Officers to claim and collect revenue when it arises and use the correct charges or rates and provide official government receipts.

In addition, FI 13.2.3 (Self-Assessment) states that departments should ensure that information received is valid and correct. Methods to verify the accuracy of self-assessment include the use of information supplied by other Government agencies or regulatory bodies and a check-off of returns received against a list of those required to file returns.

#### *Corporate Services Tax*

The OTC does not have procedures to address the completeness of corporate services tax revenue. Five out of seven audit samples of corporate service providers taken from an independent source did not have a corporate service tax return filed with OTC.

#### *Financial Services Tax*

The population of financial services tax registrants is only 16 for the fiscal year. Given that, Bermuda has a strong presence in the financial services sector, and more tax registrants are expected. Subsequent to the current fiscal year, three tax registrants were added to the population.

The OTC is reliant on the taxpayer's self-reporting for tax dues and implements a detective approach to subject a taxpayer for audit when suspicion/doubt is triggered. Given this context, revenue reported for the fiscal year may be incomplete.

We recommended that the OTC should comply with FI 13.1.1 and FI 13.2.3 and establish approved written policies and procedures to address completeness of revenue.

Management disagrees. Its view is that no policy written within the OTC will be able to fully address completeness of revenue without improvement to resources and relevant changes to legislation. One method requested of Cabinet is to establish a "One Government" policy that seeks to ensure that all persons operating within Bermuda are registered and current with relevant taxes. Management states that these types of controls must be applied in order to address completeness.

The OTC's legislation states that all taxes other than land are self-reported. In management's opinion, all businesses listed as approved to offer Corporate Services are not necessarily offering services for the year being audited or are offering services to exempt companies. The website does not show a date when the companies were listed. In management's view, to avoid stretching the limited resources of the OTC the list of approved Corporate Service providers should, at a minimum, be obtained within the fiscal year being audited.

Management agrees that more identification of risk outside of the registered tax population is desirable but its resources must be used strategically. As the OTC, moves to institute more automation, management stated that it would consider these types of reviews.

Management indicated that its current resources, specifically the Tax System, needs to be replaced in order to implement more effective ways of getting taxpayers to pay tax due such as not being able to renew a motor vehicle license. Currently a definitive timeline cannot be provided but replacing a major system inherently has a minimum of two years' lead-time after Cabinet approval is obtained.

#### **3.10.5 Lack of Reconciliation between Control Accounts and Subsidiary Ledgers**

Financial Instruction 13.10.6 (Accounting Records) states that the total of subsidiary records should be balanced at least quarterly to the control accounts and any differences must be investigated and cleared.

Proper application of this requirement helps to ensure the accuracy of the record-keeping process and maintains the accounts receivable on a timely and accurate basis. If such reconciliations are not performed, there is a risk of fraud and errors going undetected and a risk of material misstatements in the financial statements.

We found that in the Ministry of Public Works the total accounts receivable per the general ledger was approximately \$1 million higher than the balance in the Ministry's subsidiary accounts receivable system.

We recommended that the Accounting Officer responsible for the Ministry ensure that FI 13.10.6 is adhered to and that any differences be reviewed, investigated and cleared promptly.

The Ministry agreed with our recommendation and indicated that the difference has been in existence since 2011. It has committed to work with the Accountant General's Department to resolve the difference by March 31, 2019.

#### **3.10.6 Inconsistent application of estimating required Provisions for Doubtful Accounts Receivable**

The Year-end Instructions include direction on how to calculate an appropriate provision for accounts receivable that may not be collectible (doubtful accounts).

We noted that the Ministry of Public Works used different ageing categories and provision rates to those stated in the Year-end Instructions when calculating the year-end allowance for doubtful accounts.

The adequacy of the allowance was not reviewed nor adjusted based on the success of collection efforts, accounts ageing, and an overall evaluation of the accounts. Thus, the amount of the allowance may have been inaccurate.

We recommend that the Accountant General ensure that the Ministry of Public Works use the ageing categories and provision rates included in the Year-end Instructions when calculating an allowance for bad debts.

The Ministry has now agreed to implement the Year-end Instructions for the March 31, 2019 year-end.

#### **3.10.7 Inconsistent Treatment/Follow up of Delinquent Accounts Receivable**

Financial Instruction 13.11 (Overdue Accounts) states, "All departments are responsible for developing and implementing effective collection procedures for their accounts receivable in accordance with the FI. Every effort should be made to maximise Government cash flows by minimizing the incidence of uncollectible accounts".

The FI requires vigorous pursuit of all unpaid accounts. Actions to be taken include:

- for debts older than 30 days, contacting the debtor to ascertain if there are any unresolved issues relating to the debt;
- sending written notification that non-payment could result in legal proceedings to recover the debt without further notice, and
- discontinuing service to the debtor.

In the Registrar of Companies (ROC), we noted that \$7,597,456 (83%) of the total balance of accounts receivable as at March 31, 2018, is fully provided for in the accounts as doubtful balances.

These aged amounts pertain to companies that have been struck-off the register during the financial years ended 2011 through 2016. Following the strike-off process, companies are no longer permitted to operate and their bank accounts are frozen with funds remitted to the Fund. When companies are no longer in operation, they are unable to pay their outstanding debts to the Government.

Debts older than 90 days are to be referred to the Accountant General's Department for legal action. If it is not possible to recover the debt by legal process, the FI requires the Accountant General to seek approval from the Minister of Finance to write off the debt.

The Department has not prepared or submitted write-off proposals or supporting documentation to the ACG since fiscal year 2015.

We recommended that the Department should submit the documentation as required per FI 13.11.6 to the AcG, to seek approval for write-off of debts that the Department is unable to collect.

Management agreed and informed us that it was in the process of determining the strike-off list for the year ended March 31, 2018. For the end of fiscal 2019, the ROC will request approval of the Accountant General's Department to write-off amounts relating to fiscal periods ending 2017 and 2018, respectively.

### **3.10.8 No formal documentation of the OTC accounts receivable estimate process**

Payroll tax, land tax and other taxes and duties managed by the OTC accounted for revenue of \$607 million in the year ended March 31, 2018, about 57% of Government's total revenue.

One of the OTC's most important processes is to determine the accounts receivable at year-end, including several steps to come up with the balance of the accounts receivable from each tax stream. However, although the process is documented in a draft manual, the manual still needs to be finalised and approved.

The accounts receivable estimate process is a critical procedure performed at year-end that entails a lot of detail to determine the estimates that should be included in the total accounts receivable.

Lack of a complete and approved manual may cause inconsistencies in calculating the accounts receivable balance, which could lead to misstatements in the financial statements. In addition, the OTC is exposed to a business continuity risk if employees who are knowledgeable with the process resign from their positions.

We recommended in previous years that the OTC should give priority to finalising its draft manual documenting the estimate process for its accounts receivable.

Management disagrees with our recommendation, stating that it is an important item to be managed but “it is not a high priority”.

We were informed that the document was not updated last fiscal year as time and resources at the OTC did not allow. However, we were also informed that the manual would be updated in the year ended March 31, 2019 as the additional resource has been identified.

### **3.10.9 Receipts for annual fees from companies recorded in the wrong fiscal year**

We noted instances at the Registrar of Companies (ROC)) where receipts from companies with outstanding receivables from prior years were applied to the current fees due. For example, we observed an instance where a company had 2017 annual fees outstanding, but when a payment was received by the ROC on January 18, 2018, it was applied to the 2018 annual fees due, therefore avoiding penalty fees for late payment relating to 2018.

ROC is losing revenues and given the manual processes in the department, the practice could lead to irregularities and errors passing undetected.

We recommended that when payment is received from a company it should be applied to the earliest amount due. Management agreed and informed us that it has implemented the recommendation.

## **3.11 Tangible Capital Assets**

### **3.11.1 Analysis of capital expenditures during the year ended March 31, 2018 not completed on a timely basis**

Purchases of a capital nature are recorded initially as capital development expenditures and adjusted later to tangible capital assets once analysed by the Ministry of Public Works (MPW) at year-end. The Ministry did not complete this analysis of capital development expenditures. This meant that we were unable to obtain sufficient and appropriate audit

evidence to support the accuracy and completeness of capital development expenditures incurred during the year, amounting to \$10.3 million.

As a result, we could not determine whether adjustments might be necessary to tangible capital assets, capital development expenses and amortisation expense, total non-financial assets, annual deficit and accumulated deficit. This led to the Auditor General's audit opinion being qualified (see Section 3.2.1).

We recommended that the MPW should takes steps to ensure that the year-end capital development expenditures analysis is completed and adjustments to tangible capital assets made in a timely manner.

The management of the MPW has accepted the recommendation and indicated that steps were being taken to ensure timely analysis of capital expenditures would be in place for the year ended March 31, 2019.

### **3.11.2 Lack of accuracy in the capital assets register**

Financial Instruction 17.1 (Tangible Capital Assets – Definition) defines tangible capital assets as assets having physical substance that:

- a) are held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for the development, construction, maintenance or repair of other tangible capital assets;
- b) have useful lives extending beyond one year;
- c) are intended to be used on a continued basis, and
- d) are not for sale in the ordinary course of operations.

Tangible capital assets or fixed assets will be capitalised in the books and records of government. As such, these assets must be monitored and controlled to ensure they are properly recorded and accounted for. The Accounting Officers are responsible for the security and safety of all Government assets.

Financial Instruction 17.3.1 (Capital Assets Register) states that Accounting Officers are responsible for maintaining an up to date register of all Government property, excluding land. Accounting Officers should implement checks, at intervals not exceeding three months, to ensure that the register is up to date and all items listed are in use in the department and in good condition.

The Ministry of Public Works (MPW) and the Accountant General's Department (AcG) did not complete the analysis of assets under construction as at March 31, 2018.

In addition, status of some projects and related accounting treatment was not communicated and agreed between MPW and AcG in a timely manner.



The following issues were noted relating to work-in-progress:

- There were projects that had been completed before March 31, 2018 but that remained in asset under construction and, therefore, were not being amortised. Adjustments to capitalise projects with accumulated costs amounting to \$7.7 million were proposed in addition to likely misstatements on projects with accumulated costs amounting to \$4.7 million.
- Items of an operating nature being capitalised; for example, custom duty totalling \$241,674 paid to HM Customs.
- Review of the allocation of internal costs such as cost for asphalt and labour was not performed in a timely manner.
- Lack of proper approval of some change orders in line with FI 12.5, which requires variations and additions to be authorised in writing by the appropriate Accounting Officer and the Project Management and Procurement Office in the Ministry of Finance.
- Additions, which were not recorded in the proper period or were capitalised in the subsequent period as separate assets.

Lack of timely analysis and communication between MPW and AcG could lead to misstatements in assets under construction, capital expenditures, tangible capital assets and amortisation expenses.

We recommended that the MPW and the AcG, on a regular and timely basis, review assets under construction.

Management accepted the recommendation and committed to have the register of assets updated before March 31, 2019.

As in previous years, we noted a lack of regular physical inspection of tangible capital assets and inconsistencies in the useful life applied to additions of similar assets.

To help prevent the physical loss of tangible assets and misstatement of the assets in the Consolidated Fund financial statements, we recommended that the AcG review the capital assets register to ensure its completeness and accuracy and should ensure that Accounting Officers comply with the FI.

### **3.11.3 Cost of betterments capitalised incompletely**

Financial Instruction (FI) 17.1.1 (Elements of Cost) states that the cost (of a tangible capital asset) is the gross amount of consideration given up to acquire, construct, develop or better a tangible capital asset, and includes all costs directly attributable to acquisition, construction, development or betterment of the tangible capital asset, including installing the asset at the location and in the condition necessary for its intended use. FI 17.7.3 (Betterments) requires that betterments such as road resurfacing

that extend the useful life of an infrastructure asset be capitalised and depreciated. In addition, work that does not extend the life or usefulness of the asset should be expensed while betterments over \$10,000 are to be capitalised.

We noted instances of road works betterments having been capitalised without taking into consideration all costs relating to that capital project. Lack of proper analysis of costs making up a tangible capital asset could result in inconsistent application of accounting policies and ultimately, misstatements in the financial statements.

We recommended that the Ministry of Public Works should comply with FIs 17.7.1 and 17.7.3.

The Ministry accepted the recommendation and indicated that analysis of capital expenditure will be conducted starting in January 2019 and ensure appropriate treatment of capital costs incurred for the year ending March 31, 2019.

#### **3.11.4 Capital Expenditure Change Orders not approved**

Financial Instruction 12.5 (Change Orders) requires that variations and additions to capital projects must be authorised in writing by the appropriate Accounting Officer and the Project Management and Procurement Office in the Ministry of Finance.

We noted one project in the Ministry of Public Works for engineering support services having an initial bid of \$40,000 on which there were several change orders with total cost of \$132,186). Except for the Chief Engineer sign off on the project, variation directives' forms, appropriate authorisations as described above were not obtained for the variations.

Non-compliance with FI 12.5 increases the risk of overspending or abuse of budget, which may ultimately lead to improper and/or fraudulent payments.

We recommended that the Ministry ensure full compliance with FI 12.5.

Management agreed and indicated that all change orders, regardless of amount, are now referred to the Accounting Officer and the Project Management and Procurement Office in the Ministry of Finance in line with FI 12.5.

### **3.12 Operating Leases**

Operating leases are included as contractual obligations in the notes to the financial statements (Note 12 of the Consolidated Fund financial statements for the year ended March 31, 2018). During our review of the listing of operating leases that supports the disclosures in Note 12, we noted examples where:

- properties were listed twice;
- rental and service fees did not reflect current information for each lease;

- properties no longer leased were still included, and
- properties without executed leases were still included.

We had found similar issues in the prior year and so we recommended again that, in future years, the Accountant General's Department (AcG) and the Department of Public Lands and Buildings (PLB) should coordinate efforts to ensure that discrepancies regarding operating lease records are resolved prior to submission of the amounts for disclosure in the notes to the financial statements.

We also recalculated commitment amounts reflected in the note disclosure of the financial statements and found the amounts should have been greater by approximately \$2.9 million.

Management of AcG and PLB agreed with our recommendation. They committed to reviewing all contractual obligation notes in the financial statements to ensure there are no discrepancies and that the disclosures are accurate for the year ended March 31, 2019.

### **3.13 Audits of the Financial Statements of Government-controlled Organisations**

The Auditor General audits the annual financial statements of Government-controlled organisations pursuant to Section 6 of the Audit Act 1990, and the statutes under which the organisations operate. An organisation is deemed to be Government-controlled if Government has, by whatever means, the power to require its affairs to be conducted in accordance with its wishes.

After each audit, we provide a management letter to the person, governing board or council with responsibility for overseeing the organisation. The letter contains our observations and recommendations with respect to areas that, in the Auditor General's opinion, are significant to the oversight of the financial reporting process.

The 24 Government-controlled organisations operating at March 31, 2019, were:

- African Diaspora Heritage Trail Foundation
- Bermuda Airport Authority
- Bermuda Arts Council
- Bermuda Casino Gaming Commission
- Bermuda Civil Aviation Authority
- Bermuda College
- Bermuda Deposit Insurance Corporation
- Bermuda Economic Development Corporation
- Bermuda Educators Council

- Bermuda Health Council
- Bermuda Hospitals Board
- Bermuda Housing Corporation
- Bermuda Housing Trust
- Bermuda Land Development Company Limited
- Bermuda Shipping and Maritime Authority
- Bermuda Sport Anti-Doping Authority
- Bermuda Tourism Authority
- Board of Trustees of the Golf Courses
- CedarBridge Academy
- Financial Intelligence Agency
- Pension Commission
- Regulatory Authority
- Trustees of the National Sports Centre
- West End Development Corporation

In the year ended March 31, 2019, we completed 21 audits of Government-controlled organisations and audited financial statements were then issued by the organisations concerned. The audit opinions for one of the financial statements was a disclaimer and the audit opinion for one of the financial statements was qualified. Details of the disclaimed and qualified audit opinions are shown in the material that follows.

As of March 31, 2019, all the above organisations should have issued audited financial statements for the year ended March 31, 2018 (or December 31, 2017, in the case of the Bermuda Tourism Authority and the Pensions Commission). The list below shows that 17 organisations between them had 54 years of financial statements outstanding. It should be noted though that, in the list below, the years marked with an asterisk (\*) indicate that, at March 31, 2019, our audits were substantially complete, and six sets of financial statements were issued during the first few months of the 2019-2020 fiscal year.

- African Diaspora Heritage Trail Foundation (2007, 2008, 2009, 2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018)
- Bermuda Casino Gaming Commission (2018\*)
- Bermuda Civil Aviation Authority (2017\* and 2018)
- Bermuda College (2017 and 2018)
- Bermuda Deposit Insurance Corporation (2018\*)
- Bermuda Economic Development Corporation (2018)
- Bermuda Educators Council (2013, 2014, 2015, 2016, 2017 and 2018)
- Bermuda Hospitals Board (2016, 2017 and 2018)

- Bermuda Land Development Company Limited (2013\*, 2014, 2015, 2016, 2017 and 2018)
- Bermuda Shipping and Maritime Authority (2018)
- Board of Trustees of the Golf Courses (2013, 2014, 2015, 2016, 2017 and 2018)
- CedarBridge Academy (2016, 2017 and 2018)
- Financial Intelligence Agency (2018)
- Regulatory Authority (2018)
- Tax Reform Commission (2018)
- Trustees of the National Sports Centre (2013, 2014, 2015, 2016, 2017 and 2018)
- West End Development Corporation (2018\*)

#### **3.13.1 African Diaspora Heritage Trail Foundation**

The African Diaspora Heritage Trail Foundation (the Foundation) was incorporated as a local company limited by guarantee on July 27, 2006.

Its principal objectives are to promote, advance and develop the concept of an African Diaspora Heritage Trail; to conserve and promote historic sites and venues throughout the African Diaspora; to promote and develop relationships between countries of the African Diaspora; to promote and advance the education of visitors to Bermuda and other countries of the African Diaspora; to provide for the expression and exchange of views and to engage in research of all kinds.

As at March 31, 2019, the Foundation's annual financial statements from inception to March 31, 2018 had yet to be finalised.

#### **3.13.2 Bermuda Airport Authority**

The Bermuda Airport Authority (the Authority) was established on March 2, 2017, by the Bermuda Airport Authority Act 2017.

The principal functions and powers of the Authority as set out in Part 2, Section 4 of the Act, are to oversee the administration, maintenance, management, operations and redevelopment of the L.F. Wade International Airport.

During the period covered by this Report, the Authority issued its first audited financial statements, which were for the period from March 2, 2017 to March 31, 2018. The audit opinion on the financial statements was unqualified.

#### **3.13.3 Bermuda Arts Council**

The principal objectives of the Bermuda Arts Council (the Council) are to develop and improve the knowledge, understanding and practice of the arts; to increase the accessibility of the arts whether by means of festivals of the arts, or otherwise, to the

public throughout Bermuda, and advise and cooperate with Government departments, art groups and societies in Bermuda and other bodies on any matters concerned whether directly or indirectly with the foregoing objectives.

During the period covered by this report, the Council issued audited financial statements for the year ended March 31, 2018. The audit opinion on the financial statements was unqualified.

#### **3.13.4 Bermuda Casino Gaming Commission**

The Bermuda Casino Gaming Commission (the Commission) commenced operations in 2015 based on the enactment of the Casino Gaming Act 2014. The organisation is responsible for regulating the Casino Gaming industry in Bermuda.

During the period covered by this report, the Council issued its first audited financial statements, which were for the period ended March 31, 2017. The audit opinion on the financial statements was unqualified.

After the period covered by this report, the Council issued its financial statements for the year ended March 31, 2018. The audit opinion thereon was unqualified.

#### **3.13.5 Bermuda Civil Aviation Authority**

The Bermuda Civil Aviation Authority (the BCAA) was established on October 1, 2016. It is responsible for the regulation and safety oversight of aviation in Bermuda and all aircraft on the Bermuda Aircraft Registry.

As at March 31, 2019, the BCAA was yet to issue any audited financial statements. Its first statements will be for the period ended March 31, 2017. Also outstanding are its audited financial statements for the year ended March 31, 2018.

After the period covered by this report, BCAA issued its financial statements for the year ended March 31, 2017. The audit opinion was unqualified.

#### **3.13.6 Bermuda College**

Bermuda College (the College) provides full- and part-time education and training for persons over the compulsory school age.

During the period covered by this report, the Council issued audited financial statements for the year ended March 31, 2016. The financial statements received a disclaimer of opinion due to serious deficiencies in the accounting records of the Fund and in its system of internal controls. The disclaimer of opinion stated:

*Due to serious deficiencies in the accounting records of the Bermuda College and in the system of internal controls, I was not able to satisfy myself that all the assets,*

*liabilities, revenues and expenses of the Bermuda College had been reflected, nor was I able to satisfy myself that recorded transactions represented valid transactions of the Bermuda College for the year then ended. As a result, I was unable to determine whether adjustments were required in respect to recorded or unrecorded assets, recorded or unrecorded liabilities and the elements making up the statement of financial position and the statement of operations. (August 28, 2018)*

#### **3.13.7 Bermuda Deposit Insurance Corporation**

The Bermuda Deposit Insurance Corporation (the Corporation) was established as an independent body to administer and enforce the deposit insurance scheme, as well as to manage the deposit insurance fund. It commenced operations in 2012.

During the period covered by this report, the Corporation issued its first audited financial statements, which were for the period ended March 31, 2017. The audit opinion on the financial statements was unqualified.

After the period covered by this report, the Board issued its financial statements for the year ended March 31, 2018. The audit opinion thereon was unqualified.

#### **3.13.8 Bermuda Economic Development Corporation**

The Bermuda Economic Development Corporation (the BEDC) oversees the development of a strong, well-managed, and prosperous business sector in Bermuda.

During the period covered by this report, the BEDC issued audited financial statements for the year ended March 31, 2017. The audit opinion on the financial statements was unqualified.

#### **3.13.9 Bermuda Educators Council**

The principal objectives of the Bermuda Educators Council (the Council) are to improve standards of teaching to enhance the quality of learning and to maintain and improve standards of professional conduct of educators in the public interest. The Council commenced operations on April 10, 2003.

During the period covered by this report, the Council did not issue any sets of audited financial statements. The latest audited financial statements issued by the Council were for the year ended March 31, 2012.

#### **3.13.10 Bermuda Health Council**

The Bermuda Health Council (the Council) is mandated to regulate, coordinate and enhance health services.

During the period covered by this report, the Council issued audited financial statements for the year ended March 31, 2018. The audit opinion on the financial statements was unqualified.

#### **3.13.11 Bermuda Hospitals Board**

The Bermuda Hospitals Board (the Board) is responsible for operating the King Edward VII Memorial Hospital (KEMH), Mid-Atlantic Wellness Institute (MWI) and Healthcare Partners Ltd., (HPL). KEMH is an inpatient acute and extended care hospital and the MWI is a psychiatric facility. HPL is a holding company created to provide a vehicle for the Board to participate in partnerships and/or joint venture businesses.

During the period covered by this report, the Board issued audited financial statements for the year ended March 31, 2015. The audit opinion on the financial statements was unqualified.

#### **3.13.12 Bermuda Housing Corporation**

The primary functions of the Bermuda Housing Corporation (the Corporation) are to provide housing in Bermuda, to promote home ownership, to undertake and carry out housing schemes, and to undertake such other functions in connection with housing as the Minister responsible for housing may require.

During the period covered by this Report, the Corporation issued audited financial statements for the years ended March 31, 2016 to 2018. The audit opinions on the financial statements were unqualified.

#### **3.13.13 Bermuda Housing Trust**

The Bermuda Housing Trust (the Trust) initiates and administers programmes for the relief of poverty, suffering and misfortune among elderly persons in Bermuda by providing accommodation for such persons on favourable terms.

During the period covered by this Report, the Trust issued audited financial statements for the year ended March 31, 2018. The audit opinion on the financial statements was unqualified.



### **3.13.14 Bermuda Land Development Company Limited**

The general purpose of the Bermuda Land Development Company Limited (the Company) is to manage and develop the land entrusted to it in a manner that will integrate the land into the economic and social fabric of Bermuda and create opportunities for increased employment now and in the future.

During the period covered by this report, the Company did not issue any sets of audited financial statements. The latest audited financial statements issued by the Company were for the year ended March 31, 2012.

After the period covered by this report, the Company issued its financial statements for the year ended March 31, 2013. The audit opinion thereon was unqualified but included an “other matter” paragraph. Section 6 of the Audit Act 1990, states that I may include in my Auditor’s Report any other comments arising out of the audit that I consider appropriate.

The Other Matter read as follows:

***Incidences of non-compliance with the Bermuda Land Development Company Limited’s internal policies and procedures***

*I wish to draw attention to ongoing incidences of non-compliance with the Bermuda Land Development Company Limited’s internal policies and procedures, which were formulated from the Government of Bermuda’s Financial Instructions and form the minimum standard for financial controls for the Government. Quotations and tendering documents for contracts worth \$329,521 (2012 – \$1,327,748) were not available for my review, along with significant deficiencies in the financial close process that resulted in various audit adjustments.*

*Although these incidences of non-compliance did not lead me to qualify my audit opinion for the current year, they revealed weakness and deficiencies in the internal control environment. It is important that the Bermuda Land Development Company Limited maintains and adheres to its internal control framework.*

### **3.13.15 Bermuda Shipping and Maritime Authority**

The Bermuda Shipping and Maritime Authority (the Authority) was established by the Bermuda Shipping and Maritime Authority Act, 2016 in July 2016. It commenced its statutory operations on October 1, 2016. It is responsible for maritime safety, prevention of pollution from ships, maritime security and standards of seafarers on Bermuda registered ships, under the oversight of the Minister responsible for Shipping, under the provisions of the Merchant Shipping Act 2002.

The Authority's first audited financial statements will be for the period ended March 31, 2018.

#### **3.13.16 Bermuda Sport Anti-Doping Authority**

The Bermuda Sport Anti-Doping Authority (the BSADA) is responsible for ensuring sports bodies in Bermuda are compliant with the World Anti-Doping Code and the Illicit Policy through the implementation and management of the Bermuda Government Policy Paper on Anti-Doping. The BSADA provides education and information programmes; athlete testing; intelligence management and exclusive results management for anti-doping rule violations.

During the period covered by this report, the BSADA issued audited financial statements for the year ended March 31, 2018. The audit opinion on the financial statements was unqualified.

#### **3.13.17 Bermuda Tourism Authority**

The Bermuda Tourism Authority (the Authority) was established on December 16, 2013 under the Bermuda Tourism Authority Act 2013, following the repeal of the Tourism Board Act 2012. The main functions of the Authority are to develop and promote Bermuda as a tourist destination; to advise the Government on matters relating to travel and tourism; to enhance the travel and tourism sector's contribution to the Bermuda economy; to provide appropriate tourism education and training, and to implement the National Tourism Plan.

During the period covered by this report, the Authority issued audited financial statements for the year ended December 31, 2017. The audit opinion thereon was unqualified.

#### **3.13.18 Board of Trustees of the Golf Courses**

The functions of the Board of Trustees of the Golf Courses (the Board) are to have general control, management and administration over the Port Royal, Ocean View and St. George's Golf Courses, and to maintain the golf courses in good and proper condition.

During the period covered by this report, the Board issued audited financial statements for the year ended March 31, 2012. The audit opinion thereon was disclaimed due to serious deficiencies in the accounting records of the Board and in its system of internal controls.

The basis for the disclaimer of opinion for the 2012 financial statements read:

*Due to serious deficiencies in the accounting records of the Board of Trustees of the Golf Courses and in the system of internal controls, I was not able to satisfy myself that all the assets, liabilities, revenues and expenses of the Board of Trustees of the Golf Courses had been reflected, nor was I able to satisfy myself that recorded transactions represented valid transactions of the Board of Trustees of the Golf Courses for the year ended. As a result, I was unable to determine whether adjustments were required in respect to recorded or unrecorded assets, recorded or unrecorded liabilities and the elements making up the balance sheet and the statement of operations and retained earnings for the year ended March 31, 2012. (October 18, 2018)*

#### **3.13.19 CedarBridge Academy**

CedarBridge Academy (the Academy) is a public senior school, providing education in accordance with the provisions of the Education Act 1996 and subsequent amendments.

During the period covered by this report, the Council did not issue any sets of audited financial statements. The latest audited financial statements issued by the Council were for the year ended March 31, 2015.

#### **3.13.20 Financial Intelligence Agency**

The Financial Intelligence Agency (the FIA) was established by the Financial Intelligence Agency Act 2007 to act as an independent agency authorised to receive, gather, store, analyse and disseminate information relating to suspected proceeds of crime and potential financing of terrorism. The FIA may also disseminate such information to the Bermuda Police Service and foreign financial intelligence authorities.

During the period covered by this report, the FIA issued audited financial statements for the year ended March 31, 2017. The audit opinion thereon was unqualified.

#### **3.13.21 Pension Commission**

The primary functions of the Pension Commission (the Commission) are to administer the Pension Scheme (Occupational Pensions) Act 1998 and the related regulations, to consider and determine applications for the registration of pension plans and to promote and ensure compliance with the provisions of the Act and the regulations.

During the period covered by this report, the Commission issued audited financial statements for the year ended December 31, 2017. The audit opinion thereon was unqualified.

### **3.13.22 Regulatory Authority**

The Regulatory Authority (the Authority) was established under the Regulatory Authority Act 2011. The Authority commenced operations on January 28, 2013 and currently operates as a telecommunications regulator under the Electronic Communications Act 2011.

During the period covered by this report, the Authority issued audited financial statements for the year ended March 31, 2017. The audit opinion on the financial statements was unqualified.

### **3.13.23 Tax Reform Commission**

The Tax Reform Commission (the Commission) was established by Section 3 of the Tax Reform Commission Act 2017 (the Act) on October 30, 2017.

The Commission was formed with the objective of advising the Government of any measures to improve Bermuda's system of taxation and revenue collection, in accordance with the functions set out in section 5 of the Act. The only set of financial statements will be for the period from February 9, 2018 to October 31, 2018. As at March 31, 2019, the financial statements were not finalised.

### **3.13.24 Trustees of the National Sports Centre**

The Trustees of the National Sports Centre (the 'Trustees') are to maintain the Centre's facilities and make the facilities available for sporting and other events.

During the period covered by this report, the Trustees issued audited financial statements for the year ended March 31, 2012. The audit opinion thereon was qualified.

The basis for the qualified opinion reads:

*I was unable to obtain sufficient appropriate audit evidence to support the accuracy and completeness of tangible capital assets with a net book value of \$46,447,977. As a result, I was unable to determine whether adjustments to assets, expenses, annual deficit and accumulated surplus might be necessary.  
(May 1, 2018)*

### **3.13.25 West End Development Corporation**

The general function of the West End Development Corporation (the Corporation) is to manage and develop all designated land in the western end of the Island with a view to the progressive improvement of the social and economic conditions.

During the period covered by this report, the Corporation issued audited financial statements for the years ended March 31, 2016 and 2017. The audit opinions were unqualified.

After the period covered by this report, the Corporation issued its financial statements for the year ended March 31, 2018. The audit opinion thereon was unqualified.

### **3.14 Audits of the Financial Statements of Public Funds**

The Auditor General audits the Government of Bermuda's Public Funds pursuant to Section 6 of the Audit Act 1990, and the statutes under which the funds operate.

At the conclusion of each audit, we provide a management letter to the person, governing board or council with responsibility for overseeing the organisation. The letter contains our observations and recommendations regarding areas that, in the Auditor General's opinion, are significant to the oversight of the financial reporting process.

We also report on other significant matters we believe should be brought to the attention of the person charged with governance.

Matters arising from the audit of the Consolidated Fund financial statements for the year ended March 31, 2018 are dealt with in Sections 3.2 to 3.12 of this report.

The 13 Public Funds operating at March 31, 2019, were:

- Bermuda Department of Tourism North America Retirement Plan
- Confiscated Assets Fund
- Consolidated Fund
- Contributory Pension Fund
- FutureCare Fund
- Government Borrowing Sinking Fund
- Government Employees Health Insurance Fund
- Government Reserves Fund
- Health Insurance Fund
- Ministers and Members of the Legislature Pensions Fund
- Mutual Re-insurance Fund
- Public Service Superannuation Fund
- Unemployment Insurance Fund

In the year ended March 31, 2019, we completed 8 audits of Public Funds and audited financial statements were then issued by the Funds concerned. This number does not include the Consolidated Fund, which is discussed above under Section 3.2. The audit

opinion for one of the financial statements was qualified. Details of the modified audit opinion are shown in the section below.

As of March 31, 2019, all the above Funds should have issued audited financial statements up to and including the year ended March 31, 2018 (July 31, 2018 for the Contributory Pension Fund). The list below shows 12 Funds between them had 51 years of financial statements outstanding.

- Bermuda Department of Tourism North America Retirement Plan (2013, 2014, 2015, 2016, 2017 and 2018)
- Confiscated Assets Fund (2010, 2011, 2012, 2013, 2014, 2015, 2016, 2017 and 2018)
- Contributory Pension Fund (2013, 2014, 2015, 2016, 2017 and 2018)
- FutureCare Fund (2017 and 2018)
- Government Borrowing Sinking Fund (2015, 2016, 2017 and 2018)
- Government Employees Health Insurance Fund (2013, 2014, 2015, 2016, 2017 and 2018)
- Government Reserves Fund (2018)
- Health Insurance Fund (2017 and 2018)
- Ministers and Members of the Legislature Pensions Fund (2014, 2015, 2016, 2017 and 2018)
- Mutual Re-insurance Fund (2017 and 2018)
- Public Service Superannuation Fund (2012, 2013, 2014, 2015, 2016, 2017 and 2018)
- Unemployment Insurance Fund (2018\*)

#### **3.14.1 Bermuda Department of Tourism North America Retirement Plan**

The Bermuda Department of Tourism North America Retirement Plan (the Plan) is a pension plan that provides retirement benefits for the employees of the Department of Tourism's North American offices.

During the period covered by this report, the Plan did not issue any audited financial statements. The latest audited financial statements issued by the Plan were for the year ended March 31, 2012.

#### **3.14.2 Confiscated Assets Fund**

The Confiscated Assets Fund (the Fund) holds monies detained and forfeited by Court Orders under the Proceeds of Crime Act 1997, the Misuse of Drugs Act 1972 and monies paid to the Government of Bermuda by a foreign jurisdiction in respect of confiscated assets. Forfeited monies are expended for purposes authorised in legislation.

During the period covered by this report, the Fund did not issue any audited financial statements. The latest audited financial statements issued by the Fund were for the year ended March 31, 2009.

#### **3.14.3 Contributory Pension Fund**

The Contributory Pension Fund (the Pension Fund) receives pension contributions from persons employed in Bermuda, the self-employed and the employers, and pays retirement benefits.

During the period covered by this report, the Pension Fund did not issue any audited financial statements. The latest audited financial statements issued by the Pension Fund were for the year ended July 31, 2012.

#### **3.14.4 FutureCare Fund**

The FutureCare Fund (the Fund) was established to provide hospital and medical insurance for residents of Bermuda over the age of 65 years. The Fund and the Health Insurance Committee, which administers and manages the Fund, were established under the Health Insurance Act 1970 and subsequent amendments.

During the period covered by this report, the Fund issued audited financial statements for the year ended March 31, 2016. The audit opinion on the financial statements was unqualified.

#### **3.14.5 Government Borrowing Sinking Fund**

The Government Borrowing Sinking Fund (the Sinking Fund) receives and holds monies that may be used in future to reduce or cancel public debt.

During the period covered by this report, the Sinking Fund did not issue any sets of audited financial statements. The latest audited financial statements issued by the Sinking Fund were for the year ended March 31, 2014.

#### **3.14.6 Government Employees Health Insurance Fund**

The Government Employees Health Insurance Fund (the Fund) provides health insurance benefits for Government employees, Ministers and Members of the Legislature and their enrolled dependents and covers medical expenses, such as hospital stays, doctor's visits and prescription drugs.

During the period covered by this report, the Fund did not issue any audited financial statements. The latest audited financial statements issued by the Fund were for the year ended March 31, 2012.

#### **3.14.7 Government Reserves Fund**

The Government Reserves Fund (the Fund) holds monies received under the United States Bases (Termination of Agreements) Act 2002, less amounts paid from those monies as directed by the Minister of Finance.

During the period covered by this report, the Fund issued audited financial statements for the year ended March 31, 2017. The audit opinion on the financial statements was unqualified.

#### **3.14.8 Health Insurance Fund**

The Health Insurance Fund (the Fund) – formerly the Hospital Insurance Fund - was established to provide hospital and medical insurance for all residents of Bermuda, irrespective of age and state of health.

During the period covered by this report, the Fund issued audited financial statements for the year ended March 31, 2016. The audit opinion on the financial statements was unqualified.

#### **3.14.9 Ministers and Members of the Legislature Pensions Fund**

The purpose of the Ministers and Members of the Legislature Pensions Fund (the Fund) is to provide retirement pensions for the ministers, members and officers of the Legislature of Bermuda.

During the period covered by this report, the Fund issued two sets of audited financial statements for the years ended March 31, 2012 and 2013. The audit opinion on both financial statements was unqualified.

#### **3.14.10 Mutual Re-insurance Fund**

The Mutual Re-insurance Fund (the Fund) was authorised for the purpose of spreading the cost of certain claims amongst all licensed insurers and approved schemes. The following risks are covered: hemodialysis treatment, long-stay hospital care, home health care, kidney transplants and the required anti-rejection drugs, and MRI.

During the period covered by this report, the Fund issued audited financial statements for the year ended March 31, 2016. The audit opinion on the financial statements was qualified.

The basis for the qualified opinion stated:

*I was unable to obtain sufficient appropriate audit evidence with respect to the completeness of the recorded re-insurance fees from Government Employees Health Insurance Fund totalling \$5,182,783 and related re-insurance fees*



*receivable totalling \$986,886. As a result, I was unable to determine whether adjustments to revenues, annual operating surplus and accumulated surplus might be necessary. (September 7, 2018)*

#### **3.14.11 Public Service Superannuation Fund**

The purpose of the Public Service Superannuation Fund (the Fund) is to provide retirement pensions for retired employees of the Government of Bermuda and the employees of various quasi-autonomous non-Governmental organisations.

During the period covered by this report, the Fund did not issue any audited financial statements. The latest audited financial statements issued by the Fund were for the year ended March 31, 2011.

#### **3.14.12 Unemployment Insurance Fund**

The Unemployment Insurance Fund (the Insurance Fund) was established March 18, 2002 by amendment to the Public Treasury (Administration and Payments) Act 1969, under the provisions of Section 10B and its related amendments. The Legislature authorised \$1 million to be set aside for use in the Consolidated Fund.

During the period covered by this report, the Fund issued audited financial statements for the year ended March 31, 2017. The audit opinion on the financial statements was unqualified.

After the period covered by this report, the Insurance Fund issued its financial statements for the year ended March 31, 2018. The audit opinion thereon was unqualified.

### **3.15 Reviews and Audits of the Financial Statements of Parish Councils**

The Auditor General reviews the financial statements of eight of Bermuda's Parish Councils and audits the financial statements of the Warwick Parish Council.

The difference between an audit and a review is primarily a difference in the level of assurance provided.

According to standards generally accepted in Bermuda and Canada, in an audit, the auditor is required to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk (that is, the risk that the auditor expresses an inappropriate opinion when the financial statements are materially misstated) to an acceptably low level.

According to the standards for Review Engagements generally accepted in Bermuda and Canada, in a review, the practitioner's conclusion is based on the practitioner obtaining limited assurance. The practitioner's report includes a description of the nature of a review engagement as context for the readers of the report to be able to understand the conclusion. The practitioner performs primarily inquiry and analytical procedures to obtain sufficient appropriate evidence as the basis for a conclusion on the financial statements as a whole.

In the year ended March 31, 2019, the Parish Councils were able to issue six sets of financial statements. The audit opinion for one of the financial statements was qualified. Details of the modified audit opinion are shown in the section below.

As of March 31, 2019, all the Parish Councils should have issued financial statements up to and including the year ended March 31, 2018. The list below shows that five councils between them had 14 years of financial statements outstanding. The asterisk (\*) beside Devonshire Parish 2018 in the list below indicates that, at March 31, 2019, our review was substantially complete, and the Devonshire Parish Council's financial statements for the year ended March 31, 2018, were issued early in the 2018-2019 financial year.

As at March 31, 2019, the following Parish Councils had not issued audited or reviewed financial statements for the years ended March 31:

- Devonshire Parish (2018\*)
- Pembroke Parish (2013, 2014, 2015, 2016, 2017 and 2018)
- Sandys Parish Council (2018)
- Southampton Parish Council (2018)
- Warwick Parish (2014, 2015, 2016, 2017 and 2018)

#### **3.15.1 Devonshire Parish Council**

During the period covered by this Report, Devonshire Parish Council issued financial statements for the year ended March 31, 2017. The review opinion was unqualified.

After the period covered by this Report, the Council issued financial statements for the year ended March 31, 2018. The financial statements had an unqualified review opinion.

#### **3.15.2 Hamilton Parish Council**

During the period covered by this Report, Hamilton Parish Council issued financial statements for the year ended March 31, 2018. The financial statements had an unqualified review opinion.

**3.15.3 Paget Parish Council**

During the period covered by this Report, Paget Parish Council issued financial statements for the year ended March 31, 2018. The financial statements had an unqualified review opinion.

**3.15.4 Pembroke Parish Council**

During the period covered by this Report, Pembroke Parish Council did not issue any financial statements. The latest financial statements issued by the Council were for the year ended March 31, 2012.

**3.15.5 Sandys Parish Council**

During the period covered by this Report, Sandys Parish Council did not issue any financial statements. The latest financial statements issued by the Council were for the year ended March 31, 2017.

**3.15.6 Smith's Parish Council**

During the period covered by this Report, Smith's Parish Council issued financial statements for the year ended March 31, 2018. The financial statements had an unqualified review opinion.

**3.15.7 Southampton Parish Council**

During the period covered by this Report, Southampton Parish Council did not issue any financial statements. The latest financial statements issued by the Council were for the year ended March 31, 2017.

**3.15.8 St. George's Parish Council**

During the period covered by this Report, St. George's Parish Council issued financial statements for the year ended March 31, 2018. The financial statements had an unqualified review opinion.

**3.15.9 Warwick Parish Council**

During the period covered by this Report, Warwick Parish Council issued audited financial statements for the year ended March 31, 2013. The audit opinion on the financial statements was qualified.

The basis for the qualified opinion stated:

*As is common with many not-for-profit organisations, Warwick Parish Council derives a portion of its revenues from donations, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, my verification of these revenues was limited to the amounts recorded in the records of Warwick Parish Council and I was not able to*

*determine whether any adjustments might be necessary to assets, revenues, excess of revenues over expenses and net assets. (February 25, 2019)*

#### **3.15.10 Other pervasive problems**

Virtually all parish councils continue to contravene various requirements of the Parish Councils Act 1971. For example, many Councils do not satisfy legislative requirements regarding the minimum number of Council members, frequency of meetings, quorums, and minuting of meetings. Most Parish Councils have been contravening the statutory requirement that financial statements be submitted promptly for audit each year. The Councils are not complying with the statutory requirement to report to the Minister on the exercise and performance of their functions during that year, and on their policies and proposals for the following year.

#### **3.16 Audits of the Financial Statements of Aided Schools' Capitation Grant Accounts**

Capitation grant accounts record grants provided to aided schools by the Ministry of Education, expenditures paid from those grants, and the capitation accounts' financial assets and liabilities. Capitation grant accounts do not record most donations and other income of schools, payments from that income, or the schools' capital assets.

The Auditor General audits the capitation grant accounts of Bermuda's four Aided Schools as required by the Education Act 1996.

In the year ended March 31, 2019, the Aided Schools were able to issue 7 sets of audited financial statements. The audit opinions for 4 of the financial statements were qualified. Details of the modified audit opinions are shown in the section below.

As of March 31, 2019, all the schools' capitation grant accounts should have issued audited financial statements up to and including the year ended March 31, 2018. The list below shows three schools between them had 18 years of financial statements outstanding.

As at March 31, 2019, the Aided Schools Capitation Grant Accounts had not issued audited financial statements for the years ended March 31:

- Berkeley Institute Capitation Grant Account (2013, 2014, 2015, 2016, 2017 and 2018)
- Sandys Secondary Middle School Capitation Grant Account (2014, 2015, 2016, 2017 and 2018)
- Whitney Institute Middle School Capitation Grant Account (2012, 2013, 2014, 2015, 2016, 2017 and 2018)

As well as failing in their responsibility to provide timely financial accountability to the Minister and to the House of Assembly, the three Aided Schools listed above are contravening the Education Act 1996 that requires them to submit their accounting records and financial statements for audit within three months of fiscal year-ends.

During the period covered by this Report, St. George's Preparatory School Capitation Grant Account issued audited financial statements for the years ended March 31, 2016 to 2018. The audit opinion on the financial statements was qualified.

#### **3.16.1 Berkley Institute Capitation Grant Account**

During the period covered by this Report, Berkeley Institute Capitation Grant Account did not issue any audited financial statements. The latest capitation grant account financial statements issued by the Institute were for the year ended March 31, 2012.

#### **3.16.2 Sandys Secondary Middle School Capitation Grant Account**

During the period covered by this Report, the Sandys Secondary Middle School Capitation Grant Account issued three sets of audited financial statements for the years ended March 31, 2011 to 2013. The audit opinion on all three sets of statements was qualified.

The basis for the 2011 qualified opinion stated:

*I was unable to obtain sufficient audit evidence to support the accuracy and completeness of capital assets with a net book value of \$26,844 and amortization expenses amounting to \$32,462. As a result, I was unable to determine whether adjustments to assets, liabilities, expenses, excess of revenues over expenses and net assets might be necessary. (April 19, 2018)*

The basis for the 2012 qualified opinion stated:

*I was unable to obtain sufficient audit evidence to support the accuracy and completeness of amortization expenses amounting to \$27,195. As a result, I was unable to determine whether adjustments to assets, liabilities, expenses, excess of revenues over expenses and net assets might be necessary. (April 19, 2018)*

The basis for the 2013 qualified opinion stated:

*I was unable to obtain sufficient audit evidence to support the accuracy and completeness of capital assets with a net book value of \$120,432 and amortisation expenses amounting to \$30,447. As a result, I was unable to determine whether adjustments to assets, liabilities, expenses, excess of revenues over expenses and net assets might be necessary. (October 18, 2018)*

### **3.16.3 St. George's Preparatory School Capitation Grant Account**

During the period covered by this Report, the St. George's Preparatory School Capitation Grant Account issued audited financial statements for the years ended March 31, 2016 to March 31, 2018. The audit opinions on the financial statements were unqualified.

### **3.16.4 Whitney Institute Middle School Capitation Grant Account**

During the period covered by this Report, the Whitney Institute Middle School Capitation Grant Account issued audited financial statements for the year ended March 31, 2011. The audit opinion on the financial statements was qualified.

The basis for the qualified opinion stated:

*I was unable to obtain sufficient appropriate audit evidence to support the validity and accuracy of amounts due to the Whitney Educational Trust of \$23,644 as well as expenses with an extrapolated error of \$157,454. As a result, I was unable to determine whether adjustments to assets, liabilities, expenses, excess of revenues over expenses and net assets might be necessary.*

*In addition, for the year ended March 31, 2010, I did not express an opinion on the financial statements due to serious deficiencies in the accounting records. Consequently, I am unable to determine whether any adjustments to the results of operations or the opening net assets as at April 1, 2010 might be necessary. (September 20, 2018)*

## **3.17 Audits of the Financial Statements of Other Organisations**

### **3.17.1 Barristers and Accountants AML/ATF Board**

The Barristers and Accountants AML/ATF Board (the Board) is a statutory board established jointly by the Institute of Chartered Accountants of Bermuda and the Bermuda Bar Association, pursuant to Section 8A of the Institute of Chartered Accountants of Bermuda Act 1973 and Section 25A of the Bermuda Bar Act 1974. The Board has been designated by the Minister of Justice under Section 4(1) of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing Supervision and Enforcement) Act, 2008 to be the supervisory authority for regulated professional firms (Barristers and Accountants) as defined by Regulation 2 of the Proceeds of Crime (Anti-Money Laundering and Anti-Terrorist Financing) Regulations 2008.

During the period covered by this Report, the Board issued two sets of audited financial statements for the years ended March 31, 2017 and 2018. The audit opinion on both financial statements were unqualified.

### **3.17.2 Bermuda Monetary Authority**

The Bermuda Monetary Authority (the Authority) was established in Bermuda by an Act of the Legislature with initial capital provided by the Bermuda Government. Its objects and powers are set out in the Bermuda Monetary Authority Act 1969, as amended. The Amendment Act 2001 allows the Minister of Finance to approve an auditor for the Authority other than the Auditor General.

The legislative amendment recognises that the manner in which board members hold office renders the Authority independent of Government. On the recommendation of the Authority's Board, however, the Minister of Finance has continued to approve the Auditor General as auditor of the Authority.

During the period covered by this Report, the Authority issued its audited financial statements for the year ended December 31, 2017. The audit opinion was unqualified.

### **3.17.3 Bermuda Public Accountability Board**

The Bermuda Public Accountability Board (the Board) was established to provide for the effective oversight of public accountants that audit public interest entities. It is a statutory corporation with power to carry out independent public supervision by means of developing and implementing quality assurance systems and enforcement systems with adequate processes for investigations and enforcement.

During the period covered by this Report, the Board issued two sets of audited financial statements for the years ended March 31, 2017 and 2018. The audit opinion on both years' financial statements was unqualified.

### **3.17.4 Office of Information Commissioner**

The Auditor General is the auditor of the Office of Information Commissioner (the Office) pursuant to the legislation under which the Commissioner operates. The Information Commissioner is independent of Government and reports directly to the Speaker and to the House of Assembly.

During the period covered by this Report, the Office issued audited financial statements for the year ended March 31, 2017. The audit opinion for the financial statements was unqualified.

After the period covered by this Report, the Office issued audited financial statements for the year ended March 31, 2018. The audit opinion thereon was unqualified.

#### **3.17.5 Office of Ombudsman for Bermuda**

The Auditor General is the auditor of the Office of the Ombudsman (the Office) pursuant to the legislation under which the Ombudsman operates. The Ombudsman is independent of Government and reports directly to the Speaker and to the House of Assembly.

During the period covered by this Report, the Office issued audited financial statements covering the year ended March 31, 2017. The audit opinion on all the financial statements was unqualified.

#### **3.17.6 Privacy Commissioner's Office**

The Auditor General is the auditor of the Privacy Commissioner's Office pursuant to the legislation under which the Commissioner operates. The Commissioner is independent of Government and reports directly to the Speaker and to the House of Assembly.

A Commissioner had not yet been appointed during the reporting year and the Office is in the process of being established.

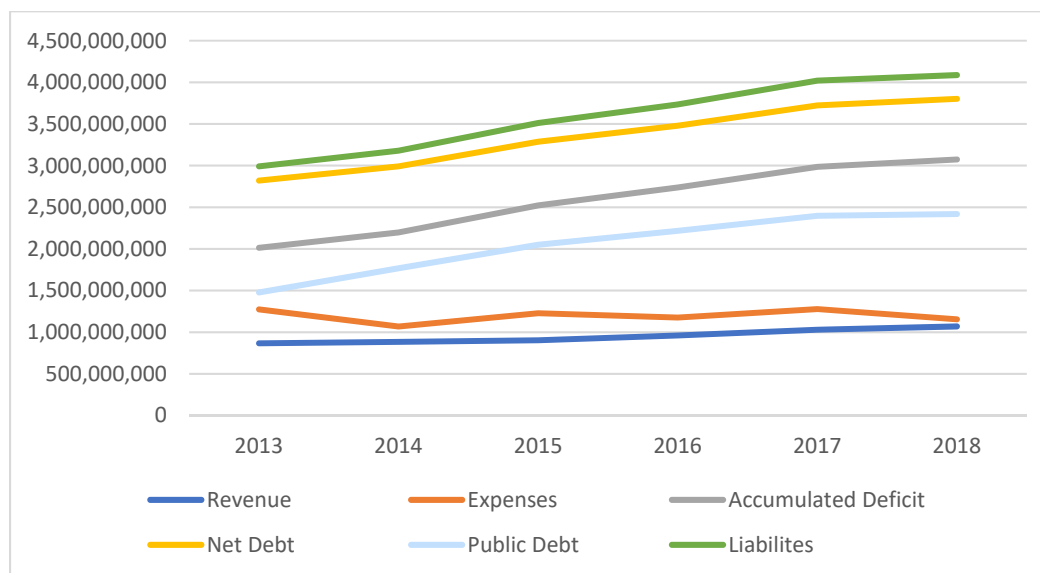


## 4. KEY INDICATORS OF THE FINANCIAL CONDITION OF GOVERNMENT'S CONSOLIDATED FUND

**Note:** In this section, we present some key indicators of the financial condition of Government's Consolidated Fund, along with our commentary thereon. These indicators should not be represented as showing the financial condition of Government as a whole. That can only be achieved when Government produces summary financial statements for the Consolidated Fund and the other public funds and government-controlled organisations that make up the government entity (see section 2.3 of this Report above).

The annual financial statements provide a glimpse of the Consolidated Fund's financial affairs at a particular point in time as indicated in the graph below:

**Graph 1**



However, such information is not always within the context of where Government has been and seldom within the context of where it is heading. To obtain this perspective, information such as indicators of financial condition should be provided with the audited financial statements.

The desirability of Government developing and publishing indicators of financial condition is discussed in Section 2.4 of this Report. Government has committed to produce such a report, starting with the year ending March 31, 2020.

In the absence of Government providing such important supplementary information, the Office developed the following key sustainability and flexibility indicators of the financial condition of Government's Consolidated Fund for the five years ended March 31, 2018.

Certain prior period figures in the Tables that follow have been restated to be consistent with the prior period adjustments made in the Consolidated Fund financial statements for the year ended March 31, 2018. For more details, please refer to Note 17 of the financial statements ("Prior Period Adjustment") set out in Appendix 4 of this Report.

In addition, the Government of Bermuda Department of Statistics has changed the way it calculates the country's Gross Domestic Product ("GDP"). According to the Department, Bermuda's GDP series now reflects a more accurate picture of the size and structure of the economy and incorporates new activities that were previously not captured in the computational framework. Accordingly, all prior year figures for the GDP included in the Tables that follow have been restated in accordance with the Department of Statistic's revised calculations. For further information, please refer to the Government of Bermuda Department of Statistics November 2019 publication on the Annual Gross Domestic Product: 2018 Highlights.

### **4.1 Sustainability Indicators**

Sustainability refers to the degree to which the Consolidated Fund can maintain its current financial obligations without increasing revenues such as taxes, customs duty or debt. Sustainability is important because it focuses on the impact that the level of debt could have on the provision of future services to the public as well as the honouring of financial and other commitments to lenders, creditors, employees and others.

#### **4.1.1 Net debt to Gross Domestic Product**

This indicator measures the net debt – the difference between liabilities (what is owed) and financial assets (generally cash and its equivalent) – as a proportion of the Gross Domestic Product (GDP). It shows the relationship between the Consolidated Fund's net debt and activity in the economy. If the ratio declines, (i.e., where net debt is increasing at a lower rate than the GDP), the Consolidated Fund debt is becoming less onerous on the economy. On the other hand, if the ratio rises (i.e., where net debt is increasing at a faster rate than the GDP), there is a risk that current services to the public cannot be sustained.

**Table 4: Net Debt to GDP**

	<b>\$ billions (Restated)</b>					
<b>As at March 31</b>	<b>12/13</b>	<b>13/14</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>
<b>Net Debt</b>	2.8	3.0	3.3	3.5	3.7	3.8
% Increase		7.1	10.0	6.1	5.7	2.7
<b>GDP *</b>	6.5	6.4	6.7	6.9	7.1	7.3
<b>Net Debt to GDP %</b>	43.1	46.9	49.3	50.7	52.1	52.1

\* Bermuda's Gross Domestic Product (GDP) incorporates new benchmark estimates and revised GDP levels based on a 2013 Supply and Use Table (SUT) framework and implementation of the 2008 System of National Accounts. Refer to the following link for more information <https://www.gov.bm/sites/default/files/GDP-2018-annual-publication.pdf>

Table 4 shows that net debt as a percentage of GDP has increased consistently over the five-year period ended on March 31, 2018. This increase is reflective of the fact that while the GDP over the period has increased by 12.3%, the net debt has increased by 35.7%.

This means that Consolidated Fund debt is becoming more onerous on the economy and will not be sustainable without a significant increase in tax revenue, a significant reduction in expenses (with a corresponding reduction in the level of services provided) or a combination of both.

#### 4.1.2 Annual and accumulated deficits

The annual deficit is the amount by which the annual cost of providing services exceeds annual revenues from customs duties, taxes, etc. It is a measure of how much is overspent in any given year.

Table 5 below shows that the Consolidated Fund experienced a deficit in each of the past five years.

**Table 5: Annual Deficit**

	<b>\$ millions (Restated)</b>				
<b>As at March 31</b>	<b>13/14</b>	<b>14/15</b>	<b>15/16</b>	<b>16/17</b>	<b>17/18</b>
Revenues	883.9	903.2	959.2	1,031.6	1,069.4
Expenses	1,067.9	1,227.7	1,176.0	1,282.1	1,154.8
<b>Annual Deficit</b>	<b>184.0</b>	<b>324.5</b>	<b>216.8</b>	<b>250.5</b>	<b>85.4</b>

The annual deficit for the year ended March 31, 2014, (\$184 million) would have been \$398.1 million were it not for a \$214.1 million credit resulting from the cost of living adjustment being removed for both current and future pensioners for the Public Service Superannuation Fund and the Ministers and Members of the Legislature Pensions Fund (\$432.7 million) offset by net unamortised experience losses (\$173.5 million) and past service costs in the Government Employees Health Insurance Fund (\$45.1 million).

Revenue for the year ended March 31, 2017, included extraordinary revenue of \$41.6 million from the re-conveyance of Heritage Wharf from the West End Development Corporation.

The average annual deficit for the five years ended March 31, 2018, after adjusting for the one-time impacts of the pension funds' adjustments and the Heritage Wharf re-conveyance described above, was \$263.4 million. The annual deficit for the year ended March 31, 2018 was considerably lower than the average for the last five years, so the rate of increase may be slowing – but, nonetheless, the amount of the deficit for the 2017/18 year is still significant.

Each year, the annual surplus or deficit is deducted or added respectively to the prior year's balance to determine the accumulated deficit. The accumulated deficit, therefore, represents the total amount of all annual surpluses and deficits over time (net of accounting adjustments).

**Table 6: Accumulated Deficit**

	<b>\$ millions (Restated)</b>					
<b>As at March 31</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
Accumulated Deficit	2,014.5	2,198.5	2,523.0	2,739.9	2,988.4	3,073.8
% Increase		9.1	14.8	8.6	9.1	2.9

For the year ended March 31, 2018, the accumulated deficit stood at just over \$3 billion, approximately \$1.1 billion more than the accumulated deficit at March 31, 2013. The rate of increase is declining but, nonetheless, a 53% increase over the five-year period ended on March 31, 2018, is still not sustainable in the long term.

### 4.1.3 Net debt to total annual revenue

This “net debt-to-total annual revenue” indicator measures government net debt as a percentage of total revenues. Net debt provides a measure of the future revenue required to pay for past transactions and events.

Table 7 shows that, over the past five years, the ratio of net debt to total revenue has increased from 325.4% to 355.5%. This is because net debt has continued to rise at a higher rate than revenues. At March 31, 2018, net debt stood at \$3.8 billion, \$1 billion more than the March 31, 2013 debt of \$2.8 billion, an increase of approximately 35%.

Although revenues have increased somewhat in the last five years, total revenue of \$1,069.4 million for the year ended March 31, 2018, was only \$202.8 million (23.4%) more than total revenue for the year ended March 31, 2013.

**Table 7: Net Debt to Total Annual Revenue**

(Restated)			
Year	Net Debt at Year-end \$ millions	Total Revenue \$ millions	Net Debt/Total Revenue %
<b>12/13</b>	2,819.6	866.6	325.4
<b>13/14</b>	2,992.4	883.9	338.5
<b>14/15</b>	3,288.9	903.2	364.1
<b>15/16</b>	3,481.9	959.2	363.0
<b>16/17</b>	3,738.8	1,031.6	362.4
<b>17/18</b>	3,801.8	1,069.4	355.5

A ratio of net debt to total annual revenue that is increasing indicates that Government will need more time to eliminate the Consolidated Fund debt. The extent of the increase in the ratio over a five-year period suggests that the trend is not sustainable. And, it should be noted that, if the extraordinary revenue in the year ended March 31, 2017, from the re-conveyance of Heritage Wharf described above was adjusted, the total revenue for the 2016/17 year would have been \$990 million and the net debt/total revenue indicator would have been 377.7%.

**4.1.4 Assets to liabilities**

The “assets-to-liabilities” indicator measures the ratio of the Consolidated Fund’s financial and non-financial assets to its liabilities. It illustrates the extent to which Government finances the Consolidated Fund operations by issuing debt.

**Table 8: Assets to Liabilities**

<b>(Restated)</b>			
<b>As at March 31</b>	<b>Total assets</b>	<b>Liabilities</b>	<b>Assets to liabilities ratio</b>
	<b>\$ millions</b>	<b>\$ millions</b>	<b>%</b>
<b>2013</b>	977.0	2,991.0	32.7
<b>2014</b>	981.2	3,179.7	30.9
<b>2015</b>	988.6	3,511.6	28.2
<b>2016</b>	993.5	3,733.4	26.6
<b>2017</b>	1,048.5	4,037.0	25.6
<b>2018</b>	1,013.4	4,087.2	24.8

A ratio of 100% or higher would indicate that the Consolidated Fund has an accumulated surplus and has assets greater than debt. On the other hand, a ratio of less than 100% indicates that debt is greater than assets and the Government has financed the Consolidated Fund operations by issuing debt.

In each of the past five years, the assets-to-liabilities ratio has been much less than 100%. In fact, the trend shows that the ratio of assets to liabilities is not improving; at March 31, 2018, the ratio was approximately 24.1% larger than at March 31, 2013. This trend is not sustainable as it indicates that Government borrowing will increase into the foreseeable future.

**4.1.5 Financial assets to liabilities**

The “financial assets-to-liabilities” ratio measures the ratio of the Consolidated Fund’s financial assets to its liabilities. The ratio shows the extent to which the Consolidated Fund’s future revenues will be required to pay for past transactions or events.

**Table 9: Financial Assets to Liabilities**

<b>(Restated)</b>			
<b>As at March 31</b>	<b>Financial assets</b>	<b>Liabilities</b>	<b>Financial assets to Liabilities ratio</b>
	<b>\$ millions</b>	<b>\$ millions</b>	<b>%</b>
<b>2014</b>	187.3	3,179.7	5.9
<b>2015</b>	222.6	3,511.6	6.3
<b>2016</b>	251.5	3,733.4	6.7
<b>2017</b>	298.2	4,037.0	7.4
<b>2018</b>	285.3	4,087.2	7.0

A ratio of less than 100% indicates that liabilities exceed financial assets and may mean a reliance on future revenues or increasing debt to pay for past decisions.

In the last five years, liabilities have far outstripped financial assets and emphasise the degree to which future customs duty, fees, taxes or debt will be required to fund government services delivered through the Consolidated Fund. This trend is unfavourable and affects negatively the sustainability factor of the Government. Borrowing to fund government services is not always an appropriate financing strategy as it shifts the costs to future generations while today's taxpayers enjoy the benefits.

#### **4.1.6 Total expenses to gross domestic product**

The "total expenses-to-Gross Domestic Product (GDP)" indicator provides the trend of government spending over time in relation to the growth in the economy. A trend that shows total expenses growing at a faster rate than the growth in the economy (as represented by the GDP) may not be sustainable.

Table 10 shows that because the GDP has increased over the five-year period to March 31, 2018, while total annual expenses were relatively consistent, the ratio of total expenses to GDP has fallen from 16.7% to 15.8% over the same period.

**Table 10: Total Expenses as a Percentage of GDP**

(Restated)			
Year	Total Expenses	GDP	Expenses/GDP
	\$ millions	\$ billions	%
<b>13/14</b>	1,067.9	6.4	16.7
<b>14/15</b>	1,227.7	6.7	18.3
<b>15/16</b>	1,176.0	6.9	17.0
<b>16/17</b>	1,282.1	7.1	18.1
<b>17/18</b>	1,154.8	7.3	15.8

## 4.2 Flexibility Indicators

Flexibility is the degree to which Government can change the Consolidated Fund's debt or tax burden on the economy to meet its existing financial obligations in respect of both, its service commitments to the public and financial commitments to creditors, employees and others.

Flexibility indicators provide a view of how Government manages the Consolidated Fund's finances. Increasing current borrowing reduces Government's flexibility to respond when adverse economic circumstances develop. Similarly, increasing taxes, customs duty, fees and fines reduce Government's ability to do so in the future as it approaches the limit that the public is willing to bear.

### 4.2.1 Public debt interest to revenues

The Government defines public debt as any debt owed or guaranteed by the Consolidated Fund, but only if and when the guarantee obligation becomes due and payable. It excludes the Sinking Fund, which is money set aside to repay Government borrowings. Table 11 below shows that at March 31, 2018, public debt stood at \$2.4 billion, compared to \$1.5 billion at March 31, 2013, a 60% increase in five years.



**Table 11: Public Debt**

<b>\$ billions</b>		
<b>As at March 31</b>	<b>Public debt</b>	<b>Legislated limit</b>
<b>2013</b>	1,476.9	2,500
<b>2014</b>	1,768.4	2,500
<b>2015</b>	2,049.7	2,500
<b>2016</b>	2,217.7	2,500
<b>2017</b>	2,397.3	2,500
<b>2018</b>	2,418.8	2,500

The "public debt interest-to-revenues" indicator measures public debt interest as a percentage of revenues. It illustrates the extent to which past borrowing decisions present a constraint on Government's ability to meet the Consolidated Fund's financial and service commitments in the current period. Specifically, the more Government uses revenues to meet interest cost commitments related to past borrowing, the less that will be available for spending on current programmes.

**Table 12: Public Debt Interest to Revenues**

<b>(Restated)</b>			
<b>As at March 31</b>	<b>Public debt interest</b>	<b>Revenues</b>	<b>Interest/Revenues</b>
	<b>\$ millions</b>	<b>\$ millions</b>	<b>%</b>
<b>12/13</b>	81.6	866.6	9.4
<b>13/14</b>	109.2	883.9	12.3
<b>14/15</b>	113.2	903.7	12.5
<b>15/16</b>	116.2	959.2	12.1
<b>16/17</b>	120.6	1,031.6	11.7
<b>17/18</b>	117.7	1,069.4	11.0

Table 12 above shows that the public debt interest to revenue ratio has increased from 9.4% for the year ended March 31, 2013 to 11.0% for the year ended March 31, 2018, an increase of 17%.

This indicator is important because when it increases significantly over an extended period it means that Government has consistently chosen borrowing over increases in taxes, customs duty, fees and fines to meet its financial and service commitments. This will eventually affect Government's flexibility since its priority must be to service its debt. Failure to do so would impair its future ability to borrow (or to do so at reasonable interest rates) or to roll over its existing debt.

#### 4.2.2 Net book value to cost of capital assets

The “net book value-to-cost of capital assets” indicator reports the extent to which the estimated useful lives of Government's tangible capital assets are available to provide its services. If Government's scale, scope and level of services remain unchanged or grow, its ageing asset base could eventually impair flexibility because of the impending future costs of capital asset repair or replacement.

**Table 13: Net Book Value to Cost of Capital Assets**

As at March 31	Capital assets		Net book value to cost of capital assets
	Net book value	Cost	
	\$ millions	\$ millions	
2013	741.3	1,150.5	64.4
2014	722.2	1,184.7	61.0
2015	685.0	1,201.1	57.0
2016	660.9	1,223.5	54.0
2017	698.0	1,273.7	54.8
2018	692.8	1,330.0	52.1

Table 13 above indicates that, in general, Government assets have aged by approximately 19.1% over the five years ended March 31, 2018. This means that to maintain an effective asset base, Government will need to make significant capital investments in the future. This will be a challenge, given the already high levels of debt.

#### 4.3 Conclusion

Despite some relatively small improvements to some of the key measures, the above indicators of financial condition continue to demonstrate a level of unsustainability and impaired flexibility that Government must make every effort to address.

## 5. The Administration of the Office of the Auditor General

### 5.1 About the Office

The Auditor General serves the people of Bermuda and their elected representatives by providing independent, objective audit opinions and recommendations on the accountability and overall management performance of the Government. This work can include the audit of the financial statements of Government and its organisations, as well as examinations related to Government accountability and performance. The recommendations resulting from our work are intended to help Government strengthen its management and accountability practices.

The Bermuda Constitution Order 1968 and the Audit Act 1990 provide the Auditor General's legal mandate (See Appendix 2). The Auditor General is empowered to audit all Government Ministries and Departments, plus the Senate, the House of Assembly, the Public Service Commission and the Courts. The revenues and expenditures of these entities flow through the Consolidated Fund. The Auditor General also audits the Government's Pension and other Public funds, and all Government-controlled entities such as Bermuda College, Bermuda Land Development Company Limited and Bermuda Tourism Authority. As at March 31, 2019, there were 56 such entities (Appendix 1).

The Audit Act 1990 (the Act) defines control as being where the government has the power: (a) by virtue of rights conferred by the constitution of that entity or by some other document regulating that or some other entity; or (b) by means of possession of voting power or the holding of shares in or in relation to that first-mentioned entity; or (c) by some other means.

The Auditor General is empowered to carry out all relevant types of audit activity, including performance audits. She is able to report on all aspects of financial management such as the economy, efficiency and effectiveness with which the audited entity has used its resources in carrying out its responsibilities.

### 5.2 Our Mission

The mission of the Office, which is derived from the legislated mandate, is:

*To add credibility to the Government's financial reporting and to promote improvement in the financial administration of all Government ministries, departments and all other entities for which the Government is accountable to Parliament.*

Financial statement audits address the first part of this mission - to add credibility to the Government's financial reporting. That credibility is provided by the Auditor General's Independent Auditor's Report attached to each set of financial statements tabled in the House of Assembly.

The second part of the mission – promoting improvements in financial administration – is addressed primarily by the financial statement audits, which generate recommendations for improved financial reporting and control. Performance audits may also promote improvements in financial administration and performance.

The Act does not explicitly mention performance audits. This is one of the issues that we hope will be addressed in the proposed amendments to the legislation (see Section 5.5.2).

### **5.3 The Importance of Oversight by the House of Assembly**

The oversight role of Members of the House of Assembly is critical. They carry out an important function in our governance by holding Government to account for the economical, efficient and effective use and management of public money. To support them in holding Government to account, Members need access to relevant and accurate information and independent assurance that the information is reliable.

The Act provides Parliament with strong support for holding Government to account for the annual delivery of over \$1 billion in programmes and services to and for the people of Bermuda and how well it manages billions of dollars in revenues, assets and liabilities. Unlike any other organisation in the country, the Auditor General is able to provide independent and objective reports on the accountability and overall administrative performance of Government. The Auditor General's role is key to Government transparency and accountability and vital to the process of democratic Government.

Public appetite for accountable and transparent Government continues to increase around the world. In Bermuda, as elsewhere, elected officials and the public want to be informed about the short- and long-term financial health of the country. They are also concerned about whether public business is being conducted fairly and ethically and whether the operations of Government are being carried out efficiently and effectively.

We believe there are some key questions about Government performance in which the public and elected officials have an interest:

- Is Government achieving its financial objectives and managing its financial affairs according to sound financial and management controls?
- To what extent are Government programmes achieving their planned results and taxpayers receiving good value for their money?
- Is Government carrying out its business in accordance with appropriate standards of conduct and in compliance with legislation and regulations governing its activities?

A strong system of accountability with meaningful public performance reporting by Government in answer to all these questions is critical if Government is to be held to account as our system requires.

## **5.4 Our Strategic Focus**

As explained in the Auditor General’s Comments, and to respond to the key questions of interest set out above, we intend over time to focus on three main areas:

- promoting accurate, timely and comprehensive financial information;
- examining how well Government programmes are managed, and
- reviewing Government’s measurement and reporting of programme performance.

It has been difficult for us to move ahead with the second and third bullets above while we were facing such a backlog of audits and reporting to catch up on. However, as we get caught up with the backlog, we plan to turn some of our attention to examining Government programmes and Government’s measurement of programme performance.

The three areas of focus are discussed below.

### **5.4.1 Promoting accurate, timely and comprehensive financial information**

Having an accurate and comprehensive picture of Government finances is essential for those making key decisions about Government activity and for the public in order that they may better understand the financial impact of Government activity. It is also something that is required under the applicable financial reporting framework for the public sector.

The Auditor General’s work of auditing the financial statements of the Government’s Consolidated Fund and other Government organisations, and the recommendations to Government that arise from those audits, represent the Auditor General’s role in

promoting accurate and comprehensive financial information. This important work has been, and will continue to be, the primary focus of the Office.

In addition to the specific financial statement audits, which help ensure that Government financial reporting is done in accordance with accounting standards, we will also be encouraging Government financial reporting to be complete, meaningful and timely. As discussed in the Matters of Special Importance section of the report (see Section 2.3), the Government is not yet producing annual financial statements that cover the whole of Government. Although there is legislation that allows Government to produce such statements and for the Auditor General to audit them (the Public Treasury (Administration and Payments) Amendment Act 2014), the legislation has not yet been activated. We will continue to encourage the Government to move to Summary Financial Statements covering the whole of Government.

In Section 1.4 of this report, the Auditor General raises concerns about the timeliness and the reliability of many of the financial statements being produced by Government organisations, funds and parish councils. We will continue to encourage the organisations concerned, their Boards of Governance, and the Ministers responsible to improve both the timeliness and the quality of the financial statements and supporting documents submitted to audit.

We actively reach out to the auditees on the status of their financial statements and when we should expect to receive them for audit. Typically, this process starts in November to January of the preceding year. The quality and sufficiency of the documentation received is assessed for audit readiness.

To bring more transparency to what we do and what audits we are working on, the Office website now includes details of both our audit universe and the audits that we are currently working on. We also include on the website an “audit in progress” page along with the dates of audit finalization.

The management exit points (issues we discuss with auditee management at the conclusion of an audit) are more prescriptive when necessary, specifically when addressing any weaknesses in an auditee’s financial reporting process. Exit Conference Points are not, in all instances, presented at the audit committees or boards, we may utilize the ‘Other Matters’ paragraph in the auditor’s report. The ‘Other Matters’ paragraph refers to a matter other than those presented or disclosed in the financial statements that, in the Auditor General’s professional judgement, is relevant to those charged with governance’s understanding of the audit, the auditor’s responsibility or the auditor’s report. This is also an effective way of bringing issues to the attention of audit committees and boards without issuing a qualified audit opinion.

We believe that our approach is making a difference; the quality and completeness of information submitted to us for audit has improved (albeit marginally).

We continue to have a problem with the quality of information from a few auditees that are not well versed in Public Sector Accounting Standards, specifically as it pertains to the financial statement note disclosures. During the planning phase of the audit, we send to auditees a listing of issued pronouncements for the auditee to assess relevance and sufficiency of note disclosure. We also provide a set of illustrative financial statements, prepared in accordance with the relevant reporting standards, as a source of general reference that shows suggested disclosure for new auditees to assist them when necessary.

There are some indications that we are making progress:

- For those auditees that have six-month legislative deadlines for delivering audited financial statements, we have been successful in meeting the legislated deadlines for the auditees that were audit-ready, such as the Bermuda Health Council.
- We are seeing more auditees addressing the audit exit points raised. The points that are not addressed we carry forward and follow-up in the subsequent audit.
- Many of our auditees are no longer asking for additional time or providing excuses for missing documentation; rather, they are engaging with us proactively as a part of the 'kick-off' meeting on matters requiring our attention.

#### **5.4.2 Examining how well Government programmes are managed**

Examinations of how well Government programmes are being managed are known as performance audits. They can be investigations into areas where poor management is suspected or systematic audits covering key areas of Government. Performance audits provide assessments of how well Government and its organisations are managing the key risks associated with delivering programmes and services.

As discussed in more detail below, because of time spent working with Government organisations encouraging them to bring their financial statements up to date, because the Consolidated Fund continues to get larger and more complex to audit and because we haven't managed to fill our permitted staffing complement, the Office has not been able to establish a continuing programme of performance audits.

It is the Auditor General's objective to develop the performance audit programme to the stage where the Office is producing two or three performance audit reports each year. To do this will require us to review and update our performance audit methodology.

The work has just commenced (June 2019). The Office maintains a listing of areas of work that may be considered for a performance audit and the Office has adopted and is currently modifying the Canadian performance audit framework for the Bermuda office. The framework is on target for completion calendar year Q3 2020.

### 5.4.3 Reviewing Government's measurement and reporting of programme performance

Having clear, measurable objectives and then measuring and reporting on the extent to which those objectives have been met are critical components of the effective management of Government programmes. If ministries and departments do not have clear plans and objectives and/or measure the extent to which their objectives are being achieved, it is difficult to imagine that they can truly be managing public money wisely.

This issue was considered by the Spending and Government Efficiency ("SAGE") Commission ("Commission"), which was established by an act of parliament (SAGE Commission Act 2013). It was the view of the Commission, as expressed in its final report (submitted to the then Minister of Finance on October 31, 2013), that:

- *Reporting to the public on a regular and transparent basis is central to the concept of Government accountability.*
- *It is critical that the people of Bermuda – the taxpayers – receive regular reporting on what the Government (and its Ministries and Departments) are trying to achieve and whether they are doing so.*

We agree and, when time and resources permit, the Auditor General intends to carry out general reviews of what organisations, ministries and departments are doing to plan, measure and report on their performance and then recommend a way forward.

We have not yet been able to do any work in this area. This is not because we do not believe that it is important. Far from it, but it is simply that we have had other priorities, namely dealing with the backlog of financial statements across the Government entity and bringing the Office's public reporting up to date.

In the short term, we intend to continue our focus on reducing the financial audit backlog and auditing the financial statements on a timely basis; in preparation of "whole of Government", summary financial statements (see Section 2.3).

## 5.5 Our Critical Success Factors

To support the strategic focus described above, we need to pay attention to the factors that are critical to our ability to carry out the desired work in the most efficient and effective manner:

- **Credibility:** We must do our work in an efficient, effective and professional manner.



- **Independence and Objectivity:** Our Office must be independent from political parties and from the civil service, and we must carry out our work with an objective state of mind.
- **Relevance:** Our work programme must be relevant to the needs and interests of the public and its elected representatives.
- **Capacity:** We must have the human and other resources required to complete our work effectively.
- **Working environment:** Our workplace environment must support our audit processes and help make the Office an attractive place to work.

These critical success factors are interlinked. For example, our credibility is affected by our capacity (i.e., having the right resources to do our job and to do it well), our independence (perceived and actual), our objectivity and the relevance of our work to legislators and the public.

The Auditor General reviews regularly where the Office stands in relation to these factors and, as a result, has introduced initiatives such as seeking an update to our governing legislation (the Audit Act, 1990), modernising the way we document our audit work, focusing on risk-based auditing and improving communication with our key stakeholders.

### 5.5.1 Credibility

To maintain our credibility, it is essential that our reports and audit opinions are accurate and reliable. We achieve this by ensuring that our work is conducted in accordance with the assurance standards promoted by the Chartered Professional Accountants Bermuda (CPA Bermuda), as prescribed by the CPA Canada. (Note: CPA Bermuda (formerly the Institute of Chartered Accountants in Bermuda) has been affiliated with CPA Canada (formerly the Institute of Chartered Accountants in Canada) since 1973.)

The Office is subject to mandatory periodic practice inspections by CPA Bermuda. The practice inspection is an inspection aimed at assessing whether a practicing CPA office (which our Office is deemed to be) adheres to professional standards and, if necessary, identifies areas of improvement. The Office underwent a practice inspection in September 2018 and it was determined that we met the requirements of the practice inspection for the current cycle. We will be subject to another practice inspection in 2021.

CPA Canada's Auditing and Assurance Standards Board develops and issues authoritative pronouncements and non-authoritative material that enable the public accounting profession to provide effective auditing and other assurance and related services.

The Canadian Auditing Standards (CAS) are aligned with international standards on auditing issued by the International Auditing and Assurance Standards Board, an independent standard setting body under the auspices of the International Federation of Accountants.

The Canadian (and therefore the Bermudian) assurance standards are divided into three sections: Quality Control, Auditing Standards and Other Standards.

In an effort to maintain and improve upon the Office's accounting and auditing quality standards and practices, the Office will be peer reviewed by the Auditor General's Office of New Brunswick in February 2020.

### **5.5.2 Independence and objectivity**

The value of what we do relates directly to the public's confidence that when we undertake our audit work, we are free from the influence of others (notably the entities that are the subject of our audits). Therefore, a significant challenge for us is to ensure that our independence and objectivity remain intact.

Independence is vital to the effectiveness of the Auditor General. Unless she is, and is seen to be, completely independent of those whose affairs are being audited, her credibility and effectiveness would be compromised.

It is also critical that the Auditor General and her staff carry out their work with an objective mindset.

The Bermuda Constitution Order (the Constitution) and the Audit Act 1990 (the Act) together provide the legislated framework to ensure our independence.

Section 88 of the Constitution addresses the appointment, term, dismissal and independence of the Auditor General. A Regulation under the Constitution delegates responsibility to the Auditor General for hiring, employing and disciplining staff. Further, Section 34 (4) of the Standing Orders of the House of Assembly (see Appendix 3) creates a Select Standing Committee of five members of the House of Assembly responsible for reviewing the Office's annual budgets, staffing needs and salaries, thereby reducing the risk that those we audit can impair our effectiveness by withholding needed resources.

Section 18 of the Act states clearly that, in the exercise of her functions, the Auditor General is not subject to the direction or control of any other person or authority. However, through a number of administrative connections to Government, the fact is that the Government is in a position if it so chooses to significantly constrain and compromise our operations through the budget process by limiting our resources including staff, funding and accommodations. This issue may be described as a lack of structural independence.

We are pleased to be able to state that this lack of structural independence has not presented any practical problems for the Office in recent years. Its financial needs are being met through the Government's systems. Having Office staff being required to administer separate payroll, health, pension plans and payments systems would not provide any benefit and therefore would not be the best use of taxpayers' money.

Should any problems arise in the future, the Auditor General has access to the House of Assembly Select Standing Committee described above.

Many checks and balances we have instituted to guide how we carry out our work to preserve the objectivity of the Office. For example, staff members sign annual attestations for independence and conflict of interest. Additionally, in the audit planning stage, we ask the assigned audit team to identify any potential conflicts of interest such as having a close relative working at the auditee's organisation. Where such a conflict arises, the composition of the audit team will be revised. Also, we try to rotate as much as is possible in a small office the composition of the audit team to avoid over-familiarity with our auditees.

We monitor closely the state of our objectivity to safeguard the value of the Office's audits. These steps are time consuming to apply but absolutely necessary if we are to maintain the quality of the Office's work and continue to instill public confidence in our audit findings and recommendations. Not only is such objectivity required by the standards of the auditing profession, but also it is fundamental to the Auditor General's role.

In 2011, the Office was able to move away from the Government's IT servers and acquire its own. This significant step reduced the likelihood of private information regarding the work of the Office to be intercepted by Government employees.

The Auditor General has been seeking new legislation for the Office, as the Audit Act 1990 is out of date. Working with the Parliamentary Standing Committee on the Office of the Auditor, a new Bill was drafted May 2018. The Bill is currently with the Ministry of Finance awaiting review but we have been told that the Bill is not a legislative priority for the Government.

If the Bill is enacted as it currently stands, the impact would be:

- An improvement in immunities and protection of the Auditor General and staff in the course of carrying out their work in good faith.
- Performance auditing will be explicitly included whereas previously it was addressed partially and indirectly.
- The entities that are subject to audit will be described unambiguously thus ensuring the Auditor General will audit all entities under the auspices of the Government.

- The timeliness of the Auditor General's accountability to Parliament will be improved through the elimination of the Audit Committee that has resulted in significant delays in the release of audit reports.
- The principles, the practice and the language of the Bill have been modernised and corrected. For example, references to accounting principles in Schedule Part 1 will be correctly referred to in the new Bill as the applicable financial reporting framework and the names of accounts statements updated. For example, the Balance Sheet will be more correctly described as a "Statement of Financial Position".
- To change the title of the "Auditor" to the Auditor General. A 2001 amendment to the Bermuda Constitution (The Bermuda Constitution [Amendment] Order 2001) changed the title of the Auditor to "Auditor General". There has been no subsequent amendment to the Audit Act.
- Procedures for laying of reports when the Legislature is not in session.
- The Auditor General salary or other remuneration extend to any allowances of a Puisne Judge or to any special treatment of a Puisne Judge's salary or remuneration for pension purposes.

### 5.5.3 Relevance

By creating the Audit Act 1990, legislators signaled that the independent audit of Government's financial statements is of paramount importance. In addition to our audits of financial statements, it is important that the subject matter of other work that we may do is of the highest relevance to Members of the House of Assembly and the public by focusing on issues that matter to them.

The breadth of public sector activities far exceeds the Office's capacity to undertake an investigation and/or performance audit of every significant area within Government, even over many years. Therefore, a challenge for us will be to provide as much coverage as possible across Government to keep the public and Members informed, within our financial constraints, while maintaining our high standards.

The amount of time devoted by the Public Accounts Committee to reviewing our special investigations in the past indicates that this type of work is of great interest to elected officials.

Of necessity, however, the focus of the Office's work in recent years has been to clear the backlog of financial statement audits and to ensure that we have adequate staff numbers to complete the annual audits of the Government's Consolidated Fund financial statements, an audit that is becoming increasingly complex. The Office has reinstated its student program and presently has four staff auditor (students) enrolled. These posts were previously senior staff auditor posts that were converted to staff

auditor posts. For the 2021 budget, the office will be proposing an increase to staff of three qualified audit professionals.

#### **5.5.4 Capacity**

An ongoing challenge for our Office (as it is for most organisations) is to develop and maintain our capacity. Fundamental to our capacity to carry out audit work that is relevant and credible is the number of audit professionals on staff and their collective knowledge, skills and abilities. Also important are the audit methodologies we employ, the quality of staff training and professional development we provide, and the efficiency and effectiveness of our management processes and administration systems.

Therefore, in addition to appropriate audit methodologies, our credibility depends on our ability to hire suitably qualified and experienced audit staff and to provide training to ensure that their knowledge and competencies are maximised.

Auditing is a knowledge-based business. The Office needs experienced staff skilled in audit and accounting practice as well as having expertise in the subject matter of our audits. Given the broad range of audits, we expect to undertake, it will be very challenging for us to develop and maintain this technical capacity from year to year.

The quality of our work depends largely on the success of our recruitment and retaining of skilled knowledgeable team members. The audit practitioners all hold professional certifications including Chartered Professional Accountant, Certified Management Accountant, Certified Fraud Examiner, Certified Information Systems Security Professional and Certified Information System Auditor.

The Office is recognised by the Chartered Professional Accountants of Bermuda as a training office. We currently have four students seeking professional accounting designations. Three of the students are seeking a Chartered Professional Accountant (CPA) designation and the other the Certified Public Accountant designation.

At March 31, 2019, the Office had an approved (i.e., funded) staff complement of 29 full time equivalents. The actual staff number was 21, comprising 2 Executive, 14 audit practitioners and 5 support staff. The 2018-19 vacancies are all in the audit practitioner category and expected to be filled by July 2020.

An area of improvement is that because the Office is still reliant on overseas contract audit professionals, it is critical that the senior leadership team and the Office infrastructure support team members be effective in orientating new recruits. The Office has completely revamped the process by which new team members are assisted with their introduction to the Office. The introduction is scheduled for four to five days depending on the number of new applicants and we include presentations on the Westminster-style of government, the role of the Auditor General and the Office, go

through the attestation statements and the tools they will be using in their audit work. Also, each recruit is assigned a “buddy” to assist in his or her settling in process.

The goal is to assist them to adapt faster to the both the Office and their role therein.

This is working – the newer recruits are given the tools earlier than what used to be the case. The onboarding is designed to be a fluid process that is tweaked as needed. Two months in, each recruit is asked three questions (normally after they have completed one audit engagement):

1. What could be done differently? (It was based on some earlier feedback that the orientation went from two days to about a week.)
2. What is it that you know now that you wished was shared earlier?
3. How can we improve on our onboarding orientation?

For the long-term sustainability of the Office, it is critical that the senior audit professional team be exposed to best in class and cutting-edge audit practices and trends. It is equally important that the Auditor General, Assistant Auditor General and Audit Principals positions be exposed via interactive training, seminars, and round-table discussions to emerging auditing trends and techniques. The Office taking an active role in the Canadian Council of Legislative Auditors (“CCOLA”), the Caribbean Organisation of Supreme Audit Institutions and other professional bodies achieves this.

During the year ended March 31, 2019, the Auditor General, the Assistant Auditor General and Principals attended and participated in a variety of training from non-compliance or suspected non-compliance with laws and regulations (NOCLAR), the annual CCOLA and Canadian Public Accounts Committees conference, fraud procurement courses and the annual update of the Canadian Public Sector Accounting Board. In this way, we ensure that their technical knowledge and skills are updated and maintained and that they are current on industry trends and techniques.

The CCOLA is an organisation devoted to sharing information and supporting the continued development of auditing methodology, practices and professional development. The Assistant Auditor General attended the CCOLA Training Oversight Committee for Financial Statements monthly meetings and the National Professional Practices Group updates.

Audit Principals attended an ISACA (formerly the Information Systems Audit and Control Association) conference on cyber security, and a virtual Canadian Public Sector Accounting Board annual update.

Almost all staff members engaged in financial statement auditing have at least one professional qualification. The Office provides a minimum of 20 hours continuing professional development annually for all professional staff. In addition, if a project-

based or annual performance appraisal identifies a need for additional specific training, the Office will fund the training.

For many years, the Office has been reliant on recruiting its professionally qualified staff from overseas on a contract basis. These professionals have served the Office well and will continue to so. However, we believe it vital to try to provide as much opportunity as possible to people having a vested interest in the island. If the Office were able to increase the supply of trained Bermudian accountants, it would bode well, not only for the Office but also for the Government and, ultimately, the citizens of Bermuda.

At March 31, 2019, the Office had four Bermudian audit staff, all of whom are working on professional accounting designations. There are in total eight Bermudian practitioners on staff. We will seek to maximise employment opportunities for suitably qualified Bermudians but recognise this will be a challenge because we are competing with the private sector accounting firms that can provide better benefits than our Office. As mentioned in Section 1.3 of this report, we have developed targeted recruitment strategies for recruiting qualified Bermudian accountants currently working in Canada.

#### **5.5.5 Working environment**

A positive working environment is important for attracting and maintaining staff and to help ensure good productivity. Key elements of our working environment include the physical office accommodation and adequate information technology (IT) equipment and other tools to support effective job performance. Effective human resource management through current job descriptions, regular performance appraisals, availability of adequate training and reasonable levels of remuneration are also key contributors.

The Auditor General believes that the Office's accommodation is good, staff has access to required IT equipment and the other tools necessary to carry out audits to the standard required. Our 2018 employee satisfaction survey indicated a high level of satisfaction that:

- IT issues affecting my work are communicated to staff in a timely manner, and
- the computer and other IT aids to do the job are adequate.

The funds available for training purposes are limited. For example, in the year ended March 31, 2019 the amount spent on training, \$25,543, was less than 1% of the amount spent on salaries and employee benefits. However, the Office has taken an imaginative, and we think successful, approach to training.

The Office commits to a minimum level of continuing professional development (CPD) a year. For the year ended, March 31, 2019, the Office completed 568 hours of structured, verifiable CPD. The Office participated in a variety of conferences, seminars and

webinars from the Canadian Public Sector accounting and auditing, to Block chain, and E-Learns offered via the CCOLA or Deloitte Learning Academy. As well, the Office conducts on the job training sessions. Our people are our greatest strength and most valuable asset - thus ongoing training and professional development is essential to the Office's continued success.

We have taken advantage of training and development offered on island by the major accounting firms and virtual training through the Canadian Council of Legislative Auditors that allowed us to participate and communicate with the other participants as if we were all in the same conference hall. We participated in standards updates, seminars and conferences without incurring travel costs.

In our 2018 employee satisfaction survey, staff responses to the statement "I am satisfied with the job-related training the Office offers" ranged from neutral to strongly agree.

Pay levels are reasonably comparative with other organisations across the public sector but, because we compete with the private sector qualified accounting staff, we believe that our pay scale is a hindrance in attracting and retaining such staff. However, the employee satisfaction survey referred to above showed that almost 80% of staff agreed or strongly agreed with the statement, "I am satisfied with my overall compensation".

### **5.6 Our Financial Results for the Year Ended March 31, 2019**

#### **5.6.1 Funding**

Funding for the Office is included in the Government of Bermuda's estimates as voted through the annual Appropriation Act by the House of Assembly. Prior to the Appropriation Act, under the Rules of the House of Assembly, the Auditor General must present annual and supplementary estimates to the Select Standing Committee on the Office of the Auditor General (the Committee). The Committee then makes recommendations thereon to the Minister of Finance. For a number of years, the Committee has endorsed the Office's funding proposals and the Minister has not changed them.

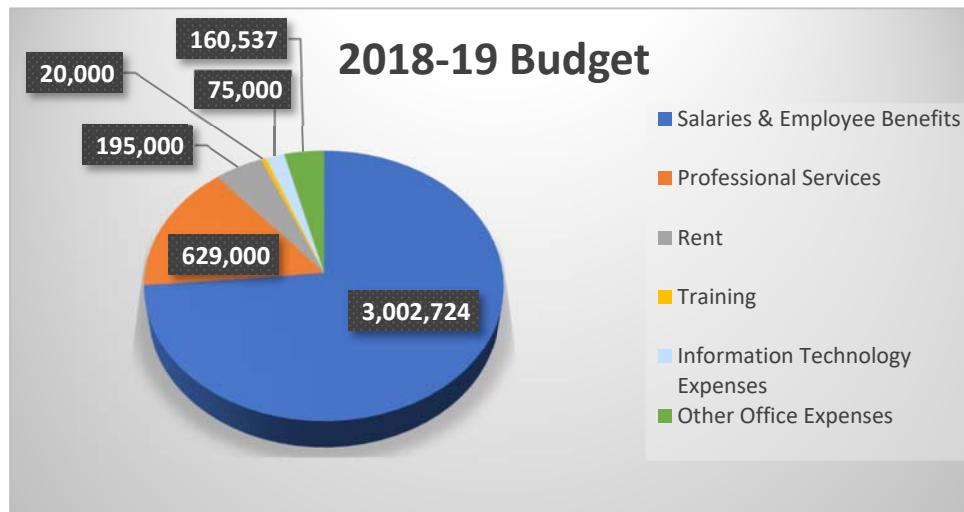
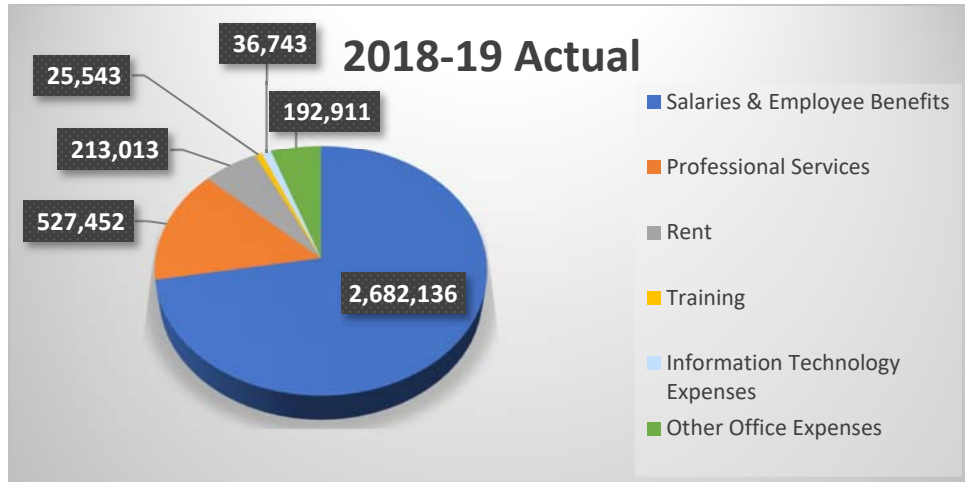
The annual appropriation provides separately for operating expenses and capital acquisitions. Any unused appropriation cannot be carried forward for use in subsequent years.

Revenues comprise audit fees charged to the organisations whose accounts do not form part of the Consolidated Fund.



In 2018, the 2017 and 2016 statements of revenues and expenses the Office were audited by a local accounting firm. We received an unqualified auditor’s opinion on these externally audited statements. There were no recommendations to improve our financial processes and controls, nor were there any recommendations from previous years. The 2018 and 2019 audits of the Office’s statements of revenues and expenses are being addressed.

**5.6.2 Office operating expenses**



The above diagrams show a breakdown of the Office’s actual operating expenses for the year ended March 31, 2019 was \$3,677,798 (2018: \$3,398,539) and the corresponding budget of \$4,082,261, the same as last year’s budget. Actual spending was \$405,000 (10%) under budget and \$279,259 (8%) above the previous year. The Office manages its approved expenses prudently, and operated within its approved 2018-19 appropriation.

As in prior years, the largest expense for the Office is salaries and employee benefits with the second largest expense being professional services.

**Table 14: Budgeted and actual expenses**

	2018-19 Budget	2018-19 Actual	Budget Variance	2017-18 Actual	Actual Variance
Salaries & Employee Benefits	3,002	2,682	320	2,329	309
Professional Services	629	527	102	638	(111)
Rent	195	213	(18)	195	18
Training	20	26	(6)	8	18
Information Technology Expenses	75	37	38	98	(61)
Other Office Expenses	161	192	(31)	131	62
Totals	4,082	3,677	405	3,399	190

The following provides an analysis of Table 14:

- Underspending of approximately \$320,000 in salaries and employee benefits is attributed to mid-year separations of two professional auditors and the corporate service administrator coupled with three funded posts for most of the year filled only at year-end. This is always a challenge for the Office as the market for professional auditors and those training to certify as professional accountants remains competitive.
- Underspending of approximately \$102,000 in professional services was primarily due to money earmarked to pay a contracted auditor not being needed as the entity was not audit ready. There are occasions when we outsource an audit to a member audit firm of CPA Bermuda. Where we have competing deadlines, outsourcing audits allows us to complete the audit and the reporting on a timely basis. It can also allow us to access specialist knowledge that we may not have in-house or that would be too costly to maintain on staff full-time.
- Overspending in rental fees of approximately \$18,000 due to additional and unexpected service charges associated with the premises.
- Underspending of approximately \$38,000 in information technology (IT) resulted from savings associated with a more efficient approach to IT. The CaseWare server licenses were converted to share licenses that resulted in a decrease in maintenance and support costs. During the year, the office migrated our back-ups to Veeam backup software that resulted in a saving of budgeted expenses.
- Overspending of approximately \$6,000 in training due to higher than anticipated CPA Atlantic School of Bermuda costs in supporting the training of the Office staff auditors in pursuit of their professional certifications.

- Additional spending of approximately \$32,000 in other office expenses was associated with the recruitment and relocation of three overseas professional audits.

Overall, the Office remained under budget for the year ended March 31, 2019.

### **5.6.3 Office capital expenditure**

The Office has two categories of capital expenditure: information technology (IT) equipment and office furniture and equipment.

The Office has its own in-house IT staff who not only maintains and services the systems already in the Office but also researches new and emerging technology and develops project plans with the aim of increasing the IT efficiency of the Office.

During the year ended March 31, 2019, the Office did not invest in any new information technology but focused on the optimization of existing systems and purchased no office furniture and equipment.

### **5.6.4 Office revenue**

The Office's actual revenue receipts for the year ended March 31, 2019 were \$1,069,169 (2018: \$1,351,820) compared to the budget of \$1,104,700 (2018: \$1,196,000). Revenue was \$35,531 less than budget attributed to a planned audit not being completed within the fiscal year.

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## APPENDIX 1

### Organisations within the Mandate of the Auditor General As at March 31, 2019

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	<i>Funds</i>	<i>Year end</i>
Bermuda Department of Tourism North America Retirement Plan		March 31
Confiscated Assets Fund		March 31
Consolidated Fund		March 31
Contributory Pension Fund		July 31
FutureCare Fund		March 31
Government Borrowing Sinking Fund		March 31
Government Employees Health Insurance Fund		March 31
Government Reserves Fund		March 31
Health Insurance Fund		March 31
Ministers and Members of the Legislature Pensions Fund		March 31
Mutual Re-insurance Fund		March 31
Public Service Superannuation Fund		March 31
Unemployment Insurance Fund		March 31
<i>Government-Controlled Organisations &amp; Other Organisations</i>		
African Diaspora Heritage Trail Foundation		March 31
Barristers and Accountants AML/ATF Board		March 31
Bermuda Airport Authority		March 31
Bermuda Arts Council (The)		March 31
Bermuda Casino Gaming Commission		March 31
Bermuda Civil Aviation Authority		
Bermuda College		March 31
Bermuda Deposit Insurance Corporation		March 31
Bermuda Economic Development Corporation		March 31
Bermuda Educators Council		March 31
Bermuda Health Council		March 31
Bermuda Hospitals Board		March 31
Bermuda Housing Corporation		March 31
Bermuda Housing Trust (The)		March 31
Bermuda Land Development Company Limited		March 31
Bermuda Monetary Authority		December 31
Bermuda Public Accountability Board		March 31
Bermuda Shipping and Maritime Authority		December 31
Bermuda Sport Anti-Doping Authority (The)		March 31
Bermuda Tourism Authority		December 31
Board of Trustees of the Golf Courses		March 31

<b>CedarBridge Academy</b>	<b>March 31</b>
<b>Financial Intelligence Agency</b>	<b>March 31</b>
<b>Office of Information Commissioner</b>	<b>March 31</b>
<b>Office of Ombudsman for Bermuda</b>	<b>March 31</b>
<b>Pension Commission</b>	<b>December 31</b>
<b>Privacy Commissioner's Office</b>	<b>March 31</b>
<b>Regulatory Authority</b>	<b>December 31</b>
<b>Trustees of the National Sports Centre</b>	<b>March 31</b>
<b>West End Development Corporation (The)</b>	<b>March 31</b>

*Parish Councils*

<b>Devonshire Parish Council</b>	<b>March 31</b>
<b>Hamilton Parish Council</b>	<b>March 31</b>
<b>Paget Parish Council</b>	<b>March 31</b>
<b>Pembroke Parish Council</b>	<b>March 31</b>
<b>Sandys Parish Council</b>	<b>March 31</b>
<b>Smith's Parish Council</b>	<b>March 31</b>
<b>Southampton Parish Council</b>	<b>March 31</b>
<b>St. George's Parish Council</b>	<b>March 31</b>
<b>Warwick Parish Council</b>	<b>March 31</b>

*Aided Schools*

<b>Berkeley Institute Capitation Grant Account (The Governors of the)</b>	<b>March 31</b>
<b>Sandys Secondary Middle School Capitation Grant Account</b>	<b>March 31</b>
<b>St. George's Preparatory School Capitation Grant Account</b>	<b>March 31</b>
<b>Whitney Institute Middle School Capitation Grant Account (The)</b>	<b>March 31</b>

## **APPENDIX 2**

### **Audit Act 1990**

BERMUDA 1990: 56

[17 July 1990]

*[preamble and words of enactment omitted]*

#### **Short title**

1 This Act may be cited as the Audit Act 1990.

#### **Interpretation**

2 (1) In this Act—

"the Audit Committee" means the committee established by section 5;

"function", unless the context otherwise requires, means function whether under this Act or under some other provision of law; "Government-controlled", in relation to an entity, has the meaning set forth in subsection (2);

"member of the Auditor General's staff" means the Auditor General and any person appointed as mentioned in section 3(1) or engaged as mentioned in section 3(2);

"the Minister" means the Minister of Finance;

"the Parliamentary Standing Committee" means the Parliamentary Standing Committee on the Office of the Auditor General provided for by the Rules of the House of Assembly [title 2 item 1(b)] ;

"public officer" means the holder of an office in the civil service of the Government;

"record" includes any device by which information is recorded or stored.

(2) An entity is Government-controlled for the purposes of this Act if the Government has the power—

(a) by virtue of rights conferred by the constitution of that entity or by some other document regulating that or some other entity; or

(b) by means of possession of voting power or the holding of shares in or in relation to that first-mentioned entity; or

(c) by some other means, to secure that the affairs of that first-mentioned entity are conducted in accordance with the wishes of the Government.

### **Staff of the Auditor General**

- 3 (1) Without prejudice to subsection (2), there shall be appointed to assist the Auditor General in the discharge of his functions such number of public officers as may be required.
- (2) The Auditor General may, in addition, engage such further number of persons at such remuneration (deriving from funds provided for that purpose) and on such terms and conditions as he considers necessary for assisting him in the discharge of his functions.
- (3) Every person appointed as mentioned in subsection (1) or engaged as mentioned in subsection (2) is subject to the Auditor General's direction and control.
- (4) Subject to subsection (5), anything under which the authority of the Constitution or any statute is to be done by or to the Auditor General may be done by or to a duly authorised member of the Auditor General's staff.
- (5) The delegation of the Auditor General's functions provided for by subsection (4) does not extend to the expression of an opinion on any accounts, or to the signing or submission of any report.

### **Remuneration of Auditor General**

- 4 (1) The salary or other remuneration of the Auditor General shall not be less than that of a Puisne Judge.
- (2) The expression "salary or other remuneration" in its reference in subsection (1) to a Puisne Judge does not extend to any allowances of a Puisne Judge or to any special treatment of a Puisne Judge's salary or remuneration for pension purposes.

### **Audit Committee**

- 5 (1) There shall be established and maintained a committee, to be known as the "Audit Committee", for the purpose of performing the functions assigned to that committee by this Act.
- (2) The Audit Committee ("the Committee") shall consist of —
- (a) the Minister ex officio; and



- (b) such other members (not fewer than five in number) as the Governor, acting in accordance with the advice of the Premier, may appoint, but so that no such member may be a public officer or an officer or a member of either House of the Legislature or an employee of any Government-controlled entity.
- (3) The Governor, so acting, shall appoint a member to be the Committee's Chairman or, in case of need, acting Chairman, but the Minister may not be appointed, or act, as such.
- (4) The Committee shall meet when summoned by the Chairman or acting Chairman—
  - (a) to consider any urgent matter proposed by the Minister or the Auditor General for the Committee's consideration; or
  - (b) otherwise for the discharge of the Committee's functions under this Act.
- (5) Subject to this section, the Committee may regulate their own procedure.

#### **Audits of public accounts**

- 6 (1) The Auditor General shall in every year—
  - (a) audit—
    - (i) the accounts referred to in section 101(2) of the Constitution [title 2 item 1]; and also
    - (ii) the accounts of every Government-controlled entity whose accounts are not referred to in section 101(2) of the Constitution; and
  - (b) include in every such audit a report setting forth the Auditor General's opinions in accordance with subsection (3).
- (2) The Auditor General's primary functions are those specified in subsection (1), and he is not to exercise his powers under section 16 or 17, or to perform any other function, if to do so would or might impair his ability to discharge his functions under subsection (1).
- (3) A report for the purposes of subsection (1)(b)—
  - (a) shall include the matters specified in Part I of the Schedule;
  - (b) may, if the Auditor General thinks fit, include any or all of the matters specified in Part II of the Schedule.

(4) Accounts that have been audited under subsection (1) shall not be published unless there is or are attached to them any report or reports that the Auditor General prepared in relation to those accounts under subsection (1)(b).

(5) The Auditor General shall prepare accounts in respect of the work of the Office of the Auditor General during each financial year, and those accounts shall be audited by such Auditor General as the Minister may select after consultation with the Parliamentary Standing Committee.

### **Procedure for audits**

7 (1) The Auditor General shall as soon as may be deliver to the relevant Minister a report on every audit conducted by the Auditor General pursuant to section 6(1)(a)(ii), and that Minister shall lay the report before the House of Assembly as soon as may be thereafter.

(2) In subsection (1) the expression "the relevant Minister" means the Minister responsible for the Government-controlled entity to which the accounts in question relate or, if there is no such Minister, then the Minister of Finance.

(3) If any difficulty arises in determining for the purposes of subsection (2) of this section or section 11(1)(b) the Minister who is responsible for a Government-controlled entity, then that difficulty shall be resolved by the Premier after consultation with the Attorney-General.

(4) Every report delivered by the Auditor General to a Minister, or laid by a Minister before the House of Assembly, pursuant to subsection (1) shall have attached to it a copy of the accounts to which the report relates.

(5) Subsections (1) and (4) of this section apply mutatis mutandis in relation to audits conducted pursuant to section 6(5) as those subsections apply in relation to audits conducted by the Auditor General.

### **Ad hoc reports in connexion with audits**

8 (1) Notwithstanding section 6, where it appears to the Auditor General at any time in the course of the discharge of his functions under section 6(1) and (3) that a matter to which this section applies requires some action in the public interest, the Auditor General shall report the matter to the entity in question and, if the circumstances in his judgment so warrant, also to the Minister; and, where the matter appears to the Auditor General to be one requiring immediate or urgent action, he shall report under this section immediately.

(2) This section applies to any matter affecting an entity whose accounts are referred to in section 6(1).

### **Annual reports of Auditor General**

9 (1) The Auditor General shall in every financial year make a report under this section on the work done by the Office of the Auditor General during the next preceding financial year.

(2) A report under this section shall—

- (a) set forth details of every case in which the Auditor General has qualified or reserved his opinion on, or on anything in, accounts referred to in section 6(1); and
- (b) report on every case in which the Auditor General has observed that—
  - (i) a collection of public money, or a disbursement of public money—
    - (aa) has not been made, or has been made otherwise than, as required by any enactment, regulation, rule, order or directive applicable to that collection or disbursement; or
    - (bb) has not been accounted for, or has not been properly reflected, in any relevant accounts; or
  - (ii) property has not been adequately safeguarded or accounted for; or
  - (iii) any accounting or management control system (or any system designed to ensure economy and efficiency in the collection of public money or the making of disbursements, or in the preservation or use of assets, or in the determination of liabilities) was not in existence when it should have been, or was inadequate or had not been complied with; or
  - (iv) although appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programmes, such procedures either had not been established or were not being complied with:

Provided that the Auditor General need not report on any matter which in his opinion is not significant, or on any error or deficiency which in his opinion has been, or is being, satisfactorily rectified; and

- (c) call attention to any other case that the Auditor General considers merits attention.

(3) A report under this section may include such comments as the Auditor General may think fit to make -

- (a) on the effect on the work of the Office of the Auditor General of any changes made in relation to staffing or money sought by the Auditor General for the operation of that Office; and
- (b) on whether in the carrying out of that work the Auditor General received all the information or assistance that he required.

(4) A report under this section may also include, in relation to the accounts of any entity whose accounts are referred to in section 6(1), such comments as the Auditor General may think fit to make

- (a) on the accounting policies employed by the entity;
- (b) on whether the substance of any significant matter that came to his attention was adequately disclosed; and
- (c) on the suitability of the form of any estimates prepared by the entity for controlling disbursements.

(5) Where a report under this section deals with any accounts, there may be included in, or attached to, the report copies or summaries of or extracts from those accounts if the Auditor General deems that necessary or convenient for the purposes of the report.

#### **Time limit for annual reports of Auditor General**

10 (1) An annual report under section 9 shall be addressed to the Speaker of the House of Assembly, and, subject to subsection (2) of this section and to section 11, it is the Auditor General's duty to deliver each such report to the Speaker, and send a copy of the report to the Governor and the President of the Senate, on or before 30th November in the financial year next following the financial year to which the report relates.

(2) Where in any case the Auditor General will be unable to fulfil his duty under subsection (1), he shall so inform the Speaker of the House of Assembly in writing beforehand, giving his reasons; and he shall then use his best endeavours to deliver the report to the Speaker as soon after 30th November as he is able.

#### **Procedure for annual reports of Auditor General**

11 (1) The Auditor General shall as soon as may be in every year complete the final draft of his proposed report under section 9 and—  
(a) send a copy of the draft report to—

- (i) the Chairman of the Audit Committee for circulation to the Committee; and
  - (ii) the Minister for his information; and
- (b) where any part or parts of the draft report deals or deal with any matter concerning a Government-controlled entity for which any other Minister is responsible, send copies of that part or those parts to that Minister for his information.
- (2) The Audit Committee shall study every draft report sent to them under subsection (1)(a); and the Auditor General shall make himself and his staff fully available to the Committee, and shall give to the Committee all the assistance that the Committee may reasonably require for the purpose of studying the draft report.
- (3) The Audit Committee—
- (a) shall consult the Auditor General and may make to him such observations and recommendations on the draft report as they may think appropriate; and
  - (b) shall inform the Cabinet of any matters in the draft report that in the Committee's opinion ought to be brought to the Cabinet's attention.
- (4) The Auditor General may, but need not, give effect to any recommendations made to him by the Audit Committee under subsection (3)(a).
- (5) The Audit Committee and the Auditor General shall use their best endeavours so that the process of scrutiny, study and consultation provided for by subsections (1) to (3) may be completed in time to enable section 10(1) to be complied with.

### **Special reports by Auditor General**

- 12 (1) Notwithstanding sections 9 to 11, where at any time in the course of the performance of the Auditor General's functions a matter arises to which this section applies, the Auditor General shall make an immediate report under this section.
- (2) This section applies to any matter—
- (a) of a nature described in sections 9(2)(b)(i) to (iv); and also
  - (b) such, in the Auditor General's opinion, as to warrant his making in the public interest an immediate report under this section in accordance with section 13.

### **Procedure for special reports by Auditor General**

13 (1) A special report under section 12 shall be addressed to the Speaker of the House of Assembly, and, subject to subsection (2) of this section, the Auditor General shall deliver any such report to the Speaker, and send a copy of the report to the Governor and the President of the Senate, as soon as may be.

(2) The provisions of section 11 apply mutatis mutandis in relation to a special report under section 12 as those provisions apply in relation to an Auditor General's annual report under section 9.

### **General powers of Auditor General**

14 The Auditor General is entitled in the exercise and for the purpose of his functions—

- (a) to request that he be supplied with any explanation, information or assistance which he may reasonably require for the performance of his functions;
- (b) to require access to all property of any entity whose accounts are referred to in section 6(1), and to all records relating to those accounts;
- (c) to call for reasonable accommodation to be provided to any member of the Auditor General's staff; and
- (d) to seek from the Attorney-General in writing an opinion on any question regarding the interpretation of any statutory provision; and any person to whom a reasonable demand by the Auditor General in that behalf is properly directed shall comply with the demand with all reasonable despatch.

### **Power to charge fees in certain cases**

15 (1) Where the Auditor General acting under this Act audits the accounts of an entity whose accounts do not form part of the accounts of the Consolidated Fund, he may charge for the audit such reasonable fees as he thinks fit.

(2) Fees charged pursuant to subsection (1) shall be paid to the Accountant General as public money.

### **Ad hoc investigations, etc.**

16 (1) Where any public money has been paid by way of grant or contribution to any person, or been placed by way of investment with any person, being in either case a person who is not an entity whose accounts are referred to in section 6(1), then the Auditor General may direct to that person such enquiries, and in connexion with those enquiries make such investigations, as the Auditor General thinks necessary or expedient for determining to what extent the public money so paid or placed has been used for the purposes for which it was so paid or placed and not otherwise.

## (2) The Auditor General—

- (a) shall report the results of any enquiries or investigations that he makes under subsection (1) to the Minister; and
- (b) may report those results, or any part of them, to any other person or authority (being a person of (sic) authority affected by the grant, contribution or investment) to whom or to which the Auditor General considers it necessary or expedient to make such a report.

**Power to give advice**

- 17 The Auditor General may, if requested to do so by an entity whose accounts are referred to in section 6(1), render to that entity any technical advice or assistance that he is competent to render by virtue of his professional qualifications and experience.

**Independence of Auditor General**

- 18 The Auditor General is not subject to the direction or control of any other person or authority in the exercise of his functions, but he shall take into account any proposals or recommendations made to him by the Parliamentary Standing Committee in relation to the expenditure of public money by the Office of the Auditor General.

**Confidentiality**

- 19 (1) Where any information is obtained—
- (a) by any member of the Auditor General's staff while acting as such; or
  - (b) by any person by reason of that information having been included in a draft report prepared pursuant to section 11 and conveyed (whether directly or indirectly) to him, that information is confidential and shall not be disclosed by him except—
    - (aa) to the Minister or a public officer or, but so far only as may be necessary or expedient for the proper discharge or any function to be performed under this Act, to other persons; or
    - (bb) for the purpose of any criminal or civil proceedings.
- (2) A person shall not make working papers of the Office of the Auditor General available to any person who is not a member of the Auditor General's staff.

### **Criminal offences**

- 20 A person who—
- (a) contravenes section 6(4) or section 19(1) or (2); or
  - (b) fails or refuses to fulfil his duty under section 14 in relation to a demand properly directed to him under that section, commits an offence against this Act for which he may be prosecuted summarily; and, if convicted of such an offence, he is liable to a fine not exceeding \$3,000 or to imprisonment for a period not exceeding twelve months or to both.

### **Repeal of Act No. 343 of 1968**

- 21 The Audit Act 1968 [former title 14 item 4] is repealed. Commencement and transitional
- 22 (1) The provisions of this Act commence on such day as the Minister may be notice published in the Gazette appoint; and different days may be so appointed for different provisions or for different purposes.
- (2) The arrangements for auditing provided for by sections 6 and 7 ("the new arrangements") apply on and after commencement day in relation to any Government-controlled entity (whether or not constituted by or under any statutory provision) that was in being immediately before that day; and, if any arrangements in force in relation to any such entity immediately before commencement day are inconsistent with the new arrangements, the former arrangements cease to have effect to the extent of the inconsistency, and are superseded by the new arrangements, on commencement day.
- (3) The expression "commencement day" in subsection (2) means the day appointed pursuant to subsection (1) for sections 6 and 7 to commence.



## THE SCHEDULE (Section 6(3))

PART I Matters that an Auditor General's Report under Section 6(1)(b) Must Contain In relation to each entity whose accounts have been audited— (a) a statement that the audit was conducted in accordance with generally accepted auditing standards; (b) a statement whether in the Auditor General's opinion the accounts (i) were prepared in accordance with the accounting principles (if any) stated in the accounts, being principles appropriate to the case; (ii) were prepared on a basis consistent with that on which the last preceding accounts were prepared; (iii) present fairly the financial position, results of operation, and changes in the financial position since the preparation of the last preceding accounts, of the entity; (c) where the audit report contains a reservation of opinion by the Auditor General — (i) a statement of the Auditor General's reasons for that reservation; (ii) where the reservation has been made on account of some deficiency, a statement of the effect of the deficiency on the accounts; (d) where the Auditor General has been unable to form an opinion because of a limitation on the scope of the audit, a reservation by the Auditor General in the form of a denial of an opinion on the accounts. In paragraphs (b), (c) and (d) above and in Part II of this Schedule, "accounts", in relation to an entity, means the following statements (in so far as they exist), that is to say— (a) the balance sheet; (b) the statement of income and expenditure; (c) the statement of retained earnings; (d) the statement of changes in financial position; (e) the Auditor General's report; (f) any other statement that the accounting principles (if any) stated in the accounts call for if the entity's financial position is to be fairly presented, prepared for the entity in respect of the accounting period stated in the respective statement.

PART II Matters that an Auditor General's Report under Section (6)(1)(b) May Contain In relation to each such entity as aforesaid— (a) the Auditor General's comments on the accounting policies employed in preparing the accounts; (b) any other comments arising out of the accounts that the Auditor General considers appropriate.

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## APPENDIX 3

### **Extract from the Standing Orders of the House of Assembly**

**Standing Order 34 (4):** The Committee on the Office of the Auditor shall be appointed for the duration of the life of the Parliament. It shall consist of five members, inclusive of the Chairman thereof, appointed by the Speaker, who may discharge and replace any Member. The Committee shall have the duty:

(a) of reviewing annual and any supplementary estimates requested by the Auditor and of making recommendations thereon to the Minister of Finance;

(b) of reviewing the establishment, including both numbers and gradings of posts comprising the Office of the Auditor and any changes proposed by the Auditor and of making recommendations thereon to the Minister responsible for Management Services;

(c) of reporting to the House of Assembly the potential effects on the Auditor's ability to carry out his functions in a timely manner of any changes to either estimates, including supplementary estimates, or establishment of the Office of the Auditor from those recommended by the Committee;

(d) of reviewing General Orders, Financial Instructions or other directions so far as they may impinge on the independence of the Auditor and his ability to carry out his functions and of recommending how those directions might be amended in their application to the Auditor;

(e) of recommending to the Minister of Finance the basis and circumstances in which the Auditor should levy fees as income to the Consolidated Fund;

(f) where the Auditor is requested to carry out duties in addition to the function set out in the Audit Act, 1990 then of recommending to the Minister of Finance the additional resources required to undertake those duties;

(g) of establishing the dates by which the Auditor must present his reports to the Speaker of the House of Assembly if, in the opinion of the Committee, the submission times set by the Act cannot be met for good reason;

(h) of recommending to the Minister of Finance the auditor who will audit the revenues and expenses of the Office of the Auditor;

(i) of receiving and considering in consultation with the Auditor the reports of any practice reviews performed on the Office of the Auditor, such reports to remain confidential to the Auditor and Members of the Committee.

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### INDEPENDENT AUDITOR'S REPORT

To the House of Assembly, the Governor and the Senate

I have audited the accompanying financial statements of the Consolidated Fund of the Government of Bermuda (the "Consolidated Fund"), which comprise the statement of financial position as at March 31, 2018, and the statements of operations and accumulated deficit, change in net debt and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with public sector accounting standards generally accepted in Bermuda and Canada, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

### **Basis for Qualified Opinion**

I qualified my auditor's opinion on the financial statements of the Consolidated Fund for the year ended March 31, 2018, on the basis that I was unable to obtain sufficient and appropriate audit evidence to support the accuracy and completeness of capital development expenditures incurred during the year, amounting to \$10.3 million. Purchases of a capital nature initially recorded as capital development expenditures are adjusted later to tangible capital assets once analyzed by management at year-end. Management did not complete this analysis of capital development expenditures. As a result, I could not determine whether adjustments might be necessary to tangible capital assets, capital development expenses, amortization expense, total non-financial assets, annual deficit and accumulated deficit.

At year-end, management performs the payroll tax returns validation process, which is critical in identifying errors and ensuring the reasonableness of payroll tax accounts receivable and revenue. This validation process was not completed and I was unable to determine whether adjustments might be necessary to revenues and related accounts receivable, total financial assets, annual deficit, accumulated deficit, and net debt.

### **Qualified Audit Opinion**

In my opinion, except for the effect of the matters described in the Basis for Qualified Opinion, the financial statements present fairly, in all material respects, the financial position of the Consolidated Fund as at March 31, 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with public sector accounting standards generally accepted in Bermuda and Canada.

### **Other matters**

#### *Increasing Net Debt*

As permitted by Section 6 of the Audit Act 1990, I may include in my auditor's report any other comments arising out of the accounts that I consider appropriate.

Without qualifying my opinion, I wish to draw attention to the level of net debt which increased by \$63 million to \$3.8 billion as of March 31, 2018.

#### *Usefulness of these Financial Statements is Limited*

As described in Note 2, these financial statements represent the financial transactions of the Consolidated Fund and have been prepared primarily to provide accountability for the financial resources appropriated by the Legislature of Bermuda. These financial statements are not summary financial statements of the Government of Bermuda. Significant financial activities of the Government occur outside the Consolidated Fund. As such, the financial statements of the Consolidated Fund for the year ended March 31, 2018 do not represent the full nature and extent of the overall financial affairs and resources of the Government of Bermuda.



Hamilton, Bermuda  
November 19, 2018

Heather Thomas, CPA, CFE, CGMA  
Auditor General

**Government of Bermuda - Consolidated Fund**  
**Statement of Financial Position**  
**As at March 31**

		2018	2017
		Actual	Restated (Note 17)
		\$	\$
<b>Liabilities</b>			
	<u>Schedule</u>		
Accounts Payable and Accrued Liabilities	5	146,074,098	169,943,734
Deferred Revenue	6	548,603	535,646
Deferred Insurance Proceeds		953,606	7,391,368
		<u>147,576,307</u>	<u>177,870,748</u>
Interest Bearing Debt - North Channel (Note16)		12,590,496	13,909,307
Interest Bearing Debt - Net of Sinking Fund	7	2,418,756,856	2,397,309,070
		<u>2,431,347,352</u>	<u>2,411,218,377</u>
Pensions and Other Employee Future Benefits			
- Pensions and Retirement Benefits (Note 9(g))		1,466,173,046	1,401,936,784
- Compensated Absences (Note 8)		29,885,154	28,396,590
		<u>1,496,058,200</u>	<u>1,430,333,374</u>
<b>Other Liabilities</b>			
Due to Government Funds and Agencies	3(a)	12,212,424	17,567,538
<b>Total Liabilities</b>		<b>4,087,194,283</b>	<b>4,036,990,037</b>
<b>Financial Assets</b>			
Cash		20,195,584	95,724,047
Accounts Receivable (Note 17)	1	179,699,910	156,766,070
Due from Government Funds and Agencies	3	79,977,962	39,987,652
Long-Term Receivables	4	476,120	714,469
Investment in BLDC (Note 14(b)(ii))		5,000,000	5,000,000
Investment in ACBDA (Note 14(b)(vii))		100	100
<b>Total Financial Assets</b>		<b>285,349,676</b>	<b>298,192,338</b>
<b>Net Debt</b>		<b>3,801,844,607</b>	<b>3,738,797,699</b>
<b>Non-Financial Assets</b>			
Tangible Capital Assets (Note 14(b)(xi))	11	692,830,798	698,057,036
Assets under Construction	11	19,484,741	35,490,121
Inventories for Consumption	2	13,280,585	14,004,795
Prepaid Expenses		2,434,680	2,826,982
<b>Total Non-Financial Assets</b>		<b>728,030,804</b>	<b>750,378,934</b>
<b>Accumulated Deficit</b>		<b>3,073,813,803</b>	<b>2,988,418,765</b>

Contingent Liabilities, Non-Contractual Operational Obligations, Contractual Obligations and Commitments - Legislated (Notes 10, 11, 12 and Schedule 13)

The accompanying notes and schedules are an integral part of these financial statements.

**Government of Bermuda - Consolidated Fund  
Statement of Operations and Accumulated Deficit  
For the year ended March 31**

		2018	2017
		Actual <sup>1</sup>	Restated (Note 17)
		\$	\$
<b>Revenue</b>	<u>Schedule</u> 8, 9		
<b>Taxes &amp; Duties</b>			
Payroll Tax		456,736,461	401,754,701
Customs Duty		223,002,892	211,086,777
Other Taxes and Duties		78,438,729	62,649,771
Land Tax		62,845,547	62,422,116
Passenger Tax		22,177,268	41,025,248
<b>Total Taxes &amp; Duties</b>		<b>843,200,897</b>	778,938,613
Fees, Permits & Licenses		162,156,118	186,747,617
Other Revenue (Note 14(b)(xi))		60,345,847	62,417,201
Investment Income		3,674,224	3,536,930
<b>Total Revenue</b>		<b>1,069,377,086</b>	1,031,640,361
<b>Expenses</b>	10		
Economic Development		381,843,255	434,712,741
Health		166,323,646	193,185,406
National Security		144,125,531	144,166,468
Education		137,846,288	132,327,600
Interest on Debt		117,722,643	120,619,921
Social Services & Assistance		85,001,333	88,030,765
Pensions and Retirement Benefits Expense		65,724,826	75,222,863
Other General Government Services		56,184,602	55,199,708
Early Tender Premium on Repurchased Debt (Note 15(b))		-	38,649,100
<b>Total Expenses</b>		<b>1,154,772,124</b>	1,282,114,572
<b>Annual Deficit</b>		<b>(85,395,038)</b>	(250,474,211)
<b>Accumulated Deficit, Beginning of Year (Note 17)</b>		<b>(2,988,418,765)</b>	(2,737,944,554)
<b>Accumulated Deficit, End of Year</b>		<b>(3,073,813,803)</b>	(2,988,418,765)

<sup>1</sup> Estimates against these actuals are provided for revenue in Schedules 8 and 9 and for current expenses in Schedules 10(a) and 10(b) for appropriation purposes.

The accompanying notes and schedules are an integral part of these financial statements.



**Government of Bermuda - Consolidated Fund  
Statement of Change in Net Debt  
For the year ended March 31**

	2018	2017
	Actual	Restated (Note 17)
	\$	\$
Annual Deficit	<b>(85,395,038)</b>	(250,474,211)
Change Due to Tangible Capital Assets:		
Additions to Tangible Capital Assets	<b>(46,176,920)</b>	(106,680,740)
Loss on Disposal or Impairment of Tangible Capital Assets	<b>135,902</b>	22,949,607
Net Reductions to Assets under Construction	<b>16,005,380</b>	26,207,436
Amortization of Tangible Capital Assets	<b>51,267,256</b>	46,551,599
Total Change Due to Tangible Capital Assets	<b>21,231,618</b>	(10,972,098)
Net Reductions to Inventories for Consumption	<b>724,210</b>	745,395
Net Reductions to Prepaid Expenses	<b>392,302</b>	1,893,483
Total Change Due to Inventories for Consumption and Prepaid Expenses	<b>1,116,512</b>	2,638,878
<b>Increase in Net Debt</b>	<b>(63,046,908)</b>	(258,807,431)
<b>Net Debt, Beginning of Year</b>	<b>(3,738,797,699)</b>	(3,479,990,268)
<b>Net Debt, End of Year</b>	<b>(3,801,844,607)</b>	<b>(3,738,797,699)</b>

The accompanying notes and schedules are an integral part of these financial statements.

**Government of Bermuda - Consolidated Fund  
Statement of Cash Flow  
For the year ended March 31**

	2018	2017
	Actual	Restated (Note 17)
	\$	\$
<b>Operating Activities</b>		
Annual Deficit <sup>1</sup>	(85,395,038)	(250,474,211)
Items not affecting cash:		
Amortization of Tangible Capital Assets	51,267,256	46,551,599
Increase in Pension and Retirement Benefits Liability	64,236,262	74,083,655
Increase in Compensated Absences Liability	1,488,564	1,139,208
Loss on Disposal or Impairment of Tangible Capital Assets	135,902	22,949,607
Decrease in Non-Cash Working Capital	(98,537,655)	60,215,157
Cash Applied to Operating Activities	(66,804,709)	(45,534,985)
<b>Capital Activities</b>		
Additions to Tangible Capital Assets	(46,176,920)	(106,680,740)
Net Reductions to Assets under Construction	16,005,380	26,207,436
Cash Applied to Capital Activities	(30,171,540)	(80,473,304)
<b>Financing Activities</b>		
Debt issues	85,000,000	665,000,000
Sinking Fund (Contribution) Redemption	(63,552,214)	30,648,459
Repayment of Debt	-	(516,065,000)
Cash Provided By Financing Activities	21,447,786	179,583,459
<b>Net (Decrease) Increase in Cash</b>	<b>(75,528,463)</b>	<b>53,575,170</b>
<b>Cash , Beginning of Year</b>	<b>95,724,047</b>	<b>42,148,877</b>
<b>Cash, End of Year</b>	<b>20,195,584</b>	<b>95,724,047</b>

1 - Interest received during the year was \$1,799,258 (2017 - \$988,205). Interest received is made up of interest income from the Statement of Operations and Accumulated Deficit in the amount of \$1,771,567 (\$2017 - \$1,135,775) plus the change in accrued interest receivable in the amount of \$27,691 (\$25,617). Interest paid during the year was \$124,198,311 (2017 - \$120,639,921). Interest paid is made up of interest expense from the Statement of Operations and Accumulated Deficit in the amount of \$117,722,643 (2017 - \$120,639,921) less the change in accrued interest payable in the amount of \$6,475,668 (2017 - \$5,947,475).

The accompanying notes and schedules are an integral part of these financial statements.

## **1. Authority**

The Consolidated Fund (the “Fund”) operates under the authority of the Bermuda Constitution Order 1968 and amendments, and the Public Treasury (Administration and Payments) Act 1969 and amendments.

All public money is paid into the Fund and legislative authority must be obtained for any expenditure out of the Fund.

The Legislature provides authority to make payments out of the Fund in annual Appropriation Acts, Supplementary Estimates and other statutes. Unspent current account appropriations lapse at the end of each fiscal year. Unspent capital account appropriations are carried forward to subsequent fiscal years, subject to the approval of the Minister of Finance.

## **2. Reporting Entity**

The Fund’s financial statements report the financial position, results of operations, change in net debt and cash flow resulting from the activities of the Fund only, which comprise the accounts of the Senate, the House of Assembly, all Government departments and offices (including the Public Service Commission) and all courts. The Fund is established and defined pursuant to Section 94 of the Bermuda Constitution Order 1968.

These financial statements are not summary consolidated financial statements of the Government of Bermuda (the “Government”). Separate audited financial statements are prepared for all other Government organizations.

These financial statements are prepared in accordance with the legislative requirements as outlined in Sections 5 and 32A of the Public Treasury (Administration and Payments) Act 1969 and amendments.

The Government adheres to the general practice of using a Consolidated Fund as its general operating fund. Schedules 8 to 11 provide information concerning the operations, tangible capital assets and capital expenses of individual Government departments and funds comprising the Fund.

## **3. Summary of Significant Accounting Policies**

The recommendations of the Public Sector Accounting Board and the Accounting Standards Board of the Chartered Professional Accountants of Canada (which are promoted by the Chartered Professional Accountants of Bermuda by signed agreement and therefore generally accepted in Bermuda) are the source for the disclosure basis of accounting.

### **(a) Basis of Accounting**

The financial statements are prepared on the accrual basis of accounting.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2018**

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### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(b) Revenue**

Revenues are accounted for in the fiscal year in which the transactions or events occurred that gave rise to the revenues.

Revenues not practicably measurable until cash is received are accounted for upon receipt.

Amounts received or receivable prior to the end of the year, which relate to revenues that will be earned in a subsequent fiscal year, are reported as deferred revenue.

Payroll and corporate service tax are recognized when reported for the first three quarters and based on estimates for the last quarter. Land tax is recognized in the month the tax is due. Stamp duty is recognized upon completion of the review of the related legal documents. Passenger tax, foreign currency purchase tax, hotel occupancy tax, betting tax, timesharing tax, and financial services tax are recognized when reported.

Tax concessions result in a reduction of the revenue type for which relief is being provided.

#### **(c) Expenses**

Expenses are accounted for in the fiscal year that goods and services are acquired, a liability is incurred or grant payments are due.

Government transfers are recognized as an expense in the period the transfer is authorized and all eligibility criteria have been met by the recipient.

Classification of expenses between current account items and capital account items follows the classification in the Approved Estimates of Revenue and Expenditure for the year 2017/18 (the "Approved Estimates").

#### **(d) Interdepartmental Revenues and Expenses**

Interdepartmental revenues and expenses are not eliminated but are identified in Schedules 9(a) and 10(c), respectively.

#### **(e) Financial Assets**

Financial assets are resources that can be used to discharge existing liabilities or finance future operations. They include cash, accounts receivable, amounts due from Government funds and agencies, long-term receivables and investments in quasi-autonomous non-governmental organizations ("QUANGO"s).

Cash includes cash on hand and demand deposits that are readily convertible to known amounts of cash. These are subject to an insignificant risk of changes in value.

### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(e) Financial Assets (cont'd)**

Accounts receivable, long-term receivables and amounts due from Government funds and agencies are recorded at cost. A provision is recorded when collection of the receivable or amounts due is considered doubtful.

Investments in QUANGOs are recorded at cost.

#### **(f) Non-Financial Assets**

Non-Financial assets are resources that are employed for future services. They include tangible capital assets, assets under construction, inventories for consumption and prepaid expenses. The costs of acquiring land, buildings, equipment and other capital property are capitalized as tangible capital assets and are amortized over the estimated useful lives of the assets. Where original acquisition documents were difficult to retrieve, the Book Value Calculator, developed by the Chief Appraiser of Public Works and Government Services Canada (as modified by them to address the Bermuda Government situation), was used to establish reasonable estimates of Net Book Values in order to develop opening balances.

Other tangible capital assets that do not meet the minimum threshold requirements for their respective asset class are charged to capital expenses in the year of purchase, which is consistent with prior years. These expenses are classified as capital development and capital acquisition expenses on Schedule 10, Expenses by Program. Included in the capital development and capital acquisition expenses are other significant items: capital grants, repairs and maintenance, professional fees and other items, which are expensed as they are incurred. Tangible capital assets not disclosed include historical treasures.

Amortization is recorded on a straight-line basis for all assets, according to the following:

Buildings	2 – 40 years
Leasehold Improvements	Remaining life or lease period of the related asset
Betterments	Remaining life or lease period of the related asset
Heavy Equipment	
\$10,000 to \$99,999	5 years
\$100,000 and above	7 years
Vehicles	
2 to 3 Wheeled Vehicles	
\$3,000 to \$99,999	5 years
\$100,000 and above	7 years

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2018**

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### 3. Summary of Significant Accounting Policies (cont'd)

#### (f) Non-Financial Assets (cont'd)

4 or More Wheeled Vehicles	
\$0 to \$99,999	5 years
\$100,000 and above	7 years
Boats & Vessels	
\$10,000 to \$99,999	5 years
\$100,000 and above	10 years
Capital Leases	
\$3,000 and above	3 years
Computer Hardware	
\$3,000 to \$99,999	3 years
\$100,000 and above	7 years
All laptops and desktop computers are capitalized	
Computer Software	
\$20,000 and above	10 years
Furniture & Fixtures	
\$3,000 and above	7 years
Office Equipment	
\$3,000 and above	5 years
Plant, Machinery & Equipment	
\$50,000 and above	10 – 30 years
Infrastructure	
\$50,000 to \$199,999	10 years
\$200,000 and above	40 years

The Ministry of Public Works is primarily responsible for Government's tangible capital assets. Amortization expense is reported under each respective department. Since amortization is a non-cash expense, it is removed for appropriation reporting purposes.

Assets under construction relate to buildings, betterments, vehicles, computer hardware, computer software, infrastructure, office equipment and vessels in development. Assets under construction are not amortized.

Tangible capital assets that have historical or cultural value, including works of art, historical documents, and historical and cultural artifacts, are not recognized as tangible capital assets in these financial statements.

Inventories for consumption are comprised of spare parts and supplies that are held for future program delivery and are not intended for resale. They are valued at cost.

### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(f) Non-Financial Assets (cont'd)**

Inventories for consumption that no longer have service potential are valued at the lower of cost or net realizable value.

Prepaid expenses are cash disbursements for goods or services, other than tangible capital assets and inventories for consumption that will provide economic benefits in one or more future periods. The prepaid amount is recognized as an expense in the year the good or service is used or consumed.

#### **(g) Liabilities**

Liabilities are recorded for financial obligations to organizations and individuals occurring as a result of transactions and events arising on or before the year-end. They occur as a result of contracts, agreements and legislation in force at the year-end that require the Government to repay borrowings, or to pay for goods and services supplied on or before the year-end. Liabilities also include grant payments due on or before the year-end.

#### **(h) Translation of Foreign Currencies**

The financial statements are reported in Bermuda dollars. The Bermuda dollar is valued at par with the United States dollar. Financial assets (excluding investments) and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the year-end date. Non-financial assets and investments are translated at historical rates of exchange. Revenues and expenses originating in foreign currencies are translated at the exchange rate in effect on the date the specific transactions occurred. Translation gains and losses are included in the Statement of Operations and Accumulated Deficit.

#### **(i) Measurement Uncertainty**

Estimates are used to accrue revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonable amount, as there is whenever estimates are used.

Measurement uncertainty in these financial statements exists in the accrual of individual and corporate payroll and land taxes, accruals for pension obligations and retirement benefits, accruals for environmental obligations, allowances for doubtful receivables, estimated useful lives of tangible capital assets, future payments related to contingent liabilities, accruals for liabilities through actuarial valuations and provisions for inventory obsolescence.

The nature of the uncertainty related to the accruals for pension obligations and retirement benefits arise because actual results may differ significantly from the Government's best estimates of expected results based on variables such as earnings on the pension investments, salary increases and the life expectancy of the participants.

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2018**

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### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(i) Measurement Uncertainty (cont'd)**

The uncertainty related to the accrual of environmental obligations is based upon the identification of all sites where environmental damages have occurred that are the Government's responsibilities to mitigate and the quantification of what the actual liability will be based upon impact studies. Uncertainty concerning the allowance for doubtful receivables is based upon actual collectability and changes in economic conditions.

While management's best estimates have been used for reporting items subject to measurement uncertainty, it is possible that changes in future conditions in the near term could require a material change in the valuation of the reported amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Actual results could differ from these estimates.

#### **(j) Risk Management**

Funds are borrowed in both domestic and foreign capital markets by issuing Government senior notes and using bank loans and other credit facilities. This borrowing activity is used to fund government capital expenditure programs and other budgeted governmental operations. These transactions result in exposure to four types of risk: interest rate risk, foreign exchange risk, credit risk and liquidity risk.

Interest rate risk is the risk that debt servicing costs will increase due to changes in interest rates. This risk is managed by issuing debt securities as predominately fixed rates of interest rather than floating rates of interest for fixed terms.

Foreign exchange risk is the risk that debt servicing costs will increase due to a decline of the Bermuda dollar relative to other currencies. This risk is managed by maintaining a preference for debt that is issued predominately in United States ("US") dollars. The Bermuda dollar is pegged to the US dollar to eliminate the impact of any fluctuations in the exchange rates between the two.

Credit risk is the risk that a loss might occur from the failure of another party to meet its obligations under a derivative financial instrument contract. The risk is managed by issuing debt securities that have no derivatives as the underlying securities. The debt instruments are senior notes of the Government and loan facilities with a domestic lender.

Liquidity risk is the risk that financial commitments will not be met over the short term. This risk is managed through the establishment of the Government Borrowing Sinking Fund as a separate legal entity for the repayment of government debt and to pay interest charged on long-term public debt under the provisions of the Government Loans Act 1978 as amended.



### **3. Summary of Significant Accounting Policies (cont'd)**

#### **(k) Changes in Accounting Standards**

On April 1, 2017, the following standards were adopted:

PS 2200 Related party disclosures – a new standard that defines a related party and establishes disclosures required for related party transactions.

PS 3420 Inter-entity transactions – a new standard that establishes how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

PS 3210 Assets – a new standard that provides guidance for applying the definition of assets set out in PS 1000, and establishes general disclosure standards for assets.

PS 3320 Contingent assets – a new standard that defines and establishes disclosure standards on contingent assets.

PS 3380 Contractual rights – a new standard that defines and establishes disclosure standards on contractual rights.

The adoption of these accounting standards had no significant impact on the financial statements.

#### **(l) Future Changes in Accounting Standards**

Each year new standards and amendments to standards may be issued by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. The standards following are not yet effective and have not been applied in preparing these financial statements.

PS 3430 Restructuring transactions – a new standard that establishes standards on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. This standard becomes effective for fiscal years beginning on or after April 1, 2018.

New standards effective for fiscal years beginning on or after April 1, 2021 include:

PS 3450 Financial Instruments – a new standard providing guidance on the recognition, measurement, presentation and disclosure of financial instruments, including derivatives.

PS 1201 Financial Statement Presentation – replaces PS 1200 with revised general reporting principles and standards of presentation and disclosure in government financial statements.

PS 2601 Foreign Currency Translation – replaces PS 2600 and has revised standards on accounting for and reporting transactions denominated in a foreign currency.

PS 3041 Portfolio investments - when Sections PS 1201, PS 2601 and PS 3450 are adopted.

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### **3. Summary of Significant Accounting Policies (cont'd)**

PS 3280 Asset Retirement Obligations - a new accounting standard that addresses the reporting of legal obligations associated with the retirement of tangible capital assets.

New standards effective for fiscal years beginning on or after April 1, 2022:

PS 3400 Revenue – a new accounting standard that will address recognition, measurement and presentation of revenues that are common in the public sector.

The Government does not intend to adopt these new standards prior to the effective dates. The impact that these standards will have on the financial statements is not deemed significant.

### **4. Approved Estimates of the Government**

#### **(a) Budget Process**

Annually, the Government presents a Budget (“Estimates”) of expected revenues and expenditures for the following fiscal year. The Government’s spending Estimates for the fiscal year commencing April 1, 2017 were presented to the Members of the Legislature by the Minister of Finance. The Estimates outline the spending plans of each Ministry/Department submitted for approval to the Legislature in the Appropriations Act.

The Estimates referred to in the financial statement Schedules 8, 9, 10(a) and 10(b) are from the original Approved Estimates and do not reflect changes arising from the tabling of Supplementary Estimates, except for the Adjusted Estimates referred to in Schedule 12 which include the original Approved Estimates and any tabled Supplementary Estimates.

#### **(b) Comparison of Expenses to Estimates and Expenditures**

The Ministry of Finance prepares annual Estimates on the modified cash basis. These financial statements are prepared on an accrual basis. Due to the difference in accounting, Schedule 12 restates actual expenses on the modified cash basis for comparative and analytical purposes against the Adjusted Estimates. The primary differences are as follows:

- (i) Bad Debts – For financial statement purposes, a provision is established and expensed for accounts receivable where collection is doubtful. For budget purposes, no such provision is made.
- (ii) Pension – The financial statement pension-related expense is explained in Note 9. For budget purposes, pension expense is equal to its funding requirements.

#### **4. Approved Estimates of the Government (cont'd)**

- (iii) Government Borrowing Sinking Fund (Note 5) – Transfers to the Sinking Fund are recorded as cash transfers against long-term debt. For budget purposes, the Sinking Fund contribution is considered an expenditure.
- (iv) Compensated Absences – Certain Government employees are entitled to paid retirement leave, as explained in Note 8. For budget purposes, retirement pay is estimated based on anticipated salary spending for the current year.
- (v) Amortization – For financial statement purposes, annual amortization of tangible capital assets is expensed based on the respective assets as explained in Note 3(f). For budget purposes, amortization is not considered expenditure.
- (vi) Environmental Liability – As explained in Note 10(c), the Government has recognized a cost of restoration of land. Changes in the environmental liability are not considered expenditure for budget purposes.

#### **5. Government Borrowing Sinking Fund**

Effective March 31, 1993, the Government Borrowing Sinking Fund (the “GBSF”) was established as a separate legal entity for the repayment of Government borrowing under the provisions of the Government Loans Act 1978 as amended.

During each financial year, the Fund must pay to the GBSF, 2.5% of the public debt outstanding in the Fund at the end of the preceding year. Under Section 12AA of the Government Loans Act 1978 as amended, the Minister may, by Order, suspend the annual contribution for a period of twelve months. The contribution was not suspended for 2017 or 2018.

<b>2017</b>		<b>2018</b>		
\$		\$		
<b>Sinking Fund</b>	<b>Contributions</b>	<b>Earnings</b>	<b>Payments</b>	<b>Sinking Fund</b>
86,625,930	62,098,375	1,453,839	-	150,178,144

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### 5. Government Borrowing Sinking Fund (cont'd)

Up until 2013, the GBSF assets were only to be applied to reduce, cancel or pay interest on public debt. In 2013 the Government Loans Act 1978 was amended to allow excess funds borrowed to be paid into the Sinking Fund and applied to future year deficits. The assets are invested in accordance with the Public Funds Act 1954 and are shown as a reduction of debt issued on the Fund's Statement of Financial Position.

The assets of the GBSF are comprised of the following:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Cash & Cash Equivalents	21,498,392	37,940,013
Fixed Income Securities	128,205,967	48,488,243
Interest Receivable	473,785	197,675

The following is a schedule of projected contributions to the GBSF by the Fund up to March 31, 2023, based on estimated debt levels to March 31, 2021:

	<b>\$</b>
For 2019	64,223,375
For 2020	66,466,000
For 2021	61,856,825
For 2022	59,356,825
For 2023	59,356,825

There are separate financial statements for the GBSF to which readers should refer for further information.

## **6. Contingencies Fund**

On March 14, 1979 the House of Assembly passed a resolution to withdraw \$1 million from the Fund to set up a Contingencies Fund under the provisions of Section 10(1) of the Public Treasury (Administration and Payments) Act 1969 as amended.

The purpose of the Contingencies Fund is to allow the Minister of Finance to authorize urgent and unforeseen expenditures up to \$1 million prior to the approval of the Legislature by supplementary estimate. The Contingencies Fund balance is not segregated from general operating cash and accumulated deficit.

## **7. Unemployment Insurance Fund**

The Unemployment Insurance Fund (the “Insurance Fund”) was established March 18, 2002 by amendment to the Public Treasury (Administration and Payments) Act 1969 as amended under the provisions of Section 10B. The Legislature authorized \$1 million to be set aside within the Fund to set up the Insurance Fund.

The Minister of Finance will pay amounts approved by the Legislature as Government’s contribution to the Insurance Fund. Monies paid into the Insurance Fund will be invested in accordance with the Public Funds Act 1954 and the interest earned on such investments will be paid into the Insurance Fund.

On August 10, 2011 the Government amended the Public Treasury (Administration and Payments) Act 1969 as amended in order to make further provisions about the Insurance Fund. The Act was amended to provide for payments out of the Fund to be made at the direction of the Minister of Finance for the purpose of assisting unemployed persons.

## **8. Compensated Absences**

Government employees are entitled to paid retirement leave under the various union agreements with the Government. Paid retirement leave is available to those eligible employees with a minimum of ten years credited service, who are retiring on the basis of age. The leave is paid at the salary level immediately preceding the date of retirement, to a maximum eligibility of twelve weeks.

**Government of Bermuda – Consolidated Fund**  
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### 8. Compensated Absences (cont'd)

An actuarial valuation of the Government's obligation for retirement leave was performed at March 31, 2017. The results were then extrapolated to March 31, 2018, using similar various long-term assumptions as the Public Service Superannuation Fund (the "PSSF") pension plan (Note 9 (d)). The valuation determined that the liability for compensated absences is currently \$29,885,154 (2017 - \$28,396,590), as detailed in the table below.

<b>For the year ended March 31</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Liability for Compensated Absences</b>		
Accrued Benefit Obligation	25,910,419	23,955,043
Net Unamortized Experience Gain <sup>(a)</sup>	3,974,735	4,441,547
	29,885,154	28,396,590

<sup>(a)</sup> Under Public Sector Accounting Standards, gains and losses are amortized over the expected average remaining service life of the members of each plan, which is fourteen years.

<b>For the year ended March 31</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Liability for Compensated Absences, beginning of year	28,396,590	27,257,382
Amortization of experience gain	(466,812)	(371,163)
Current period benefit cost	1,401,017	1,298,137
Interest accrued	1,569,615	1,544,824
Benefit payments	(1,015,256)	(1,332,590)
	29,885,154	28,396,590

## **9. Pensions and Retirement Benefits**

### **(a) Contributory Defined Benefit Pension Plans**

The Government administers contributory defined benefit pension plans for substantially all of its employees, QUANGO employees and all ministers and members of the Legislature. There are two plans currently in operation – the PSSF and the Ministers and Members of the Legislature Pensions Fund (the “MMLPF”).

For the PSSF, a service pension is available with a minimum of 8 years credited service. Subject to exceptions as outlined in the Public Service Superannuation Act 1981, it is based on the number of years of service times 1.5% of the salary payable immediately preceding the date of retirement. Additional benefits are provided to special groups such as police, corrections and fire services officers.

For the MMLPF, a service pension is generally available to contributors who have reached age 60 and have served for at least 8 years, or to contributors who have reached age 55 and have served for at least 20 years. The rate of pension is 3/1000<sup>th</sup> of the monthly salary payable to a minister, member or officer, on the date on which the contributor becomes entitled to receive a pension, for each month of service rendered up to a maximum of 25 years.

Employees contribute 8.0% of their basic salary to the PSSF and Ministers and Members contribute 12.5% of their salary to the MMLPF. The Government matches the participants' contribution in each plan. The amount of Government contributions made during the year for each plan was as follows: PSSF - \$29,997,809 (2017 - \$29,934,927), MMLPF - \$455,886 (2017 - \$441,644). The Public Service Superannuation Act 1981 and the Ministers and Members of the Legislature (Salaries and Pensions) Act 1975, as amended, provide that if at any time the funds are insufficient to meet the payments chargeable against them, the deficiency shall be made up out of the Fund.

### **b) Pension Liability**

The pension liability is calculated on an actuarial basis. Actuarial valuations are performed triennially using the projected benefit method, pro-rated on services. An actuarial valuation was performed for both the PSSF and the MMLPF at March 31, 2017. The results were then extrapolated to March 31, 2018 using the same assumptions, to produce the estimates included in the financial statements.

Actuarial valuations are based on a number of assumptions about future events, such as inflation rate, interest rates, wage and salary increases, employee turnover and mortality. A number of experience studies were performed during the 2017 fiscal year based on the membership of the PSSF. The result of the studies led to updates in assumptions relating to the retirement age assumption, termination rates, salary increase rates and marital status at retirement.

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## **9. Pensions and Retirement Benefits (cont'd)**

These revised assumptions were used in the valuation of the PSSF and MMLPF liabilities as at March 31, 2017. All assumptions reflect Government's best estimates of expected long-term rates and short-term forecasts.

For the PSSF, pension fund assets consist primarily of listed stocks and bonds, short-term investment funds, hedge funds and private equity investments. Market-related asset values, which recognize the differences between the actual return on assets and the expected return on assets over a period of five years, have been used to determine the pension liability and pension-related expenses for the PSSF.

The market-related value of assets for the PSSF was \$607,692,339 as at March 31, 2018 (2017 - \$595,713,361) compared to a real market value of \$613,666,747 (2017 - \$574,089,560).

For the MMLPF, there is no difference between the market value of plan assets and the market-related value. At March 31, 2018 the value was \$11,559,128 (2017 - \$12,505,026). The actual return on plan assets during the year was 11.06% (2017 - 11.59%) for the PSSF and 4.61% (2017 - 7.22%) for the MMLPF.

At March 31, 2018, \$2,138,791 was due from the PSSF (2017 - \$3,727,658 due to PSSF) in respect of benefits paid in excess of contributions received by the Fund (Schedules 3 and 3(a)). At March 31, 2018, \$11,806,814 (2017- \$12,748,564) was due to the MMLPF in respect of contributions received in excess of benefits paid by the Fund (Schedule 3(a)).

### **(c) Pension-Related Expenses**

Pension-related expenses recognized by the Fund comprise the cost of pension benefits earned by employees during the year, interest on the pension benefit liability (net of interest on pension plan assets) and amortization of the Government's share of any experience gains or losses, less contributions made by the employees. The estimated total cost of the Government's share of plan amendments related to past service is expensed in the year the plan is amended. The pension-related expense is disclosed in Schedule 10(a) as a component of pensions and retirement benefits expense.



**9. Pensions and Retirement Benefits (cont'd)**

Aggregate information about the PSSF and MMLPF is in the following tables:

<b>For the year ended March 31</b>	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Pension Liability</b>		
Accrued Benefit Obligation		
PSSF	1,503,457,000	1,444,045,000
MMLPF	31,864,000	31,261,000
	1,535,321,000	1,475,306,000
Net Fund Assets		
PSSF	(607,692,000)	(595,713,000)
MMLPF	(11,559,000)	(12,505,000)
	(619,251,000)	(608,218,000)
Net Unamortized Experience Gain / (Loss) <sup>(a)</sup>		
PSSF	58,848,000	69,568,000
MMLPF	264,000	1,142,000
	59,112,000	70,710,000
<b>Pension Liability</b>		
PSSF	954,613,000	917,900,000
MMLPF	20,569,000	19,898,000
Carried Forward to Note 9 (g)	975,182,000	937,798,000

<sup>(a)</sup> Under Public Sector Accounting Standards, gains and losses are amortized over the expected average remaining service life of the members of each plan, which ranges from nine to thirteen years.

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**9. Pensions and Retirement Benefits (cont'd)**

For the year ended March 31	2018	2017
	\$	\$
<b>Pension Expense</b>		
Cost of Pension Benefits	46,409,000	46,046,000
Employee Contributions	(30,454,000)	(30,377,000)
Interest on Pension Liability	57,377,000	59,855,000
<b>Amortization of Experience (Gains) &amp; Losses</b>		
2015 Experience Gain	(293,000)	(293,000)
2016 Experience Loss	1,777,000	1,777,000
2017 Experience Gain	(6,337,000)	-
Pensions Expense excluding Employer Contribution	68,479,000	77,008,000

**(d) Value of Obligations Relating to Benefits for the Pension Plans**

The value of the accrued benefit obligation (“ABO”) relating to the pension plans at a given date is determined using the actuarial projections prorated on service, taking into account, among other things, the most probable long-term economic assumption made by the Government.

**Actuarial Assumptions – PSSF**

<b>Economic Assumptions</b>		
Investment return (discount rate)	6.5% per annum	
Inflation Rate	3.00% per annum	
Interest credited on employee contributions	4.00% per annum	
Salary increase rates	Age band	% per annum
	20-25	6.00
	25-30	6.00
	30-35	5.10
	35-40	4.40
	40-45	4.15
	45-50	4.10
	50-55	3.90
	55-60	3.65
60-65	3.45	

## 9. Pensions and Retirement Benefits (cont'd)

### Actuarial Assumptions – MMLPF

Economic Assumptions	
Investment return (discount rate)	6.50% per annum
Inflation Rate	3.00% per annum
Salary increase rate	3.50 % per annum

Changes in these assumptions may lead to a material increase or decrease in the value of the ABO relating to vested benefits. The following tables, which take the main assumptions into account, show the potential impact of a difference of 1.00% in the value of the ABO for the two pension plans, PSSF and MMLPF. The tables also show the impact of a one-year difference in life expectancy, considering that, according to current assumptions, the life expectancy of beneficiaries aged 60 is 21.8 years for men and 25.6 years for women.

Impact of changes on the main assumptions on the value of the ABO relating to PSSF benefits at March 31, 2018:

Assumption	Change	(Reduction) Increase in ABO	
		\$	%
Discount rate	1.0% increase	(165,307,000)	(11.0)
	1.0% decrease	204,880,000	13.6
Salary increase rate	1.0% increase	68,546,000	4.6
	1.0% decrease	(59,964,000)	(4.0)
Life expectancy	1 year increase	23,912,000	1.6
	1 year decrease	(24,770,000)	(1.7)

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## 9. Pensions and Retirement Benefits (cont'd)

Impact of changes on the main assumptions on the value of the ABO relating to MMLPF benefits as at March 31, 2018:

Assumption	Change	(Reduction) Increase in ABO	
		\$	%
Discount rate	1.0% increase	(3,026,000)	(9.5)
	1.0% decrease	3,610,000	11.3
Salary increase rate	1.0% increase	747,000	2.3
	1.0% decrease	(695,000)	(2.2)
Life expectancy	1 year increase	789,000	2.5
	1 year decrease	(806,000)	(2.5)

### (e) Contributory Pension Fund

The Contributory Pension Fund (the “CPF”) was established under the Contributory Pensions Act 1970 as amended. The purpose of the CPF is to provide old age pension, disability and death benefits for persons satisfying certain contribution, citizenship and residency requirements.

Contributions to the CPF are compulsory for persons employed in Bermuda, the self-employed and employers. There is no legislative provision for the Fund to provide for any shortfall if, at any time, the CPF has insufficient funds to meet its current legislated obligations.

### (f) Retirement Benefits Other than Pensions – Employee Health Insurance Plan

The Government administers a health care plan, the Government Employees Health Insurance Fund (the “GEHI Fund”), for substantially all of its employees, QUANGO employees, all ministers and members of the Legislature and retirees. The GEHI Fund provides medical insurance for retirees and eligible dependents with the Government matching the participants’ contribution to the plan.

**9. Pensions and Retirement Benefits (cont'd)**

An actuarial calculation of the Government's ABO for retirement benefits other than pensions was performed for accounting purposes at March 31, 2017, using various long-term assumptions. The results were then extrapolated to March 31, 2018 using the same assumptions, to produce the estimates included in the financial statements.

The discount rate used in determining the accumulated post-retirement benefit obligation was 6.5% (2017 – 6.5%). The assumed health-care cost trend rate used was 7% (2017 – 7.5%). This will be decreasing by 0.5% per annum to an ultimate rate of 4.5%.

Effective June 1, 2017, there were changes to the national Standard Health Benefit with consequential changes to the GEHI coverage. These changes gave rise to actuarial gains. These actuarial gains are amortized over the expected average remaining service life of active employees. There have been no significant changes to the GEHI Plan's provision since the last financial reporting period.

Aggregate information about the health care plan is in the table below:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation at beginning of year	398,602,100	398,286,415
Current period benefit cost	15,256,900	14,292,700
Interest accrued	26,086,078	26,037,465
Benefit payments	(9,812,541)	(9,712,745)
	<hr/>	<hr/>
Accrued benefit obligation at end of year	430,132,537	428,903,835
	<hr/>	<hr/>
Expected accrued benefit obligation at end of year	430,132,537	428,903,835
Actual accrued benefit obligation at end of year	467,027,349	398,602,100
	<hr/>	<hr/>
Experience (loss)/ gain	(36,894,812)	30,301,735

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
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**9. Pensions and Retirement Benefits (cont'd)**

	<b>2018</b>	<b>2017</b>
Expected average remaining service life	14 years	14 years
Annual amortization	(\$2,635,344)	\$2,164,410

**Liability for retirement benefits recorded in the statement of financial position**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Accrued benefit obligation, end of year	467,027,349	398,602,100
Unamortized experience gain	23,963,697	65,536,684
Liability for retirement benefits (Note 9(g))	<u>490,991,046</u>	<u>464,138,784</u>

**Expenses recorded in the statement of operations and accumulated deficit**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Current period benefit cost	15,256,900	14,292,700
Amortization of experience (gains)/losses	<u>(4,678,175)</u>	<u>(2,513,765)</u>
Retirement benefit expense	10,578,725	11,778,935
Retirement benefit interest expense	26,086,078	26,037,465
Total expenses related to retirement benefits	<u>36,664,803</u>	<u>37,816,400</u>

**(g) Pensions and Retirement Benefits Liability and Expense Summary**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Pensions (Note 9(d))	975,182,000	937,798,000
Retirement Benefits other than Pensions – Health Insurance Plan (Note 9(f))	490,991,046	464,138,784
Total Pensions and Retirement Benefits Liability	<u>1,466,173,046</u>	<u>1,401,936,784</u>

**9. Pensions and Retirement Benefits (cont'd)**

		2018		2017
		\$		\$
	Pension Plans	Other Benefits	Total	Total
Current period benefit cost	46,409,000	16,657,917	63,066,917	61,636,837
Amortization of experience (gains) / losses	(4,853,000)	(5,144,987)	(9,997,987)	(1,400,928)
Employee contributions	(30,454,000)	-	(30,454,000)	(30,377,000)
Interest on accrued benefits	57,377,000	27,655,693	85,032,693	87,437,589
Employer contributions	(31,095,000)	(10,827,797)	(41,922,797)	(42,073,335)
Pensions and retirement benefits expense	37,384,000	28,340,826	65,724,826	75,223,163

**10. Contingent Liabilities**

**(a) Guarantees**

**(i) National Education Guarantee Scheme**

In August 1994, the Government introduced the National Education Guarantee Scheme to provide qualifying students with financial guarantees on bank loans for post-secondary education. The repayment of principal and accrued interest is guaranteed by the Government. In the event of default by the student, the banks will call on the guarantee contract. At March 31, 2018, \$360 (2017 - \$5,545) is outstanding on guaranteed student loans with local banks.

**(ii) Bermuda Hospitals Board (the “BHB”) Guarantee**

On December 1, 2010, the Minister of Finance provided an irrevocable Guarantee to Paget Health Services Limited (“PHS”) on behalf of the BHB to facilitate the completion of the new acute care wing (the “New Facility”) of the King Edward VII Memorial Hospital in Paget. The Annual Service Payments commenced from June 12, 2014, the Service Commencement date, for a period of approximately thirty years, consisting of principal, interest, lifecycle and hard facilities management. A portion of the Annual Service Payment is indexed over the thirty year period to allow for changes in the cost of living and other related facility costs. The current year’s Annual Service Payment was \$26.5 million (2017 – \$26.1 million).

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## **10. Contingent Liabilities (cont'd)**

### **(ii) Bermuda Hospitals Board (the “BHB”) Guarantee (cont'd)**

The Guarantee agreement guarantees the payment obligations of the BHB to Paget Health Services Limited by the Government, including principal, interest, life cycle and hard facilities' maintenance expenses, as required by the lenders. The principal balance of BHB's remaining obligation to PHS at March 31, 2018 is \$276.8 million (2017 – \$280.6 million).

### **(iii) Bermuda Economic Development Corporation (the “BEDC”) Guarantee**

The Government provides funding to the BEDC to facilitate the function of the QUANGO as a guarantor on business loans for locally owned businesses in Bermuda. The Government provides funding to fulfill the payment obligations of the BEDC for defaulted loans.

While the Government settles defaulted loans as required, there is no liability recorded and no provision for loans in default is included in the financial statements of the Fund. The total of specific amounts deemed contingent liabilities of the Government, as determined by the BEDC, as at March 31, 2018 is \$1,168,578 (2017 - \$1,217,004).

### **(iv) Morgan's Point Guarantee**

On March 14, 2016, the Minister of Finance provided irrevocable Guarantee Agreements to lenders, replacing the letter of comfort, providing certain credit facilities on behalf of Morgan's Point Limited (“MPL”) for use in the construction of a new hotel and condominium project at Morgan's Point to be branded and managed as a member of the Ritz Carlton hotel and residences brands. The guarantees provide that the Government cannot be legally required to fund more than US\$165 million to repay the lenders if the borrowers are unable to perform their obligations to the lenders. The financing guaranteed is provided under separate groups of loans each maturing in five years with two 1 year options to extend.



## **10. Contingent Liabilities (cont'd)**

### **(v) Hotel Bermuda Holdings Ltd. (“HBH”) Guarantee**

The Government has a Master Development Agreement (“MDA”) with HBH, a part of the Desarrollos Hotelco Group, the developers of the proposed St. Regis Luxury Hotel, Casino, Spa and Golf Resort in St. George’s. On May 12, 2017, the Minister of Finance announced the Government’s willingness to support the financing of this project by committing to provide a guarantee of up to \$25 million for an estimated project cost of \$150 million. The guarantee will provide that the Government cannot be legally required to fund more than \$25 million to repay the lender if HBH is unable to meet their obligations to the lender. The financing being guaranteed is provided under a loan facility maturing in fifteen years.

The Government made a further commitment to the project, via an amendment to the MDA, to support the development on a number of infrastructure-related matters, including drilling a water well, installing a back-up generator, constructing a new realigned public road and provision of free metered water. The total value of these additional commitments is not to exceed \$2.7 million.

Pursuant to the provision of section 3 of the St George’s Resort Act 2015, in June 2017 the Government entered into various land lease agreements with the developer for a period of 262 years.

### **(b) Claims and Potential Claims**

The Government is subject to claims and potential claims related to breach of contract, damages to persons and property and like items. The effect of legal claims cannot be determined until they are settled or dismissed. No liability has been admitted and no provision for claims is included in the financial statements. Any resulting losses will be recorded and charged to operations in the year an amount can reasonably be determined.

The total of specific amounts claimed or potential settlements which are under litigation or possible litigation as at March 31, 2018 is \$11,789,217 (2017 - \$15,816,550).

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## **10. Contingent Liabilities (cont'd)**

### **(c) Base Lands Clean Up**

The Government recognizes that there will be a cost for restoration of the land at the bases formerly occupied by the US military. It is anticipated that such costs would include removal of hazardous materials and clean-up.

A liability of \$23,742,614 (2017 - \$34,380,059) has been accrued, which is an estimate of the remaining costs of the clean-up and remediation at two former major base land sites. The estimated range is \$18.4 million to \$21 million.

The cost for Southside was originally estimated at \$10.5 million, with a range of \$10.5 million to \$20 million, for the demolition of buildings beyond refurbishment and removal of asbestos. At March 31, 2018, it was determined that no remediation expenditure was required for Southside and therefore the provision has been removed.

The cost for clean-up of Tudor Hill (estimated at \$1 million, with a range of \$1 million to \$2 million) is for removal of asbestos and demolition of buildings on the site.

Clean-up of Morgan's Point is estimated at \$17.4 million (with a range of \$17.4 million to \$19 million) to remove environmental hazards and fuel storage tanks, removal and remediation of asbestos, as well as demolition of derelict buildings. To be conservative, the Morgan's Point provision remains at \$22.9 million, comprised of the prior year provision less actual expenditures incurred during the current year.

The Government signed the Morgan's Point Exchange Agreement with Southlands Limited and MPL. The agreement exchanged 12.454 hectares of land owned by Southlands Ltd., located in Warwick, for 66.82 acres of freehold land at Morgan's Point in Southampton. Furthermore, the agreement provides MPL, as the Developer, the ability to develop an additional 128.46 acres of Leasehold property at Morgan's Point, as further detailed in the Morgan's Point Land Development Agreement, also signed and dated April 8, 2011, amongst the same parties.

Article 6 of the Morgan's Point Land Development Agreement, states the Government is still responsible for the remediation of the Morgan's Point property to international standards deemed reasonably acceptable to the Developer. These standards are met in the request for proposal issued in 2009.

## **10. Contingent Liabilities (cont'd)**

### **(d) Hotels Concession Act 2000 and the Memorandum of Understanding for Bermuda Hotel Association, Restaurants and Retail Relief**

On February 21, 2009, the Government entered into a Memorandum of Understanding (“MoU”) with the Bermuda Hotel Association to provide payroll tax relief to eligible hotels. An assessment of the results, trading conditions and the points within the original MoU were to be reviewed quarterly so that consideration could be given to an extension of all deferrals and relief for as long as the economic situation required.

On August 20, 2010, the Government entered into a similar MoU with the Restaurant Division of the Bermuda Chamber of Commerce to provide payroll tax relief to qualifying restaurants for the employer portion of the payroll tax and later a reduced payroll tax rate for employees.

On October 1, 2011, the Government announced a payroll tax relief programme for the Retail Sector which provided full relief from payroll tax to businesses that met the criteria of a Retail establishment.

The percentage relief provided under all three relief programmes was scaled back as of April 1, 2015 expired on March 31, 2017.

The Hotels Concession Act 2000 allows for the full or partial exemption from or deferral of payroll tax, land tax and hotel occupancy tax for hotels which undergo development deemed to be in the national economic interest of Bermuda if the development is likely, among other considerations:

- to benefit the tourism industry and the economy generally;
- to create employment and entrepreneurial opportunities for Bermudians; and
- to encourage local investment.

The concessions are granted at the discretion of the Minister of Economic Development and Tourism with the written agreement of the Minister of Finance for those hotels that apply for the concessions. The concessions afforded to the hotels are non-refundable and in instances where the payroll tax is deemed null and void due to the MoU, the concessions remain as a contra revenue amount to be applied against any future payroll tax incurred by those hotels.

The Government is obligated to recognize the effect of the concessions when payroll tax is actually incurred unless they are dismissed by the Minister of Finance. No liability has been admitted and no provision for collectability is included in the financial statements. Hotel concessions are foregone revenue and reduce taxes otherwise owing by the hotels in the year the taxes are due.

The total of the hotel concessions granted as at March 31, 2018 was \$1,439,212 (2017 - \$314,663), which may be applied against any future payroll tax or hotel occupancy tax incurred by the applicable hotels.

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## **10. Contingent Liabilities (cont'd)**

### **(d) Hotels Concession Act 2000 and the Memorandum of Understanding for Bermuda Hotel Association, Restaurants and Retail Relief (cont'd)**

In addition to this amount, \$58,676,115 (2017 - \$64,040,433) is available for use but has not yet been granted by the Ministry of Economic Development and Tourism as per the terms and conditions of the individual orders.

In March 2014, with an operative date of February 27, 2015, the Morgan's Point Resort Act 2014, which includes hotel concessions was tabled and later approved in the House of Assembly. The total value of concessions to be applied in the future against payroll, hotel occupancy and land taxes under this Act cannot be determined at this time.

In August 2015, with an operative date of March 14, 2016, the St. George's Resort Act 2015 which included hotel concessions was approved. The total value of concessions to be applied in the future against payroll and hotel occupancy taxes under this Act is conservatively estimated to be \$20,000,000 over a period of ten years and is not capped. The land tax concession in this Act cannot be determined as the structure does not exist and is not capped.

The Tourism Investment Act 2017 became operative on 10 November 2017. As a result, the Hotel Concession Act 2000 has been discontinued and several hotel concessions were revoked. To date no concessions have been granted under the Tourism Investment Act 2017.

### **(e) Air Service Agreements**

The Government had signed agreements with two commercial airlines whereby in consideration of providing regular scheduled air service to Bermuda, the Government commits to pay the airlines a calculated sum if there is a financial shortfall on the routes. The agreements varied in detail, but guaranteed the airlines either a certain level of revenue or a specific level of profit on a particular route. Shortfalls occurred when ticket revenues are insufficient to cover the cost of operating the routes, either due to insufficient passenger numbers or discounted tickets to attract passengers. At March 7, 2017, the vesting date, these air service agreements were vested in the Bermuda Airport Authority. In accordance with the agreements, Government established and delivered to two commercial airlines irrevocable Letters of Credit ("LOC") issued by HSBC Bank of Bermuda Ltd. ("HSBC"), for US\$500,000 and BNTB for US\$100,000. The BNTB LOC expired on August 3, 2017, and the HSBC LOC will expire on February 15, 2019.

### **(f) America's Cup Related Concessions**

In February 2015, the Minister of Economic Development tabled the America's Cup Act 2015 in the House of Assembly. This Act was approved which resulted in a number of concessions and exemptions from legislative requirements that would otherwise apply to the America's Cup Event Authority LLC, the Team, their designated commercial partners and the Regatta Officials. The concessions include relief from certain taxes and fees in the areas of advertising, air navigation, broadcasting and electronic communications,

## **10. Contingent Liabilities (cont'd)**

Customs duties, employment, vehicle permits and licensing, marine vessel port dues, registration and mooring fees, and pilotage. The concessions in this Act cannot be determined as they were not capped.

### **(g) Ferry Lease**

On March 16, 2016, the Government commenced a lease agreement for a ferry to provide additional lift during the tourist season. The first six month term of the lease was from April 1, 2016 to September 30, 2016. The second six month term of the lease was from April 1, 2017 to September 30, 2017. In accordance with the lease, Government established an irrevocable LOC, issued by HSBC. The LOC securing the lease with a balance of US\$1,200,000 expired on September 30, 2017.

## **11. Non-Contractual Operational Obligations**

The Government has ongoing obligations to fund a variety of programs for public welfare including health, education, social services, protection of persons and properties, and management of natural resources. The following is an analysis of the future, non-contractual operational obligations:

	<b>2018</b>
	<b>\$</b>
2019	4,494,302
2020	3,178,645
2021	871,575
2022	3,528,385
2023	3,175
2024 and subsequent	<u>40,276</u>
Total Future Operational Obligations	<u><u>12,116,358</u></u>

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## 12. Contractual Obligations

### (a) Capital Leases

The average period of capitalized leased office machines is 3 years. Leases are capitalized based on the discounted rate of 6.04% and amortized on a straight-line basis over the period of the lease.

The following is an analysis of the leases:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Present value of lease cost	5,236,690	5,092,284
Less: Accumulated amortization	<u>(4,769,296)</u>	<u>(4,599,804)</u>
Present value of lease obligations (Schedule 11)	<u>467,394</u>	<u>492,480</u>

The following is a schedule of discounted future minimum lease payments under leases expiring up to March 31, 2021:

	<b>2018</b>
	<b>\$</b>
2019	94,059
2020	81,601
2021	18,967
Add: Discounted Amount	<u>272,767</u>
Present value of lease obligations	<u>467,394</u>

### (b) Contractual Obligations

The nature of Government activity results in some large multi-year contracts and agreements of various sizes and importance. Any financial obligations resulting from these are recorded as a liability when the terms of these contracts and agreements for the acquisition of goods and services or the provision of transfer payments are met.

## **12. Contractual Obligations (cont'd)**

### **(b) Contractual Obligations (cont'd)**

The following is an analysis of estimated future expenditures related to these contractual obligations:

	<b>2018</b>
	<b>\$</b>
2019	24,237,838
2020	57,865,234
2021	3,117,721
2022	792,240
2023	551,882
2024 and subsequent	<u>1,410,899</u>
Total Contractual Obligations	<u><u>87,975,814</u></u>

### **(c) Operating Leases**

The Government rents premises under operating leases which expire at certain dates.

The following is an analysis of the future minimum operating lease payments:

	<b>2018</b>
	<b>\$</b>
2019	4,020,515
2020	3,211,937
2021	2,689,912
2022	2,665,885
2023	2,167,635
2024 and subsequent	<u>8,658,974</u>
Total Future Minimum Operating Lease Payments	<u><u>23,414,858</u></u>

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### **13. Supplementary Estimates and Virements (Transfers)**

Section 96(3) of the Bermuda Constitution Order 1968 allows for Supplementary Estimates in respect of any fiscal year if it is found that (a) the amount appropriated by the appropriation law for any purpose is insufficient or that a need has arisen for expenditure for a purpose for which no amount has been appropriated by that law; or (b) moneys have been expended for any purpose in excess of the amount appropriated for that purpose by the appropriation law or for a purpose to which no amount has been appropriated by that law, a supplementary estimate, showing the sum required or spent, shall be laid before the House of Assembly. Section 96(4) of the Bermuda Constitution Order 1968 requires that a Supplementary Appropriation Bill be introduced into the Legislature as soon as practical after year end of the year that supplementary estimates have been necessary.

The Public Treasury (Administration and Payments) Amendment Act 2004 allows a Permanent Secretary or a Head of Department to transfer a part of a Department's approved budget to another Department within the same Ministry, subject to the consent of the Minister of Finance. Virements do not increase the overall appropriation amount but facilitate the redeployment of approved budget resources after the start of a financial year.

During the year \$15,652,870 (2017 - \$25,476,209) in Supplementary Estimates were approved and spent which consisted of \$12,309,716 (2017 - \$15,854,566) for current expenditure and \$3,343,154 (2017 - \$9,621,643) for capital expenditure.

During the year \$8,579,532 (2017 - \$21,378,089) in virements were approved and transferred which consisted of \$1,026,591 (2017 - \$5,453,460) for current expenditure and \$7,552,941 (2017 - \$15,924,629) for capital expenditure.

Additional expenditures of \$1,298,093 (2017 - \$4,302,839) were incurred in excess of amounts appropriated by the Ministry and will require final approval, which consisted of \$1,280,302 (2017 - \$4,230,840) for current expenditure and \$17,791 (2017 - \$71,999) for capital expenditure.

Additional virements of \$3,397,981 (2017 - \$12,199,796) require final approval and transfer, which consisted of \$2,222,593 (2017 - \$4,228,812) for current expenditure and \$1,175,388 (2017 - \$7,970,984) for capital expenditure.



## **14. Related Party Transactions**

### **(a) Funds**

The Fund is related to the GEHI Fund, the CPF, the MMLPF, the Bermuda Department of Tourism North America Retirement Plan, the PSSF, the Confiscated Assets Fund, the Insurance Fund, the GBSF, the Health Insurance Fund, the Mutual Re-insurance Fund, the FutureCare Fund and the Government Reserves Fund.

The financial activities of these funds are reported separately in each fund's financial statements. The Fund provides accounting and certain administrative services to these funds. These transactions are in the normal course of operations and are measured at the appropriate exchange amount. The other activities represent the net position of contributions payable to the funds and expenses paid out of the Fund on behalf of the funds. Schedules 3 and 3(a) display details of unpaid balances due from and due to the funds, which have arisen from normal operating activities. The 3.5% per annum rate of interest accruing on the balances is the statutory rate as fixed by the Interest and Credit Charges (Regulation) Act 1975 (2017 – 7% per annum).

### **(b) QUANGOs and Other Government-Related Organizations**

The Fund is related to certain QUANGOs and other Government-related organizations. QUANGOs and other Government-related organizations are government businesses which have been established under their respective legislative incorporation acts.

The Fund enters into transactions with the QUANGOs and other Government-related organizations in the normal course of business which are measured at the exchange amount, which is the amount of consideration established and agreed upon by the related parties.

Schedules 3 and 3(a) include details of balances due from and due to these entities which have arisen from normal operating activities. During the year, no interest was charged and/or incurred from or to the Fund and the various QUANGOs and other Government-related organizations.

## **14. Related Party Transactions (cont'd)**

### **(i) Bermuda Monetary Authority (the “BMA”)**

In accordance with Section 8 (3) of the Bermuda Monetary Authority Act 1969, the BMA pays the remaining portion of its net profit (historically 50%) to the Fund after contributions to the BMA General Reserve and the paid up capital of the Authority. The BMA reported a net deficit for the year ended December 31, 2017, so Nil was owed to Government.

### **(ii) Bermuda Land Development Company Limited (“BLDC”)**

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Finance.

On November 12, 1996 (date of inception), the Government purchased 2,500,000 common shares of BLDC. The shares are valued at par \$1 each and are held in trust by the Minister of Public Works.

### **(iii) Bermuda Housing Corporation (the “BHC”)**

On July 12, 2011, the Government provided a letter of comfort to BNTB on behalf of BHC which states, “To the extent that the BHC operates programmes which do not break even, the Government appropriates annual grants which enable BHC to comply with its legislation.” The annual grant awarded for the year ended March 31, 2018 was \$6,050,000 (2017 - \$6,050,000).

### **(iv) WEDCO Guarantee**

On April 24, 2012, the Minister of Finance consented to the borrowing of \$36 million by WEDCO from BNTB to facilitate the completion of the Infrastructure and Housing Project in Dockyard. The amount borrowed was subsequently reduced to \$25 million and the balance outstanding as at March 31, 2018 was \$22,494,273 (2017 – 23,594,273).

On June 18, 2015, the Minister of Finance consented to the borrowing of \$39 million by WEDCO from BNTB to facilitate the completion of the Land Reclamation Project in Dockyard. This loan facility is for a term of six years. The balance outstanding as at March 31, 2018 was \$38,734,217 (2017 – \$37,988,198).

The Ministry of Finance further guarantees and will make good any default on the part of WEDCO in the payment of these loans to BNTB and all related interest fees and charges due as a result of default by WEDCO until all indebtedness to BNTB has been fully discharged.

## **14. Related Party Transactions (cont'd)**

### **(v) BHC Guarantee**

BHC has a loan of \$36.7 million from BNTB, borrowed to finance the purchase of the units of phase three of the Grand Atlantic Housing Development (“Grand Atlantic”) and to repay the loans advanced by the bank for Grand Atlantic phases one and two. The balance outstanding as at March 31, 2018 was \$29,300,000 (2017 - \$33,000,000).

The Ministry of Finance guaranteed to make good any default on the part of BHC in the payment of the loan to BNTB and all related interest fees and charges due as a result of default by BHC until all indebtedness to BNTB has been fully discharged.

### **(vi) Regulatory Authority (the “RA”)**

On September 23, 2016, the Government provided a letter of comfort to BNTB on behalf of the RA supporting an overdraft facility of \$3.4 million. At March 31, 2018, \$144,205 (2017 - \$374,182) had been drawn on the facility.

In accordance with Section 41 (1) (a) of the Regulatory Authority Act 2011, the RA will pay 50% of its net surplus to the Fund. The Fund’s share of RA’s net surplus for the year ended March 31, 2018 so \$220,451 (2017 – \$Nil).

### **(vii) ACBDA Limited (“ACBDA”)**

On December 24, 2014 (date of inception), the Government purchased 100 common shares of ACBDA. The shares are valued at par \$1 each and are held in trust by the Minister of Economic Development. ACBDA was dissolved on March 16, 2018 and the common shares ceased to exist.

### **(viii) L. F. Wade International Airport Redevelopment**

After several assessments commissioned by the Government, it was concluded that the useful life of the existing airport terminal was nearing expiration. The Government agreed to redevelop the airport by using a government-to-government contracting model with the Canadian Commercial Corporation (“CCC”) which is wholly owned by the Government of Canada. Since mid-2014 the Government has engaged with the CCC and its selected project partner Aecon Group Inc. (collectively the “Project Partner” or “Concessionaire”). The model involved an incremental contract development process that began when the parties entered into a Memorandum of Understanding on November 10, 2014, which led to the execution of a series of Letters of Agreement. A further interim agreement, called the Airport Development Agreement (“ADA”), which was entered into on August 31, 2015, sets out and describes the scope, principles and high level terms (“Heads of Agreement”) of the Project’s final and definitive arrangements.

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## **14. Related Party Transactions (cont'd)**

### **(viii) L. F. Wade International Airport Redevelopment (cont'd)**

After detailed negotiations, the Government and the Project Partners reached agreement on all material aspects of the Project, and a set of definitive core project agreements and associated schedules (collectively referred to as "the Agreement") were prepared and signed by the Minister of Tourism, Transport and Municipalities and the Minister of Finance on March 15, 2017 ("Financial Close") for the transaction.

The Agreement stipulates that the Government will enter into a 30-year concession agreement with a Special Purpose Entity, Bermuda Skyport Corporation Limited ("Skyport"). Skyport is owned by Aecon, who will hold at least 35% of the equity, and other third party shareholders. The Agreement will include both construction of the new airport as well as operations and maintenance of the airport for the concession term, except for operations that Bermuda will retain, being air traffic control operations, meteorological services, airport fire and rescue services and ground electronics ("the Retained Government Services").

Under the Agreement, Government will provide Skyport with limited financial support and assistance, including:

- the accumulated Airport Improvement Fees revenue;
- guaranteed minimum regulated revenue; and
- the amount in respect of annual energy consumption for the airport.

All airport charges will be deregulated and governed by the terms of the Agreement. Skyport will have the sole right to charge and enforce all airport-related fees.

The Airport Redevelopment Concession Act 2017, effective March 9, 2017, resulted in a number of concessions and exemptions to Skyport and its affiliates, CCC, Aecon and the finance parties. The concessions include relief from certain taxes and environmental exemptions. The value of these concessions is not able to be determined, as they are not capped.

The Government created a QUANGO, the Bermuda Airport Authority (the "BAA"), under the Bermuda Airport Authority Act 2017, to administer the Agreement and provide the Retained Government Services. All airport property, excluding airport lands, and all liabilities and contracts were transferred to the BAA at the vesting date.

On October 19, 2018 an Assignment and Transfer Agreement ("ATA") was made between the BAA and the Government of Bermuda. This ATA re-assigned and re-transferred certain assets and liabilities obligation accrued and appropriated back to the Government with an effective date of March 16, 2017. These assets and liabilities should have remained with the Government even though they formed part of the Airport property at financial close.

## **14. Related Party Transactions (cont'd)**

### **(viii) L. F. Wade International Airport Redevelopment (cont'd)**

The Government has leased existing airport land and facilities to Skyport for the 30-year term of the Agreement. The Agreement provides that the lease, and the transfer of the airport assets, labour force and responsibility for airport operations to Skyport, occurred at Financial Close. The Agreement does not have any extension options, so at the end of the term, the airport and all airport assets will revert to the Government subject to the Agreement's hand-back standards.

### **(ix) Bermuda Shipping and Maritime Authority**

On July 12, 2016, the Bermuda Shipping and Maritime Authority (the "BSMA") was established by the Bermuda Shipping and Maritime Authority Act 2016 (the "BSMAA"). As of October 1, 2016, this new QUANGO commenced operations, replacing the Department of Maritime Administration. At March 31, 2018, the BSMA had a loan of \$2,090,000 (2017 – \$1,230,000) from the Fund (total loan facility \$5,703,000). All chattels, movable property, liabilities and contracts vested immediately before October 1, 2016 in the Government and used by the BSMA for its operations were transferred to and vested in the BSMA.

In accordance with Section 19(1)(a) of the BSMAA, the BSMA will transfer a percentage of its net surplus, if any, to the Fund. The 2018 net position of the BSMA has not yet been finalised. There was no surplus reported for 2017.

### **(x) Bermuda Civil Aviation Authority**

On July 12, 2016, the Bermuda Civil Aviation Authority (the "BCAA") was established by the Bermuda Civil Aviation Authority Act 2016 (the "BCAAA"). As of October 1, 2016, this new QUANGO commenced operations, replacing the Department of Civil Aviation. All chattels, movable property, liabilities and contracts vested immediately before October 1, 2016 in the Government and used by the BCAA for its operations were transferred to and vested in the BCAA.

Unearned revenues of \$2,282,235 due to BCAA at the commencement of operations on October 1, 2016 were removed from the inter-company balances as these amounts were collected by the BCAA (Note 17).

In accordance with Section 18 (1) (a) of the BCAA, the BCAA will transfer a percentage of its net surplus to the Fund. The BCAA reported a net surplus of \$4,000,000 and \$17,000,000 for the years ended March 31, 2017 and 2018 respectively. The amounts to be transferred to the Fund are included in Due from Government Funds and Agencies (Schedule 3) at March 31, 2018.

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## **14. Related Party Transactions (cont'd)**

### **(xi) Heritage Wharf**

In March 2017, the Heritage Wharf (the “Wharf”) was re-conveyed to Government from WEDCO for the total consideration of \$1. The Wharf was previously conveyed to WEDCO by Government in May 2009 for consideration of \$1, with \$58 million expensed as a capital item in the Fund’s March 31, 2010 audited financial statements.

The Wharf was recorded as a tangible capital asset in the Fund’s Statement of Financial Position at a value of \$41.6 million as at March 31, 2017. Corresponding revenue of \$41.6 million was recorded as Other Revenue in the Statement of Operations and Accumulated Deficit for the year ended March 31, 2017.

### **(vii) Bermuda Casino Gaming Commission**

On April 4, 2017, the Government authorized the transfer of \$1.6 million from the Fund to the Bermuda Casino Gaming Commission in the form of an interest-free loan.

## **15. Debt**

### **(a) Bank Overdraft**

During the year the Government had an overdraft facility agreement at HSBC of \$50 million which expired on November 30, 2017. It was subsequently extended until January 31, 2018. The daily charges applied to overdrawn balances was 3% above HSBC’s base rate.

### **(b) Debt Issue**

During the prior year, the Government issued debt of \$665 million of 3.717%, 10 year bonds, due January 2027. The proceeds were used to repay the \$200 million, 5.0% loan facility with BNTB. The proceeds were also used to repurchase \$276.1 million of the 5.603%, \$500 million senior notes due in 2020. The repurchase of the 2020 notes included a \$38.7 million early tender premium, shown as a line item in the 2017 statement of operations and accumulated deficit, and accrued interest of \$3.8 million. The net increase in interest bearing debt, as of March 31, 2017, as a result of the issue was \$188.9 million. Also see note 18.

## **16. North Channel Shipping Loan**

In June 2015, the Government entered into an agreement with a cruise line whereby that entity covered the costs for widening the North Channel to permit Quantum Class cruise ships passage to Bermuda. In exchange, the Government will repay the project capital costs, \$15,203,274, plus accrued interest thereon via a new fee called the Capital Cost Recovery Charge (the “CCRC”). The CCRC is charged at \$22 per passenger from eligible passengers on board the Quantum Class cruise ships. The loan accrues interest at 6% per annum. The loan includes capitalized interest of \$828,182.

As at March 31, 2018, principal repayments of \$1,458,998 (2017 - \$2,046,000) were made and the remaining balance on the loan outstanding was \$11,698,276 (2017 - \$13,157,274). Interest expense recorded for 2018 was \$729,499 (2017 - \$752,033). Interest payable as at March 31, 2018 was \$892,220 (2017 - \$752,033).

## **17. Prior Period Adjustment**

Certain 2017 comparative balances have been changed as a result of the application of prior period adjustments necessitated to the 2017 audited financial statements. Prior period adjustments are made when errors impacting previously reported financial years are discovered in the current reporting year.

### **(a) Correction of errors**

- (i) It was determined that due to improper relieving of accounts receivable in prior years, accounts receivable had been overstated in error since 2014. Correction of the error resulted in a decrease in prior period accounts receivable of \$1.6M (Schedule 1) with a corresponding increase in the accumulated deficit.
- (ii) It was determined that due to duplicate accruals of trade liabilities in prior years, accounts payable and accrued liabilities had been overstated since 2016. Correction of the error resulted in a \$955K decrease in accounts payable and accrued liabilities (Schedule 5) and a corresponding decrease in the accumulated deficit.
- (iii) It was determined that unearned revenues originally recorded as due to the BCAA (Schedule 3) representing amounts later collected directly by the BCAA, not the Fund, were recorded as due to the BCAA at March 31, 2017 in error. Correction of the error resulted in a decrease of \$2.3M in the prior period amount due to the BCAA with a reduction in the corresponding loss on disposal of the Department of Civil Aviation.

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## 17. Prior Period Adjustment (cont'd)

### (b) North Channel Widening

As disclosed in Note 16, the Government entered into an agreement with a cruise line (the "CL"), whereby the CL covered the costs for widening the North Channel. As the widened North Channel was deemed in use during the year ended March 31, 2017, a capital asset and corresponding liability to the CL should have been reflected in the Fund's 2017 financial statements. The correction of the omission resulted in an increase in prior period tangible capital assets of \$12.1M with a corresponding decrease in the accumulated deficit. Accounts payable and accrued liabilities increased by \$14.6M to reflect the loan due to the CL at March 31, 2017. Revenues from fees, permits & licenses increased by \$2.1M, representing the CCRC received.

### (c) Assignment and Transfer Agreement with the BAA

As disclosed in note 14(viii) an ATA was made between the BAA and the Government, which assigned and transferred certain assets and liabilities of the Department of Airport Operations back to the Government with an effective date of March 16, 2017. As a result of the ATA, accounts receivable, net of a provision for doubtful accounts, of \$1.8M (Schedule 1) and accounts payable of \$5.2M (Schedule 5), previously removed from the Fund's 2017 financial statements were reinstated at March 31, 2017. A corresponding loss on disposal of \$3.4M of the Department of Airport Operations was reversed, resulting in a decrease in the Fund's accumulated deficit at March 31, 2017.

Condensed Statement of Financial Position as at March 31, 2017:

	Previously Reported \$	Correction of Errors \$	North Channel Widening \$	ATA \$	Restated Balance \$
	(in thousands)				
<u>Liabilities</u>					
Accounts Payable and Accrued Liabilities	165,685	(955)		5,214	169,944
Interest Bearing Debt - North Channel			13,909		13,909
Due to Government Funds and Agencies	19,850	(2,282)			17,568
<b>Total Liabilities</b>	<b>4,021,105</b>	<b>(3,238)</b>	<b>13,909</b>	<b>5,214</b>	<b>4,036,990</b>
<u>Financial Assets</u>					
Accounts Receivable	156,516	(1,594)		1,844	156,766
<b>Total Financial Assets</b>	<b>297,943</b>	<b>(1,594)</b>		<b>1,844</b>	<b>298,193</b>
<b>Net Debt</b>	<b>3,723,162</b>	<b>(1,644)</b>	<b>13,909</b>	<b>3,370</b>	<b>3,738,797</b>



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**17. Prior Period Adjustment (cont'd)**

	Previously Reported \$	Correction of Errors \$	North Channel Widening \$	ATA \$	Restated Balance \$
	(in thousands)				
<u>Non-Financial Assets</u>					
Tangible Capital Assets	685,956		12,101		698,057
Total Non-Financial Assets	738,278		12,101		750,379
Accumulated Deficit	2,984,884	(1,644)	1,808	3,370	2,988,418

Condensed Statement of Operations and Accumulated Deficit as at March 31, 2017:

	Previously Reported \$	Correction of Errors \$	North Channel Widening \$	ATA \$	Restated Balance \$
	(in thousands)				
<u>Revenue</u>					
Fees, Permits & Licenses	184,702		2,046		186,748
Total Revenue	1,029,594		2,046		1,031,640
<u>Expenses</u>					
Economic Development	429,771	(2,282)	3,854	3,370	434,713
Total Expenses	1,277,173	(2,282)	3,854	3,370	1,282,115
Annual Deficit	(247,578)	2,282	(1,808)	(3,370)	(250,474)
Accumulated Deficit, Beginning of Year	(2,737,306)	(638)			(2,737,944)
Accumulated Deficit, End of Year	(2,984,884)	1,644	(1,808)	(3,370)	(2,988,418)

**Government of Bermuda – Consolidated Fund**  
**Notes to the Financial Statements**  
**March 31, 2018**

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## **18. Subsequent Events**

### **(a) Debt Issue**

As of October 2018, Government appointed Citigroup Global Markets Inc. and HSBC Securities (USA) Inc., to act as joint book-runners for an offering of Government debt securities. The offering will be used to repay the BNTB loan and will be combined with a tender offer to repurchase from holders of Government's 5.603%, senior notes due 2020 and 4.854%, senior notes due 2024, up to a capped amount. The transaction will be issued in US dollars. The \$620M, 4.75% offering has a closing date of November 20, 2018 and will carry a maturity of 10 years.

### **(b) St. George's Resort Act 2018**

In July 2018, with an operative date of 31 August 2018, the St. George's Resort Act 2018 was approved. The St. George's Resort Act 2015 was simultaneously repealed. A Hotel Concession embedded in the 2015 Resort Act was amended to be a Tourism Investment Order. The total value of concessions to be applied in the future against payroll and hotel occupancy taxes under this act is conservatively estimated to be \$20,000,000 over a period of ten years and is not capped. The land tax concession in this act cannot be determined as the structure does not exist and the value of these concessions is not capped.

## **19. Comparative Figures**

Certain comparative figures have been reclassified and restated to conform to the current year's presentation.

**Government of Bermuda - Consolidated Fund**  
**Schedule 1: Accounts Receivable**  
**As at March 31**

	2018	2017
	Actual	Restated
	\$	\$
Office of the Tax Commissioner	254,619,656	227,832,640
Works & Engineering	12,352,028	11,937,628
Registrar of Companies	9,144,522	8,941,249
Judicial Department	8,735,051	4,305,844
Fire Services	-	6,330,116
Customs	4,404,839	6,434,678
Accountant General	3,917,494	3,187,278
Airport Operations	2,932,025	4,440,159
Public Lands & Buildings	2,554,536	2,214,575
Post Office	2,365,790	1,918,028
Department of Education	1,590,226	1,561,028
Department of Health	1,547,038	1,580,777
Other Departments	1,361,842	43,998
Environment & Natural Resources	1,317,882	1,268,048
Ministry of Public Works HQ	906,768	918,319
Marine & Ports	499,569	494,938
Public Transportation	350,245	391,047
Ministry of Health HQ	226,077	31,708
Financial Assistance	219,708	219,708
Immigration	205,650	44,000
Telecommunications	195,880	271,148
Ministry of Transport & Regulatory Affairs HQ	175,000	721,420
Office of the Auditor General	153,000	(240,100)
Defence	129,066	128,936
Police	111,757	70,933
Department of Human Resources	101,253	107,253
Ministry of Finance HQ	94,892	134,912
Registry General	33,224	58,546
	<b>310,245,018</b>	285,348,814
Less: Provision for Doubtful Accounts	<b>130,545,108</b>	128,582,744
	<b>179,699,910</b>	156,766,070

**Government of Bermuda - Consolidated Fund**  
**Schedule 2: Inventories for Consumption**  
**As at March 31**

	2018	2017
	Actual	Actual
	\$	\$
Public Transportation	3,980,772	3,691,367
Works & Engineering	3,559,739	3,359,622
Marine & Ports	2,735,420	2,468,749
Ministry of Public Works HQ	2,680,937	3,756,929
Department of Education	1,030,068	1,027,394
Police	1,016,314	1,097,720
Department of Corrections	330,637	362,951
Environmental Protection	86,990	84,157
Post Office	81,922	81,922
Defence	54,459	54,459
Immigration	37,303	39,208
	<b>15,594,561</b>	16,024,478
Less: Provision for Obsolescence	<b>2,313,976</b>	2,019,683
	<b>13,280,585</b>	14,004,795

**Government of Bermuda - Consolidated Fund**  
**Schedule 3: Due From Government Funds and Agencies**  
**As at March 31**

	2018	2017
	Actual	Restated
	\$	\$
Government Employees Health Insurance Fund	32,062,744	24,752,998
Bermuda Civil Aviation Authority	20,291,710	-
Contributory Pension Fund	5,773,622	1,019,141
Regulatory Authority	5,295,374	4,752,079
Bermuda Hospitals Board	4,814,299	3,950,477
Bermuda Shipping and Maritime Authority (Note 14(b)(ix))	2,148,569	1,230,000
Public Service Superannuation Fund (Note 9(b))	2,138,791	-
Bermuda Casino Gaming Commission	1,615,623	-
Bermuda Monetary Authority	1,537,089	1,329,506
Confiscated Assets Fund	954,773	185,967
West End Development Corporation	926,213	329,638
Government Reserves Fund	568,370	268,490
Bermuda Land Development Company	487,662	112,462
Bermuda Housing Corporation	355,703	269,085
Bermuda College	323,305	217,290
CedarBridge Academy	211,677	126,787
Golf Courses	131,036	1,176,678
Unemployment Insurance Fund (Note 7)	115,188	-
Bermuda Tourism Authority	78,354	-
Financial Intelligence Agency	43,818	28,313
Berkeley Institute	38,366	21,561
Parish Councils	19,936	25,544
Bermuda Economic Development Corporation	19,501	27,392
Pension Commission	12,439	10,485
Whitney Institute	5,439	3,717
Sandys Secondary Middle School	4,682	5,223
St. George's Preparatory School	1,980	1,940
Bermuda Housing Trust	1,699	767
Bermuda Airport Authority	-	121,979
Bermuda Health Council	-	20,133
	<b>79,977,962</b>	<b>39,987,652</b>
Less: Provision for Doubtful Accounts	-	-
	<b>79,977,962</b>	<b>39,987,652</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 3(a): Due to Government Funds and Agencies**  
**As at March 31**

	2018	2017
	Actual	Actual
	\$	\$
Ministers and Members of the Legislature Pensions Fund (Note 9(b))	11,806,814	12,748,566
Bermuda Hospitals Board	226,096	97,716
Corporation of Hamilton	80,750	-
Bermuda Airport Authority	75,427	-
West End Development Corporation	6,981	6,981
Bermuda Land Development Company	5,142	5,142
Corporation of St. Georges	4,575	-
Bermuda Economic Development Corporation	3,800	3,800
Bermuda College	1,672	1,672
Bermuda Health Council	767	-
Bermuda Housing Corporation	400	400
Public Service Superannuation Fund (Note 9(b))	-	3,727,658
Bermuda Civil Aviation Authority	-	776,485
Department of Tourism North American Retirement Plan	-	197,175
Golf Courses	-	1,943
	<b>12,212,424</b>	<b>17,567,538</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 4: Long-Term Receivables**  
**As at March 31**

	2018	2017
	Actual	Actual
	\$	\$
Student Loans and Teacher Training Awards	395,983	516,625
Customs Duty	80,137	197,844
	<b>476,120</b>	<b>714,469</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 5: Accounts Payable and Accrued Liabilities**  
**As at March 31**

	2018	2017
	Actual	Restated
	\$	\$
Department Trade Accounts	32,668,502	44,507,787
Deposits Held	35,283,703	30,404,788
Interest on Debt	25,399,625	31,875,293
Base Lands Clean Up (Note 10(c))	23,742,614	34,380,059
Employees' Leave Entitlements	18,586,503	18,566,660
Teachers' Salaries & Leave Entitlements	8,649,303	8,552,954
Salaries, Wages and Benefits	1,552,159	1,494,793
Leases Payable	191,689	161,400
	<b>146,074,098</b>	<b>169,943,734</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 6: Deferred Revenue**  
**As at March 31**

	2018	2017
	Actual	Actual
	\$	\$
Post Office	261,624	255,249
Department of Health	171,568	160,764
Public Lands & Buildings	91,116	90,816
Youth, Sport & Recreation	17,364	22,981
Office of the Tax Commissioner	5,000	5,000
Department of Education	1,095	-
Accountant General	836	836
	<b>548,603</b>	<b>535,646</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 7: Interest Bearing Debt - Net of Sinking Fund**  
**As at March 31**

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	2018	2017
	Actual	Actual
	\$	\$
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: May 21, 2009		
Interest: 7.38% payable semi-annually May 21 and November 21		
Notes Due: May 21, 2019	<b>100,000,000</b>	100,000,000
<b>BNTB Loan Due May 2019 - US\$</b>		
Issue Date: December 14, 2017		
Interest: 4% payable monthly Last business day of the month		
Loan Due: May 31, 2019	<b>85,000,000</b>	-
<b>Senior Notes Due 2019 - US\$</b>		
Issue Date: November 10, 2009		
Interest: 5.93% payable semi-annually November 10 and May 10		
Notes Due: November 10, 2019	<b>80,000,000</b>	80,000,000
<b>Senior Notes Due 2020 - US\$</b>		
Issue Date: July 13, 2010		
Interest: 5.603% payable semi-annually January 20 and July 20		
Notes Due: July 20, 2020	<b>223,935,000</b>	223,935,000
<b>Senior Notes Due 2022 - US\$</b>		
Issue Date: December 4, 2007		
Interest: 5.73% payable semi-annually June 4 and December 4		
Notes Due: December 4, 2022	<b>140,000,000</b>	140,000,000



**Government of Bermuda - Consolidated Fund**  
**Schedule 7: Interest Bearing Debt - Net of Sinking Fund (cont'd)**  
**As at March 31**

	2018	2017
	Actual	Actual
	\$	\$
<b>Senior Notes Due 2023 - US\$</b>		
Issue Date: July 3, 2012		
Interest: 4.138% payable semi-annually		
January 3 and July 3		
Notes Due: January 3, 2023	<b>475,000,000</b>	475,000,000
<b>Senior Notes Due 2023 - BMD\$</b>		
Issue Date: December 16, 2013		
Interest: 4.75% payable semi-annually		
June 16 and December 16		
Notes Due: December 16, 2023	<b>50,000,000</b>	50,000,000
<b>Senior Notes Due 2024 - US\$</b>		
Issue Date: August 6, 2013		
Interest: 4.854% payable semi-annually		
February 6 and August 6		
Notes Due: February 6, 2024	<b>750,000,000</b>	750,000,000
<b>Senior Notes Due 2027 - US\$</b>		
Issue Date: October 19, 2016		
Interest: 3.717% payable semi-annually		
January 25 and July 25		
Notes Due: January 25, 2027	<b>665,000,000</b>	665,000,000
	<b>2,568,935,000</b>	2,483,935,000
Less: Sinking Fund (Note 5)	<b>150,178,144</b>	86,625,930
	<b>2,418,756,856</b>	2,397,309,070

**Government of Bermuda - Consolidated Fund**  
**Schedule 8: Revenue By Type**  
**For the year ended March 31**

	2018 Original Estimates	2018 Actual	2017 Restated
	\$	\$	\$
<b>Taxes &amp; Duties</b>			
Payroll Tax	439,000,000	456,736,461	401,754,701
Customs Duty	223,716,000	223,002,892	211,086,777
Land Tax	63,186,000	62,845,547	62,422,116
Passenger Tax	22,345,000	22,177,268	41,025,248
	748,247,000	764,762,168	716,288,842
<b>Other Taxes &amp; Duties</b>			
Stamp Duty	20,986,000	26,714,093	23,125,474
Foreign Currency Purchase Tax	22,000,000	20,895,761	20,310,285
Hotel Occupancy Tax	11,500,000	11,990,807	7,950,651
Financial Services Tax	11,390,000	7,160,215	-
Non-Bermudian Land Acquisition Tax	6,000,000	6,069,965	5,044,735
Corporate Services Tax	5,900,000	5,393,207	5,221,796
Betting Tax	1,700,000	164,018	935,928
Timesharing Tax	20,000	50,663	60,902
	79,496,000	78,438,729	62,649,771
<b>Total Taxes &amp; Duties</b>	827,743,000	843,200,897	778,938,613
<b>Fees, Permits &amp; Licences</b>			
International Companies	69,965,000	63,353,109	62,606,713
Vehicle Licences & Registration	29,029,000	29,290,699	29,363,972
Immigration	15,000,000	15,981,522	16,652,240
Telecommunications	14,750,000	14,458,688	14,301,377
Bus Transportation	9,044,000	6,435,165	7,282,262
Solid Waste Services	5,050,000	5,359,466	4,996,171
Postal Services	4,343,000	4,665,107	4,036,455
Capital Cost Recovery Charge (Note 16)	-	2,048,310	-
Water	3,901,000	3,327,470	2,537,721
Services to Seaborne Shipping	3,000,000	3,081,634	3,043,471
Local Companies	2,800,000	2,652,582	2,714,830
Rentals	2,709,000	2,227,379	1,958,386
Other Customs Fees & Charges	2,321,000	1,918,909	1,914,236
Trade and Service Mark	1,401,000	1,787,210	1,877,033
Planning Fees and Searches	1,052,000	1,760,077	1,379,059
Ferry Services	2,038,000	1,532,215	1,182,334
Wharfage	800,000	805,309	794,852
Companies Licences	700,000	710,815	865,000
Liquor Licences	320,000	509,357	513,040
Plant Production and Marketing Centre	200,000	137,113	183,326
Air Terminal & Aviation	-	113,982	8,860,366
Civil Aviation Receipts	18,000,000	-	-
Registration of Shipping	1,000	-	3,065,117
Registration of Aircraft	-	-	16,619,656
	186,424,000	162,156,118	186,747,617
<b>Other Revenue</b>			
Other (Notes 14(b)(x), 10(c))	21,794,000	56,735,151	59,794,712
Fines & Forfeitures	2,982,000	2,910,696	2,622,489
Asset Sales	3,000,000	700,000	-
	27,776,000	60,345,847	62,417,201
<b>Investment Income</b>	406,000	3,674,224	3,536,930
	28,182,000	64,020,071	65,954,131
<b>TOTAL REVENUE</b>	1,042,349,000	1,069,377,086	1,031,640,361

**Government of Bermuda - Consolidated Fund**  
**Schedule 9: Revenue By Ministry / Department**  
**For the year ended March 31**

	2018 Original Estimates	2018 Actual	2017 Restated
	\$	\$	\$
<b>Non-Ministry Departments</b>			
05 Office of the Auditor General	1,196,000	1,363,019	1,143,402
63 Parliamentary Registrar	358,000	344,272	352,606
02 Legislature	-	5,383	(300)
	1,554,000	1,712,674	1,495,708
<b>Cabinet Office Departments</b>			
13 Post Office	4,550,000	4,646,621	4,006,791
09 Cabinet Office	-	1,246	1,446
14 Department of Statistics	-	1,203	47
26 Department of Human Resources	-	-	104
	4,550,000	4,649,070	4,008,388
<b>Ministry of Transport &amp; Regulatory Affairs</b>			
34 Transport Control Department	29,033,000	29,408,245	29,491,093
48 Ministry of Transport & Regulatory Affairs HQ	18,653,000	23,739,314	2,813,147
67 ICT Policy and Innovation	14,750,000	14,954,989	1,000
35 Public Transportation	8,763,000	6,484,395	7,335,174
30 Marine & Ports	6,303,000	6,021,489	5,573,948
31 Airport Operations	-	115,741	8,970,111
57 Civil Aviation	-	-	14,587,756
73 Maritime Administration	-	-	3,180,274
	77,502,000	80,724,173	71,952,503
<b>Ministry of Legal Affairs</b>			
03 Judicial Department	8,288,000	10,395,033	5,859,255
87 Ministry of Legal Affairs HQ	-	130,853	98,904
04 Attorney General's Chambers	-	3,000	-
74 Department of Court Services	-	-	(190)
	8,288,000	10,528,886	5,957,969
<b>Ministry of Finance</b>			
38 Office of the Tax Commissioner	593,582,000	607,731,245	560,333,886
39 Registrar of Companies	74,071,000	67,189,597	66,381,714
11 Accountant General	404,000	10,657,918	3,542,707
10 Ministry of Finance HQ	188,000	382,866	1,487,316
28 Social Insurance	-	1,246	-
	668,245,000	685,962,872	631,745,623
<b>Ministry of Education &amp; Workforce Development</b>			
17 Department of Education	230,000	153,567	181,991
60 Workforce Development	28,000	22,250	21,995
18 Libraries	15,000	17,080	17,301
19 Archives	2,000	339	868
	275,000	193,236	222,155
<b>Ministry of Health</b>			
22 Department of Health	3,516,000	3,344,628	3,550,853
21 Ministry of Health HQ	50,000	135,478	152,219
91 Health Insurance	-	-	7,000
	3,566,000	3,480,106	3,710,072

**Government of Bermuda - Consolidated Fund**  
**Schedule 9: Revenue By Ministry / Department (cont'd)**  
**For the year ended March 31**

	2018 Original Estimates \$	2018 Actual \$	2017 Restated \$
<b>Ministry of Economic Development</b>			
46 Telecommunications	-	-	14,129,377
	-	-	14,129,377
<b>Ministry of the Environment</b>			
50 Ministry of the Environment HQ	-	9,150	-
	-	9,150	-
<b>Ministry of Social Development &amp; Sports</b>			
20 Youth, Sport & Recreation	621,000	617,809	585,689
23 Child & Family Services	192,000	167,430	165,620
52 Community & Cultural Affairs	89,000	94,050	183,943
88 National Drug Control	-	575	2,818
71 Ministry of Social Development & Sports HQ	-	-	-
55 Financial Assistance	-	-	-
	902,000	879,864	938,070
<b>Ministry of National Security</b>			
12 Customs	228,095,000	227,118,128	215,017,368
07 Police	350,000	610,132	501,809
45 Fire Services	180,000	147,506	776,843
06 Defence	-	130	-
25 Department of Corrections	-	100	50
83 Ministry of National Security HQ	-	25	111
	228,625,000	227,876,021	216,296,181
<b>Ministry of Home Affairs</b>			
27 Immigration	21,020,000	22,313,412	21,709,909
29 Registry General	1,679,000	2,030,977	2,109,749
32 Department of Planning	1,205,000	1,951,497	1,592,904
79 Environment & Natural Resources	1,755,000	1,601,963	1,823,136
93 Ministry of Home Affairs HQ	500,000	640,040	1,326,960
	26,159,000	28,537,889	28,562,658
<b>Ministry of Public Works</b>			
81 Public Lands & Buildings	5,545,000	13,269,830	43,411,270
82 Works & Engineering	16,532,000	11,323,795	9,099,347
97 Land Title & Registration	501,000	135,957	160
68 Parks	68,000	80,393	92,934
36 Ministry of Public Works HQ	31,000	13,170	17,379
49 Land Valuation	6,000	-	567
	22,683,000	24,823,145	52,621,657
<b>TOTAL REVENUE</b>	<b>1,042,349,000</b>	<b>1,069,377,086</b>	<b>1,031,640,361</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 9(a): Interdepartmental Revenue By Ministry / Department**  
**For the year ended March 31**

	2018 Interdepartmental Revenue	2018 Gross Revenue Actual	2018 Net Revenue
	\$	\$	\$
<b>Non-Ministry Departments</b>			
05 Office of the Auditor General	-	1,363,019	1,363,019
63 Parliamentary Registrar	305	344,272	343,967
01 Governor & Staff	-	-	-
92 Internal Audit	-	-	-
02 Legislature	-	5,383	5,383
56 Human Rights Commission	-	-	-
85 Ombudsman's Office	-	-	-
	305	1,712,674	1,712,369
<b>Cabinet Office Departments</b>			
13 Post Office	2,343	4,646,621	4,644,278
09 Cabinet Office	-	1,246	1,246
14 Department of Statistics	-	1,203	1,203
26 Department of Human Resources	-	-	-
	2,343	4,649,070	4,646,727
<b>Ministry of Transport &amp; Regulatory Affairs</b>			
34 Transport Control Department	-	29,408,245	29,408,245
48 Ministry of Transport & Regulatory Affairs HQ	-	23,739,314	23,739,314
67 ICT Policy and Innovation	-	14,954,989	14,954,989
35 Public Transportation	163,844	6,484,395	6,320,551
30 Marine & Ports	(10,894)	6,021,489	6,032,383
31 Airport Operations	-	115,741	115,741
57 Civil Aviation	-	-	-
73 Maritime Administration	-	-	-
89 Energy	-	-	-
	152,950	80,724,173	80,571,223
<b>Ministry of Legal Affairs</b>			
03 Judicial Department	50,491	10,395,033	10,344,542
87 Ministry of Legal Affairs HQ	-	130,853	130,853
04 Attorney General's Chambers	-	3,000	3,000
74 Department of Court Services	-	-	-
	50,491	10,528,886	10,478,395
<b>Ministry of Finance</b>			
38 Office of the Tax Commissioner	-	607,731,245	607,731,245
39 Registrar of Companies	-	67,189,597	67,189,597
11 Accountant General	-	10,657,918	10,657,918
10 Ministry of Finance HQ	-	382,866	382,866
28 Social Insurance	-	1,246	1,246
	-	685,962,872	685,962,872
<b>Ministry of Education &amp; Workforce Development</b>			
17 Department of Education	138,547	153,567	15,020
60 Workforce Development	150	22,250	22,100
18 Libraries	-	17,080	17,080
19 Archives	-	339	339
	138,697	193,236	54,539
<b>Ministry of Health</b>			
22 Department of Health	194,185	3,344,628	3,150,443
21 Ministry of Health HQ	64,372	135,478	71,106
91 Health Insurance	-	-	-
	258,557	3,480,106	3,221,549

## Government of Bermuda - Consolidated Fund

## Schedule 9(a): Interdepartmental Revenue By Ministry / Department (cont'd)

For the year ended March 31

	2018 Interdepartmental Revenue	2018 Gross Revenue Actual	2018 Net Revenue
	\$	\$	\$
<b>Ministry of Economic Development</b>			
46 Telecommunications	-	-	-
<b>Ministry of the Environment</b>			
50 Ministry of the Environment HQ	-	9,150	9,150
	-	9,150	9,150
<b>Ministry of Social Development &amp; Sports</b>			
20 Youth, Sport & Recreation	540	617,809	617,269
23 Child & Family Services	724	167,430	166,706
52 Community & Cultural Affairs	-	94,050	94,050
88 National Drug Control	-	575	575
71 Ministry of Social Development & Sports HQ	13,677	-	(13,677)
55 Financial Assistance	123,995	-	(123,995)
	138,936	879,864	740,928
<b>Ministry of National Security</b>			
12 Customs	1,476,049	227,118,128	225,642,079
07 Police	4,189	610,132	605,943
45 Fire Services	-	147,506	147,506
06 Defence	-	130	130
25 Department of Corrections	-	100	100
83 Ministry of National Security HQ	-	25	25
	1,480,238	227,876,021	226,395,783
<b>Ministry of Home Affairs</b>			
27 Immigration	3,546	22,313,412	22,309,866
29 Registry General	5,019	2,030,977	2,025,958
32 Department of Planning	16,945	1,951,497	1,934,552
79 Environment & Natural Resources	11,398	1,601,963	1,590,565
93 Ministry of Home Affairs HQ	-	640,040	640,040
	36,908	28,537,889	28,500,981
<b>Ministry of Public Works</b>			
81 Public Lands & Buildings	92,529	13,269,830	13,177,301
82 Works & Engineering	175,963	11,323,795	11,147,832
97 Land Title & Registration	-	135,957	135,957
68 Parks	-	80,393	80,393
36 Ministry of Public Works HQ	-	13,170	13,170
49 Land Valuation	-	-	-
	268,492	24,823,145	24,554,653
<b>TOTAL REVENUE</b>	<b>2,527,917</b>	<b>1,069,377,086</b>	<b>1,066,849,169</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 10: Expenses By Program**  
**For the year ended March 31**

	2018 Capital Development	2018 Capital Acquisition	2018 Current Expenses	2018 Total Actual	2017 Total Restated
	\$	\$	\$	\$	\$
<b>Economic Development</b>					
11 Accountant General	-	23,994	83,886,475	<b>83,910,469</b>	83,914,436
82 Works & Engineering	7,579,975	-	55,145,055	<b>62,725,030</b>	55,001,867
48 Ministry of Transport & Regulatory Affairs HQ	253,154	-	46,218,627	<b>46,471,781</b>	32,662,459
81 Public Lands & Buildings	3,470,068	1,958	36,091,090	<b>39,563,116</b>	41,762,224
95 Ministry of Economic Development HQ	967,614	-	30,045,408	<b>31,013,022</b>	28,888,182
30 Marine & Ports	-	251,037	22,769,043	<b>23,020,080</b>	22,544,828
35 Public Transportation	-	177,820	21,986,345	<b>22,164,165</b>	20,876,402
12 Customs	-	82,900	17,926,891	<b>18,009,791</b>	17,111,524
13 Post Office	-	22,950	10,600,446	<b>10,623,396</b>	9,855,852
43 Dept. of Information and Digital Technology	(6,279)	438,688	7,656,624	<b>8,089,033</b>	7,998,087
36 Ministry of Public Works HQ	457,766	167,715	5,575,808	<b>6,201,289</b>	14,266,828
34 Transport Control Department	-	22,790	6,033,412	<b>6,056,202</b>	5,863,620
10 Ministry of Finance HQ	500,000	912,790	4,521,808	<b>5,934,598</b>	4,149,637
05 Office of the Auditor General	-	(22,495)	3,466,514	<b>3,444,019</b>	3,575,680
31 Airport Operations	(4,178)	-	(100,846)	<b>(105,024)</b>	49,633,038
39 Registrar of Companies	-	-	3,019,816	<b>3,019,816</b>	2,220,101
32 Department of Planning	-	7,256	2,714,544	<b>2,721,800</b>	2,479,626
93 Ministry of Home Affairs HQ	-	137	1,774,642	<b>1,774,779</b>	4,694,820
29 Registry General	-	-	1,603,704	<b>1,603,704</b>	1,430,959
67 ICT Policy and Innovation	320,354	-	1,139,382	<b>1,459,736</b>	1,094,512
38 Office of the Tax Commissioner	-	(143,461)	1,142,817	<b>999,356</b>	7,670,943
97 Land Title & Registration	-	-	923,349	<b>923,349</b>	925,616
49 Land Valuation	-	-	751,496	<b>751,496</b>	714,321
80 Project Management & Procurement	382	13,500	687,078	<b>700,960</b>	659,119
89 Energy	(1,226)	-	627,575	<b>626,349</b>	768,832
73 Maritime Administration	-	-	140,943	<b>140,943</b>	4,517,974
84 E-Government	-	-	-	-	1,090,201
46 Telecommunications	-	-	-	-	512,643
57 Civil Aviation	-	-	-	-	7,828,410
	<b>13,537,630</b>	<b>1,957,579</b>	<b>366,348,046</b>	<b>381,843,255</b>	<b>434,712,741</b>
<b>Health</b>					
24 Hospitals	120,000	-	120,199,891	<b>120,319,891</b>	145,120,892
22 Department of Health	13,667	3,336	25,688,529	<b>25,705,532</b>	24,802,657
21 Ministry of Health HQ	-	48,867	11,229,866	<b>11,278,733</b>	9,421,985
28 Social Insurance	-	-	5,057,741	<b>5,057,741</b>	6,368,346
91 Health Insurance	-	-	3,961,749	<b>3,961,749</b>	7,471,526
	<b>133,667</b>	<b>52,203</b>	<b>166,137,776</b>	<b>166,323,646</b>	<b>193,185,406</b>
<b>National Security</b>					
07 Police	98,874	137,471	63,839,139	<b>64,075,484</b>	66,777,338
25 Department of Corrections	(34,079)	47,052	26,045,750	<b>26,058,723</b>	25,082,860
45 Fire Services	-	(198,441)	14,004,833	<b>13,806,392</b>	13,453,201
03 Judicial Department	-	69,551	8,162,719	<b>8,232,270</b>	7,806,455
06 Defence	4,284	75,976	6,895,234	<b>6,975,494</b>	7,236,534
87 Ministry of Legal Affairs HQ	-	11,089	6,166,746	<b>6,177,835</b>	5,962,133
27 Immigration	-	1,200	5,464,293	<b>5,465,493</b>	5,464,117
04 Attorney General's Chambers	-	(1,869)	4,651,515	<b>4,649,646</b>	4,356,756
74 Department of Court Services	-	-	3,812,094	<b>3,812,094</b>	4,011,904
75 Department of Public Prosecutions	-	30,168	3,123,487	<b>3,153,655</b>	2,727,885
83 Ministry of National Security HQ	-	-	1,718,445	<b>1,718,445</b>	1,287,285
	<b>69,079</b>	<b>172,197</b>	<b>143,884,255</b>	<b>144,125,531</b>	<b>144,166,468</b>
<b>Education</b>					
17 Department of Education	1,943,601	492,188	112,588,660	<b>115,024,449</b>	110,405,783
41 Bermuda College	850,000	-	15,481,000	<b>16,331,000</b>	15,527,760
60 Workforce Development	-	(480)	4,172,658	<b>4,172,178</b>	4,185,990
16 Ministry of Education & Workforce Development HQ	-	-	2,318,661	<b>2,318,661</b>	2,208,067
	<b>2,793,601</b>	<b>491,708</b>	<b>134,560,979</b>	<b>137,846,288</b>	<b>132,327,600</b>

Appendix 4  
**Government of Bermuda - Consolidated Fund**  
**Schedule 10: Expenses By Program (cont'd)**  
**For the year ended March 31**

	2017 Capital Development	2018 Capital Acquisition	2018 Current Expenses	2018 Total Actual	2017 Total Restated
	\$	\$	\$	\$	\$
<b>Public Debt</b>					
58 Interest on Debt	-	-	117,722,643	<b>117,722,643</b>	120,619,921
Early Tender Premium on Repurchased Debt (Note 15(b))	-	-	-	-	38,649,100
	-	-	117,722,643	<b>117,722,643</b>	159,269,021
<b>Social Services &amp; Assistance</b>					
55 Financial Assistance	-	199	51,948,833	<b>51,949,032</b>	53,621,280
23 Child & Family Services	-	(121,422)	13,386,225	<b>13,264,803</b>	14,224,573
53 Bermuda Housing Corporation	4,800,000	-	6,050,000	<b>10,850,000</b>	10,850,000
88 National Drug Control	-	12,253	4,432,024	<b>4,444,277</b>	4,460,803
52 Community & Cultural Affairs	-	635	2,700,343	<b>2,700,978</b>	2,664,049
71 Ministry of Social Development & Sports HQ	-	-	1,792,243	<b>1,792,243</b>	2,210,060
	4,800,000	(108,335)	80,309,668	<b>85,001,333</b>	88,030,765
<b>Other General Government Services</b>					
20 Youth, Sport & Recreation	308	9,597	9,248,854	<b>9,258,759</b>	8,769,907
79 Environment & Natural Resources	516,525	(61,735)	8,473,740	<b>8,928,530</b>	8,303,413
68 Parks	119,050	(2,323)	8,753,428	<b>8,870,155</b>	8,948,449
09 Cabinet Office	-	(8,820)	5,740,181	<b>5,731,361</b>	7,030,040
02 Legislature	-	74,681	4,985,319	<b>5,060,000</b>	5,094,845
26 Department of Human Resources	-	-	3,274,294	<b>3,274,294</b>	2,856,020
51 Department of Communications	-	28,449	2,783,440	<b>2,811,889</b>	2,095,806
14 Department of Statistics	-	-	1,992,441	<b>1,992,441</b>	2,678,670
18 Libraries	-	(9,666)	1,800,851	<b>1,791,185</b>	1,766,082
63 Parliamentary Registrar	-	-	1,612,370	<b>1,612,370</b>	1,400,557
01 Governor & Staff	(129,421)	-	1,383,868	<b>1,254,447</b>	1,250,762
56 Human Rights Commission	-	-	1,170,928	<b>1,170,928</b>	1,297,626
50 Ministry of the Environment HQ	-	-	1,109,721	<b>1,109,721</b>	-
92 Internal Audit	-	-	1,035,141	<b>1,035,141</b>	1,168,646
19 Archives	-	(17,655)	1,017,943	<b>1,000,288</b>	1,081,355
85 Ombudsman's Office	-	-	872,213	<b>872,213</b>	785,430
98 Information Commissioner's Office	-	-	854,609	<b>854,609</b>	672,100
69 Conservation Services	-	-	(170,702)	<b>(170,702)</b>	-
72 Environmental Protection	-	-	(273,027)	<b>(273,027)</b>	-
	506,462	12,528	55,665,612	<b>56,184,602</b>	55,199,708
<b>Pensions and Other Employee Future Benefits</b>					
Pensions and Retirement Benefits Expense	-	-	65,724,826	<b>65,724,826</b>	75,222,863
	-	-	65,724,826	<b>65,724,826</b>	75,222,863
<b>TOTAL EXPENSES</b>	21,840,439	2,577,880	1,130,353,805	<b>1,154,772,124</b>	1,282,114,572



**Government of Bermuda - Consolidated Fund**  
**Schedule 10(a): Current Expenses By Type**  
**For the year ended March 31**

	2018 Original Estimates	2018 Actual	2017 Restated
	\$	\$	\$
<b>Employees</b>			
Salaries	299,958,000	292,060,471	287,832,690
Wages	69,141,000	77,643,974	78,709,347
Employer Overhead	78,588,000	75,881,372	76,865,880
Pensions and Retirement Benefits Expense	-	64,236,262	74,083,655
Other Personnel Costs	6,368,000	4,721,722	5,355,877
Training	3,304,000	2,492,215	1,664,780
Compensated Absences	-	1,488,564	1,139,208
	457,359,000	518,524,580	525,651,437
<b>Operations</b>			
Grants & Contributions	311,428,000	285,298,228	293,192,509
Interest on Debt	124,050,000	117,911,001	120,639,928
Amortization (Note 4(b)(v))	-	51,267,256	46,551,599
Professional Services	49,985,000	41,184,111	57,066,589
Advertising & Promotion	2,389,000	24,646,096	9,782,712
Materials & Supplies	23,928,000	19,091,680	20,757,517
Repairs & Maintenance	19,411,000	16,416,827	16,395,615
Energy	16,608,000	14,512,955	16,676,024
Rentals	12,755,000	11,639,311	13,424,096
Insurance	9,121,000	8,002,813	10,948,236
Communications	7,097,000	6,249,833	6,580,876
Other	3,488,000	3,510,236	6,238,125
Bad Debts	-	3,730,536	6,969,057
Transport	5,153,000	2,389,858	5,209,018
Travel	3,010,000	2,043,095	2,324,881
Bank Charges & Commissions	-	1,796,233	1,819,340
Clothing & Uniforms	1,146,000	1,486,142	1,266,393
Loss on Disposal of Tangible Capital Assets	-	130,271	27,879,192
Equipment	563,000	522,743	651,403
Early Tender Premium on Repurchased Debt (Note 15(b))	-	-	38,649,100
Sinking Fund Contribution (Note 4(b)(iii))	62,085,000	-	-
	652,217,000	611,829,225	703,022,210
<b>TOTAL CURRENT EXPENSES</b>	1,109,576,000	1,130,353,805	1,228,673,647

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(b): Current Expenses By Ministry / Department**  
**For the year ended March 31**

	2018 Original Estimates	2018 Actual	2017 Restated
	\$	\$	\$
<b>Non-Ministry Departments</b>			
02 Legislature	5,166,000	4,985,319	5,093,938
05 Office of the Auditor General	4,083,000	3,466,514	3,575,680
63 Parliamentary Registrar	2,502,000	1,612,370	1,400,557
01 Governor & Staff	1,395,000	1,383,868	1,250,762
56 Human Rights Commission	1,269,000	1,170,928	1,297,626
92 Internal Audit	1,574,000	1,035,141	1,168,646
85 Ombudsman's Office	910,000	872,213	785,430
98 Information Commissioner's Office	957,000	854,609	672,100
101 Privacy Commissioner's Office	867,000	-	-
	18,723,000	15,380,962	15,244,739
<b>Cabinet Office Departments</b>			
13 Post Office	10,677,000	10,600,446	9,840,882
43 Dept. of Information and Digital Technology	6,976,000	7,656,624	7,208,666
09 Cabinet Office	6,912,000	5,740,181	7,023,054
26 Department of Human Resources	3,846,000	3,274,294	2,856,020
51 Department of Communications	2,945,000	2,783,440	2,080,516
14 Department of Statistics	2,493,000	1,992,441	2,678,670
80 Project Management & Procurement	773,000	687,078	658,737
84 E-Government	-	-	678,464
	34,622,000	32,734,504	33,025,009
<b>Ministry of Transport &amp; Regulatory Affairs</b>			
48 Ministry of Transport & Regulatory Affairs HQ	39,467,000	46,218,627	30,728,762
30 Marine & Ports	20,097,000	22,769,043	22,022,465
35 Public Transportation	21,615,000	21,986,345	20,932,329
34 Transport Control Department	5,350,000	6,033,412	5,863,620
31 Airport Operations	-	(100,846)	42,994,670
67 ICT Policy and Innovation	1,631,000	1,139,382	1,094,512
89 Energy	899,000	627,575	768,832
73 Maritime Administration	-	140,943	3,865,774
57 Civil Aviation	-	-	6,999,167
	89,059,000	98,814,481	135,270,131
<b>Ministry of Legal Affairs</b>			
03 Judicial Department	8,361,000	8,162,719	7,767,228
87 Ministry of Legal Affairs HQ	6,203,000	6,166,746	5,954,795
04 Attorney General's Chambers	4,808,000	4,651,515	4,338,317
74 Department of Court Services	4,318,000	3,812,094	4,011,904
75 Department of Public Prosecutions	3,389,000	3,123,487	2,794,277
	27,079,000	25,916,561	24,866,521
<b>Ministry of Finance</b>			
58 Interest on Debt	124,000,000	117,722,643	120,619,921
11 Accountant General	86,637,000	83,886,475	83,836,496
11a Pensions and Retirement Benefits Expense	-	65,724,826	75,222,863
28 Social Insurance	6,009,000	5,057,741	6,368,346
10 Ministry of Finance HQ	4,297,000	4,521,808	4,070,044
39 Registrar of Companies	2,587,000	3,019,816	2,220,101
38 Office of the Tax Commissioner	3,451,000	1,142,817	7,521,214
Early Tender Premium on Repurchased Debt (Note 15(b))	-	-	38,649,100
59 Sinking Fund Contribution	62,085,000	-	-
	289,066,000	281,076,126	338,508,085
<b>Ministry of Education &amp; Workforce Development</b>			
17 Department of Education	109,096,000	112,588,660	109,270,166
41 Bermuda College	15,481,000	15,481,000	15,527,760
60 Workforce Development	4,478,000	4,172,658	4,185,990
16 Ministry of Education & Workforce Development HQ	2,414,000	2,318,661	2,208,067
18 Libraries	1,926,000	1,800,851	1,766,082
19 Archives	1,296,000	1,017,943	1,103,612
	134,691,000	137,379,773	134,061,677
<b>Ministry of Health</b>			
24 Hospitals	120,200,000	120,199,891	145,000,892
22 Department of Health	27,339,000	25,688,529	24,786,576
21 Ministry of Health HQ	11,186,000	11,229,866	9,421,985
91 Health Insurance	3,995,000	3,961,749	7,471,526
	162,720,000	161,080,035	186,680,979

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(b): Current Expenses By Ministry / Department (cont'd)**  
**For the year ended March 31**

	2018 Original Estimates	2018 Actual	2017 Restated
	\$	\$	\$
<b>Ministry of Economic Development</b>			
95 Ministry of Economic Development HQ	35,059,000	30,045,408	13,141,182
46 Telecommunications	-	-	388,861
	35,059,000	30,045,408	13,530,043
<b>Ministry of the Environment</b>			
50 Ministry of the Environment HQ	1,314,000	1,109,721	-
	1,314,000	1,109,721	-
<b>Ministry of Social Development &amp; Sports</b>			
55 Financial Assistance	53,555,000	51,948,833	53,614,366
23 Child & Family Services	15,634,000	13,386,225	13,844,699
20 Youth, Sport & Recreation	9,388,000	9,248,854	8,762,215
88 National Drug Control	4,179,000	4,432,024	4,450,283
52 Community & Cultural Affairs	3,011,000	2,700,343	2,664,049
71 Ministry of Social Development & Sports HQ	2,457,000	1,792,243	2,210,060
	88,224,000	83,508,522	85,545,672
<b>Ministry of National Security</b>			
07 Police	67,241,000	63,839,139	66,650,398
25 Department of Corrections	25,337,000	26,045,750	25,116,745
12 Customs	17,112,000	17,926,891	17,105,126
45 Fire Services	13,261,000	14,004,833	13,362,560
06 Defence	7,272,000	6,895,234	7,237,654
83 Ministry of National Security HQ	1,497,000	1,718,445	1,287,285
	131,720,000	130,430,292	130,759,768
<b>Ministry of Home Affairs</b>			
79 Environment & Natural Resources	8,221,000	8,030,011	7,977,660
27 Immigration	4,754,000	5,464,293	5,424,291
32 Department of Planning	3,304,000	2,714,544	2,484,784
93 Ministry of Home Affairs HQ	4,132,000	1,774,642	3,214,596
29 Registry General	1,870,000	1,603,704	1,428,801
	22,281,000	19,587,194	20,530,132
<b>Ministry of Public Works</b>			
82 Works & Engineering	32,279,000	55,145,055	48,923,280
81 Public Lands & Buildings	19,641,000	36,091,090	35,110,213
68 Parks	10,002,000	8,753,428	8,733,666
53 Bermuda Housing Corporation	6,050,000	6,050,000	6,050,000
36 Ministry of Public Works HQ	5,186,000	5,575,808	10,211,532
97 Land Title & Registration	1,069,000	923,349	923,016
49 Land Valuation	791,000	751,496	699,184
	75,018,000	113,290,226	110,650,891
<b>TOTAL CURRENT EXPENSES</b>	1,109,576,000	1,130,353,805	1,228,673,647

## Government of Bermuda - Consolidated Fund

Schedule 10(c): Interdepartmental Current Expenses By Ministry/Department  
For the year ended March 31

	2018 Interdepartmental Expense	2018 Actual Gross Expense	2018 Net Expense
	\$	\$	\$
<b>Non-Ministry Departments</b>			
02 Legislature	17,261	4,985,319	4,968,058
05 Office of the Auditor General	130	3,466,514	3,466,384
63 Parliamentary Registrar	3,274	1,612,370	1,609,096
01 Governor & Staff	-	1,383,868	1,383,868
56 Human Rights Commission	350	1,170,928	1,170,578
92 Internal Audit	150	1,035,141	1,034,991
85 Ombudsman's Office	-	872,213	872,213
98 Information Commissioner's Office	(6)	854,609	854,615
101 Privacy Commissioner's Office	-	-	-
	21,159	15,380,962	15,359,803
<b>Cabinet Office Departments</b>			
13 Post Office	7,494	10,600,446	10,592,952
43 Dept. of Information and Digital Technology	-	7,656,624	7,656,624
09 Cabinet Office	325	5,740,181	5,739,856
26 Department of Human Resources	-	3,274,294	3,274,294
51 Department of Communications	6,727	2,783,440	2,776,713
14 Department of Statistics	65	1,992,441	1,992,376
80 Project Management & Procurement	-	687,078	687,078
84 E-Government	-	-	-
	14,611	32,734,504	32,719,893
<b>Ministry of Transport &amp; Regulatory Affairs</b>			
48 Ministry of Transport & Regulatory Affairs HQ	1,373	46,218,627	46,217,254
30 Marine & Ports	144,871	22,769,043	22,624,172
35 Public Transportation	414,865	21,986,345	21,571,480
34 Transport Control Department	24,022	6,033,412	6,009,390
31 Airport Operations	-	(100,846)	(100,846)
67 ICT Policy and Innovation	655	1,139,382	1,138,727
89 Energy	-	627,575	627,575
73 Maritime Administration	-	140,943	140,943
57 Civil Aviation	-	-	-
	585,786	98,814,481	98,228,695
<b>Ministry of Legal Affairs</b>			
03 Judicial Department	32,555	8,162,719	8,130,164
87 Ministry of Legal Affairs HQ	-	6,166,746	6,166,746
04 Attorney General's Chambers	215	4,651,515	4,651,300
74 Department of Court Services	2,587	3,812,094	3,809,507
75 Department of Public Prosecutions	-	3,123,487	3,123,487
	35,357	25,916,561	25,881,204
<b>Ministry of Finance</b>			
58 Interest on Debt	-	117,722,643	117,722,643
11 Accountant General	190	83,886,475	83,886,285
11a Pensions and Retirement Benefits Expense	-	65,724,826	65,724,826
28 Social Insurance	191,560	5,057,741	4,866,181
10 Ministry of Finance HQ	-	4,521,808	4,521,808
39 Registrar of Companies	-	3,019,816	3,019,816
38 Office of the Tax Commissioner	330	1,142,817	1,142,487
Early Tender Premium on Repurchased Debt (Note 15(b))	-	-	-
59 Sinking Fund Contribution	-	-	-
	192,080	281,076,126	280,884,046
<b>Ministry of Education &amp; Workforce Development</b>			
17 Department of Education	82,812	112,588,660	112,505,848
41 Bermuda College	-	15,481,000	15,481,000
60 Workforce Development	65	4,172,658	4,172,593
16 Ministry of Education & Workforce Development HQ	-	2,318,661	2,318,661
18 Libraries	583	1,800,851	1,800,268
19 Archives	-	1,017,943	1,017,943
	83,460	137,379,773	137,296,313
<b>Ministry of Health</b>			
24 Hospitals	-	120,199,891	120,199,891
22 Department of Health	140,322	25,688,529	25,548,207
21 Ministry of Health HQ	9,031	11,229,866	11,220,835
91 Health Insurance	-	3,961,749	3,961,749
	149,353	161,080,035	160,930,682

**Government of Bermuda - Consolidated Fund**  
**Schedule 10(c): Interdepartmental Current Expenses By Ministry/Department (cont'd)**  
**For the year ended March 31**

	2018 Interdepartmental Expense \$	2018 Actual Gross Expense \$	2018 Net Expense \$
<b>Ministry of Economic Development</b>			
95 Ministry of Economic Development HQ	65	30,045,408	30,045,343
46 Telecommunications	-	-	-
	65	30,045,408	30,045,343
<b>Ministry of the Environment</b>			
50 Ministry of the Environment HQ	-	1,109,721	1,109,721
	-	1,109,721	1,109,721
<b>Ministry of Social Development &amp; Sports</b>			
55 Financial Assistance	63,233	51,948,833	51,885,600
23 Child & Family Services	16,942	13,386,225	13,369,283
20 Youth, Sport & Recreation	217,004	9,248,854	9,031,850
88 National Drug Control	3,775	4,432,024	4,428,249
52 Community & Cultural Affairs	1,005	2,700,343	2,699,338
71 Ministry of Social Development & Sports HQ	13,952	1,792,243	1,778,291
	315,911	83,508,522	83,192,611
<b>Ministry of National Security</b>			
07 Police	71,556	63,839,139	63,767,583
25 Department of Corrections	67,782	26,045,750	25,977,968
12 Customs	25,203	17,926,891	17,901,688
45 Fire Services	13,113	14,004,833	13,991,720
06 Defence	1,374	6,895,234	6,893,860
83 Ministry of National Security HQ	1,670	1,718,445	1,716,775
	180,698	130,430,292	130,249,594
<b>Ministry of Home Affairs</b>			
79 Environment & Natural Resources	25,013	8,030,011	8,004,998
27 Immigration	694	5,464,293	5,463,599
32 Department of Planning	-	2,714,544	2,714,544
93 Ministry of Home Affairs HQ	780	1,774,642	1,773,862
29 Registry General	-	1,603,704	1,603,704
	26,487	19,587,194	19,560,707
<b>Ministry of Public Works</b>			
82 Works & Engineering	9,088	55,145,055	55,135,967
81 Public Lands & Buildings	11,900	36,091,090	36,079,190
68 Parks	320	8,753,428	8,753,108
53 Bermuda Housing Corporation	-	6,050,000	6,050,000
36 Ministry of Public Works HQ	901,577	5,575,808	4,674,231
97 Land Title & Registration	-	923,349	923,349
49 Land Valuation	65	751,496	751,431
Amortization (Note 3(f))	-	-	-
	922,950	113,290,226	112,367,276
<b>TOTAL CURRENT EXPENSES</b>	<b>2,527,917</b>	<b>1,130,353,805</b>	<b>1,127,825,888</b>

Government of Bermuda - Consolidated Fund  
 Schedule 11: Schedules of Tangible Capital Assets and Assets Under Construction  
 As at March 31, 2018

Tangible Capital Assets	Estimated Useful Life	COST				ACCUMULATED AMORTIZATION				31-Mar-18 Net Book Value	31-Mar-17 Net Book Value
		Opening Balance	Additions	Disposals & Adjustments	Closing Balance	Opening Balance	Amortization Expense	Disposals & Adjustments	Closing Balance		
Land	Indefinite	45,642,338	-	-	45,642,338	-	-	-	-	45,642,338	45,642,338
Buildings & Betterments	2 - 40 years	645,214,371	4,374,795	(42,247)	649,546,919	(241,521,095)	(19,397,150)	1,368,287	(259,549,958)	389,996,961	403,693,276
Infrastructure	10 - 40 years	245,283,557	10,681,332	(42,921)	255,921,968	(74,510,576)	(12,545,999)	(1,228,639)	(88,285,214)	167,636,754	170,772,981
Vehicles & Heavy Equipment	5 - 7 years	97,631,383	4,387,820	(2,296,199)	99,723,004	(90,461,200)	(2,644,278)	2,160,984	(90,944,494)	8,778,510	7,170,183
Boats & Vessels	5 - 10 years	47,183,192	1,948,808	-	49,132,000	(43,783,267)	(1,382,976)	(17,382)	(45,183,605)	3,948,395	3,399,925
Computer Software	10 years	40,797,677	4,216,013	23,008	45,036,698	(25,957,573)	(3,754,017)	14,227	(29,697,363)	15,339,335	14,840,104
Office Equipment	5 years	15,470,375	1,950,751	14,377	17,435,503	(12,736,207)	(1,109,819)	(11,706)	(13,857,732)	3,577,771	2,794,168
Computer Hardware	3 - 7 years	23,753,273	2,322,387	(23,008)	26,052,652	(19,150,194)	(2,376,888)	8,365	(21,518,517)	4,534,135	4,603,079
Capital Leases	3 years	5,092,284	169,091	(24,686)	5,236,689	(4,599,804)	(135,225)	(34,286)	(4,769,295)	467,394	492,480
Furniture & Fixtures	7 years	5,844,777	326,135	(4,500)	6,166,412	(4,712,063)	(308,845)	(1,987)	(5,022,895)	1,143,517	1,132,714
Plant, Machinery & Equipment	10 - 30 years	114,305,472	15,799,788	42,921	130,148,181	(70,729,684)	(7,612,259)	(40,550)	(78,382,493)	51,765,688	43,575,788
<b>Total Tangible Capital Assets</b>		<b>1,286,218,699</b>	<b>46,176,920</b>	<b>(2,353,255)</b>	<b>1,330,042,364</b>	<b>(688,161,663)</b>	<b>(51,267,256)</b>	<b>2,217,353</b>	<b>(637,211,566)</b>	<b>692,830,798</b>	<b>698,057,036</b>
<b>Assets Under Construction</b>		<b>35,490,121</b>	<b>12,389,096</b>	<b>(28,394,476)</b>	<b>19,484,741</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>19,484,741</b>	<b>35,490,121</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 12: Current Expenditure - Estimates Compared to Expenditures**  
**For the year ended March 31, 2018**

	Expenses	Expenditure <sup>1</sup>	Adjusted Estimates <sup>2</sup>	Under (Over) Spent	
	\$	\$	\$	\$	
<b>Non-Ministry Departments</b>					
02	Legislature	4,985,319	4,936,584	5,165,976	229,392
05	Office of the Auditor General	3,466,514	3,443,241	4,082,621	639,380
01	Governor & Staff	1,383,868	1,378,760	1,395,034	16,274
92	Internal Audit	1,035,141	1,034,811	1,573,942	539,131
63	Parliamentary Registrar	1,612,370	1,598,737	2,356,591	757,854
56	Human Rights Commission	1,170,928	1,124,119	1,269,395	145,276
85	Ombudsman's Office	872,213	869,858	909,703	39,845
98	Information Commissioner's Office	854,609	846,184	957,093	110,909
101	Privacy Commissioner's Office	-	-	842,342	842,342
		15,380,962	15,232,294	18,552,697	3,320,403
<b>Cabinet Office Departments</b>					
13	Post Office	10,600,446	9,683,770	10,526,719	842,949
43	Dept. of Information and Digital Technology	7,656,624	6,117,183	6,975,890	858,707
09	Cabinet Office	5,740,181	5,734,328	6,911,818	1,177,490
26	Department of Human Resources	3,274,294	3,270,268	3,846,058	575,790
51	Department of Communications	2,783,440	2,751,206	2,945,349	194,143
14	Department of Statistics	1,992,441	1,956,943	2,493,100	536,157
84	E-Government	-	-	-	-
80	Project Management & Procurement	687,078	685,920	773,238	87,318
96	Sustainable Development	-	-	-	-
		32,734,504	30,199,618	34,472,172	4,272,554
<b>Ministry of , Transport &amp; Regulatory Affairs</b>					
48	Ministry of Transport & Regulatory Affairs HQ	46,218,627	44,424,569	44,799,795	375,226
30	Marine & Ports	22,769,043	21,348,975	21,773,578	424,603
35	Public Transportation	21,986,345	21,764,408	21,614,895	(149,513)
34	Transport Control Department	6,033,412	5,465,289	5,350,001	(115,288)
67	ICT Policy and Innovation	1,139,382	1,135,991	1,630,823	494,832
89	Energy	627,575	627,575	899,169	271,594
73	Maritime Administration	140,943	-	-	-
31	Airport Operations	(100,846)	-	-	-
		98,814,481	94,766,807	96,068,261	1,301,454
<b>Ministry of Legal Affairs</b>					
03	Judicial Department	8,162,719	7,755,538	8,361,233	605,695
87	Ministry of Legal Affairs HQ	6,166,746	6,143,632	6,239,297	95,665
04	Attorney General's Chambers	4,651,515	4,542,247	4,771,768	229,521
74	Department of Court Services	3,812,094	3,781,674	4,317,818	536,144
75	Department of Public Prosecutions	3,123,487	3,105,662	3,388,908	283,246
		25,916,561	25,328,753	27,079,024	1,750,271
<b>Ministry of Finance</b>					
58	Interest on Debt	117,722,643	117,722,643	124,000,000	6,277,357
11	Accountant General	83,886,475	82,505,473	85,887,178	3,381,705
11a	Pension and Retirement Benefits Expense	65,724,826	-	-	-
28	Social Insurance	5,057,741	5,053,552	5,923,500	869,948
10	Ministry of Finance HQ	4,521,808	4,509,429	5,047,358	537,929
39	Registrar of Companies	3,019,816	2,245,622	2,717,385	471,763
38	Office of the Tax Commissioner	1,142,817	3,449,053	3,450,900	1,847
59	Sinking Fund Contribution	-	62,098,375	62,085,000	(13,375)
		281,076,126	277,584,147	289,111,321	11,527,174
<b>Ministry of Education &amp; Workforce Development</b>					
17	Department of Education	112,588,660	111,471,768	110,059,386	(1,412,382)
41	Bermuda College	15,481,000	15,481,000	15,481,000	-
60	Workforce Development	4,172,658	4,110,371	4,478,011	367,640
16	Ministry of Education & Workforce Development	2,318,661	2,318,661	2,450,741	132,080
18	Libraries	1,800,851	1,780,526	1,926,216	145,690
19	Archives	1,017,943	998,613	1,295,748	297,135
		137,379,773	136,160,939	135,691,102	(469,837)
<b>Ministry of Health</b>					
24	Hospitals	120,199,891	120,199,891	120,199,868	(23)
22	Department of Health	25,688,529	25,165,475	27,063,711	1,898,236
21	Ministry of Health HQ	11,229,866	11,211,186	11,460,465	249,279
91	Health Insurance	3,961,749	3,959,099	3,995,285	36,186
		161,080,035	160,535,651	162,719,329	2,183,678

<sup>1</sup> Adjusted for Non-Budgeted, Non-Cash Items

<sup>2</sup> Includes all Approved Supplementary amounts during the year

## Appendix 4

## Government of Bermuda - Consolidated Fund

## Schedule 12: Current Expenditure - Estimates Compared to Expenditures (cont'd)

For the year ended March 31, 2018

	Expenses	Expenditure <sup>1</sup>	Adjusted Estimates <sup>2</sup>	Under (Over) Spent
	\$	\$	\$	\$
<b>Ministry of Economic Development</b>				
95 Ministry of Economic Development HQ	30,045,408	30,044,687	39,229,071	9,184,384
46 Telecommunications	-	-	-	-
	30,045,408	30,044,687	39,229,071	9,184,384
<b>Ministry of the Environment</b>				
50 Ministry of the Environment HQ	1,109,721	1,108,841	1,313,956	205,115
	1,109,721	1,108,841	1,313,956	205,115
<b>Ministry of Social Development &amp; Sports</b>				
55 Financial Assistance	51,948,833	51,914,798	53,555,111	1,640,313
23 Child & Family Services	13,386,225	13,361,243	15,634,232	2,272,989
20 Youth, Sport & Recreation	9,248,854	9,171,827	9,427,999	256,172
88 National Drug Control	4,432,024	3,808,991	4,079,289	270,298
52 Community & Cultural Affairs	2,700,343	2,694,260	3,011,287	317,027
71 Ministry of Social Development & Sports HQ	1,792,243	1,783,971	2,416,778	632,807
	83,508,522	82,735,090	88,124,696	5,389,606
<b>Ministry of National Security</b>				
07 Police	63,839,139	62,181,522	67,140,718	4,959,196
25 Department of Corrections	26,045,750	26,323,766	25,337,456	(986,310)
12 Customs	17,926,891	17,131,965	17,111,765	(20,200)
45 Fire Services	14,004,833	13,658,456	13,260,562	(397,894)
06 Defence	6,895,234	6,692,145	7,272,151	580,006
83 Ministry of National Security HQ	1,718,445	1,722,922	1,846,573	123,651
	130,430,292	127,710,776	131,969,225	4,258,449
<b>Ministry of Home Affairs</b>				
79 Environment & Natural Resources	8,030,011	7,860,223	8,221,431	361,208
27 Immigration	5,464,293	4,770,542	4,877,720	107,178
32 Department of Planning	2,714,544	2,692,784	3,304,222	611,438
93 Ministry of Home Affairs HQ	1,774,642	1,771,694	3,973,750	2,202,056
29 Registry General	1,603,704	1,606,023	1,904,820	298,797
	19,587,194	18,701,266	22,281,943	3,580,677
<b>Ministry of Public Works</b>				
82 Works & Engineering	55,145,055	32,526,997	32,278,889	(248,108)
81 Public Lands & Buildings	36,091,090	19,507,380	19,640,794	133,414
68 Parks	8,753,428	8,539,290	10,002,373	1,463,083
36 Ministry of Public Works HQ	5,575,808	4,359,475	5,186,066	826,591
53 Bermuda Housing Corporation	6,050,000	6,050,000	6,050,000	-
97 Land Title & Registration	923,349	878,547	1,069,038	190,491
49 Land Valuation	751,496	715,042	790,964	75,922
	113,290,226	72,576,731	75,018,124	2,441,393
<b>TOTAL CURRENT</b>	<b>1,130,353,805</b>	<b>1,072,685,600</b>	<b>1,121,630,921</b>	<b>48,945,321</b>

<sup>1</sup> Adjusted for Non-Budgeted, Non-Cash Items<sup>2</sup> Includes all Approved Supplementary amounts during the year



**Government of Bermuda - Consolidated Fund**  
**Schedule 13: Commitments - Legislated**  
**For the year ended March 31, 2018**

	2018	2017
	Actual	Actual
	\$	\$
<b>Unspent Capital Appropriations</b>		
In accordance with Section 6 of the Appropriations Act 2017, unspent capital appropriations for incomplete capital projects to be carried forward to future years are as follows:		
Capital Development	14,396,511	8,319,573
Capital Acquisition	8,679,984	8,651,718
	<b>23,076,495</b>	16,971,291
<b>Total Authorized Funding</b>		
Total Authorized Funding represents the estimated total cost of capital development projects and is subject to the voting of supply by the Legislature. Estimated future expenditure for continuing capital development projects is as follows:		
Total Authorized Funding	1,030,189,800	1,018,725,575
Projects Completed during the year	(207,221,800)	(54,965,218)
Supplementary Estimate No.1 & 2	3,343,154	9,621,643
Revised Total Authorized Funding	826,311,154	973,382,000
Appropriated Capital Development	(370,861,521)	(395,939,820)
<b>Unappropriated Capital Development Commitments</b>	<b>455,449,633</b>	<b>577,442,180</b>

**Government of Bermuda - Consolidated Fund**  
**Schedule 14: Public Debt - Legislated Limit**  
**As at March 31**

	2018	2017
	Actual	Actual
	\$	\$
Debt (Schedule 7)	<b>2,568,935,000</b>	2,483,935,000
Less:		
Sinking Fund (Schedule 7)	<b>150,178,144</b>	86,625,930
Public Debt	<b>2,418,756,856</b>	2,397,309,070
Legislated Limit	<b>2,500,000,000</b>	2,500,000,000
<b>Available Limit</b>	<b>81,243,144</b>	102,690,930