

Report of the Auditor General

on the Work of the

Office of the Auditor General

and on the Accounts of the

Government of Bermuda

for the Financial Year

April 1, 2006 to March 31, 2007

January 2008

Report of the Auditor General

on the Work of the Office of the Auditor General

and on the Accounts of the

Government of Bermuda

for the Financial Year

April 1, 2006 to March 31, 2007

January 2008



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 Departments and controlled entities
for which the Government is accountable to Parliament.



Front row:

**Michael MacPhee, Denise Lecompte, Zaynab Brown
Lucy Karanja, Joel Forbes, Merle Parfitt, Johnson Mugulusi**

Back row:

**Barry Neilson, Glenn Hutson, Claude Nantel, Eugina Place
Deann Penney, Rhonda Gilbert, Tracey Pitt
Trudy Durham, Ben Walton, Larry Dennis**



Office of the Auditor General

Victoria Hall
11 Victoria Street
Hamilton HM 11, Bermuda

Tel: (441) 296-3148

Fax: (441) 295-3849

Email: auditbda@gov.bm

Website: www.oagbermuda.gov.bm

The Honourable Stanley Lowe, JP, MP
Speaker of the House of Assembly
Bermuda

Sir:

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, 2007.

Respectfully submitted

A handwritten signature in black ink, appearing to read 'Larry T. Dennis'.

Larry T. Dennis, C.A.
Auditor General

Hamilton, Bermuda
January 2008

TABLE OF CONTENTS

	Page
1 INTRODUCTION.....	1
2 MATTERS OF ONGOING AND GOVERNMENT-WIDE CONCERN ..	7
2.1 Auditor Independence Concerns	7
2.2 Performance Bond for the Berkeley Institute Senior School Capital Project	12
2.3 Late Financial Reporting	15
2.4 Denials and Qualifications in Audit Reports	21
2.5 Pension Contributions and Taxes in Arrears	24
2.6 Consolidated Financial Statements for Bermuda	27
2.7 Unaddressed Audit Recommendations	28
3 AUDIT OBSERVATIONS AND RECOMMENDATIONS	31
3.1 Denials and Qualifications in Audit Reports	31
3.2 Audit of the Consolidated Fund	35
3.2.1 Additional commentary.....	35
3.2.2 Delays in issuing the Consolidated Funds Audited Financial Statements	37
3.2.3 Controls over bank accounts	39
3.2.4 Expenditure and accounts payable	42
3.2.5 Payroll expenditures	44
3.2.6 Unapproved expenditures	45
3.2.7 Environmental liability	48
3.2.8 Contingent liabilities	48
3.2.9 Revenues and accounts receivable	48
3.2.10 Capital assets.....	54
3.2.11 Public Service Superannuation Fund.....	56
3.3 Audits of Government-Controlled Organizations	59
3.3.1 Bermuda Arts Council	60
3.3.2 Bermuda College	60
3.3.3 Bermuda Health Council	60
3.3.4 Bermuda Hospitals Board	61
3.3.5 Bermuda Housing Corporation	64
3.3.6 Bermuda Housing Trust	67

TABLE OF CONTENTS

3.3.7	Bermuda Land Development Company Limited	67
3.3.8	Bermuda Small Business Development Corporation	68
3.3.9	Board of Trustees of the Golf Courses	68
3.3.10	CedarBridge Academy	70
3.3.11	National Drug Commission	72
3.3.12	Pension Commission	78
3.3.13	Trustees of the National Sports Centre	78
3.3.14	West End Development Corporation	79
3.4	Audits of Public Funds	81
3.4.1	Bermuda Department of Tourism North America Retirement Plan	82
3.4.2	Confiscated Assets Fund	83
3.4.3	Contributory Pension Fund	84
3.4.4	Government Borrowing Sinking Fund	86
3.4.5	Government Employees Health Insurance Fund	87
3.4.6	Government Reserves Fund	91
3.4.7	Hospital Insurance Fund	91
3.4.8	Ministers and Members of the Legislature Pensions Fund	94
3.4.9	Mutual Re-insurance Fund	95
3.4.10	Public Service Superannuation Fund	97
3.5	Audits of Parish Councils	99
3.5.1	Devonshire Parish Council	101
3.5.2	Paget Parish Council	102
3.5.3	Pembroke Parish Council	102
3.5.4	Sandys Parish Council	103
3.5.5	Smiths Parish Council	105
3.5.6	Southampton Parish Council	105
3.5.7	St. George's Parish Council	106
3.5.8	Warwick Parish Council	107
3.5.9	Other Pervasive Problems	108
3.6	Audits of Aided Schools' Capitation Accounts	110
3.6.1	Berkeley Institute Capitation Account	110
3.6.2	Sandys Secondary School Capitation Account	111
3.6.3	St. George's Preparatory School Capitation Account	112
3.6.4	Whitney Educational Trust	112
3.6.5	Other Concerns	113
3.7	Other Audits	115
4	OFFICE OF THE AUDITOR GENERAL	117
	TABLE OF APPENDICES	127

1. INTRODUCTION

Reporting Authority

This is my Annual Report to the House of Assembly for 2007. It is issued pursuant to section 101 of the Bermuda Constitution Order 1968 (Appendix 10) and the Audit Act 1990 (Appendix 13). As required by the Constitution and legislation, the report is addressed to the Speaker of the House of Assembly.

General Comments

This report includes the results of audits completed since my last annual report (dated January 2007) and this report (January 2008). If legislation and normal accountability practices were being followed, these would be the audits of all Government entities for the year ended March 31, 2007. Regrettably, however, this is not the case. Many audits for fiscal 2007 were not completed, or in some instances had not begun, by January 2008. This is because the accounting records of these entities are seriously in arrears (see schedule, page 17) and/or management has been unable or unwilling to provide the documentation or information needed to complete these audits.

The Audit Act prescribes the content of my annual reports. Generally, it allows me to report anything that I think merits the attention of the House of Assembly. Specifically, it requires me to report significant deficiencies in accounting and accountability systems, and failures to safeguard assets, to collect revenues or to disburse expenditures in compliance with legislation. As such, the Act requires my reports to focus mainly on observed problems and deficiencies. However, to promote improvement in financial administration, I include in my reports recommendations that address such matters. Section 4 of this report explains in detail my audit mandate and mission, and reporting processes and practices.

Matters of Special Importance

The Audit Act allows my annual reports to include only those matters that I believe are significant and merit the attention of the House of Assembly. Inevitably though, some matters are of greater significance than others. For the reasons explained below, I consider the following to be of special importance this year:

- Auditor independence
- Berkeley bond
- Late financial reporting, and qualified and denied audit opinions.

Auditor independence

As explained in section 2.1 of this report, I have received no response to recommendations I made last year to help safeguard the Constitutional independence of the Office of the Auditor General. These recommendations followed the breaching of existing Constitutional safeguards by the Ministry of Works and Engineering in May 2006 and, in my opinion, a total disregard of Constitutional safeguards in June 2007.

Berkeley Bond

As explained in section 2.2, the Berkeley Bond issue appears to be coming to an end – but not from the direction anticipated.

Late financial reporting, and qualified and denied audit opinions.

During the reporting period February 2007 to January 2008, the audited financial statements of 42 entities were issued and made available to the House of Assembly, up from 26 the previous year; and the value of expenditures for which the Government has not been accountable to the House fell from \$523 million in 2006 to \$485 million in 2007. This is an excellent year-over-year achievement, but late financial reporting is still an issue that cannot be removed from the front burner.

Late financial reporting, combined with incomplete or missing accounting records, impairs ministerial accountability and frustrates control over expenditures by the House of Assembly. In addition, it increases the risk that fraud can occur and remain undetected.

As explained in section 2.3 of this report, late financial reporting by many Government entities remains a serious problem. And as explained in section 2.4, the problem is often compounded because, when audits eventually begin, important records are missing. When this happens, the entities' financial statements receive qualified audit opinions, or in very bad situations, denials of opinion. Of 42 audits completed during the year to January 2008, half received qualifications or denials of audit opinions on their financial statements (see also section 3.1 of this report).

Although financial statement audits are not designed to detect fraud, prompt audits can deter fraud because staff know that such audits might uncover dishonest behavior. They also know that when audits are years in arrears and important records are

unavailable for audit, any chance of uncovering dishonest behavior is virtually eliminated.

It is not my job, or within my capacity, to provide assurance to the House of Assembly that fraud has not occurred. However, where audited financial statements are issued promptly and my reports do not mention internal control deficiencies, the House can take some comfort in this regard. But for entities that receive denied audit opinions, and in some cases qualified opinions, I can provide no comfort whatsoever that dishonesty has not occurred during those years, or for years that have not yet been audited.

Audit Committee

The Government's Audit Committee established under section 5 of the Audit Act reviewed this report. The Committee's role is somewhat like that of a corporate audit committee. It includes reviewing and discussing with me drafts of my public reports, and communicating to Cabinet any matters the Committee believes should be brought to Cabinet's attention. This helps ensure that Cabinet is aware of, and not surprised by, the contents of my public reports. It also complements the reporting process outlined in section 4 of this report whereby senior administrators are able to apprise their Ministers of matters to be reported related to their areas of responsibility.

The members of the Audit Committee are:

Name	Position	Employer
Mr. Thomas E.C. Miller, CA, Chairman	Partner	PricewaterhouseCoopers Chartered Accountants
Mrs. Pamela Greyson, CGA, Deputy Chair	Vice President	HLN Enterprises
Mr. Kirk Davis, CA	President & CEO	CAPITAL G Trust Limited
Mr. Tim Marshall, LL.B.	Partner	Marshall Diel & Myers Barristers & Attorneys
Mr. Ronald E. Simmons, CPA	Partner	Moore, Stephens & Butterfield Chartered Accountants
Mr. Ottiwell Simmons, JP		
The Honourable Paula Cox, JP, MP (ex-officio member)	Minister of Finance	

Financial Reporting Accountability Cycle

After the audited financial statements of the Consolidated Fund and my annual report are tabled, the Public Accounts Committee reviews them and issues a report to the House of Assembly. Those reports usually ask the Minister of Finance to respond to recommendations contained in the Committee's reports. The Speaker of the House has ruled that the House cannot take up any matter in my public reports until the Public Accounts Committee has issued its report thereon. It is important, therefore, that the Committee's reports to the House are timely because, if they are not, House of Assembly discussion of issues in the Auditor General's reports will be delayed until they are no long topical.

The last Public Accounts Committee report was tabled in December 2006 and covers my annual reports for the years 2003 and 2004. It also covers my special reports to the House dated April 2004 and May 2005. I am pleased to note that the Committee did not disagree with any of the recommendations in my reports, and specifically endorsed several.

At the date of this report, the status of the Consolidated Fund's financial statements, my annual reports and responses thereto is as follows:

	2007	2006	2005
Consolidated Fund Audit completed	Yes	Yes	Yes
Accounts tabled in the House	No	Yes	Yes
Auditor General's Annual Report issued	Yes	Yes	Yes
Public Accounts Committee Report issued	No	No	No
Minister's Reply issued	*	*	*

* Note: The Minister cannot reply until the Public Accounts Committee issues its report.

Further accountability is provided by the Ministry of Finance which, at the same time that my annual report is tabled, tables a publication containing the audited financial statements of all entities that were issued since the previous such publication. Unfortunately, because of late financial reporting by some entities, much of the accountability information is neither current nor complete.

Access to Information

As required by section 9(3)(b) of the Audit Act, I report that I did **not** receive all the information and assistance needed to carry out the work of my Office for the following reasons:

- As detailed in section 3.1 of this report, Management of several entities could not provide accounting records and information to enable me to express an auditor's opinion on their financial statements. Those entities received denials, or in some cases qualifications, of opinion in my auditor's reports on their financial statements.
- The entities identified in section 2.3 of this report had not, as of the date of this report, provided me with all the information needed to complete (or in some cases to start) their audits for 2007 and, in some cases, for earlier years.

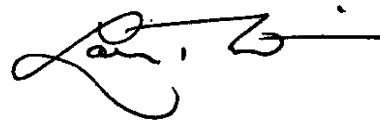
Commonwealth Auditors General Conference

In January 2006, Bermuda extended an official offer to host the 20th Commonwealth Auditors General Conference. The offer was accepted and I thank the Premier and the Government for supporting this undertaking. The Conference will take place from July 6th to 9th 2008.

Acknowledgements

I acknowledge the contributions of the Audit Committee during the review stage of this report.

I also express my sincere appreciation for the work and professionalism of my staff, without whose dedicated efforts I would have been unable to discharge my legislative responsibilities and complete this report.



Hamilton, Bermuda
January 2008

Larry T. Dennis, CA
Auditor General

2. MATTERS OF ONGOING OR GOVERNMENT-WIDE CONCERN

Most of the concerns in this section were commented on in previous annual reports. To avoid undue repetition, other concerns raised in previous reports, although not yet fully resolved, are not repeated this year though the related recommendations are carried forward in Appendix 2 to this report.

2.1 AUDITOR INDEPENDENCE CONCERNS

My professional independence was compromised

In my last annual report I described how, in May 2006, my Office was forcibly relocated to unrenovated premises by the Ministry of Works and Engineering with less than twenty-four hours notice. By so doing, the Ministry effectively closed down my Office's operations, and controlled and compromised confidential working papers, data files and computer information systems. It was a demonstration of power that raises important concerns about the effectiveness of constitutional and legislated provisions designed to protect the professional independence of the Office of the Auditor General.

Independence is critical to the credibility of auditors. This principle is recognized universally in authoritative professional pronouncements and in audit legislation world-wide. It recognizes that auditors must be free from interference or fear of reprisal from those whose affairs they audit. To promote this, some jurisdictions have established their legislative audit offices as independent legal entities, similar to quasi-autonomous non-governmental organizations (QUANGOs) in Bermuda.

The need for auditor independence is recognized in the Bermuda Constitution Order 1968 and the Audit Act 1990. Both state that *the auditor is not subject to the direction or control of any other person or authority in the exercise of his functions....* Ironically, addressing the Auditor General's independence requirements conceptually, instead of legislating how independence should be ensured, dramatically caused that independence to be compromised.

Further safeguards are needed

The drafters of Bermuda's Constitution and the Audit Act 1990 presumably supposed, as did I, that more extensive safeguards to auditor independence were unnecessary because the Executive and Government administrators would always respect the independence of the Office of the Auditor General. That supposition was obviously naive.

This was why in my last annual report I recommended to the Government that as a step to enhancing and safeguarding the Constitutional independence of the Office of the Auditor General:

- **the Ministry of Finance should assign authority to the Office to establish and operate its own bank account and payments and payroll processing systems,**
- **the Ministry of Works and Engineering should formally assign authority to the Office of the Auditor General to negotiate and be responsible for its own accommodation arrangements, and**
- **the Minister of Finance seek legislation to enshrine the above in legislation and to establish the Office of the Auditor General as an independent legal entity.**

The response I received to the two recommendations I addressed to the Ministry and Minister of Finance was as follows:

The Ministry of Finance fully understands that independence is a vital safeguard for the Office of the Auditor General in fulfilling its responsibilities objectively and fairly. The statutory independence of the Auditor General is clearly enshrined in legislation via the Constitution of Bermuda and the Audit Act which enables the Auditor to carry out its mandate independently of the government and its administration. The Ministry considers that the preconditions for the functional independence of the Auditor-General are currently in place with the current legislative framework. These are:

- *personal independence in relation to appointment and tenure;*
- *a wide legislative mandate empowering the Auditor General to audit the complete spectrum of government functions;*
- *audit independence, including freedom to determine the audit programme, and to decide the nature and scope of audits to be conducted;*
- *unrestricted access to information in performance of the audit function together with the right to report any findings to Parliament, and*
- *adequate resourcing to fulfil audit functions effectively.*

This is a classic response and, fortunately it is now in the public record for all to see in the annals of Bermuda's history. With all due respect, my reaction to the Ministry's response is as follows:

1. The five "preconditions" listed in the Ministry's response already existed in 1998. Yet the Government's election platform for that year included a call for strengthening the Auditor General's Office. If the Government recognized the

need to strengthen the Audit Office in 1998, but safeguards for independence have not been advanced since (except the name- change to Auditor General which was an excellent decision), how can the Ministry now assert that the preconditions for the functional independence of the Auditor General are currently in place?

2. The Ministry's response falls far short of recognizing international practices for ensuring the independence of legislative auditors. What I recommended is well within the parameters of international pronouncements and practices. A bank account? Control over accommodations? A legislated independent entity? These all fall within the parameters of international practice and expectations for independent legislative auditors.
3. The age-old question "Who audits the auditor?" was finally resolved in Bermuda when the Parliamentary Standing Committee on the Office of the Auditor General exercised its responsibility to appoint an independent auditor to audit the accounts of the Office of the Auditor General for the year ended March 2006. Following that audit, in accordance with normal professional practices, the auditors issued a management letter with the following observation and recommendation:

Observation

The Office of the Auditor General is...one of many cost centres subject to the financial direction and financial policies and controls set by Government. As such the Office of the Auditor General is not responsible for setting its own financial policies, nor does it have ownership of assets including fixed assets, receivables, work in progress or bank account balances.

This limits the autonomy and the ability of the Office of the Auditor General in the independent exercise of financial control and financial accountability.

Recommendation

The (Parliamentary Standing) Committee (on the Office of the Auditor) should review whether the current level of autonomy and level of financial control responsibilities allocated to the Office (of the Auditor General) are appropriate given...the prominence and significance of the Office of the Auditor General.

I responded to the auditors appointed by the Parliamentary Standing Committee that I agree with their observation and

recommendation, and stated that my 2006 Annual Report included three recommendations covering this observation.

At least the Ministry of Finance responded to the two recommendations addressed to it. I have received no response from the Ministry of Works and Engineering, though I suspect that any such response would have been similar in direction and tone to that of the Ministry of Finance. It is regrettable that the Ministry of Finance and the Ministry of Works and Engineering felt unable to view these recommendations on their merits and, in my opinion, implement decisions that will benefit Bermuda long into the future. I have often observed that, in respect to legislative auditors, political parties while in opposition have a unique ability to recognize insightful courses of action, but that ability is mysteriously lost when they become the party of government. Unfortunately, only governments, not oppositions, have the power to implement those insightful courses of action.

I have little doubt that my recommendations will one day become reality in Bermuda, if only because it is the right thing to do. When it happens, Bermuda will be the beneficiary. The question is, Who will get the job done - and be remembered for doing so?

During 2007, I had further reason for concern about lack of respect for the independence of the Office of the Auditor General. Most Bermudians will be aware from media reports that I was arrested, put in jail and interrogated on suspicion of having handled missing police files related to the investigation into the Bermuda Housing Corporation. In addition, my offices were searched twice by the police, and all my staff were interviewed, some several times. My home was searched. I was released but remained under arrest for several months.

I am not suggesting that an Auditor General should be above the law. But the Police were aware that the papers I had were copies, and the Bermuda Courts had already ruled that copies could not be considered stolen. Further, I had every expectation that in a contest between two Constitutional officers, the differences of opinion or interpretation of law would be decided by the courts (see section 4).

Further attacks on my Office's reputation and independence occurred during the recent election campaign. Candidates and political pundits several times accused me publicly of dishonesty, criminal behaviour and receiving stolen property. I am aware that rhetoric can become heated when candidates are seeking political

office, but most would be aware and all should be aware that as an apolitical independent Officer of the Crown, I cannot enter the political arena to respond to such allegations. Personally, I don't exactly consider such behaviour profiles in courage.

*Constitutional
safeguards need
strengthening*

Should, I interpret the above series of events as a government trying to send me a message? If so, I have been Auditor General of Bermuda long enough not to be influenced or intimidated by such actions. But I worry lest my successor may be unable to be so sanguine if faced with similar circumstances. In my view, the Constitutional and legislated safeguards for the Office of the Auditor General need reviewing and strengthening. The implementation of my three recommendations, ironically broadly supported by the House's own auditors, would be a good place to start.

2.2 PERFORMANCE BOND FOR THE BERKELEY INSTITUTE SENIOR SCHOOL CAPITAL PROJECT

Background

In a special report to the House dated October 2002, I expressed concerns about the adequacy and propriety of the performance bond provided by the contractor for the above project. In particular, I explained that I had reservations about the timing and destination of the \$700,000 fee paid to the contractor.

The following were among the reasons for my concerns:

- In a report to Cabinet for the meeting at which the contractor was chosen, the Ministry of Works and Engineering stated that the contractor had not provided evidence that it could obtain a satisfactory performance bond.
- Despite numerous requests, I was unable to obtain a copy of the performance bond from the Ministry until 16 months after construction work began.
- Senior Ministry officials, who would normally assess the adequacy of performance bonds before contracts are let, did not see the bond until I discussed my copy with them.
- The bond was issued by a company that was not formally incorporated until eleven days after the bond was issued.
- The Ministry “reimbursed” the \$700,000 bond premium to the contractor (six months after the date of the bond) without first obtaining evidence that the contractor had paid the bonding company.
- The bonding company is a wholly owned subsidiary of the Bermuda Industrial Union but there was no evidence that the Ministry had assessed the company’s ability to meet claims of up to \$6.8 million potentially payable under the bond. It was also unclear whether the Union’s assets are available to meet any claims against its subsidiary.

I reported to the House that my enquiries were ongoing.

Following the release of my special report, a Police investigation began. Hoping to bring this matter to a close, in December 2005 I enquired of the Director of Public Prosecutions as to the status of the investigation. I was informed that it was ongoing and was asked to postpone commenting on the matter lest it compromise the continuing Police investigation.

In response to a further enquiry in October 2006, the Director of Public Prosecutions informed me that the investigation was still

incomplete. At that time, the Commissioner of Police informed me that the Bermuda Police Service hoped to complete the file within two weeks and forward it to the Department of Public Prosecutions. However, when my last annual report was finalized in January 2007, the Department of Public Prosecutions had not received the file.

In that annual report I stated that I expected that the Berkeley bond matter would have progressed to a conclusion by the time I issued my next (this) annual report. If not, I indicated my intention to bring the matter to a close by reporting to the House my own conclusions based on the information available to me.

Latest developments

On January 25, 2008, I met with the new Director of Public Prosecutions (DPP) who had taken up his position just months before. As expected, but in my opinion not unreasonably in the circumstances, he asked for time to address this issue. We agreed that he would turn his attention to the Berkeley Bond file after March 31, 2008. In the meantime, however, an arbitration award came down in favour of the Government on December 14, 2007. The decision of the Tribunal was immediately appealed. To the uninitiated, the parties did enter a binding arbitration process which, nevertheless, leaves open to the parties the right of appeal on matters of law. I have been informed that, pending the appeal, the contents of the award are to remain confidential. I have not seen the arbitration agreement but I do not see where the arbitration award mentions confidentiality pending appeal. However, since a copy of the arbitration award was sent to me by the Attorney-General without fanfare, I think good faith at least would cause me to respect this confidentiality.

Insofar as my reported problems with the bond are concerned, the arbitration process is likely to clarify once and for all the questions of whether a proper, enforceable bond was entered into, whether the bond company has sufficient assets to cover a claim on the bond, or whether the bond company's parent will make its assets available to cover any shortfall its subsidiary may have in paying any obligations it is called upon to meet under the bond. What is not likely to be cleared up by the arbitration process is why the Government paid ProActive \$700,000 to pay a bond premium that ProActive ended up eventually paying only \$350,000 for. While the Government has maintained that the \$700,000 was not a reimbursement and that ProActive's ability to negotiate a great bargain was their gain, it may eventually be up

to the members of the union to understand just what a bargain that was!

I shall arrange a meeting with the DPP after the appeal decision comes down to determine what if any matters need further legal input. There will be at least one accounting issue that I shall want to bring to an end before I put the matter of the Berkeley Bond to rest. I have every expectation that I shall be able to do this in my next report to the House.

2.3 LATE FINANCIAL REPORTING

Annual financial reporting by many Government entities is still considerably in arrears. This is a long-standing problem and represents a significant loss of control by the House of Assembly over the Government's affairs.

Legislative control is weakened or lost

At the highest level, Legislative control is achieved by two related activities. First legislation provides authority and the necessary money to pursue policy goals. And second, Government reports back to the Legislature in a timely manner on how those monies were spent. When governments fail to provide timely financial accountability reports, as is the case now in Bermuda, legislative control is weakened or lost.

The Public Accounts Committee has recommended better financial reporting

The Parliamentary Standing Committee on the Public Accounts agrees and noted in its report tabled in the House in 2006 that *the Secretary to the Cabinet has also expressed major concern about late financial reporting and lack of cooperation with the audit process*. The Committee recommended that the Ministry of Finance and the Accountant-General resolve the issues presently preventing the production of consolidated financial statements for Bermuda. One such issue is late financial reporting because consolidation cannot proceed until a significant number of the consolidating entities produce annual financial statements on time.

The Minister also agrees that action is needed

The Minister of Finance also agrees that up-to-date financial reporting is important. In a report to the House in February 2007 (see Appendix 8) the Minister stated, *I consider it essential that all Government entities prepare annual financial statements on a timely basis. This has been a long-standing problem that has now reached the tipping-point and must be rectified without delay. The deficiencies in financial administration of some public funds and entities highlighted by the PAC are disquieting and must be addressed. For accountability purposes it is important that organisations which receive grant funding from Government have their financial records up to date. Those organisations that do not respond in a timely manner will be at risk of having funding withheld until their financial records are current.*

There are no good reasons why entities should not be able to produce annual financial statements in time for them to be audited and issued within ten months of their year-ends. For most, it is a legislated requirement. Yet only ten of the Government's 38 organizations and public funds had issued

audited financial statements for fiscal 2007 by late January 2008. This is a slight improvement over last year, but it is still highly unsatisfactory.

It might appear unusual for an Auditor General to commend entities that are up-to-date with their financial reporting. After all, they have only done what legislation requires them to do. But in the circumstances I feel I should identify the ten because they show that timely financial reporting is not impossible. They are:

- Bermuda Hospitals Board,
- Bermuda Housing Corporation,
- Bermuda Land Development Corporation,
- CedarBridge Academy,
- Consolidated Fund,
- Government Borrowing Sinking Fund,
- Pension Commission,
- St. George's Preparatory School Capitation Account,
- Trustees of the National Sports Centre, and
- West End Development Corporation.

The reasons for late financial reporting vary from entity to entity, though there are recurring themes. Typically, accounting records are of poor quality and financial controls are absent or operated too late to be fully effective. Draft statements and schedules are not available for audit until long after year-ends and are often incomplete and inadequately supported. Too often, there is no commitment to maintaining up-to-date and complete accounting records or to issuing timely audited financial statements. In my view these problems will persist until Chief Financial Officers and Heads of Departments are held responsible for these deficiencies. This could mean levying financial penalties, demotion, or even dismissal.

*Responsible officials
must be held
accountable*

Section 2.4 of this report continues this theme and explains how some of the severest problems have resulted in issuing qualifications or denials in audit opinions on financial statements.

I acknowledge the efforts of management of entities that have reduced or eliminated their financial reporting arrears since last year, though there is still scope for most to improve their accounting records and controls. I also acknowledge the \$150,000 of additional funding that Government provided that enabled my Office to assist in this improvement. But there is still a long way to go.

2. MATTERS OF ONGOING OR GOVERNMENT-WIDE CONCERN

At the end of January 2008, the following entities had not issued audited financial statements for the fiscal years shown:

PUBLIC FUNDS

Bermuda Department of Tourism North America Retirement Fund	2007
Confiscated Assets Fund	2007
Contributory Pension Fund	(July) 2005, 2006, 2007
Government Employees Health Insurance Fund	2005, 2006, 2007
Government Reserves Fund	2007
Hospital Insurance Fund	2004, 2005, 2006, 2007
Ministers and Members of the Legislature Pensions Fund	2006, 2007
Mutual Re-insurance Fund	2004, 2005, 2006, 2007
Public Service Superannuation Fund	2007

GOVERNMENT-CONTROLLED ORGANIZATIONS

Bermuda Arts Council	2006, 2007
Bermuda College	2004, 2005, 2006, 2007
Bermuda Health Council	2007
Bermuda Small Business Development Corporation	2007
Board of Trustees of the Golf Courses	2005, 2006, 2007
*National Drug Commission	2005, 2006

PARISH COUNCILS

Devonshire Parish Council	2006, 2007
Hamilton Parish Council	2006, 2007
Paget Parish Council	2007
Pembroke Parish Council	2003, 2004, 2005, 2006, 2007
Sandys Parish Council	2006, 2007
Smith's Parish Council	2007
Southampton Parish Council	2006, 2007
St. George's Parish Council	2006, 2007
Warwick Parish Council	2005, 2006, 2007

SCHOOL CAPITATION ACCOUNTS

Berkeley Institute Capitation Account	2007
Sandys Secondary Middle School Capitation Account	2006, 2007
Whitney Educational Trust	2004, 2005, 2006, 2007

* The National Drug Commission was dissolved in February 2006 and its operations transferred to the Ministry of Culture and Social Rehabilitation.

Why is this happening?

The reasons for these entities being in arrears with their financial reporting, and the status of the audits, is explained in sections 3.3, 3.4, 3.5 and 3.6 of this report under the headings of the individual entities. But for many, the delays follow a pattern.

Many audits begin with a series of requests for the records and draft statements to be made available for audit. When the audit

Delays follow delays

eventually begins, the records are found to be incomplete, or not balanced or reconciled, or lacking vital information or documentation. Management asks for time to generate or balance the records, or find the needed documentation - and the audit team departs. Occasionally, management wastes time by questioning why the information is needed or complaining that it has never been needed before. When, after several reminders, Management says that the records and documentation are ready, my auditors return to find that only some of the records have been generated or documentation found. Further delays ensue. Delays can also occur when all requested information is ready, but by then auditors are involved in other audits that cannot be put aside at a moment's notice. Disruptions make for an inefficient audit process.

Management of some entities are aware that I finalize my annual reports to the House in late January each year. To some, providing the last items of information or documentation needed to finalize their audits finally becomes a matter of urgency. This explains why so many audits are finalized each January. It also explains why my reports indicate each year that several audits are substantially complete but, because of this surge of information received during January, are not finalized until February.

What are the consequences of late financial reporting?

Accountability is frustrated by failure to report promptly

Late financial reporting is a serious matter. It weakens legislative control. It is contrary to legislated requirements. It precludes managerial and ministerial accountability. It frustrates effective management control. It prevents the preparation of consolidated financial statements. It creates an environment where fraud can thrive and remain undetected. In a well-run organization it would not be tolerated.

Of particular concern is the late reporting of Public Funds because collectively, those in arrears with their reporting hold about a billion dollars of investments and other public assets. I would have expected the accounting for these Funds to be superior and up-to-date because they fall under the administrative responsibility of the Ministry of Finance, the Ministry with a Government-wide responsibility for accounting and accountability. Yet these are among the most delinquent.

Based on the last financial statements audited for those entities that are in arrears with their financial reporting, the total expenditures for which Government has not been accountable to

the House for periods to March 2007 amounts to almost \$485 million (2006 - \$523 million).

Potential for misappropriation and fraud

Suspicion of wrongdoing is inevitable

In the circumstances, I would hope these reporting delays are the result of resource shortages, even a *laissez-faire* attitude to responsibilities, or an inability to maintain up-to-date accounting records. Because the alternative is that they are deliberate and designed to defer or prevent the audit process. In which case, concerns arise about possible wrongdoing or fraud.

Annual financial statement audits can deter fraud

Financial statement audits performed in accordance with generally accepted auditing standards are not designed primarily to detect fraud. Nevertheless, such audits can and sometimes do detect fraud, and the prospect of prompt annual audits can deter those who might otherwise consider fraudulent conduct. Delays of several years in making financial records available for audit considerably diminish this deterrence and create an environment conducive to perpetrating and concealing fraud. And the risk of fraud increases even further when management says, "Oops, we lost the financial records."

What is the solution?

In annual reports over the years, I have fulfilled my legislative responsibility by identifying those entities that are late with their financial reporting.

I have asked everyone that I can think of to help resolve this problem

Although I have no responsibility for resolving the problem, I have urged Permanent Secretaries and financial managers to do so. I have urged the Ministry of Finance to use its authority to require these entities to report promptly. I have recommended that Ministers responsible for these delinquent entities take action to expedite financial reporting. This was based on the Government's *Code of Conduct* which states that *the individual responsibility of a Minister for the work of his or her Ministry means that ... he/she is answerable for all acts and omissions and ... for any defect of administration.*

Despite all these requests and recommendations, the situation has not improved appreciably. Appendix 2 to this report contains a recommendation first made in 1996 that the Ministry of Finance use its authority to bring financial reporting across Government up-to-date. The Ministry's actions on this recommendation have not been effective or perhaps at least not as effective as the

Ministry might have expected from the additional expenditures that the Minister of Finance approved to address this situation. I asked the Ministry for an analysis of the funding it has provided throughout the Civil Service which was intended primarily for the reduction of late financial reporting. This was not necessarily for my benefit, but for the benefit of the Minister of Finance. I did not receive an analysis. The \$150,000 provided to me for secondees to undertake the additional audits expected to become available from the backlog of audits, significantly contributed to the increased number of audits that my Office completed during this reporting year, from 26 to 42. A similar analysis needs to be done on the additional expenditure provided throughout the Civil Service to address the late presentation of accounts for audit, and the following questions asked: Did the additional funding for a reduction of late financial reporting result in the improvement that was expected and, if not, where were the additional resources absorbed? Where do we go from here?

2.4 DENIALS AND QUALIFICATIONS IN AUDIT REPORTS

In the world of business and commerce, qualifications in auditor's reports on financial statements are rare. But in the Bermuda Government, they have become common-place.

Half of the audits completed this year received qualified or denied audit opinions

Of the 42 Government audits completed during the year ended January 2008 (the date of this report), half received qualified or denied audit opinions (see section 3.1 of this report). The same percentage applies to the year ended January 2007. And for the two years before that, more than one third received qualified or denied opinions.

Denials of audit opinions are very rare and serious

Professional standards require auditors to qualify their audit opinions if the financial statements do not comply with generally accepted accounting principles, or if there is insufficient evidence that the statements comply with those principles. If the non-compliance or the lack of evidence is more severe, professional standards require the auditor to go further and deny an opinion. Auditors issue denials of opinion where deficiencies in accounting records and controls are so significant and pervasive that they limit the scope of audit work to the extent that there is no basis for the expression of an opinion.

Denials for consecutive years are virtually unheard of

For an entity in the private sector to receive more than one denied audit opinion is almost unheard of. A denial would be deemed so serious that it would likely provoke an extensive management shake-up and urgent action to rectify the problems. Yet some Bermuda Government entities have received denials for several consecutive years with no apparent consequences for the entity, or its financial or other senior management. During the last four years, 19 (almost 16%) of the audits completed received denials of opinion.

This is a dismal state of affairs and, in my view, an indictment of the quality of the financial management in these entities.

For many of the denials of opinion, particularly for parish councils, management could not or would not provide accounting records or documentation to support any of the numbers in the financial statements. For others, the records provided were materially incomplete. Even for some of the entities that received qualified opinions, records or documentation to support important figures in the financial statements were inadequate or unavailable.

The entities that concern me most are:

- National Drug Commission (qualification for 2001 - denials for 2002, 2003 and 2004 – see section 3.3.11),
- Board of Trustees of the Golf Courses (qualifications for 2000, 2001 and 2002 – denials for 2003 and 2004 – see section 3.3.9),
- Government Employees Health Insurance Fund (denial for 1996 - qualifications for 1997, 1998, 1999, 2000, 2001, 2002, 2003 and 2004 – see section 3.4.5),
- Devonshire Parish Council (denials for 2001, 2002, 2003 and 2004 - see section 3.5.1),
- Pembroke Parish Council (compilations for 1997, 1998, 1999 and 2002 – qualifications for 1996, 2000 and 2001 – see section 3.5.3),
- Sandys Parish Council (denials for 2001, 2002, 2003, 2004 and 2005 – see section 3.5.4),
- Southampton Parish Council (denials for 2004 and 2005 – see section 3.5.6),
- St. George’s Parish Council (denials for 1995, 1996, 1997, 1998, 2004 and 2005 – qualifications for 1999, 2000, 2001 and 2002 – and no statements at all for 2003 – see section 3.5.7), and
- Warwick Parish Council (denials for 2001, 2002, 2003 and 2004 – see section 3.5.8).

There is an increased risk of fraud

As explained in section 2.3 above and in several places throughout this report, although financial statement audits are not designed to detect fraud, prompt audits can deter fraud because staff know that such audits might uncover dishonest behaviour. They also know that when important records are not available for audit, any chance of uncovering dishonest behaviour is virtually eliminated.

Senior financial and other managers must be held accountable

Like most auditors, I normally restrict my reporting to comments on deficiencies in accounting records, documentation and controls. But such comments obviously reflect adversely on the abilities and performance of senior financial management. It is difficult not to conclude that the chief financial officers of entities that have missing or seriously deficient accounting records year after year are irresponsible, incompetent, or worse. Similarly, such deficiencies reflect adversely on the abilities of the CEOs to whom these CFOs report.

Failure to have well designed internal controls, or controls that do not operate properly, can sometimes be ascribed to lack of

experience or expertise, or insufficient resources. Even a lack of documentation to support some revenues can sometimes be excused. But lack of evidential documentation to support disbursements of public funds is virtually inexcusable because documents must have existed for the disbursement to have been (legally) made in the first place. If such documents are unavailable for audit, they must have been destroyed or are being unconstitutionally withheld from the Auditor General.

Bad performance should result in consequences

When failure to provide documentation to verify expenditures is pervasive and significant, professional auditing standards require that I deny an opinion on the entity's financial statements. In such circumstances, I believe that management of the entity should be held responsible for being unable to account appropriately for the stewardship of the public funds entrusted to them. If this situation continues over a number of years, serious concerns of the competence and integrity of management are brought into question. In my view, in such a situation, the Chief Executive Officer and/or the Chief Financial Officer (or in civil service parlance, the Accounting Officer) should face progressive sanctions, eventually culminating in demotion or even dismissal from the civil service. The Promoting such individuals away from the problem, or transferring them laterally to another entity, should not be an option.

Recommendation No. 1

The Ministry of Finance should consider disciplinary action, including written warnings, penalties, and in significant or continuing situations, dismissals of Chief Executive Officers, Chief Financial Officers, Controllers, and Accounting Officers whose entities receive qualifications or denials of opinion in auditor's reports on their financial statements due to the unavailability of evidential documentation supporting disbursements of public funds.

Ministry response

The Ministry of Finance will continue to monitor developments to assure that the objective of timely financial reports is achieved for all public funds and the funds of government-assisted entities.

Auditor General's comment

I assume this means timely financial reports with unqualified audit opinions, i.e., all documentation necessary for audits is available for audit.

2.5 PENSION CONTRIBUTIONS AND TAXES IN ARREARS

I am still concerned about the slow and non-collection of significant amounts of pension contributions, and payroll and land taxes. The following shows the extent of pension contributions (at July 31), and payroll tax and land tax (at June 30) that were past due more than 90 days, and how these amounts have grown over the past eight years:

Year	2007	2006	2005	2004	2003	2002	2001	2000
	(Millions of Dollars)							
Pension contributions	\$14.8	\$14.4	\$15.4	\$14.9	\$9.2	\$13.1	\$11.0	\$10.7
Payroll taxes*	\$24.1	\$17.8	\$14.5	\$17.0	\$16.2	\$9.6	\$8.8	\$11.1
Land taxes	\$10.8	\$10.0	\$8.2	\$7.0	\$5.7	\$4.6	\$4.2	\$3.0

* Payroll taxes receivable do not include estimated assessments for employers who have not filed tax returns in the current year

Other countries are not so tolerant

For the Government and its public pension fund to be owed almost \$50 million of taxes and pension contributions that are more than three months in arrears should be, in my view, a major concern for Government. In most developed countries, taxation authorities react aggressively when employers fail to remit payroll deductions promptly.

These amounts should be in Government bank accounts, reducing borrowing costs or providing investment opportunities. Some of these amounts will never be collected, even though employers have collected portions of them from their employees. The above amounts would be even greater if, from time-to-time, uncollectible accounts were not written off. The ramifications of writing off amounts due to pension funds, of course, is that the employee loses all the benefits represented by this write-off.

Initiatives to address the collection of payroll tax arrears have not been approved

The increases in payroll tax arrears during the last two years are particularly troubling, especially since a number of initiatives suggested by the Tax Commissioner to address this problem have not been approved. For example, a proposal to waive accumulated penalties for a short period if arrears are fully paid was never forwarded for Cabinet approval by the Ministry of Finance. The Ministry also did not approve a proposal to offer incentives for paying taxes on-line, thereby freeing up resources that could be applied to collections. Despite the support of the Chief Justice and

Attorney-General Mussenden, and mention in the 2005 Throne Speech, there has been no progress in the establishment of a Tax Court dedicated to the enforcement of tax arrears. I understand that Attorney-General Wilson supports this initiative and the establishment of a Tax Court is now back on track. And as explained in section 3.2.9 of this report, funding to replace the Commissioner's antiquated and unhelpful computer systems ceased during the 2008 fiscal year.

Non-compliance with policy

In response to my concerns about these arrears in previous years, the Ministry of Finance established a policy of not doing business with companies that are persistently in arrears with their payroll tax and/or pension contribution remittances. It appears, however, that Government Departments are not adhering to that policy. For example, Government is still doing business with the following even though their arrears in excess of 90 days were and are material:

- Guardwell Security Services Ltd had arrears of \$245,000 at July 2006 and \$308,000 at July 2007, yet between July 2006 and January 2008 the Government purchased more than \$513,000 of goods and services from Guardwell.
- Hunt's Sanitation Services Ltd had arrears of \$82,000 at July 2006 and \$156,000 at July 2007, yet between July 2006 and January 2008 the Government purchased more than \$235,000 of goods and services from Hunt's.
- Hi-Tech Electrical Service had arrears of \$49,000 at July 2006 and \$48,000 at July 2007, yet between July 2006 and January 2008 the Government purchased more than \$279,000 of goods and services from Hi-Tech.

And there were others.

At a minimum, all Government ministries and departments have access to the lists of Government's most delinquent taxpayers that appear in my Annual Reports. The Accountant-General also has access to these lists. If it is the policy of the Ministry of Finance not to do business with companies that are persistently in arrears, it is surprising to see purchases of such magnitude from these listed companies in particular. The Ministry of Finance needs to investigate how its policies can be overridden and overlooked, and initiate corrective and/or disciplinary proceedings where appropriate. A management control feature, until the policy is operating effectively, could be to provide the Minister of Finance each month with a status report showing the monthly and accumulated purchases or fees paid to listed and other selected debtors, together with the outstanding amount the debtors owe the Government in taxes and pension premiums. One could imagine

that a couple of well-timed, no-nonsense enquiries from the Minister of Finance would stop dead the continuing, insubordinate transgressions of her Ministry's policy – or how quickly the debtors learn that their payment practice is no longer profitable.

Meanwhile, I am continuing my practice of illustrating to the House of Assembly the extent of these arrears by including as Appendices 5, 6 and 7 to this report, listings of the most delinquent employers and land tax debtors.

Appendix 2 to this report contains two recommendations made several years ago to address the above concerns.

2.6 CONSOLIDATED FINANCIAL STATEMENTS FOR BERMUDA

I continue to urge the Ministry of Finance to issue consolidated financial statements for the Government of Bermuda.

Financial statement preparers in Bermuda are bound by the accounting principles issued by the Institutes of Chartered Accountants of Bermuda and Canada. These include accounting principles and recommendations that apply to government accounting.

I recommended consolidated financial statements for Bermuda many years ago

The Accounting Institutes recommended, many years ago, that governments issue consolidated financial statements. For that reason, I recommended in my 1992 annual report that the Ministry of Finance issue consolidated financial statements for Bermuda. The Ministry's initial response was positive with the caveat that better accounting systems and reporting practices were needed before consolidation would be possible.

The Ministry of Finance agreed to produce consolidated statements ...

In ensuing annual reports, I outlined the value of consolidated reporting and identified the changes needed to enable consolidated financial statements to be prepared. For several years, the Accountant-General's Department made good progress in this regard. In September 2000, the Ministry of Finance wrote me confirming the Government's commitment to producing consolidated statements, and targeting 2002 as the first year.

... but they have never been produced

No attempt was made to produce consolidated statements for 2002 or for ensuing years. The (then) Accountant-General agreed there were benefits to issuing consolidated financial statements but insisted that to do so, specific legislation was needed, an assertion with which I do not agree.

The Public Accounts Committee agrees

I note that the Parliamentary Standing Committee on the Public Accounts in a report to the House tabled in December 2006 again endorsed the need for the Government to issue consolidated financial statements for Bermuda.

I raised this issue again in my last year's annual report and am encouraged by the (current) Accountant-General's response that consolidated statements are targeted for March 2010. Appendix 2 to this report contains three recommendations that address the need for, and constraints to preparing, consolidated financial statements for Bermuda.

2.7 UNADDRESSED AUDIT RECOMMENDATIONS

Audit recommendations remain unaddressed

I have expressed concern in previous annual reports that management of some Government entities are unreasonably slow in addressing audit recommendations. This is still a problem.

I am pleased to acknowledge that the Head of the Civil Service is similarly concerned. In 2006, he urged Permanent Secretaries to take action to address outstanding audit recommendations. In January 2007 he told Heads of Departments that, going forward, he is determined there will be a significant improvement and sought their assistance and cooperation in implementing audit recommendations.

Appendix 2 to this report lists 62 audit recommendations from this and past years' annual reports. The second part of Appendix 2 lists recommendations that were removed from the list this year. Some were removed because the underlying problems have been addressed or are well on the way to being addressed. This is encouraging. A few recommendations, however, were removed because I have given up hope of them ever being adopted. In these cases, the control deficiencies or other problems still exist and I must assume that the responsible Minister and Management have decided to accept the risks associated therewith.

The movement in unaddressed audit recommendations this year is as follows:

Recommendations in Appendix 2 of last year's report dated January 2007	57
Recommendations dropped this year for the reasons explained in the preceding paragraph	(5)
New recommendations in this annual report (see Appendix 1)	10
	<hr/>
Recommendations in Appendix 2 of this report	62
	<hr/> <hr/>

Audit recommendations stem from observed failures to comply with legislation, poor accountability, or absent or inadequate management processes and accounting controls. In most cases, management has agreed with my recommendation but has not taken corrective action.

A perusal of managements' responses recorded in this appendix

shows how, for many recommendations, promises are made year after year that the deficiencies are being or will be fixed, yet too often nothing happens.

*Risk of
misappropriation
and fraud*

Absent and inadequate management processes and accounting controls create an environment conducive to error, misappropriation and even fraud. I urge management of the entities to whom my recommendations are addressed to resolve these problems without further delay.

3. AUDIT OBSERVATIONS & RECOMMENDATIONS

3.1 DENIALS AND QUALIFICATIONS IN AUDIT REPORTS

Section 9(2)(a) of the Audit Act (see appendix 13) requires me to provide details in annual reports of qualifications of opinion in auditor's reports on financial statements. My reports on the financial statements of the following entities issued since my last annual report contain denials or qualifications of opinion for the reasons indicated:

Denials of opinion

Auditors issue a denial of opinion only in very serious situations. Professional standards call for a denial where deficiencies in accounting records and controls are so significant and pervasive that they limit the scope of the auditor's work to the extent that there is no basis for the expression of an opinion. I issued denials of opinion on the financial statements of the following entities for the fiscal years indicated:

Board of Trustees of the Golf Courses – 2003 and 2004

I was unable to express an opinion on whether the financial statements of the Board of Trustees of the Golf Courses for both 2003 and 2004 are presented in accordance with generally accepted accounting principles because the Board was unable to provide reliable information on inventory, accrued vacation pay, and various operating expenses including salaries, wages and employee benefits (see section 3.3.9).

National Drug Commission – 2003 and 2004

I was unable to express an opinion whether the financial statements of the National Drug Commission for both 2003 and 2004 are presented in accordance with generally accepted accounting principles because of the lack of documentary and other evidence needed to audit satisfactorily most of the Commission's assets, liabilities, revenues and expenses. Furthermore, there were serious deficiencies in internal controls to the extent that I could not be satisfied that all revenues and expenses have been recorded, or that those that are recorded were proper (see section 3.3.11).

Devonshire Parish Council – 2005 (see section 3.5.1)

Sandys Parish Council – 2005 (see section 3.5.4)

Southampton Parish Council – 2005 (see section 3.5.6)

St. George’s Parish Council – 2004 and 2005 (see section 3.5.7)

I was unable to express an opinion whether the financial statements of these Parish Councils are in accordance with generally accepted accounting principles because the Councils could not provide accounting records or documentary evidence to support any or most of the numbers in the financial statements. St. George’s Parish Council was unable to produce any accounting records or draft financial statements for audit for the year ended March 2003, so none will be issued.

Pembroke Parish Council - 2002

My report on the 2002 financial statements of Pembroke Parish Council does not even contain an audit opinion because there were no accounting records to examine. My auditor’s report states that I compiled the financial statements based on information provided by management, but did not audit, review or otherwise attempt to verify the accuracy or completeness of such information (see section 3.5.3).

Qualifications of opinion

Auditors issue a qualification of opinion where the financial statements are affected by a departure from generally accepted accounting principles, or where there is insufficient audit evidence to determine whether the statements are affected by a departure from generally accepted accounting principles. Unlike denials of opinion, however, the problems encountered are not so pervasive that I cannot express an opinion. I issued qualifications of opinion on the financial statements of the following entities for the fiscal years indicated:

Berkeley Institute Capitation Account – 2005 and 2006

My auditor’s reports on the 2005 and 2006 financial statements of the Berkeley Institute Capitation Account contain reservations of opinion because I was unable to verify the accuracy of year-end accounts receivables relating to the School’s wireless laptop program. I could therefore not determine whether adjustments might be necessary to accounts receivable and revenues for the two years (see section 3.6.1).

Bermuda Department of Tourism North America Retirement Plan - 2006

My auditor's report on the 2006 financial statements of the Bermuda Department of Tourism North America Retirement Plan contains a reservation of opinion because I was unable to obtain assurance that the Plan, which is domiciled in New York, is in compliance with United States pension and income tax legislation (see section 3.4.1).

Bermuda Hospitals Board – 2007

My auditor's report on the 2007 financial statements of the Bermuda Hospitals Board contains a reservation of opinion because the Board receives donation revenues which, by their nature, are not capable of being audited satisfactorily. This reservation does not necessarily reflect adversely on the Board's accounting records (see section 3.3.4).

CedarBridge Academy – 2007

My auditor's report on the 2007 financial statements of CedarBridge Academy contains a reservation of opinion because the Government is unable to provide reliable information about certain capital asset costs incurred by Government on behalf of the Academy, and therefore these costs are not recorded in the Academy's financial statements (see section 3.3.10).

Government Employees Health Insurance Fund – 2003 and 2004

My auditor's reports on the financial statements of the Government Employees Health Insurance Fund for both 2003 and 2004 contain qualified opinions because there was insufficient evidence to verify the accuracy and completeness of claims expenditures (of \$25.6 million for 2003 and \$29.7 million for 2004) and claims payable (of \$6.5 million at March 2003 and \$6.4 million at March 2004) (see section 3.4.5).

Hospital Insurance Fund – 2002 and 2003

My auditor's reports on the 2002 and 2003 financial statements of the Hospital Insurance Fund contain qualified opinions. For 2002, the qualification was because there was insufficient evidence to verify the accuracy and completeness of insurance

premium revenues. The 2003 qualifications were because there was insufficient evidence to verify the accuracy and completeness of insurance premium revenues, portability claims and subsidy reimbursements, and because minutes of all Board meetings were unavailable (see section 3.4.7).

Smith's Parish Council – 2006

My auditor's report on the 2006 financial statements of Smith's Parish Council contains a qualified opinion because the Council was unable to provide me evidence to support certain expenditures, and a complete set of minutes of its meetings for the year and up to the audit report date. I therefore could not be satisfied that no decisions were made at those meetings that have a material effect on the financial statements (see section 3.5.5).

West End Development Corporation - 2006

My auditor's report on the 2006 financial statements of West End Development Corporation contains a qualified opinion because the Board was unable to provide a complete set of minutes of its meetings for the year under audit. These minutes could have included information pertaining to events that had a material effect on the financial statements (see section 3.3.14).

Whitney Educational Trust - 2003

My auditor's report on the 2003 financial statements of the Whitney Educational Trust contains a qualified opinion because there was insufficient documentary evidence to verify the accuracy of certain accounts receivable and revenues, because certain capital assets are not recorded in the Trust's financial statements, and because the Trust receives donation revenue which, by its nature, cannot be audited satisfactorily (see section 3.6.4).

3.2 AUDIT OF THE CONSOLIDATED FUND

The Consolidated Fund accounts for the financial affairs of Bermuda's Ministries, Departments, Legislature and other Offices. The Fund's 2007 audited financial statements are included in this report as Appendix 9.

*Failures by
Departments to
carry out accounting
and financial control
responsibilities*

The Accountant-General's Department operates the Government's central payments, payroll and revenue recording systems. Individual Departments are responsible for maintaining their own accounting records and controls, and ensuring that their financial information on the central systems is accurate and complete. At year-ends, they report to the Accountant-General's Department information on accounts receivable and payable and other balance sheet amounts needed to prepare the Consolidated Fund's annual financial statements. Some of the accounting and financial control problems, and delays in producing annual financial statements in recent years, are the result of failure by Departments to properly carry out these accounting and control responsibilities.

The accuracy of reporting to the Accountant-General's Department at year-ends, as well as daily and monthly reporting in some areas, is still a problem. Sections 3.2.4, 3.2.5, 3.2.9 and 3.2.10 below contain examples of this. Regrettably, the Accountant-General's Department often did not detect these material inaccuracies before presenting information for audit.

The following are specific matters that I believe warrant the attention of the House of Assembly that arose from the 2007 audit, and in many cases previous audits, of the processes used to prepare the financial statements of the Consolidated Fund, and the accounting records and controls of the Ministries and Departments that comprise it:

3.2.1 Additional commentary in my 2007 auditor's report

*The Consolidated
Fund's financial
statements are not
the consolidated
financial statements
of the Government*

The financial statements of the Consolidated Fund could be viewed by some as the financial statements of the Government. This view was valid when most revenues and expenditures were transacted through the Consolidated Fund. But over the years, a large and increasing amount of Government business is transacted through other public funds and Government-controlled organizations (quangos).

Consolidated financial statements are not being produced

Most governments now publish summary (i.e. consolidated) financial statements that aggregate the financial results and affairs of all entities controlled by the government. Indeed, generally accepted accounting principles for governments require this. For various reasons, the Government of Bermuda does not produce summary financial statements. There is a risk, I believe, that users of the financial statements of Bermuda's Consolidated Fund may mistakenly view them as the consolidated financial statements of the Government.

The Parliamentary Standing Committee on the Public Accounts, in a report tabled in December 2006, again endorsed the need for consolidated financial statements for Bermuda. As explained in section 2.6 above, the Accountant-General's Department has signalled a renewed commitment to removing the constraints currently preventing the production of consolidated financial statements.

To help avoid misunderstandings ...

To help avoid misunderstandings I have adopted the practice of including the following paragraphs in my auditor's reports on the Consolidated Fund's financial statements:

... I include cautionary paragraphs in my auditor's reports on the financial statements of the Consolidated Fund

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 the summary consolidated financial statements, as contemplated by the Institute of Chartered Accountants of Bermuda and the Canadian Institute of Chartered Accountants, that would report the financial position and results of operations of the Government of Bermuda. Significant financial activities of the Government occur outside the Consolidated Fund.

In the absence of consolidated summary financial statements for the Government of Bermuda, I am of the opinion that the financial statements of the Consolidated Fund are intended and used to represent for all practical purposes the financial position of the Government of Bermuda and results of its operations and changes in its financial position. As such, in my opinion the accounting policies used to prepare these financial statements are inappropriate to present fairly the financial position of the Government of Bermuda and the results of its operations and changes in its financial position.

3.2.2 Delays in issuing the Consolidated Fund's audited financial statements

Timeliness of annual reporting for the Consolidated Fund has slipped

Since 2003, the Consolidated Fund's audited financial statements have been released late, mainly because the Accountant-General's Department has been unable to produce final figures, and accurate and timely schedules and information needed, to complete audits within the timeframes planned.

Same old problems

Despite assurances by the Accountant-General following the previous three audits, many of the same problems were again experienced during the 2007 audit. For the third successive year, the audited statements could not be issued until November, more than two months later than they were issued in 2002 and 2003.

The Accountant-General is responsible for providing accurate and timely financial information

The Accountant-General has legislative responsibility for preparing the Consolidated Fund's financial statements, and for ensuring the information therein is accurate, regardless of whether that information is generated by the Accountant-General's Department or by others. To promote efficiency and co-ordinate the work, the Accountant-General's Department and my staff each year agree a formal plan for preparing and auditing the Fund's financial statements. The plan contains dates by which the Department agrees to have schedules and supporting documentation ready for audit.

Delays were caused by missed deadlines and tardy corrections

Again this year, several schedules and the supporting documentation were provided later than agreed in the plan, particularly for some of the large areas of the audit. Some of the schedules were soon found to be materially inaccurate or incomplete, and were returned to Accountant-General's staff for corrections. Too often there were then delays before the corrected schedules were returned and audit work could resume.

Suddenly there is urgency

An agreement with the consortium of banks that provides the Government's main revolving credit facility requires the submission of audited financial statements each year by the end of September, and there is another harder deadline at the end of November. As these deadlines approach, the Financial Secretary and others begin asking the Accountant-General and others why the statements have not been issued. So each year at that time, they appear to develop a heightened sense of urgency. My staff are then pressured to hurry up to compensate for the Department's earlier tardiness and inaccuracies.

Sections 3.2.3, 3.2.4, 3.2.5, 3.2.6, 3.2.8 and 3.2.10 below refer to

problems that delayed completion of the 2007 audit. Two of these warrant particular mention:

Late, inaccurate and incomplete bank reconciliations caused major delays

The plan called for the more than 50 bank reconciliations to be presented for audit by June 4. Reconciliations of 15 of the less active accounts were presented on time, but some contained omissions or inaccuracies and were returned for correction. Reconciliations for most of the other accounts were made available during the following month and a half, but some of these were also returned for correction. Corrected (and marginally acceptable) reconciliations for 18 of the bank accounts were not received until the middle of August, two and a half months after the date required by the plan. And four reconciliations were not received until the second week of September. Section 3.2.3 of this report explains some of the other problems that caused delays.

Capital assets is another area where late or inaccurate schedules again caused major audit delays. The plan called for most schedules to be presented for audit by June 4. Some were provided by that date, and others during the following two or three weeks. But audit testing revealed material inaccuracies in some schedules (see section 3.2.10 below) and necessitated considerable investigation by the Accountant-General's Department. This delayed completion of the audit by at least six weeks.

More than 240 correcting adjustments were needed during the 2007 audit

The Accountant-General agreed following previous audits that if records are in good order there should be very few correcting adjustments needed after the agreed date for presenting a trial balance for audit. That date for the 2007 audit was June 10. The fact that more than 240 adjustments were needed after that date is testament to the poor quality of many of the accounting records. I acknowledge that this is 40 fewer adjustments than were booked during the 2006 audit, but this hardly represents a satisfactory improvement. *The Accountant-General's Department recognizes this problem and undertakes to reduce the need for audit adjustments in future.*

The plan called for draft financial statements with schedules and notes to be presented for audit on July 2. Draft statements were eventually presented three weeks after that date, and schedules and notes over the ensuing month and a half. Amended drafts were still being issued late in October.

The problems outlined above, and similar ones in recent years,

Poor accounting records and delays in securing corrections also contributed to the consumption of excessive audit resources

did more than just delay the issue of the Consolidated Fund's financial statements. They also resulted in a huge investment of additional time for audit staff – time that could and should have been used instead to help other entities bring their financial reporting up-to-date, or performing management control systems audits. It is also tedious for audit staff having to deal for extended periods with poor quality records; to repeatedly request missing documentation and information; and to perform the extra work that the number of errors found necessitates. The last three audits of the Consolidated Fund have, each year, consumed almost twice as much audit time as the audits for 2002 and 2003.

I must stress that the above-mentioned problems in no way reflect a difficult or adversarial relationship between my Office and the Accountant-General's Department. My staff and I continue to enjoy an open and healthy working relationship with the Accountant-General and her staff.

3.2.3 Controls over bank accounts

During 2007, controls exercised over most of the Government's (more than 50) bank accounts continued to be seriously deficient. In my view, as presently exercised, the controls provide little assurance that fraud could not occur and not remain undetected for extended periods.

Background

Recommendations for improved control were accepted...

Over the years I have reported on numerous deficiencies in control over the bank accounts administered by the Accountant-General's Department. Following an independent review of banking controls in May 2004, the Accountant-General accepted almost 40 recommendations for control improvements. A particularly important recommendation was that monthly reconciliations of all bank accounts be performed and independently approved within 30 days of month-ends.

...but action to implement them was slow

In a special report to the House of Assembly dated May 2005, and in my 2005 and 2006 annual reports, I reported that most of the recommendations had not been implemented. In particular, I stressed the continued risk of fraud if bank accounts are not reconciled promptly, and reconciling items are not investigated and corrected.

Each year the Accountant-General's Department has assured me

that action is underway to improve controls and that monthly bank reconciliations are, or will soon be, performed promptly (i.e. within the 30 days prescribed by the Accountant-General's *Financial Instructions*).

This year's audit

Controls are still seriously deficient

The 2007 audit revealed that the administration of, and controls over, bank accounts has not appreciably improved. Only 15 bank reconciliations were available by the agreed audit deadline. These were for small, relatively inactive bank accounts and most were returned to Department staff because they lacked supporting documentation and/or had unreconciled differences. Many March 2007 bank reconciliations eventually presented for audit contained large numbers of items and errors that needed adjusting. None of the March 2007 reconciliations of the Department's largest bank accounts were completed and reviewed by the agreed audit target date. Monthly reconciliations of many bank accounts are being performed several months in arrears.

The following are just a few of the problems revealed by, and experienced during, the 2007 audit:

Reconciliations were late, incomplete and poorly supported

- Many of the March 2007 bank reconciliations were better prepared than their March 2006 counterparts, but the improvements were marginal. Most were presented for audit late, were incomplete, and/or lacked necessary supporting documentation. There were often extended delays in having deficiencies rectified and errors corrected so that audit work could resume. Some final reconciliations were not received until October 2007, six months after the year-end and more than four months after they should have been available for audit.

\$17 million of errors were corrected

- Several March 2007 bank reconciliations contained very large numbers of adjusting items (in addition to outstanding cheques and deposits). Many of these items, if identified promptly and accounted for properly, would not have appeared in the reconciliations. When brought to the attention of the Accountant-General's staff, journal entries totalling almost \$17 million were needed to correct the reconciliations. A number of these adjustments were for deposits and cheques that had cleared the bank, but which Department staff had not identified as having done so.

*Late reconciliations
negated control*

- There is evidence that during the year, monthly reconciliations, particularly for the larger bank accounts, were prepared many months in arrears, thereby effectively negating the major effect of the controls inherent in the procedure. Some of the March 2007 bank reconciliations originally presented for audit contained numerous stale-dated cheques.
- For some bank accounts, little or no attempt is made to investigate many reconciling items identified during monthly reconciliations. Recording reconciling adjustments in this way without determining the nature of and reasons for the adjustments, reduces the reconciliation process to a mathematical exercise instead of the investigatory and control process it is meant to be.

Two of the larger bank accounts are used to deposit monies collected by revenue-generating departments. The departments themselves deposit the monies to the bank, and submit documents (usually 5A forms) to the Accountant-General's Department which records the revenue in the Government's general ledger. When monthly bank reconciliations are eventually attempted, many deposits recorded in the general ledger cannot be matched to the bank statements, and conversely, many deposits on the bank statements cannot be matched to the general ledger. These amounts are significant.

*Reconciling items
are not investigated*

During 2007, deposits recorded in the general ledger but not matched to the bank statements totalled almost \$133 million, and deposits on the bank statements not matched to the general ledger totalled more than \$134 million. If the similarity of these deposit figures suggests that they net out to only \$1 million, \$1million is a lot of cash to have unaccounted for. The Department assumes that over time the amounts will cancel themselves out and their work in the future will prove this.

A more serious matter is the \$5.5 million of unexplained withdrawals per bank statements that were not recorded in the general ledger.

*45 bank accounts
were not fully
reconciled*

- Although the Department eventually prepared reconciliations for all bank accounts as at March 31, 2007, 45 (75%) of them did not fully reconcile. That is to say, after adjusting for outstanding payments and deposits and other identified reconciling items, the balance still did not agree to the general ledger balance. These unexplained differences varied from

\$600 to more than \$3.8 million, and net to an unexplained shortfall of \$4.3 million, i.e. the banks held \$4.3 million less than the accounting records show that they should.

The Accountant-General's Department assumes that if the uninvestigated deposits described above and the unexplained differences on the March reconciliations are accumulated, over time the unexplained differences will cancel out.

Errors and misappropriations could remain undetected

In my view, this is a dangerous assumption. Staff will inevitably recognize this process as an opportunity to perpetrate fraud. And in the unlikely event that over time, these unexplained transactions do cancel out, failure to investigate them could still conceal misappropriations of public money, misallocations of revenues, and/or failure to extinguish accounts receivable.

Audit delays

Delays in obtaining information, the volume of errors found, and adjustments needed to correct year-end bank figures, contributed significantly to the late completion of the 2007 audit.

Accountant-General's response

Progress towards bringing reconciliations up-to-date has been made but was hampered by systems changes and the late provision of electronic data by a local bank. As well, our own computer-based reconciliation systems malfunctioned and are currently being worked on by consultants. All this increased, and in some cases duplicated, the work of staff in this area since much of it had to be performed manually. Our goal continues to be to complete all monthly reconciliations within 30 days of month ends.

Appendix 2 to this report contains a recommendation that arose from previous audits that addresses many of the above concerns.

3.2.4 Expenditures and accounts payable

There is still scope for improving expenditure records and controls

Control over expenditures in some Departments has been a problem for years, and some accounting records and supporting documentation has been inaccurate or incomplete. The audit revealed that some of these problems persisted throughout 2007. For example:

- some Departments again overspent the monies provided for them for the year by the House of Assembly. Breaching legislated expenditure limits (appropriations) in this way

means that the overpayments are unconstitutional (see section 3.2.6 below),

- some Departments miscoded expenditures, thereby causing incorrect reporting and budget comparisons,
- the Accountant-General's Department was not using a computer system control designed to detect and prevent apparent duplicate payments, *The Accountant-General's Department responded that an October 2007 system change has eliminated this control deficiency.*
- the record of approved Government credit card users is not updated promptly when employees terminate, *The Accountant-General's Department responded that Departments are supposed to require leaving employees to return their credit cards at their exit interviews.*
- considerable difficulty was experienced in establishing the amounts owing at year-end for portability subsidy claims for medical treatment abroad, mainly because of processing backlogs and incomplete records at the Department of Social Insurance. This situation is causing problems for many other organizations, particularly the Bermuda Hospitals Board, *The Department of Social Insurance responded that the back-log of insurance claims will be eliminated by early 2008 which should eradicate this concern.*
- no adequate information could be located to explain a balance of \$1.8 million still remaining in an account used years ago to record trade payables, *The Accountant-General's Department responded that the balance should be reallocated and offset against the departmental sub-accounts. A consultant programmer was employed in April 2007. This reallocation is one of the items that he will address.*
- immigration deposits totalling \$714,000 at March 2007 include many dating from pre-1988 that will probably never be reclaimed. The Accountant-General has not exercised the powers provided by section 130 of the Bermuda Immigration and Protection Act to write these off. *The Immigration Department is "auditing" this list, which will take time, so that the powers under section 130 can be exercised.*

I acknowledge that except for the last three concerns above, the process for generating accounts payable at March 31, 2007 was better than at previous year-ends.

A control weakness creates potential for fraud

A serious internal control weakness in the Accountant-General's central payment processing system, identified during the 2004 audit, had not been addressed by year-end, March 31, 2007. The Department's payment processing staff could, were they so

inclined, fraudulently change a payee's name and address on the system after the supporting documentation is processed, so that the cheque is sent to them. I raised this concern following the 2004 and 2005 audits and was assured that the weakness would be addressed. *The Accountant-General's Department responded that a system change in September 2007 now requires payee name changes to be approved prior to cheques being released. As well, any change to payee information now necessitates final approval by one of only two senior officials.*

Audit delays

Audit work on expenditures and accounts payable was sometimes delayed because, despite reminders, information or documentation requested by auditors was not provided promptly.

3.2.5 Payroll expenditures

*Salary cheques
were issued to ex-
employees*

The Government's computerized payroll system automatically issues monthly pre-calculated payments for salaried employees until their salaries are altered or their status on the system is changed to "inactive". Because of delays in changing employees' status, a number of salary cheques were processed during the year for terminated employees. Most of these were detected and voided before they were sent to the former employees, but two instances were noted where the payments (totalling \$12,700) were sent out. As of the date of this report, this amount had not been recovered.

A few Departments are still allowing staff to accumulate vacation entitlements in excess of the 20 day limit imposed by Government policy, without obtaining the necessary approval by the Head of the Civil Service. This is a control concern because experience shows that employees who perpetrate frauds often do not take vacations lest their dishonesty be discovered by the person who assumes their duties. Imposing and enforcing strict limits on vacation carry forwards encourages employees to take their vacation time.

In response to this concern following previous audits, the Accountant-General's Department threatened that untaken vacation entitlement in excess of the 20 day limit would be forfeited. The threat seems to have worked because as far as I am aware, no forfeitures were imposed.

Audit delays

Payroll was another area where delays in receiving requested information contributed to delays in completing the 2007 audit.

The Accountant-General's Department responded that a newly acquired computer system will reduce the likelihood of incorrect payments to former employees, and that the Head of the Civil Service is monitoring compliance with the 20 day policy.

3.2.6 Unapproved expenditures

Legislated expenditure limits are being exceeded

Some Departments and Legislative Offices again exceeded the limits imposed on their annual expenditures by the House of Assembly.

Each year the House passes an Appropriation Act that provides funding for each Government Ministry and Department. Overspending these appropriations is prohibited by the Bermuda Constitution Order unless a "supplementary estimate" is approved by the House prior to any additional spending being incurred. Overspending an appropriation, therefore, without first obtaining a supplementary estimate (even though the Constitution provides for post-spending remedy), is not a mere budget variance; it is unconstitutional.

Several Departments incurred unapproved expenditures during fiscal 2007

For 2007, fourteen (thirteen in 2006) Departments collectively overspent by almost \$13 million (2006 - \$10.7 million) the appropriations provided for them by the House, without first obtaining the necessary supplementary estimates or viring budgets (see below).

At March 31, 2007, the following had overspent their appropriations by the amounts shown. These amounts are over and above the amounts covered by approved supplementary estimates and virements made in anticipation of overspending their original appropriations:

2	Department of Social Insurance	\$3,909,995
2	Accountant-General's Department	3,291,288
	Ministry of Health (subsidies for youth, aged and indigent)	1,270,591
	Department of Tourism	1,014,676
1.2	Department of Child and Family Services	1,010,274
1.2	Department of Marine and Ports	759,138
1	Department of Financial Assistance	691,547

3. AUDIT OBSERVATIONS & RECOMMENDATIONS

2	Department of Airport Operations	374,757
	Public Transportation Board	258,398
	Department of Defence	182,034
2	Department of Telecommunications	144,893
	Ministry of Environment Headquarters	37,795
	Department of Archives	16,035
	Overspendings of less than \$1,000	452
		<hr/>
	Total unapproved operating expenditures	<u>\$12,961,873</u>

1 *These Departments also incurred unapproved expenditures for 2006.*

2 *These Departments also incurred unapproved expenditures for 2005.*

In addition to the above, there was a further unapproved expenditure of \$49.5 million for the Ministry of Public Safety and Housing. This represents the forgiveness of monies advanced in past years to the Bermuda Housing Corporation. This amount was not anticipated or approved in the 2007 Appropriation Act, and no supplementary estimate was obtained.

There is a process by which some Departments can avoid overspendings without obtaining supplementary estimates. Legislation allows, in most cases, unused budget allocations to be vired (transferred) from one Department to another within the same Ministry with the written approval of the Minister concerned and the Minister of Finance. The fact that some Departments do not bother to do this supports my view that they are unworried about breaching legislated expenditure controls.

Capital expenditure appropriations

Legislated capital expenditure limits also continue to be breached

Several Departments also overspent expenditure limits imposed by the House in capital expenditure appropriations. These overspendings totalled more than \$1.7 million in 2007 (2006 - \$10.7). These are unauthorized expenditures similar to those listed above.

The Ministry of Finance needs to intensify its efforts to re-confront these problems

After similar concerns reported following the 2002 audit, the Ministry of Finance impressed on Departments the seriousness of over-spending appropriations. This included requiring Departments to submit formal explanations for their overspendings, and threatening sanctions against those that exceeded their spending limits for two consecutive years. For a while, matters improved. It appears, however, that the Ministry needs to reinforce its message to offending Departments and perhaps carry through on its threat of sanctions.

Ministry of Finance response

While agreeing that Departments should be discouraged from overspending their appropriations, the Ministry of Finance responded that it *disagrees that in all circumstances Supplementary Estimates should be made in advance of incurring additional expenditures*. This disagreement is based on the Ministry's interpretation of section 96 of the Constitution which states that supplementary estimates shall be obtained *showing the sum required or spent* (my emphasis).

In my opinion, the words "or spent" are intended to provide a remedy to deal with a Constitutionally prohibited act, similar to that provided in many statutes, e.g., traffic offences. The provision of a remedy does not make the originally prohibited action permissible, e.g., provision of fines for going through stop signs does not make going through a stop sign permissible – or legal.

This matter was reviewed by the Attorney-General's Chambers in 1998 which concluded that only in very unusual and specific circumstances (which do not apply to most overspendings) could supplementary estimates be obtained after the spending of the funds. Furthermore, in a report tabled in the House in December 2006, the Parliamentary Standing Committee on the Public Accounts expressed concern about these overspendings and stated *failure to rectify this process renders ineffective the entire budgeting process, and compromises the House of Assembly's ability for proper oversight and approval*.

*Supplementary
Appropriation Bills
are six years in
arrears*

Section 96(4) of the Bermuda Constitution Order requires a Supplementary Appropriation Bill to be introduced in the House as soon as practical after year-ends to cover that year's supplementary estimates. No such Appropriation Bills appear to have been introduced for fiscal 2002 and succeeding years. *The Ministry of Finance responded that the intent is that this will be addressed before the 2008 summer break*.

Audit delays

Unapproved expenditures was another area where the late (almost two months) provision of information delayed audit work and thereby contributed to delays in completing the 2007 audit.

3.2.7 Environmental liability

In 2003, an environmental liability of \$26 million was booked by the Consolidated Fund. It was a “best estimate” of the cost to restore the land formally occupied by the US, UK and Canadian militaries. More detail of the make-up of this amount is contained in Note 11 to the Consolidated Fund’s financial statements.

As of the date of this report, the above estimate is almost five years old. I am aware that, in response to a suggestion in my last annual report, there are plans to reassess the appropriateness of this liability, taking into account current information about the condition of the land, cost-inflation and contemporary land remediation technologies.

The Accountant-General’s Department responded that the Ministry of Works and Engineering is leading a project to reassess the extent of this liability.

3.2.8 Contingent liabilities

The schedule of contingent liabilities at March 2007 originally presented for audit was materially incomplete. Considerable analysis and other work by my auditors increased the final figure by \$4.2 million. Much of this work should have been performed by the Accountant-General’s Department, not only because it is their responsibility but, because of their responsibilities, they are in the best position to be aware of contingencies. The additional work, complicated by the increased risk, contributed to delays in completing the audit. *The Accountant-General’s Department agreed in future to revise the process to include continuity schedules for the Office of the Auditor General.* However, this reply misses the point that it was the continuity schedules that enabled my auditors to catch the \$4.2 million error. If the Accountant-General’s Department revised the process to include continuity schedules for its own purpose, it would catch these errors itself. Then the Accountant-General’s continuity schedules can be made available for audit purposes.

Audit delays

3.2.9 Revenues and accounts receivable

The 2007 audit of revenues and accounts receivable focused primarily on those Departments that collect the majority of the

Consolidated Fund's \$884 million revenues. The following were among the concerns noted:

Office of the Tax Commissioner

The Office of the Tax Commissioner collects a major portion of the Consolidated Fund's annual revenues. These include payroll tax (\$297 million), land tax (\$43 million) and hotel occupancy tax (\$12 million).

Collection of some payroll and land taxes are seriously in arrears

In section 2.5 of this report, I express concern about the amount of payroll and land taxes owing and past-due. Payroll taxes are payable by employers within 15 days of the end of each quarter, and land taxes are payable in April and September. Almost \$35 million of these taxes were more than 90 days past-due at June 2007, an increase of \$7 million over the previous year. Section 2.5 explains some of the reasons for this increase.

An outdated and inefficient computer system has been a problem for years

The Tax Commissioner's tax collection efforts are, to some extent, constrained by seriously outdated and inefficient computer systems. Among the systems' many problems are that they cannot match taxes collected with individual assessments or penalties, and cannot calculate all the penalties provided for by the Taxes Management Act. If taxpayers fail to submit a return and an automatic assessment is generated, the systems only levy penalties to the date of the automatic assessment, not for subsequent periods.

The systems also cannot provide the taxes receivable information needed by the Accountant-General's Department at year-ends until a month after it is needed. Further, the system that generates the value of unfiled tax returns is unreliable, costly to run, and requires major clerical intervention.

The Public Accounts Committee endorses the need for a better computer system

The Tax Commissioner has for years, with my support, requested upgrades to these computer systems. The Parliamentary Standing Committee on the Public Accounts also recommended that a new system is brought online by March 2007. Despite this, the 2007 November-retired-Tax-Commissioner-December-rehired-consultant informed me in December 2007 that *the re-engineering of our systems* (i.e. work on a new system) *is at a standstill...and...we have been stripped of all funding for capital projects*. Despite Ministry of Finance interpretations to the contrary, the retired-Tax-Commissioner-rehired-consultant is adamant that, in February 2008, after an appeal by her directly to the Minister of Energy, Telecommunication and E-Government,

\$100,000 was added to the Commissioner's \$50,000 fiscal 2008 IT budget to cover already-spent costs of maintaining the legacy (old) systems, but there was no budget available for work on the new systems. This \$150,000 compares with \$367,000 and \$350,000 approved for the Commissioner's IT budgets for 2007 and 2009 fiscal years respectively. These figures appear to substantiate the Commissioner's statement that "the re-engineering of our systems (i.e., implementation of a new system) is at a standstill" during the 2008 fiscal year.

Appendix 2 to this report contains recommendations that address the above and related concerns.

H. M. Customs

Most customs duties (\$230 million in 2007) are collected and processed at the Department's Hamilton and Airport offices. At both locations, there were still weaknesses in the controls for ensuring that all duty levied and collected is accounted for and deposited.

Controls are needed to ensure that all customs duties collected are accounted for and banked

At the both the Airport and Hamilton offices, receipts were not issued for all monies received with Customs Declaration forms. If (pre-numbered) receipts were issued for all monies received, each day the value of receipts issued could be agreed to the monies recorded and deposited to the bank. Without a control of this nature, monies received could be misappropriated with little chance of detection.

In one example in 2006, approximately \$1,300 of cash that should have accompanied a Customs Declaration went missing. Despite a Police investigation, the perpetrator was never identified. Since then, cash handling controls have been strengthened but there is still no assurance that all monies received are accounted for and deposited to the bank each day. As such, there is still scope for misappropriations to occur with little chance of detection. *The Department responded that receipts are now issued for cash received at the Airport office and there are plans to issue them for cheques. There are also plans to institute a log to which daily receipt totals can be reconciled.*

Controls can be circumvented

There are other control procedures designed to help ensure that custom duties are appropriately levied and collected. For example, staff are required to record monies received on a spreadsheet. Also, after custom duties are paid and the goods

released, the Customs Declaration forms are processed through a computer system that checks the correctness of the duty levied, and generates daily reports that are agreed to the bank deposit slips. These controls are useful but are capable of being circumvented.

For example, there is no way of ensuring that all transactions are recorded on the spreadsheet, and daily spreadsheet totals are not agreed or reconciled to the reports generated by the system that processes the Customs Declaration forms. As well, staff can manually override the customs duty calculated by the system, and therefore manipulate the totals on the reports it generates. *The Department responded that reconciliations of this nature would be difficult because of the volume, and because often cheques are received covering multiple Customs Declarations. The computer system is old and cannot be changed to prevent overrides, but the proposed new CAPS system will remove this problem.*

The Accountant-General's Department does not investigate differences

Furthermore, no one checks that the totals on these reports agree to the Summary (5A) forms that are sent to the Accountant-General's Department as support for the amounts banked. This concern is important because the bank account is one of those mentioned in section 3.2.3 above for which the Accountant-General's Department performs monthly reconciliations many months in arrears and makes little or no effort to investigate the many and material non-reconciling items identified. At March 2007, this bank account did not reconcile to the Accountant-General's Department's general ledger by a short-fall of \$3.8 million, i.e. the bank held \$3.8 million less than the accounting records show that it should. It is obvious that 5A forms that are submitted to the Accountant-General for recording purposes (not only by Customs but across the Civil Service) do not agree to the deposits that they purport to support. As noted earlier in this report, unmatched accounting records with bank deposits are in the region of \$135 million. It would appear that a lack of understanding of a most basic and simple control, i.e., the accounting document used to record the bank deposit should equal the bank deposit, is epidemic throughout the Civil Service. *HM Customs responded that checking and reconciling summary forms began in January 2008.*

You can't go on waiting for CAPs to solve all the problems

Appendix 2 to this report contains a recommendation that HM Customs take steps to eliminate the control weaknesses in its procedures for handling and recording customs duty receipts. In response to this recommendation, and two others made in 1998 (see Appendix 2), HM Customs has stated each year that the new

Customs Automated Processing system (CAPS) will be implemented soon and will cure all the problems. CAPS was originally to be implemented in 2001, but the latest projected date for full implementation now is December 2008. If further delays appear likely, consideration should be given to further strengthening existing controls in the interim.

For the record, I should like to emphasize for the House's interest an ironic twist to the chronic problems with revenues, receipts and deposits. The two largest revenue producing departments are reporting little or no progress in upgrading antiquated computer systems. Efforts to replace the Tax Commissioner's inadequate and unresponsive old systems were brought to a standstill in the 2008 fiscal year and the instalment of the Collector of Customs' new CAPS system, which was first promised for 2001 and is slated to be the cure for many of the reported control problems, is still being installed seven years later with a now targeted full implementation date of December, 2008. The big problem with all this is that, while some of my observations might suggest incompetence within the accounting environments of Government, it should be recognized that many civil servants, including those in the Accountant-General's Department, are laboring under a crushing burden of inappropriate, ineffective IT and manual accounting systems. Delays, postponements, withholds, standstills, evasions and repudiations can no longer be what describes the civil service answer to the needed improvements to Government accounting and operations systems.

Transport Control Department

The Transport Control Department collected vehicle license and registration fees totalling more than \$27 million during 2007.

Weakness in controls over license receipts - The Department's cashiers were able to use a "no charge" code when recording certain licensing transactions. Although "no charge" transactions were identified on daily revenue reports, they were not reviewed and approved by a senior officer to ensure that they are appropriate. This could result in licenses or other services being inappropriately provided free of charge, or conceal monies received being fraudulently misappropriated. This serious control weakness was allowed to persist despite it being used to perpetrate a fraud that was discovered in October 2005. *The Department responded that a new computer-based system implemented in July 2007 allows a "no charge" code to be used*

A financial control weakness that allowed a fraud to occur in 2005 has still not been fixed

when a licence is reprinted, and that daily “no charge” reports are now reviewed by a senior official.

Revenues were under-reported

Weakness in accounting for license receipts - Since January 2006, customers have been able to renew and pay for licences online. The Department generates daily reports of online receipts but when submitting its daily revenue 5A forms to the Accountant-General’s Department, they included only the receipts it collected itself, not the online receipts.

The Accountant-General’s Department does not investigate differences

One might suppose that the Accountant-General’s Department, which administers the bank account, would notice that bank deposits were considerably in excess of the amounts being reported by the Department. But this bank account is one of those mentioned in section 3.2.3 above for which the Accountant-General’s Department performs monthly reconciliations many months in arrears and makes little or no effort to investigate the many and material reconciling items identified. By the time this practice was discovered in 2007, unrecorded revenue had accumulated to \$177,000 for 2005-06 and \$1.1 million for 2006-07.

The Transport Control Department responded that it now includes its online receipts on its 5A forms. Unfortunately the Accountant-General’s Department has not begun matching bank deposits promptly or reconciling the bank account monthly, so there is still a problem.

License fees charged are less than required by legislation

Legislative non-compliance - The Department charges slightly less for licenses than is required by the Government Fees Amendment Regulation. This is done intentionally so that the amount charged is divisible by twelve, thereby enabling the Department’s system to conveniently calculate license revenues on a monthly basis. In the context of the Government’s overall revenues, the total amount foregone is not material, probably no more than \$10,000 per year. A more important concern is that the Department does not have the discretion to charge either more or less than that authorized by legislation. *The Department responded that since June 2007, some charges are now in accordance with the legislation, and others will be when changes are made to the Regulation.*

Registrar of Companies

The Registrar of Companies collected fees totalling more than \$52 million during 2007.

The Registrar needs to verify that the company fees collected are correctly calculated

Legislation requires exempt companies based in Bermuda to pay annual fees based on their assessable capital (i.e. the value of certain net assets). Local companies' fees are based on their issued share capital. The legislation, however, does not empower the Registrar to require companies to provide reliable evidence (e.g. audited financial statements, an auditor's certificate) to determine whether the fees they pay are based on the correct figures.

In 2007, the Registrar asked a number of companies to provide suitable evidence, but very few did, apparently because there is no legal requirement to do so. I suggested that the Registrar, through the Minister of Finance, seek a legislative amendment to require companies based in Bermuda to provide credible documentary evidence of the basis for calculating annual fees. *The Registrar agreed to raise this suggestion with the Minister of Finance.*

Bermuda Post Office

Terminal dues owing by other countries need to be pursued more vigorously

The Post Office's accounts receivable at March 2007 were almost \$4.5 million, an increase of 26% over the March 2006 amount. Much of this increase relates to "terminal dues" owed by other countries. The Post Office needs to pursue collection of these accounts more vigorously. *The Post Office responded that it is now actively following-up these receivables and has forwarded necessary documentation in support of its claims.*

Department of Education – student loans

Accounting for student loans is still deficient

As in past years, the audit identified student loans receivable on the books for people who are deceased. Each year the Department of Education agrees to write off uncollectible loans and establish an allowance for doubtful loans, but each year it does not do so. *The Department agreed to write off this amount.*

Appendix 2 to this report contains a recommendation that the Department of Education establish procedures to identify problem student loans, to ensure that uncollectible loans are written off promptly, and to set up appropriate allowances for doubtful accounts at year ends.

3.2.10 Capital assets

Years ago the Consolidated Fund, like many governments,

Accounting standards and practices have changed

accounted for capital asset costs by writing them off (expensing them) in the year they were incurred. In recent years, however, to conform to contemporary government reporting standards, the Accountant-General's Department has begun capitalizing and amortizing capital asset costs. Identifying and summarizing historical capital asset costs to record them in the financial statements has been a long and difficult project, and I acknowledge the considerable efforts of the Accountant-General's Department and the Ministry of Works and Engineering in this regard.

Most capital asset costs are now recorded on the Consolidated Fund's balance sheet. I encourage the Accountant-General's Department to continue efforts to identify and record all appropriate capital asset categories.

The accounting method used is somewhat unusual and inefficient

Most organizations that capitalize and amortize their capital asset costs, code and record them as and when they are incurred. In Bermuda, however, Departments continue to record capital asset expenditures as if they are to be written off (the way they were years ago – see above paragraphs). Then at year-ends, Departments report to the Accountant-General's Department the capital asset costs they have expensed so that those costs can be set up on the Consolidated Fund's balance sheet and amortized.

Errors of \$8 million were found, and there were more

The 2007 audit revealed problems with the way annual capital asset costs were identified and accounted for at the year-end. Audit testing found almost \$8 million of new classes of capital asset costs had not been identified and capitalized. When brought to the attention of the Accountant-General's Department, further investigation revealed additional errors of this nature.

These errors occurred partly because Controllers in some Departments did not fully understand the Government's asset capitalization policy, and partly because the Accountant-General's Department accepted the figures provided by Departments without sufficient scrutiny or analysis.

Audit delays

The additional investigative work performed by the Accountant-General's Department, and the subsequent audit work this necessitated, increased the total audit time and contributed to delays in completing the 2007 audit.

If capital asset costs (\$193 million in 2007) had been identified and capitalized at the time they were incurred, the errors referred to above may have been detected and corrected earlier. It would

also have reduced the year-end workload of the Accountant-General's Department. Consideration should be given therefore to budgeting capital asset costs and recording them as such as they are incurred.

The Accountant-General's Department responded that of the amounts capitalized in 2007, \$123 million was for the Berkeley School. Also, four new asset classes were capitalized for the first time. Capital expenditures must first be expensed because they are budgeted that way.

3.2.11 Public Service Superannuation Fund

The Ministry of Finance does not budget and account for annual deficits of the Public Service Superannuation Fund (PSSF) in the manner required by the Public Treasury (Administration and Payments) Act 1969 (the Act).

Prior legislative approval is needed for Government contributions to PSSF

The Act requires all payments from the Consolidated Fund to be authorized before they are made, either by a statute (usually an annual Appropriation Act) or a pre-authorized supplementary estimate. Section 10 of the Act specifically states that *the Minister (of Finance) shall pay into the (PSSF) any amounts which may be authorized by the Legislature* (my emphasis) *from time to time as Government's contribution to (PSSF)*. All of this means that prior approval of the House of Assembly is needed before the Consolidated Fund can make contributions to the PSSF.

PSSF expenditures for pension benefits and receipts for premium contributions are transacted through the Consolidated Fund bank account. They are then channelled through inter-fund accounts to PSSF. This arrangement is sanctioned by Section 23 of the Act which authorizes temporary inter-fund advances.

\$88 million was contributed without prior legislative approval

For years, PSSF's pension benefits paid have exceeded its income from premium contributions, usually by about \$11 million a year. This causes the inter-fund accounts to accumulate large balances, representing amounts owed by PSSF to the Consolidated Fund as a result of Consolidated Fund expenditures exceeding Consolidated Fund receipts on behalf of PSSF. To prevent these balances becoming excessive, the Ministry established the practice of periodically forgiving them, i.e. the Consolidated Fund writes them off. In March 2001 it wrote off \$36 million and in March 2005 it wrote off a further \$52 million.

In effect these were contributions by the Consolidated Fund to PSSF, i.e. they were actual net cash expenditures from the Consolidated Fund. The problem is they were not pre-approved by the Legislature as required by Section 10 of the Act (see above).

At the date of this report, supplementary estimates have still not been obtained for either the \$36 million or the \$52 million.

Further contributions will likely be needed

I am aware that the pension plan's premiums were increased for 2007 and 2008, and will increase again for 2009. These increases are designed to bring the premiums more into line with the level of benefits offered. As a side benefit, they will also help to reduce or eliminate PSSF's annual contributions/benefits deficits. Until that time, however, the indebtedness will continue to accumulate. At March 2007, PSSF's indebtedness to the Consolidated Fund had accumulated to \$22 million, which is \$11 million per year despite the premium increases. For the second time since 2005, the PSSF's indebtedness was not forgiven. The PSSF instead reduced its indebtedness to the Consolidated Fund in June 2007 by \$21 million with money obtained by disposing of investments. I assume these two cash payments do not represent a change in policy, at least for the time being. Rather they are a response to the needs of the Consolidated Fund for a cash infusion at the time.

They should be pre-approved

Since the Ministry's usual practice is to periodically write off PSSF's indebtedness, PSSF's annual cash deficits are not, in my view, temporary advances as contemplated by Section 24 of the Act. They are annual Government contributions and the money has already been paid out of the Consolidated Fund. To comply with the Act, therefore, they should be approved each year in the annual Appropriation Act or, at least, be covered by a pre-authorized supplementary estimate.

Since the Ministry of Finance's response in January 2007 ignored the main thrust of my previous recommendation on this subject, the following recommendation is more specific:

Recommendation No. 2

If inter-fund indebtedness of the Public Service Superannuation Fund to the Consolidated Fund is to be forgiven, to comply with legislative requirements the Ministry of Finance should include the Fund's anticipated annual cash flow deficits each year in annual appropriations bills (or obtain supplementary estimates) because such a forgiveness represents a Government contribution under Section 10A(2)

of the Public Treasury (Administration and Payments) Act 1969.

Ministry of Finance response

The Ministry considers the cash deficits are temporary advances which can potentially be settled with assets from the PSSF. Accordingly, the Ministry sees no reason to budget for these temporary cash deficits.

Auditor General's comments

The Constitutional and legislative provisions that require all expenditures out of the Consolidated Fund to be approved by the House of Assembly do not provide an exception for "temporary advances which can potentially be settled." I do not know why this concept is now promulgated, when it was first thought up, or where it came from.

Failure to budget for these anticipated cash deficits results in a window-dressed budget approval process in the House of Assembly, with a subsequent, and obviously less onerous and accountable, process showing the cash deficits as unapproved expenditures in a schedule to the financial statements (see the Consolidated Fund 2005 financial statements, schedule 16, in my 2005 Annual Report, page 162) where the \$49,871,388 explicable to the cash deficit write off (see page 28 of my 2005 Annual Report) is included in the \$95,036,906 in retirement benefit expenditures, contributing to an over budget expenditure of \$52,219,640. I may have missed it, but was there any discussion in the Legislature concerning this over-expenditure? My recommendation that the anticipated write-off should be included in the budget process is because I believe it is an expenditure in accordance with the Constitution and legislation and because I believe it will enhance the accountability inherent in the budget approval process.

3.3 AUDITS OF GOVERNMENT-CONTROLLED ORGANIZATIONS

I audit Government-controlled Organizations pursuant to section 6 of the Audit Act 1990, and the statutes under which the organizations operate. Organizations are deemed Government-controlled if Government has, by which ever means, the power to require their affairs to be conducted in accordance with the Government's wishes.

The thirteen Government-controlled Organizations operating at March 31, 2007 were:

- Bermuda Arts Council,
- Bermuda College,
- Bermuda Hospitals Board,
- Bermuda Health Council,
- Bermuda Housing Corporation,
- Bermuda Housing Trust,
- Bermuda Land Development Company Limited,
- Bermuda Small Business Development Corporation,
- Board of Trustees of the Golf Courses,
- CedarBridge Academy,
- Pension Commission,
- Trustees of the National Sports Centre, and
- West End Development Corporation.

At the date of this report (January 2008), the following organizations had not issued audited financial statements for the fiscal years indicated:

- Bermuda Arts Council (2006 and 2007),
- Bermuda College (2004, 2005, 2006 and 2007),
- Bermuda Health Council (2007),
- Bermuda Small Business Development Corporation (2007),
- Board of Trustees of the Golf Courses (2005, 2006 and 2007),
and
- *National Drug Commission (2005 and 2006).

* The National Drug Commission was dissolved in February 2006 and its operations transferred to the Ministry of Culture and Social Rehabilitation. Audits of the Commission for 2003 and 2004 were completed this year (see section 3.3.11).

Why the above organizations have not issued audited financial statements is explained in the related subsections below. The following are matters that arose from audits of Government-controlled organizations completed since my last annual report

(January 2007) that I believe warrant the attention of the House of Assembly:

3.3.1 Bermuda Arts Council

Financial reporting is two years in arrears

The last audited financial statements issued for the Bermuda Arts Council were for the year ended March 2005, and they were issued in January 2007.

Status of audits in arrears

At the date of this report, the 2006 audit was substantially complete but year-end pressures in my Office precluded its finalization and inclusion in this report.

3.3.2 Bermuda College

Financial reporting is four years in arrears

Annual financial reporting by Bermuda College, Bermuda's flagship educational institution, is still seriously in arrears. The last audited financial statements issued were for 2003, and those were issued in January 2006.

The 2003 and 2004 audits were delayed by uncertainties about the financial impacts of an agreement under which the College leased the former Stonington Beach Hotel property to a private company in May 2003. I described these uncertainties in a special report to the House of Assembly dated April 2004. The 2004 audit began in early 2006 but staff turnover at the College and poor accounting records caused delays. The audit was discontinued and resumed several times because needed information and documentation were not available.

Status of audits in arrears

At the date of this report, the 2004 audit was substantially complete but year-end pressures in my Office precluded its finalization and inclusion in this report.

3.3.3 Bermuda Health Council

The Bermuda Health Council is mandated to ensure the provision of essential health services for Bermudians by regulating health services and health service providers.

The Council commenced operations in January 2006 and intends

to prepare financial statements for the fifteen month period ended March 2007. As of the date of this report, despite several requests, the Council has not made its accounting records and draft financial statements available for audit.

3.3.4 Bermuda Hospitals Board

Qualified audit opinion

My auditor's report on the 2007 financial statements of the Bermuda Hospitals Board contains a qualified opinion because the Board receives donation revenue which, by its nature, cannot be audited satisfactorily. This qualification does not necessarily reflect adversely on the Board's financial records.

The following are among the matters reported to the Board of Directors at the conclusion of the 2007 audit. Most were reported following previous annual audits.

Legislative non-compliance

Late accountability reporting

The Board did not comply with the legislation that requires it to submit audited financial statements and a report on its operations to the Minister within six months of the year-end. The late provision of information on inventories and capital assets, and the draft financial statements, delayed completion of the 2007 audit.

Patient billings and accounts receivable

Controls are needed to ensure that all outpatient treatments are billed

Patient medical record statistics (which are the basis for billing patients) are still not being reconciled to outpatient billings. This means that Management has little assurance that outpatients are billed for all the medical treatments they receive. Even independent checking each month of a sample of treatments provided to see that they were billed and billed correctly, would provide useful assurance in this regard. *The Board responded that it now has staff in place to perform this work.*

The collection of patient billings is an ongoing problem

The timely collection of patient billings also continues to be a problem, as evidenced by:

- the year-end allowance for doubtful accounts at March 2007 increasing to 57% of outstanding billings receivable (2006 – 40%: 2005 – 43%: 2004 – 45%),
- 63% of patient billings receivable at March 2007 (same at March 2006) being more than 120 days in arrears, and
- \$1,270,000 (\$972,000 in 2006) of patient billings receivable being written off as uncollectible during 2007. Included in

this amount was almost \$207,000 (\$193,000 in 2006) that was reclassified as ‘Business Social Costs’ for medical services provided to patients who were unable to pay.

It is acknowledged that during 2007, \$683,000 (\$711,000 in 2006) of patient billings previously written off were recovered. *Management agreed to continue to set targets to reduce past-due accounts receivable.*

Employee time recording

Heads of departments use a computer system to record time worked each day by their hourly-paid employees. The information on the system becomes the basis for calculating the employees’ remuneration. However, once hours are input for an employee, the system itself continues automatically to record the same number of hours for each day thereafter, unless the department head “instructs” it not to do so.

There is a risk that employees will be overpaid

The way the system operates creates a risk that employees will be overpaid if busy department heads fail to input corrections when employees’ hours vary. This risk increases when, as often happens, department heads do not process and submit to the payroll department on time their *Time and Attendance Summary Reports*. The Board should consider acquiring a less-risky system. The Board *responded that a new “Time and Attendance System” will be installed during the next fiscal year. The new system will require less manual intervention.*

Employee files

Privacy issue arose

The Human Resource Department was unable to locate a number of employee files selected for audit testing. This raises important privacy issues. Employees have a right to expect the personal information in their files to be secure. *The Board agreed to develop policy, appoint a custodian and provide proper storage to ensure security over personnel files.*

Medical benefits for former employees

The Board provides subsidized health care benefits for former employees through a “Retiree Health Coverage Plan” administered by a private sector insurance company. The Plan requires the Board to pay premiums in full and recover 50% thereof from some retired employees. In practice, the Board is unable to recover the 50% of premiums from all retirees who should pay it.

An actuarial valuation was postponed because needed information was not made available

During 2007, the Board employed an actuary to assess the financial viability of the plan. The actuary discovered that the Human Resource Department's data for current and former employees, particularly for contract employees, was inaccurate. The actuary also reported that there was no reliable information concerning which retired employees had failed to reimburse 50% of their premiums, and therefore which and how many retired employees would likely do so in future. For these reasons, the actuary's study was postponed until the Board can provide more reliable information. *The Board responded that the information was available but some was not provided to the Actuary in error. The Actuary completed his report with the information provided.*

Capital assets

Control over capital assets continues to be weak

Control over the Board's capital equipment and moveable assets, which cost more than \$43 million, continues to be weak. The capital asset register is not a complete record of all capital assets and accumulated amortization, nor does it reconcile to the Board's general ledger. In its present state, the register is not an effective record for managing or physically controlling the Board's capital assets. As well, the Board's capital asset policies governing the acquisition and capitalization of assets are not strictly applied. *The Board responded that a new computer-based system has been implemented and data will be up-to-date and reconciled by March 2009.*

Computer resources

Improved policies and procedures are needed governing the management of computer resources

The following were among the concerns that arose during both the 2006 and 2007 audits relating to computer resources:

- There is no change management methodology in place to ensure that system changes are made under proper authority and are appropriately tested and documented.
- There is no policy governing the ongoing monitoring of systems' performance for detecting and resolving systems' inefficiencies.
- The process for changing user access privileges, and removing them when employees leave, is not timely and in other ways does not work well. For example, several ex-employees still had access rights to the general ledger system. The continued appropriateness of access rights should be reviewed periodically.
- Password protocols on some networks are inappropriate. Some were set to allow passwords to remain unchanged for

almost three years, some allowed blank passwords, some did not lock the system until more than fifty incorrect passwords were used, and some did not maintain a password history.

- Staff levels in the Board's Information Technology Unit are considerably below the benchmarks recommended for similar sized hospitals in the United States.
- There is no formally approved and implemented disaster recovery and business resumption plan to enable the Board to recover in the event of the loss of processing capacity, programs or data. *The Board responded that some of these concerns are being partially addressed, but for most lack of staff resources presently precludes addressing them fully.*

Appendix 2 to this report contains a recommendation that addresses the above and other accounting and control weaknesses revealed during the 2007 and many previous audits.

3.3.5 Bermuda Housing Corporation

The following were among matters reported to the Bermuda Housing Corporation at the conclusion of the 2007 audit:

Computer system and data risks

A vital computer system is old, unreliable and unable to meet all operational needs

The Corporation's custom-built central (general ledger) accounting system is almost twenty-five years old. Its deficiencies include limited data storage capacity, restricted reporting capabilities, and poor access control features. All data must be purged from the system each year, thereby preventing it generating longer-term management reports. Even most monthly reports must be prepared by downloading data onto other systems then adjusting post-closing entries manually. These processes are clerically inefficient and increase the likelihood of errors. As well, the system's poor security features limit the effectiveness of controls to prevent inappropriate access to data, and to ensure proper segregation of staff duties.

Inadequate system support is also a concern

Another major concern is that only one contractor has comprehensive knowledge and experience of the system. For the operation of such an important accounting system to be dependent on the continuing availability of one person is, in my view, an unacceptable business risk.

Appendix 2 to this report contains a recommendation, made following the 2005 audit that addresses these concerns.

Management responded that a new system is being planned and designed, together with staff training, with a view to parallel running beginning in April 2008 and going live in June 2008.

Information technology and disaster recovery practices

The Corporation's business is highly dependent on the smooth operation and continued availability of its computer systems and information. A major processing interruption, or loss for an extended period of critical computer resources, could seriously disrupt the Corporation's operations.

The information technology environment has changed

During 2007, the Corporation made a number of changes to its information technology practices to accommodate, among other things, new software and the authorization and monitoring of user access privileges. These changes to the information technology environment have not been formally documented and made available to staff.

Disaster recovery arrangements are not comprehensive

Similarly, the Corporation still does not have a complete and formally approved recovery and business resumption plan in the event that its computer equipment, programs or data are lost in a fire or similar disaster. I am aware that Management has in place some arrangements and procedures to address the risks associated with loss of data or processing capacity, but they are not comprehensive.

IT practices and a disaster recovery plan should be documented and communicated

Approved and formally documented information environment practices and policy can help senior Management identify control deficiencies. They can also provide staff with a better understanding of their responsibilities, and reduce the risk of operational inefficiencies and interruptions. The documented practices should also include the arrangements in place to deal with a major disaster and business resumption, so that all staff are aware of their roles and responsibilities. Critical elements of the disaster recovery arrangements should be tested periodically.

Appendix 2 to this report contains a recommendation made following the 2005 audit that addresses this concern.

Management responded that a business continuity and disaster recovery process has been drafted and will be tested prior to being presented for Board approval. All IT practices and policies will be documented and made available to staff.

Completeness of asset ownership records

The Corporation's largest asset is a varied portfolio of real property acquired over the years costing more than \$75 million. These are rental properties purchased by the Corporation, or by the Government and transferred to the Corporation. Some transfers were effected by conveyance of the properties, and others by Government vesting orders.

The Corporation does not have title documents for all of its properties

To ensure that the Corporation has good title to these properties, the Corporation should have, or have control of, their title deeds or vesting orders. However, many of these documents are, or are assumed to be, in the possession of the Ministry of Works and Engineering.

Appendix 2 to this report contains a recommendation made following the 2005 audit that addresses this concern.

Management responded that this is a problem caused by the manner in which properties were acquired by the Corporation over a period of many years. Identifying and assessing the adequacy of documentation for all properties owned and rented by the Corporation will be a difficult and time-consuming process. Although a grant has been requested to fund this process, it will probably have to be performed with current resources. At present, the adequacy of documentation is being established for all properties on which development is undertaken.

Documentation standards

Important documentation is missing

Some of the Corporation's files relating back to years, when management controls were inoperative, lack all the necessary documentation to show that business was conducted in accordance with approved business practices, and to protect the Corporation's interests in the event of future legal or other problems. A few documentation deficiencies were also noted in more recent files. Documentation deficiencies in older files included:

- rental files that lack all the required documentation to support subsidies and allowances. Important documentation in some files is incomplete and/or lacks all necessary signatures. Deficiencies like these can result in inappropriate subsidies and/or difficulties in protecting the Corporation's interests should subsequent legal disputes arise, and

- mortgage files that lack all the required documentation relating to option confirmations obtained from banks, mortgage-officer sign-offs and Board approvals. Without these, there is insufficient evidence that loans were made in conformity with the Corporation's established business practices and that appropriate security is in place.

Appendix 2 to this report contains a recommendation made following the 2005 audit that addresses this concern.

Management acknowledged that file documentation still needs improving. As with the property ownership records described above, the inadequacies are the result of deficiencies in recording practices over a period of years. The problems will be addressed over time by the new operating and financial system software being implemented by the Corporation which is designed to track rental clients, agreements, and expiration dates of leases. A comprehensive review of the mortgage department will include developing and improving documentation procedures.

3.3.6 Bermuda Housing Trust

Pursuant to a Supreme Court decision in 2007, the Bermuda Housing Trust is deemed a Government-controlled organization as a result of the Minister having the power to appoint and remove its directors. Consequently, the Auditor General is the auditor of the Bermuda Housing Trust. I will be contacting the Board to arrange to perform the 2008 and future annual audits. The court also awarded costs to my Office. These costs totalled \$39,000. I would assume that the Trust's legal costs equalled that amount. I have to think that \$78,000 incurred in an attempt to prevent the Auditor General from auditing the Trust's accounts could have been better spent elsewhere. Ultimately it is up to Bermudians to decide whether it was a waste of funds intended for the public good, i.e., for Bermuda senior citizens.

3.3.7 Bermuda Land Development Company Limited

None of the matters reported to the Bermuda Land Development Company Limited at the conclusion of the 2007 audit merit the attention of the House of Assembly.

3.3.8 Bermuda Small Business Development Corporation

During this year, the Corporation issued audited financial statements for the years ended March 2005 and 2006. Although financial reporting is still a year in arrears, I commend the Corporation's financial management on bringing reporting more up-to-date. In January 2005 financial reporting was three years in arrears.

Legislative non-compliance

Accountability reporting is years in arrears

Section 18 of the Bermuda Small Business Development Corporation Act requires the Corporation, *inter alia*, to present its financial statements for audit within six months of its year-ends, and to provide the Minister (of Finance) with annual reports on the operations of the Corporation. Section 19 requires the Minister to table such reports in the House of Assembly. No such reports appear to have been prepared for 2002 and succeeding years. *Management responded that a consolidated report will be prepared for the period to March 2007.*

Status of the 2007 audit

Management has indicated that the accounting records for 2007 will be made available for audit when the 2006 audit is complete (which was January 2008).

3.3.9 Board of Trustees of the Golf Courses

Financial reporting is three years in arrears

The financial reporting of the Board of Trustees of the Golf Courses (the Board) continues to be in arrears, though there has been improvement. The 2003 audited financial statements were issued in August 2007, and the 2004 statements were issued in January 2008.

Financial reporting has been in arrears for a variety of reasons

The Board has a history of inadequate and late financial reporting. Annual financial statements for the three years to March 2002 all received qualified audit opinions because some of the information therein could not be audited. In those years, a major cause of delays was the Board being inordinately slow to respond to requests for information and the last few items of documentation and signatures needed to finalize annual audits. I am pleased to acknowledge that that has not been a problem in recent years. The Board is making concerted efforts to bring its reporting up-to-date, albeit that the legacy of poor accounting records affected

the 2003 and 2004 audits, and appears likely to affect the 2005 and perhaps 2006 audits.

Denied audit reports

Denials of audit opinions

My auditor's reports on the Board's 2003 and 2004 financial statements contain denials of opinion because, as explained below, the appropriateness and accuracy of many of the figures in the statements could not be verified. Auditors issue denials of opinion in situations where deficiencies in accounting records and controls are so significant and pervasive that they limit the scope of the auditor's work to the extent that there is no basis for the expression of an opinion. In effect, there has been no accountability.

The main reasons for the denials of opinion for 2003 and 2004 were as follows:

Operating expenses could not be verified

- There were no detailed breakdowns of the recorded operating expenses for some golf courses for various periods, or invoices or other supporting documentation to verify the appropriateness of many transactions.

Employee files were missing or incomplete

- There were no employee files for some employees, and many available files lacked information about approved wage rates and terms of employment needed to verify the accuracy and validity of payroll expenses. Employment contracts could not be located for some employees.
- The absence of information about approved wage rates also prevented the verification of the value of accrued employee vacation pay at year-ends.

Inventory valuations could not be verified

- Although year-end inventory listings were available, invoices or similar documentation was not obtainable to determine whether inventories were valued appropriately. This appears likely to be a problem until March 2007.

Data conversion processes and controls were uncertain

- For the 2003 fiscal year, there were uncertainties about the reliability of the process used in November 2002 to convert accounting data from the Ministry of Works and Engineering (which used to maintain the Board's records) to the Board's own systems. These uncertainties were compounded by the time that elapsed between November 2002 and the audit (more than four years), and management and staff turnover during that period.

Delayed annual audits can increase the risk of fraud

Although financial statement audits are not designed to detect fraud, prompt audits can deter fraud because staff know that such audits might uncover dishonest behaviour. They also know that when audits are years in arrears, and important records are not available for audit, any chance of uncovering dishonest behaviour is virtually eliminated.

Management responded that the above concerns have been addressed by outsourcing in May 2005 the accounting function to a Chartered Accountant who is well advanced in bringing financial reporting up-to-date.

The following other concerns were reported to the Board at the conclusion of one or both audits:

- Reporting of capital grants and capital assets was not in compliance with generally accepted accounting principles and was changed as a result of the audit.
- Minutes of many of the Board of Trustees' meetings were not signed and approved. *The Board responded that proper minuting procedures are now being adhered to.*
- Annual reports on the exercise and performance of the Board's functions, required by Section 13 of the Golf Courses Act, have never been submitted to the Minister for tabling in the House of Assembly. *The Board responded that reports for 2002 through 2007 will be submitted by December 2007.*

Status of the years in arrears

There is light at the end of the tunnel

At the date of this report, January 2008, the audit of the 2005 financial statements was substantially complete. Unfortunately, my auditor's report thereon will contain a denial of opinion for the same reasons that I denied an opinion on the 2004 statements.

On a more optimistic note, I can report that the accounting records for 2006 and 2007 are ready for audit. In this regard I commend the Board on its efforts over the past two years to bring its financial reporting up-to-date.

3.3.10 CedarBridge Academy

Qualified audit

My auditor's report on the 2007 financial statements of CedarBridge Academy contains a reservation of opinion because

opinion

neither the Academy nor the Ministry of Education have reliable cost data for the Academy's capital assets that were paid for by Government. These costs are therefore not recorded appropriately in the Academy's financial statements.

Many of Bermuda's public schools have the same reporting difficulties

Many of Bermuda's schools have the same problem. It is a problem that will persist until the Ministry of Education and the Ministry of Works and Engineering are able to identify and quantify these past expenditures. Appendix 2 to this report contains audit recommendations (first reported in 1995) that address this problem.

Section 3.6.5 of this report discusses the history and impact of this problem as it affects all aided schools. The section also explains what the Ministry of Education has done and is planning to address the problem.

Capital assets

Excluding land and buildings and other assets contributed by Government, the Academy has capital assets that cost almost \$5 million. Although the records and procedures used to record and control these assets improved during 2007, deficiencies still remain. The capital asset records do not enable the Academy to control and account for all its capital assets.

The sources of capital assets funding are uncertain

The capital asset records also do not identify which assets, or which parts of assets, were acquired using capital grants from Government or other outside parties. These figures are needed to calculate the amount of capital grants (deferred capital contributions) to be recorded each year as revenue in the Academy's financial statements. *Management responded that it is working to have satisfactory capital asset records in place by the 2009 year-end.*

Appendix 2 to this report contains a recommendation made last year that addresses the above concerns.

Ruth Seaton James Auditorium

Prior to its closure because of the "mould problem," annual operating losses of the Ruth Seaton James Auditorium were a significant drain on the Academy's financial resources.

The Auditorium was originally intended to be financially self-sustaining. In practice, however, it has consistently incurred

The Auditorium has incurred significant operating losses

operating losses. Those losses have had to be funded by the Academy, thereby reducing the funding available for its core educational programs. For example, for 2007 the Auditorium's operating loss was \$158,000, (2006 - \$193,000; 2005 - \$205,000). During the past six years, the Auditorium has accumulated losses totalling more than \$1 million, money that was provided to fund educational programs.

In past annual reports I suggested that the Academy investigate why the Auditorium is generating such material operating losses and, if possible, negotiate an alternative funding arrangement. This year, Management responded that *following a feasibility study, the Board made recommendations to the Ministry of Education and is awaiting a decision on how the Auditorium is to be funded in future*. With the Auditorium still closed, now would seem an opportune time to adopt a new funding or organizational structure for the Auditorium's future operations.

Appendix 2 to this report contains a recommendation I made following the 2004 audit that addresses this concern.

3.3.11 National Drug Commission

Financial reporting is two years in arrears

Financial reporting of the National Drug Commission is still in arrears. Audited financial statements for the years ended March 2003 and 2004 were issued in January 2008.

The Commission was dissolved in February 2006 with the understanding that the Commission's management remain accountable for its affairs prior to that date. The Commission's operations were transferred to the Department for National Drug Control which is now under the Ministry of Culture and Social Rehabilitation.

Why is financial reporting so far in arrears?

Historically, accounting records and management co-operation have been poor

For years before the Commission was dissolved, management could not or would not provide accounting records for audit, or co-operate with the audit process. After completion of the 2001 audit in 2003, frequent telephone calls and e-mails by my Office asking for the 2002 records went unanswered or were met with requests for more time. The 2002 audit finally began in September 2005 but could not continue because the records provided were unbalanced, incomplete, unsupported and generally inadequate.

*Problems continued
for 2002 ...*

Management was provided with a list of documentation and information needed to continue the audit. Some was provided in the ensuing months but most was inadequate, insufficient or inappropriate. Whether this was the result of a poor understanding of what constitutes proper financial support, or an unwillingness to prepare such information, or an attempt to cover up improper practices, is unclear. As well, internal and accounting controls were almost non-existent. The situation was so bad for 2002 that I was unable to express an audit opinion (a denial) on the financial statements for that year.

Audits completed this year

*... and 2003 and
2004*

Matters were equally bad during 2003 and 2004. Lack of documentary and other evidence made it impossible to audit most of the Commission's assets, liabilities, net assets, revenues and expenses. There were still serious deficiencies in internal controls to the extent that I cannot determine whether property entrusted to the Commission has been properly managed. I am also not satisfied that all revenues and expenses have been recorded, or that those that are recorded were proper. So again, I denied audit opinions on the financial statements for these two years, which translates into the Commission not being, and never being, accountable for its actions during 2003 and 2004.

*Denials of audit
opinions*

Auditors issue denials of opinion only in very serious situations. Professional standards call for denials where deficiencies in accounting records and controls are so significant and pervasive that they limit the scope of the auditor's work to the extent that there is no basis for the expression of an opinion.

The following were among the matters (in addition to the above) reported to the Department for National Drug Control at the conclusion of the 2003 and 2004 audits. Most of these contributed to my denials of audit opinions.

Bank accounts

*It is unclear how
many bank accounts
were opened and
how much some of
them contained*

There were significant, unreconciled differences on the Commission's bank accounts at the end of both years. No bank statements could be provided for an account in the general ledger showing a balance of \$7,990. Audit enquiries at local banks indicated that the Commission had opened a new bank account. There was no indication, however, that the Board of Directors had approved this. There was also no record of transactions recorded

in the general ledger for this account which had an ending balance of \$10,000. We could not ascertain what entries were made to and from this account.

We received a bank confirmation for an account that was not recorded in the general ledger. Management could not explain it. The balance on the confirmation was for \$1,500. We could not ascertain what was the purpose of this account nor what entries were made to and from it.

Despite several requests, management did not explain the purpose and nature of four current accounts and three fixed deposits/call accounts of the bank accounts identified during the audit, and on another that might have belonged to the Commission.

Capital assets

Capital asset figures were not reconciled or supported

The general ledger showed the net book value of capital assets at March 2002 as \$615,000, whereas the figure in the financial statements was \$716,000. Similar unexplained differences existed at March 2003 and 2004, and the schedules of capital assets and amortization provided by management agreed to neither of these figures. As well, suppliers' invoices were not available to verify all additions to capital assets during 2003 and 2004.

Accounts payable

Accounts payable could not be balanced or verified

The general ledger accounts payable figure did not agree to the accounts payable sub-ledger at March 2003 or 2004 (a difference of \$6,000 and \$17,000 respectively). It is instructive to note that in response to a similar concern raised during previous audits, the Commission stated that these ledgers were then being reconciled monthly. This was obviously untrue. Audit efforts to verify the correctness of amounts included in year-end accounts payable were unsuccessful due to an almost total lack of appropriate documentation or explanations.

Payroll expenditures

Payroll figures were not reconciled and were poorly supported

Payroll records could not be reconciled to the general ledger for both years. In addition, personnel files often lacked information such as employee contracts, start and finish dates, and salary rates and increases. Support schedules provided by management contained conflicting and inaccurate information.

There was little documentation about the basis for, and approval

Merit awards and bonuses were paid without proper approvals

of, merit awards (totalling \$81,800 in 2004) paid to staff. The personnel files of eight staff who received awards did not even contain performance appraisals. Similarly, there was no documentation supporting bonuses of more than \$21,000 each paid to the Commission's CEO and Prevention Officer during 2004, a year, following many others, that attracted a denial, no less. During the same year, a severance payment to a former employee was double the maximum required for such payments by the Employment Act.

Gross wages figures submitted to the Office of the Tax Commissioner did not agree to the figures in the Commission's general ledger (by more than \$200,000 in 2004). As well, the Commission calculated and paid payroll tax for most of 2004 at a rate of 12.5% instead of the required rate of 7.25%.

Revenues and accounts receivable

Management was unable to provide adequate supporting documentation to demonstrate the accuracy and completeness of several revenue accounts for both years. Examples in 2004 were donations - \$6,200, rentals - \$194,800, and miscellaneous income - \$2,800. In addition, at March 2004 the accounts receivable sub-ledger did not agree or reconcile to the general ledger.

Grant payments

The Commission does not know if the grants it disbursed were used appropriately

During 2003 and 2004, the Commission disbursed grants totalling \$1.3 and \$1.9 million respectively to various organizations. For most of this money, the Commission did not obtain any documentary or other evidence from the grant recipients that the grants were used for the purposes intended. This is contrary to the requirements of *Financial Instructions* and good practice. Many grant files examined during the audit also lacked grant applications and contracts.

Operational expenditures

Expenditures were inadequately supported

96% in 2003 and 81% in 2004 of operational expenditure payments examined during the audit lacked documentation to verify that the goods or services had been ordered, or were proper or appropriate, or were received and paid appropriately, and with proper authority. These included missing purchase orders, missing invoices, and missing or inappropriate approvals. Several instances were observed where contracts for services

were never signed, and where contractors breached contract terms without the Commission noticing or doing anything about it.

Travel expenses

No receipts for travelling expenses

The Board approved six travel events in 2004, including trips to Europe and the Caribbean. The accounting records reflected costs for three of these, and for others that were not formally approved. The Audit Committee established a policy requiring receipts to be submitted for all travel costs and for unused travel advances to be refunded. This policy was not followed. No supporting documentation could be located for any of the travel expenses, approximately \$60,000, examined during the audit.

Consultant's report

Consultant's recommendations were largely ignored

In early 2002, the Commission obtained (for \$12,000) a consultant's report on the adequacy of its accounting policies, procedures and controls. The report contained 22 recommendations for improvement, many of which were similar to recommendations that arose from my annual audits. The report also stated that the Commission responded that it had already implemented, or would implement, most of the recommendations. It had not done so, and did not do so at a later time.

Inappropriate segregation of duties

There was considerable potential for fraud

Throughout the two years, the Commission's Administrative Officer had access to unused cheques, monies received, bank statements, returned cheques, purchase orders and, as well, was responsible for recording transactions in the accounting records. In addition, several employees often prepared purchase orders, received the goods and approved the related invoices for payment. With this combination of duties, the people involved could easily commit and conceal fraud, or alternatively, would be the prime suspect if someone else committed a fraud in this area. It appears that this state of affairs persisted up until the Commission was dissolved in 2006.

Legislative non-compliance

Late accountability reporting

Section 21 of the National Drug Commission Act 1993 requires the Commission to submit to the Minister, within six months after the end of each financial year, audited financial statements, and the Minister is required to table them in the House of Assembly. These legislative requirements were never met.

Board of Directors oversight

The Board of Directors failed in its legislated responsibilities

The deplorable state of the Commission's accounting records and financial controls demonstrates clearly that the Board of Directors failed in its fiduciary responsibility to *devise and execute the policy of the Commission and to administer and manage its affairs* as required by section 8(1) of the National Drug Commission Act. More perplexing still is that the Board created an Audit Committee to monitor these matters. How the many and pervasive deficiencies in accounting controls, records and reports could have persisted year after year if the Audit Committee understood its oversight responsibilities is impossible to understand. For instance when the Audit Committee requested receipts for travel expenses and none were produced, what did the Board do? Who was overseeing whom? Who was in charge?

Section 10 of the Act makes the *Chief Executive Officer ... responsible for the day to day management of the Commission and, subject to the directions of the Board of Directors, ... responsible for carrying out the functions of the Commission*. Whether the Board was unaware of the sorry state of the Commission's affairs, or whether it was aware and chose to do nothing about it, is unclear. But patently, the Board failed in its responsibility to ensure that the CEO was performing his functions properly.

The Board was out-of-touch

Just one example of how out-of-touch the Board was with the Commission's financial affairs is provided by the minutes of a Board meeting in January 2005. The minutes show that the Board and the Audit Committee discussed how some bonds purchased many years previously should be recorded and how many were purchased. In fact, the bonds they were discussing were redeemed in July 2003 and the redemption recorded in fiscal 2004.

Accountability

In view of the appalling state of the Commission's records and controls described above, it is appropriate to revisit the statement made at the beginning of this subsection, viz., The Commission was dissolved in February 2006 with the understanding that the Commission's management remain accountable for its affairs prior to that date. There now appears to be ample evidence to begin holding senior management and Board members accountable.

Audit recommendations

Following the 2001 audit, I made a number of recommendations that addressed audit findings similar to those described above. A summary of those recommendations was brought forward in Appendix 2 to my last year's annual report. Despite the above, the recommendation has been removed from this year's Appendix 2 because the Commission has been dissolved.

Status of audits in arrears

At the date of this report, the 2005 audit has begun, and indications are that the accounting and control problems outlined above persisted throughout that year.

3.3.12 Pension Commission

There were no concerns or recommendations reported to the Pension Commission at the conclusion of the audit of the financial statements for the year ended December 2006.

3.3.13 Trustees of the National Sports Centre

The following was among the matters again reported to the Trustees of the National Sports Centre at the conclusion of the March 2007 audit.

Legislative non-compliance

Section 7(2A) of the National Sports Centre Trustees Act requires prior written approval by the Minister of Works and Engineering before carrying out capital development work at the Centre. Such approvals are not being obtained. This concern was raised following the Centre's previous four audits. *Management responded that the Trustees will request written approval of capital works from the W&E Minister in the future.*

Section 13 of the Act states that the *Trustees shall, as soon as practicable after the end of each financial year, make to the Minister a report on the exercise and performance by them of their functions during that year and of their policy and programme and the Minister shall cause a copy of the report to be laid before each House of the Legislature within a reasonable*

time. The last report tabled was for 2003. Management responded that reports for 2004 and 2005 have been produced and presented to the Ministry. In the future, annual reports will be prepared on a timely basis and provided to the Ministry for tabling before Parliament.

3.3.14 West End Development Corporation

The West End Development Corporation's audited financial statements for 2006 were issued in May 2007, and the 2007 statements were issued in January 2008.

Qualified audit opinion

My audit report on the 2006 financial statements contains a qualified opinion because the Board of Directors was unable to provide a complete set of minutes of its meetings during the year. I was therefore unable to satisfy myself that no decisions were made at those meetings that have a material effect on the financial statements. *Management responded that no matters were discussed or decided at those meetings that would affect the financial statements.*

The following were among the matters reported to the Corporation's Board at the conclusion of the audits:

Frauds

Internal control deficiencies allowed frauds

During the two years covered by these audits, Corporation employees twice misappropriated monies totalling \$22,500. These monies were subsequently recovered and the control deficiencies that allowed the misappropriations appear to have been addressed.

Disaster recovery and business resumption plan

The continued availability of the Corporation's computer systems and information are essential to its business operations. A major processing interruption, or loss for an extended period of critical computer resources, could seriously disrupt operations. During the year, the Corporation's server crashed and was not available for several days, and certain data (fortunately non-critical) could not be recovered.

A disaster recovery plan should be

This demonstrates that the Corporation needs to review the adequacy of its disaster recovery and business resumption arrangements. Such arrangements should be incorporated into a

implemented

formal plan, approved by the Board, communicated to staff, and tested periodically for adequacy. *Management responded that back-up tapes are now being checked and tested regularly, and options for a disaster recovery process are being reviewed.*

Legislative non-compliance

Legislated budgeting and reporting requirements are not being met

The Corporation is not complying with section 18 of the West End Development Corporation Act which requires budgets to be submitted for Ministerial approval at least three months before the beginning of each fiscal year. It is also not complying with section 24 of the Act which requires the Corporation to provide the Minister, within three months after year-ends, with a comprehensive report on the Corporation's operations so that the Minister can table the report in the House. *Management responded that it does not feel that submitting budgets is appropriate because the Corporation does not petition the Government for operating funds – but a legislative amendment will be pursued. A report under section 24 has now been submitted to the Minister.*

3.4 AUDITS 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.

The eleven Public Funds operating at March 31, 2007 were:

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

At the date of this report (January 2008), the following Funds had not issued audited financial statements for the fiscal years indicated:

- Bermuda Department of Tourism North America Retirement Plan (2007),
- Confiscated Assets Fund (2007),
- Contributory Pension Fund (July 2005, 2006 and 2007),
- Government Employees Health Insurance Fund (2005, 2006 and 2007),
- Government Reserves Fund (2007),
- Hospital Insurance Fund (2004, 2005, 2006 and 2007),
- Ministers and Members of the Legislature Pensions Fund (2006 and 2007),
- Mutual Re-insurance Fund (2004, 2005, 2006 and 2007), and
- Public Service Superannuation Fund (2007).

Why these Funds have not issued audited financial statements is explained in the various sub-sections below.

Matters arising from the 2007 audit of the Consolidated Fund are dealt with in section 3.2 of this report. The following are matters that arose from audits of the other Public Funds completed since my last annual report (January 2007) that I believe warrant the attention of the House of Assembly:

3.4.1 **Bermuda Department of Tourism North America Retirement Plan**

The Bermuda Department of Tourism North America Retirement Plan (the Plan) is a pension fund for staff of the Department of Tourism's North American offices. The audited financial statements of the Plan for the year ended March 31, 2006 were issued in January 2008.

Qualified audit opinion

My auditor's report on the Plan's financial statements contains a qualified opinion because I was unable to obtain assurance that the Plan, which is domiciled in New York, is in compliance with United States pension and income tax legislation. I therefore could not determine if there were any actual, potential or contingent liabilities in relation to this legislation that might impact on the financial statements.

The following were among the matters reported to the Department of Tourism and the Accountant-General's Department at the conclusion of the audit, as well as at the conclusion of many past years' audits:

Lack of legislative authority for the Plan creates uncertainties

There is uncertainty as to the legislative authority for the Plan. It was initiated by a Cabinet Paper in 1986 but no legislation was passed to approve its formation, or to govern its administration and operations. This lack of legislated foundation creates many uncertainties. For example, there is uncertainty about the Fund's legal existence, and about whether some employees are entitled to pensions for retroactive service.

A revised Plan is being registered to assume the operations of the old one

I am informed that no new members were enrolled into the Plan after March 2006. When formally approved and registered, the operations of the Plan are to be transferred to a new plan established under the Pension Trust Funds Act 1966 for which new trust and plan documents have been prepared and three trustees appointed.

Appendix 2 to this report contains a recommendation (dating back to the 1993 audit) that a way be found to place the Plan on a proper legislative footing.

Status of the 2007 audit

At the date of this report, work on the 2007 audit is held up pending adjustments to the accounting records by the Accountant-General's Department.

3.4.2 Confiscated Assets Fund

The Confiscated Assets Fund holds monies detained and forfeited by Court Orders under the Proceeds of Crime Act 1997 and the Misuse of Drugs Act 1972. Forfeited monies may be expended for purposes authorized in legislation.

The Fund's audited financial statements for 2006 were issued in November 2007. The following were among the matters reported to the Accountant-General's Department at the conclusion of the audit:

Late transfer of monies received

Money is still being deposited to the Consolidated Fund

Monies received under the abovementioned statutes were still being deposited first into a Consolidated Fund bank account, and not being transferred to the Fund's own bank account until much later. For example, during 2006 \$420,000 remained in the Consolidated Fund's bank account for nine months before it was transferred. The same problem was reported following the 2005 audit, to which the Accountant-General's Department responded that *procedures are being reviewed to ensure that deposits to the Confiscated Assets Fund are made promptly and accurately*. The same response was received following the 2006 audit.

Legislative non-compliance

Late accountability reporting

Section 55 of the Proceeds of Crime Act 1997 requires financial statements to be presented for audit within six months of the Fund's year-end, and the Minister to table in the House a copy of the audited financial statements. Neither was done on time for 2004, 2005 or 2006. *The Accountant-General's Department agreed to provide the Ministry of Finance with audited financial statements on a timely basis.*

Status of the 2007 audit

The Accountant-General's Department did not make the Fund's accounting records and draft financial statements available for audit until December 2007 and, at the date of this report, the audit was in progress. Once again, the Department did not comply with section 55 of the Proceeds of Crime Act. Nor will the Minister be able to.

3.4.3 Contributory Pension Fund

Financial reporting is two years in arrears

The audited financial statements of the Contributory Pension Fund for the year ended July 2004 were issued in January 2008. The following were among matters reported to the Department of Social Insurance (which administers the Fund) and the Accountant-General's Department (which maintains certain accounting records) at the conclusion of the July 2004 audit:

Audit delays

Audit delays

Following the 2003 and previous audits, I complained about delays in receiving documentation and information needed during audits, and in particular, the documents and signatures needed to finalize audits. The same problems were experienced during the 2004 audit. For example, the audit was substantially complete in October 2007 and draft statements and related documents were forwarded to the Accountant-General's Department for final approvals and signatures. Despite numerous reminders, and requests for the Financial Secretary and the Head of the Civil Service to intercede, the approvals and signatures were not received until the end of January 2008.

Collection of pension contributions

Some employers are still seriously late remitting their employees' pension contributions

The slow and non-collection of pension contributions from employers is still a serious problem. Contributions receivable at July 2004 were more than \$21 million, of which over 70% was more than 90 days past due. Arrears are a continuing problem. Contributions more than 90 days past due increased from \$9.2 million at July 2003 to \$14.9 million at July 2004, and has remained at that level ever since. Approximately half of these amounts represents contributions that employers have collected from their employees but not remitted to the Government – a criminal act, if I'm not mistaken.

Enforcement powers are needed and they will need to be exercised promptly and consistently

The legislation governing collection of the Fund's pension contributions is outdated. It requires employers to affix pension stamps to employees' cards, a practice that was discontinued in 1985 - in hindsight, it seems, at least twenty-three years prematurely. The legislation is therefore silent on the subject of remittances and enforcement provisions. In my view, legislated powers are needed to enable interest, penalties and other immediate remedies to be levied on delinquent employers. And the Department will need to exercise these powers promptly and consistently, and intensify its collection procedures.

Appendix 2 to this report contains two recommendations made following the 1993 and 2000 audits that address this concern.

The Department responded that recommendations to amend the CPF 1970 Act have been submitted to the Ministry of Finance.

Government employee contributions

Government employee contributions have not been reconciled since 1985

The Government is one of Bermuda's largest employers. Each month, the Accountant-General's Department pays into the Fund the contributions for all Government employees. The Department of Social Insurance does not reconcile the amounts received to its records of individual Government employees, and has not done so since 1985.

I have been reporting this concern for more than ten years

I have reported this concern for years because, in my view, it is a serious control deficiency. Even performing monthly reconciliations going forward would help mitigate the risk of inaccuracies in the accounts of individuals who move from the private sector to Government, and vice versa. Inaccurate individual accounts can result in the payment of incorrect pensions, and the incorrect calculation of the Fund's overall future pension obligations.

Several years ago, the Accountant-General's Department agreed that an adjustment of \$74,000 was needed to the inter-company account with the Consolidated Fund. Following each annual audit the Accountant-General's Department agrees to make this adjustment, but each year it does not do so.

Appendix 2 to this report contains a recommendation made following the 1993 audit that addresses the need to reconcile this account.

The Department responded that this reconciliation will be undertaken as part of the implementation of a new pension system.

Pension payments

Monthly reconciliations of pension payment listings would help to ensure the correct payment of pensions

The Fund's computer system generates monthly pension payments automatically until such time as it is "instructed" to do otherwise. The system also generates monthly reports listing all pensions paid. Following the 1998 and subsequent annual audits, I recommended that monthly listings be reconciled to the previous month's listing to check that all new pensioners have been included, and that all deceased pensioners have been

deleted. A control of this nature would help ensure that all eligible pensions have been paid, and avoid overpayments.

Each year the Department agrees that this reconciliation should be implemented, but each year it does not do so.

**Recommendation
No. 3**

The Department of Social Insurance should reconcile the Contributory Pension Fund's monthly pension payment reports to the previous month's report to ensure that all necessary additions and deletions have been recorded on the system.

Department response

The new pension system referred to above will enable this process to be handled.

Miscellaneous

Among other matters reported to the Department following the 2004 audit were:

- audit testing revealed three instances where pensions were paid to deceased pensioners, and there is no evidence that one of the payments was recovered,
- the Fund's bank reconciliation at July 2004 did not balance by \$7000. In addition, it listed stale-dated cheques totalling more than \$100,000, \$18,000 of cancelled cheques, and an unidentified adjustment of \$34,000.
- no attempt was made to periodically reconcile investments held per the custodians' statements and per the Investment Manager's statements.

There were other assorted problems

Management agreed to address the first two concerns. The Accountant-General's department now reconciles the custodians' statements and the investment manger's statements.

Status of audits in arrears

The 2005 audit will begin when the accounting records and draft financial statements are available for audit.

3.4.4 Government Borrowing Sinking Fund

There were no concerns or recommendations reported to the Accountant-General's Department at the conclusion of the audit of the financial statements of the Government Borrowing Sinking Fund for the year ended March 2007.

3.4.5 Government Employees Health Insurance Fund

Financial reporting is two years in arrears

The financial reporting of the Government Employees Health Insurance Fund (GEHI) continues to be in arrears. The 2003 audited financial statements were issued in June 2007, and the 2004 statements were issued in January 2008.

Background

There are a variety of reasons why financial reporting continues to be in arrears

GEHI's financial reporting is in arrears for a variety of reasons. These include accounting records and draft statements being unavailable for audit until long after year-ends. They include poor accounting records and inadequate or missing documentation to support financial transactions. Further delays are often the result of management being inordinately slow to produce the last few items of information and documentation needed to finalize audits.

Delayed audits are a serious concern. Although financial statement audits are not designed to detect fraud, they can deter fraud. When audits are as far in arrears as those of GEHI, this deterrence is lost. Weak internal and accounting controls and delayed audits create opportunities for misappropriation and fraud to occur and remain undetected.

2003 and 2004 audits

The following were among the matters reported to the Accountant-General's Department, the Ministry of Finance and the Chairman of the GEHI Management Committee at the conclusion of the 2003 and 2004 audits. Many were also reported following previous annual audits:

Qualified audit reports

Qualified audit opinions

My auditor's reports on GEHI's 2003 and 2004 financial statements contain qualified opinions because, as explained below, management was unable to provide documentation to demonstrate the appropriateness and accuracy of many medical insurance claims paid during those years, and claims payable at the end of those years.

There is a sad history

GEHI has a history of qualified audit opinions. Annual financial statements for 1997 through 2003 all received qualified audit

*of inadequate
financial reporting*

opinions because there was insufficient documentation or other evidence available to audit one or more important numbers in the statements. And, before that, matters were worse, resulting in denials of opinions for the 1995 and 1996 financial statements.

Medical insurance claims

*Documentation
cannot be located*

Management informed me that the files containing the documentation needed to support medical claims paid during 2003 (totalling \$25.6 million) were sent to the Government archives. But because the boxes were not labelled as to their contents, they cannot be located. They cannot even determine the archive location to which the boxes were sent. For 2004, supporting documentation could be located for only a few claims paid (totalling \$29.7 million). This lack of documentary evidence also made it impossible to verify the accuracy of claims payable at year-ends (\$6.5 million at March 2003 and \$6.4 million at March 2004).

As an aside here, there is little point in saving documents in Archives if a retrieval mechanism does not exist. How did GEHI expect to access the information if it hadn't labelled the boxes? And how did Archives expect to locate the boxes if they weren't identified? As the Ministry in charge, the Cabinet Office needs to investigate the lack of intelligent thought that has been directed to this activity.

*There is an increased
risk of fraud*

This illustrates what can happen when financial reporting is allowed to fall seriously in arrears. And staff turnover often means that no one who was there at the time is available to provide explanations. Even though financial statement audits are not designed to detect fraud, prompt audits can deter fraud because staff know that such audits might uncover dishonest behaviour. They also know that when important records are not available for audit, any chance of uncovering dishonest behaviour is virtually eliminated.

As reported previously, a Claims Assessor misappropriated almost \$160,000 from GEHI during the period up to mid-2003 when annual financial statement audits were years in arrears. The lack of accountability provides little comfort to the House that misappropriations are not continuing.

Pharmacy claims

Claims from pharmacies for prescription drugs supplied to people

Pharmacy claims also need better support

insured by GEHI are submitted electronically with details of the prescriptions filled and the costs. GEHI pays these claims without checking that they are for insured people who have been prescribed the drugs, or that the amounts charged are appropriate. *Management responded that this process is being reviewed to determine an appropriate way of checking the validity of these claims.*

Accounting for unpaid claims

Claims not received

Insurance companies normally account for claims paid and payable in the fiscal year in which the event occurred that triggered the claim. This means that in addition to accruing unpaid claims at year-ends, they also set up actuarially valued liabilities for claims not yet received. At present, GEHI's financial reporting is in arrears and these accruals can be determined by reference to subsequent years. When, however, GEHI's financial reporting is brought up-to-date, year-end actuarial valuations will be needed for financial reporting to comply with generally accepted accounting principles. *Management responded that steps are being taken to bring accounting conventions in line with industry standards, and an actuarial valuation of the Fund is planned.*

Basis for charging premiums

GEHI lacks procedures to ensure that premiums change when a dependent child becomes an adult, even though its database contains birth dates of dependents. Similarly, incorrect premiums can be charged if insured people do not notify GEHI when an adult child ceases to be dependent. *Management responded that its procedure for contacting people with underage (sic) children to confirm their status needs to be more consistently applied.*

It is also unclear whether on-call substitute teachers are being assessed the correct premiums because of difficulties tracking the differing hours and days they work. *Management responded that a workable solution to this problem is being sought in co-operation with the Department of Education.*

Legislative non-compliance

GEHI has not complied with its enabling legislation

The audits revealed the following instances of non-compliance with provisions of the Government Employees (Health Insurance Act) 1986, or formal rulings issued pursuant to the Act:

- Section 18 of the Act requires employees to pay health insurance premiums either monthly or weekly in advance. The employees of Government-controlled organizations (quangos), however, were paying their contributions in arrears during 2003. *Management responded that Quangos were notified that effective April 2004 premiums must be paid in advance, and they now are.*
- GEHI continued to provide fringe benefit health care coverage to self-employed spouses of Government employees, despite a recommendation by the GEHI Management Committee in 1995 not to do so. *Management responded that self-employed spouses have not been enrolled since April 2003 and any discovered will be removed from the Plan.*

Appendix 2 to this report contains a recommendation which summarizes numerous individual audit recommendations, some of which date back to the 1992 audit, that address the above and other problems.

Status of the years in arrears

At the date of this report, the 2005 audit has begun but is in abeyance pending receipt of needed documentation.

Since 1994, GEHI's annual financial statements, all of which were issued many years late, received denials (for 1995 and 1996) and qualifications (for 1997 through 2004) of audit opinions. If anyone seriously believes that the current management and administrators can resolve the operating and accountability problems besetting GEHI, they are indeed optimists. The Legislature must surely be tired of this failure of accountability and the litany of excuses that have spanned a period of fifteen years.

**Recommendation
No. 4**

The Ministry of Finance should set a deadline by which time the annual financial reporting, with unqualified audit opinions, of the Government Employees Health Insurance Fund should be brought up-to-date and, if the deadline is not met, the Fund's administration and accounting should be contracted out to a service provider.

Ministry response

The Ministry of Finance has been closely monitoring this situation and will ensure that the required progress is made and the assets are brought up to date with unqualified opinions.

3.4.6 Government Reserves Fund

The Government Reserves 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.

The Fund's audited financial statements for 2006 were issued in June 2007. The following was reported to the Accountant-General's Department at the conclusion of the audit:

Legislative non-compliance

Late accountability reporting

The Public Treasury (Administration and Payments) Act requires the Accountant-General each year to provide to the Minister a report on the operations of the Fund within six months of its year-end. A copy of the report must also be sent to the Auditor General within seven months of the year-end. This was not done for either 2006 or 2007. *The Accountant-General's Department agreed that this should be done.*

Status of the 2007 audit

At the date of this report, the 2007 audit was substantially complete but finalization was delayed pending receipt of information.

3.4.7 Hospital Insurance Fund

Financial reporting is four years in arrears

The Hospital Insurance Fund is administered by the Department of Social Insurance which is part of the Ministry of Finance. The Fund's financial reporting continues to be seriously in arrears. The audited financial statements for the years ended March 2002 and 2003 were issued in January 2008.

Background

Inadequate records and lack of management cooperation delayed

The Fund's financial reporting has been in arrears for many years. Reasons for this included antiquated manual accounting systems, inaccurate and incomplete accounting records, and lack of supporting documentation. I qualified my auditor's report on the Fund's 2001 financial statements because adequate documentation was not available to verify the appropriateness

previous audits

and accuracy of a number of medical claims paid during that year. Another major factor that contributed to late financial reporting has been management's consistent inability to provide promptly the information and documentation needed to perform and complete annual audits.

It appears that the Fund's accounting and processing arrears are affecting the operations of local businesses, and people insured by the Fund. Claims by medical service providers are paid late and are not accompanied by details of the amounts paid. The Bermuda Hospitals Board, for example, cannot allocate claim payments it receives to the accounts of the patients on whose behalf the claims were submitted. It appears that some medical service providers have begun billing patients directly, rather than having to wait for their claims to be paid. This is an unnecessary inconvenience to both medical service providers and to people insured by the Fund.

The situation is serious

Considerably greater effort and commitment by management will be needed to bring the financial accountability of the Hospital Insurance Fund up-to-date. I have stated in previous annual reports that although financial statement audits are not designed to detect fraud, they can deter fraud. When financial statement audits are as far in arrears as those of the Fund, this deterrence is lost. Weak internal and accounting controls and delayed audits create opportunities for misappropriation and fraud to occur and remain undetected.

The Public Accounts Committee has expressed concern

The Parliamentary Standing Committee on the Public Accounts reviewed and expressed concern about the Fund's accounting and accountability deficiencies. In a report to the House tabled in December 2006 the Committee stated: *Your Committee recommends that progress in improving the administration and accounting systems of the Social Insurance Department should be a priority for the Ministry of Finance.*

Qualified audit opinions for 2002 and 2003

Qualified audit reports

The audits revealed that some of the concerns reported following the 2001 audit had been addressed. A major concern that persisted for both 2002 and 2003, however, was the lack of documentation and other supporting evidence to determine whether insurance premium revenues (\$5.5 million for 2002 and \$6.2 million for 2003) were accurately recorded in the financial statements. This caused me to qualify my audit opinions on the Fund's financial statements for both 2002 and 2003.

My report on the Fund's 2003 financial statements contains further qualifications because there was insufficient evidence to verify the accuracy and completeness of portability claims and subsidy reimbursements, and because minutes of all Board meetings could not be located. *Management agrees with these concerns and is actively attempting to rectify and make improvements for future audits. Draft financial statements along with supporting working papers insofar as they have been deemed sufficient for audit purposes have already been submitted to the OAG for the years 2004 – 2007.*

Other audit concerns

Among other matters reported to the Hospital Insurance Commission (which manages the Fund) at the conclusion of the 2003 and many previous audits were:

Accounting and financial control deficiencies persist

- failure to provide draft financial statements and supporting schedules and analyses until long after the years to which they relate,
- significant delays in providing documents and information needed to perform and complete audits,
- inadequate documentation to verify the appropriateness and accuracy of all medical claims paid,
- failure to collect licensing fees from insurance companies and plans that operate in Bermuda, and
- failure to provide the Minister with annual reports on the operations of the Fund as required by section 17 of the Hospital Insurance Act.

Management responded that it is actively attempting to rectify these concerns and make improvements for future audits.

Appendix 2 to this report contains a recommendation addressed to the Department of Social Insurance (Hospital Insurance Commission) that summarizes individual audit recommendations made over the years (some dating back to 1993) that address the Fund's accounting and control deficiencies.

Status of audits in arrears

Accounting records for 2004 and 2005 have been presented for audit but work cannot begin until records are changed to reflect significant adjustments resulting from the previous two year's audits.

2003 was the third consecutive year that I issued a qualified audit

report on the Fund's financial statement. As well, the Fund is and has been for years, considerably in arrears with its financial reporting. So as with the Government Employees Health Insurance Fund (see section 3.4.5 above) I seriously question whether the current management and administrators can resolve the operating and accountability problems besetting the Fund. `

**Recommendation
No. 5**

The Ministry of Finance should set a deadline by which time the annual financial reporting, with unqualified audit opinions, of the Hospital Insurance Fund should be brought up-to-date and, if the deadline is not met, the Fund's administration and accounting should be contracted out to a service provider.

Ministry response

The Ministry of Finance has been closely monitoring the situation and will ensure that the required progress is made and the accounts are brought up to date with unqualified audit opinions.

3.4.8 Ministers and Members of the Legislature Pensions Fund

*Financial reporting
is two years in
arrears*

The audited financial statements of the Ministers and Members of the Legislature Pensions Fund for the year ended March 2005 were issued in January 2008.

The 2005 audit was substantially complete in January 2007 but finalization was delayed pending receipt of actuarial and other information from the Accountant-General's Department.

The following was reported to the Accountant-General's Department at the conclusion of the 2005 audit:

Underfunded liability for future pension obligations

*The Plan is
underfunded*

The Fund's actuary reported that the unfunded portion of the Fund's obligations for future pension payments at March 2005 was in excess of \$5 million. The actuary also reported that the current contributions level is insufficient to reduce the unfunded liability or even to maintain the present level of funding.

Management responded that the Government continually monitors the Fund's financial position to ensure that it remains on a sound financial footing. The Ministry of Finance is formulating a funding strategy for the Fund that is responsible and fair to both Members and taxpayers.

Status of the 2006 and 2007 audits.

The accounting records and draft financial statements for 2006 were made available for audit in January 2007, and now that the 2005 audited financial statements have been released in January 2008, the 2006 audit is scheduled to begin shortly.

3.4.9 Mutual Re-insurance Fund

*Financial reporting
is four years in
arrears*

The Mutual Re-insurance Fund is administered through the Department of Social Insurance which is part of the Ministry of Finance. The Fund's financial reporting continues to be seriously in arrears. The audited financial statements for the year ended March 2003 were issued in January 2008.

Background

Audits delays

The accounting records of the Fund are maintained by the same staff at the Department of Social Insurance who maintain the financial records of the Hospital Insurance Fund. This is why the reasons for financial reporting arrears of the Mutual Re-insurance Fund are similar to those described in section 3.4.7 above. In particular, management's consistent inability to provide promptly the information and documentation needed to perform and complete annual audits has contributed to a history of late financial reporting.

Delayed audits are a serious concern. Although financial statement audits are not designed to detect fraud, they can deter fraud. When audits are as far in arrears as those of the Mutual Re-insurance Fund, this deterrence is lost. Weak internal and accounting controls and delayed audits create opportunities for misappropriation and fraud to occur and remain undetected.

The Parliamentary Standing Committee on the Public Accounts has expressed concern about this situation. In a report to the House tabled in December 2006 the Committee stated: *Your Committee recommends that progress in improving the administration and accounting systems of the Social Insurance Department should be a priority for the Ministry of Finance.*

At the conclusion of the March 2003 audit, the following were among the matters reported to the Hospital Insurance Commission, now the Bermuda Health Council (the Council),

which manages the Fund:

Insurance premiums

The Council does not obtain reasonable assurance that the premiums the Fund collects are correct.

The Fund does not verify that the insurance premiums it receives are correct

The Hospital Insurance Act requires all licensed insurers, and employers who operate approved schemes, to pay to the Fund a set amount of their premiums, based on the number of people employed. In practice, certifications by insurance companies of employee numbers are accepted virtually without question, even though there is evidence that companies use a variety of bases, including estimates, to determine the numbers. The Fund has no procedures for verifying the reliability of these numbers, nor has it established policies or bases for calculating them.

Premiums are sometimes received late

Insurance companies are required to remit premiums to the Fund within 15 days of each month-end. This requirement, however, is not enforced. Several insurance companies remit premiums well beyond the 15 day limit, some by many months. These amounts are material and adversely affect the Fund's cash flows and investment opportunities. *Management responded that it agrees with these concerns and is actively attempting to rectify the problems and make improvements.*

Insurance claims

Claims are paid without determining whether they are valid

Medical claims are paid without first ensuring that premiums were received for the patients who received the treatment. Instead, after claims have been paid, the Fund Administrator asks the insurance company or employer to confirm (not prove) that the claimant was appropriately insured. Without wishing to impugn the integrity of insurance companies or employers, in my view such confirmations do not constitute reasonable verification.

This problem could be dealt with in several ways. For example, the Fund could periodically review a sample of insurance company records to determine whether claims were valid. A better solution would be for the Fund to maintain an electronic record of the people it insures and, as premiums are received, record the periods covered. It would then be possible to determine whether insurance coverage exists before claims are paid. *Management responded that it agrees with these concerns and is actively attempting to rectify the problems and make improvements.*

Status of audits in arrears

At the date of this report, the accounting records for 2004 have been made available for audit.

3.4.10 Public Service Superannuation Fund

*Financial reporting
is a year in arrears*

The Public Service Superannuation Fund's (PSSF) audited financial statements for the year ended March 2005 were issued in August 2007, and the 2006 statements were issued in January 2008. The following were among the matters reported to the Accountant-General's Department at the conclusion of the audits:

Indebtedness to the Consolidated Fund

As explained more fully in section 3.2.11 of this report, PSSF expenditures for pension benefits and receipts for premium contributions are transacted through the Consolidated Fund bank account. They are then channelled through an inter-fund account to PSSF.

*Indebtedness to the
Consolidated Fund
has continues to
accumulate*

For years, PSSF's pensions benefits paid have exceeded its income from premium contributions, usually by about \$11 million a year. This caused the inter-fund account to accumulate large balances, representing indebtedness by PSSF to the Consolidated Fund. At March 2005, the Consolidated Fund forgave (wrote off) the \$52 million balance on the inter-fund account at that date. But by March 2006, PSSF's indebtedness to the Consolidated Fund had again accumulated to more than \$10 million.

I am aware that PSSF's premiums were increased in 2006 and 2007, and will increase again in 2008. These increases are designed to reduce or eliminate PSSF's annual operating deficits. At March 2007, however, indebtedness to the Consolidated Fund had accumulated to \$22 million, which is another \$11 million per year despite the premium increases. This raises concerns as to whether the premium increases will be sufficient to ensure the long-term financial viability of PSSF, particularly since Note 7 to PSSF's 2006 financial statements states that as a result of numerous amendments to legislation in September 2007 "an estimate of the financial effect of these legislative changes cannot be made at this time."

The Accountant-General's Department responded that the premium increases will improve PSSF's cash flows and are part of a funding strategy to place PSSF on a more stable footing.

Inaccurate accounting records and supporting schedules

*Inaccurate
accounting records
caused audit delays*

Both audits were delayed by inaccurate accounting records and the additional audit work needed to detect these inaccuracies. For example, the 2006 audit resulted in numerous adjustments to the financial statements totalling more than \$13 million. Much of this related to PSSF's investment holdings. Three weeks of audit work in this area resulted in adjustments totalling \$1 million to the carrying value of investments, and a further \$2.7 million to unrealized gains/losses. *The Accountant-General's Department responded that every effort will be made to provide accurate and complete data, but noted that investment managers provide fund valuations six months in arrears.*

Refunds of contributions

*Incorrect refunds of
contributions*

In recent years, PSSF refunded both the accumulated employee's and employer's contributions to some (but not all) employees who left the Public Service without their pension rights vesting. Apparently, this was the result of an incorrect interpretation of the Public Service Superannuation Act and a second legal opinion obtained from the Attorney-General's Chambers seven years ago. However, Management recently obtained a legal opinion from the Attorney-General's Chambers that employees who leave should be refunded only the employee's portion of their accumulated pension contributions.

Initial indications are that 35 ex-employees were refunded the employer's portion of their contributions totalling approximately \$465,000. The Accountant-General's Department has begun efforts to recoup these overpayments but is expecting limited success. *The Accountant-General's Department responded that better monitoring of pension refunds is needed to prevent incorrect refunds.*

Legislative non-compliance

PSSF is not complying with section 7 of the Public Service Superannuation Act which requires that *the accounts of the Fund shall be submitted to the Auditor for audit not later than 30th June next following the end of the financial year*, and section 6 which requires that *the Board shall make a report annually to the Minister (of Finance)*. *The Accountant-General's Department agreed.*

3.5 AUDITS OF PARISH COUNCILS

I audit Bermuda’s nine Parish Councils pursuant to the Parish Councils Act 1971, as well as section 6 of the Audit Act 1990.

Accounting and accountability for Parish Councils are not acceptable, and have not been for many, many years.

Financial reporting for most Councils is seriously in arrears

At the date of this report (January 2008), none of the Councils had issued audited financial statements for the year ended March 2007, and only Paget and Smith’s Parish Councils had issued audited statements for 2006.

Efforts over the years to address accounting problems have been unsuccessful

The history of efforts to address these problems is a case-study in futility. Six years ago the Ministry of Health and Family Services engaged a bookkeeping company to provide administrative and accounting help for the five largest Parish Councils. Neither the accounting records nor the availability of financial information improved. Then in 2004 a firm of Chartered Accountants was engaged to provide accounting services to all Parish Councils, except Pembroke, and to bring their financial reporting up-to-date. Again there was no improvement. The underlying problems are undoubtedly with the Councils themselves and with their dysfunctional operating and management systems.

I have commented repeatedly in past annual reports on the lack of accountability this situation represents. I also explained that, in many cases, I was unable to express an auditor’s opinion on the statements because the records were so bad or incomplete. Whether this was caused by lack of commitment or incompetence, and whether it masks mismanagement or even fraud, is impossible to tell.

By late January 2008, the following Parish Councils had not issued audited financial statements for the years indicated:

Devonshire Parish Council	2006, 2007
Hamilton Parish Council	2006, 2007
Paget Parish Council	2007
Pembroke Parish Council	2003, 2004, 2005, 2006, 2007
Sandys Parish Council	2006, 2007
Smith’s Parish Council	2007
Southampton Parish Council	2006, 2007
St. George’s Parish Council	2006, 2007
Warwick Parish Council	2005, 2006, 2007

During the year to the end of January 2008, ten sets of financial statements were issued for Parish Councils. Two received clean audit opinions, one received a qualified audit opinion, six received denials of audit opinions, and one was only a compilation and received no opinion at all. Add to this the lateness of the statements, and this demonstrates the deplorable state of accounting and reporting by the Parish Councils.

Delayed audits are a serious concern. Although financial statement audits are not designed to detect fraud, prompt audits can deter fraud because staff know that such audits might uncover dishonest behaviour. They also know that when important records are not available for audit, any chance of uncovering dishonest behaviour is virtually eliminated.

In a report to the House of Assembly in February 2007, the Minister of Finance stressed the importance of up-to-date financial reporting. She stated that *Those organisations that do not respond in a timely manner will be at risk of having funding withheld until their financial records are current.* In my view, parish councils should be where the withholding of funding should begin and, if necessary, the transfer of responsibilities to the Ministry.

**Recommendation
No. 6**

With respect to parish councils to which it pays annual grants, the Ministry of Culture and Social Rehabilitation should heed the comments of the Minister of Finance who stated in a report to the House of Assembly in February 2007, “For accountability purposes it is important that organisations which receive grant funding from Government have their financial records up to date ... and those organisations that do not respond in a timely manner will be at risk of having funding withheld until their financial records are current.”

Ministry response

The Ministry is aware of financial reporting issues pertaining to Parish Councils and has put in place a Parish Councils Coordinator (Consultant) whose primary responsibility is to work directly with Parish Councils to improve their financial reporting practices. We expect all Parish Councils to be up-to-date with their financial reports by the end of the 2009 fiscal year.

3.5.1 Devonshire Parish Council

Devonshire Parish Council issued financial statements for the year ended March 2005 in January 2008.

Denials of audit opinions

My auditor's report on the Council's March 2005 financial statements states that I was unable to express an opinion (i.e. a denial) on the statements for the reasons explained below. 2005 was the fifth consecutive year that I have denied an opinion on Devonshire Parish Council's annual financial statements.

Serious and widespread accounting and control deficiencies

I denied an audit opinion on the 2005 financial statements because of serious deficiencies in the Council's systems of internal control and accounting records. The Council was unable to provide documentary or other evidence to verify the accuracy and completeness of most of the figures in the financial statements. In particular:

- there were no documented accounting policies or practices,
- accounting records and invoices were not available to verify the accuracy or completeness of all revenues and year-end accounts receivable,
- accounting records and invoices were not available to verify the accuracy or completeness of all expenditures and year-end accounts payable,
- no minutes of Council meetings for periods following the year-end, and some of the minutes that were available were not approved, and
- the Council would not provide me with a signed engagement letter.

The Council responded that all accounting documents are now given to the newly engaged accountant.

All minutes have been duly signed since October 6, 2006.

The matters described in section 3.5.9 below were also reported to the Council at the conclusion of the 2005 audit.

Appendix 2 to this report contains a recommendation made following previous audits that the Council take urgent and immediate action to eliminate the serious accounting and reporting deficiencies described above.

After five years of denials of audit opinions, which means there has been no accountability for approximately \$120,000 of public money, I feel that the following additional recommendation is warranted:

**Recommendation
No. 7**

The Ministry of Culture and Social Rehabilitation should give Devonshire Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of its responsibilities to the Ministry of Culture and Social Rehabilitation.

Ministry response

The Ministry is aware of financial reporting issues pertaining to Parish Councils and has put in place a Parish Councils Coordinator (Consultant) whose primary responsibility is to work directly with Parish Councils to improve their financial reporting practices. We expect all Parish Councils to be up-to-date with their financial reports by the end of the 2009 fiscal year.

3.5.2 Paget Parish Council

Audited financial statements for Paget Parish Council for the year ended March 2005 were issued in July 2007, and statements for the year ended March 2006 were issued in January 2008.

None of the matters reported to the Council at the conclusion of these two audits warrant the attention of the House of Assembly, except for the matters described in section 3.5.9 below.

3.5.3 Pembroke Parish Council

Financial statements for Pembroke Parish Council for 2002 were issued in 2007. They were prepared from information provided by a bookkeeping firm employed by the Department (see above). In the absence of any accounting or other records, my auditor's report states that I compiled the financial statements based on information provided by management. I did not perform an audit, nor did I review or otherwise attempt to verify the accuracy or completeness of such information. Accordingly, I expressed no assurance thereon.

Pembroke Parish Council has a history of unsatisfactory financial reporting. For 1997, 1998 and 1999 the financial statements were un-auditable compilations similar to 2002, and for 1996, 2000 and

2001 the statements received qualified audit reports.

Since the unaudited 2002 financial statements were issued, my staff have periodically asked for draft financial statements and accounting records for the ensuing years to be made available for audit. Their e-mails receive no response.

So, the situation is this:

- there has been inadequate accountability for the seven years ended March 2002,
- there has been no accountability for the five years ended March 2007, during which time the Council has spent approximately \$7 million of public money, and
- the Council shows no inclination or ability to address the horrendous inadequacies in its accounting records or to bring its financial reporting up-to-date.

In this situation, I believe the Council should immediately be relieved of its funding and responsibilities.

**Recommendation
No. 8**

The Ministry of Culture and Social Rehabilitation should make immediate arrangements to withhold annual grant funding from Pembroke Parish Council and transfer its responsibilities to the Ministry.

Ministry response

The Ministry is aware of financial reporting issues pertaining to Parish Councils and has put in place a Parish Councils Coordinator (Consultant) whose primary responsibility is to work directly with Parish Councils to improve their financial reporting practices. We expect all Parish Councils to be up-to-date with their financial reports by the end of the 2009 fiscal year.

3.5.4 Sandys Parish Council

Sandys Parish Council issued audited financial statements for the year ended March 2005 in January 2008.

*Denials of audit
opinions*

My auditor's report on the Council's March 2005 financial statements states that I was unable to express an opinion (i.e. a denial) on the statements for the reasons explained below. 2005 was the fifth consecutive year that I have denied an opinion on the Council's annual financial statements.

Serious and

I denied an audit opinion on the 2005 financial statements because of serious deficiencies in the Council's systems of

*widespread
accounting and
control*

internal control and accounting records. The Council was unable to provide documentary or other evidence to verify the accuracy and completeness of most of the figures in the financial statements. In particular:

- accounting records and invoices were not available to verify the accuracy or completeness of all revenues and year-end accounts receivable,
- accounting records and invoices were not available to verify the accuracy or completeness of all expenditures (including some payroll expenses) and year-end accounts payable, and
- no minutes of Council meetings were available for periods during the year and following the year-end, and some of the minutes that were available were not approved.

The Council responded that the matters raised with them are understood and indicated they would attempt to rectify the problems.

The matters described in section 3.5.9 below were also reported to the Council at the conclusion of the 2005 audit.

Appendix 2 to this report contains a recommendation made following previous audits that the Council take urgent and immediate action to eliminate the serious accounting and reporting deficiencies described above.

After five years of denials of audit opinions, which means there has been no accountability for approximately \$25,000 of public money, I feel that the following additional recommendation is warranted:

**Recommendation
No. 9**

The Ministry of Culture and Social Rehabilitation should give Sandys Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of its responsibilities to the Ministry of Culture and Social Rehabilitation.

Ministry response

The Ministry is aware of financial reporting issues pertaining to Parish Councils and has put in place a Parish Councils Coordinator (Consultant) whose primary responsibility is to work directly with Parish Councils to improve their financial reporting practices. We expect all Parish Councils to be up-to-

date with their financial reports by the end of the 2009 fiscal year.

3.5.5 Smith's Parish Council

Audited financial statements of Smith's Parish Council for the year ended March 2006 were issued in January 2008.

Qualified audit opinion

My auditor's report on the 2006 financial statements contains a qualified opinion because the Council was unable to provide me evidence to support certain expenditures, and a complete set of minutes of its meetings for the year and up to the audit report date. I was therefore unable to satisfy myself that no decisions were made at those meetings that have a material effect on the financial statements. *The Council responded that the matters raised with them were understood and indicated they would attempt to rectify the problems.*

The matters described in section 3.5.9 below were also reported to the Council at the conclusion of the 2005 audit.

3.5.6 Southampton Parish Council

Southampton Parish Council issued financial statements for the year ended March 2005 in September 2007.

Denials of audit opinions

My auditor's report on the March 2005 financial statements states that I was unable to express an opinion on the statements because there was insufficient evidence to determine whether revenues, accounts receivable, expenses and related liabilities are accurately recorded therein. This was the second successive year that I have denied my auditor's opinion on Southampton Parish Council's annual financial statements, essentially for similar reasons.

Accounting records were non-existent

It was not that the accounting records for revenues and expenses and support therefore were inadequate, they were virtually non-existent. As well, no minutes of Council meetings were available and management did not respond to requests for information about matters that should have been recorded in the minutes. Management also did not respond to a request for a signed audit engagement letter.

The Council also did not comply with legislative requirements regarding the minimum number of council members, and frequency of and quorums for meetings, as well as the other matters described in section 3.5.9 below.

Appendix 2 to this report contains a recommendation made following previous audits that the Council take urgent and immediate action to eliminate the serious accounting and reporting deficiencies described above.

Council response

The Council acknowledged the deficiencies in its communications and accounting, and undertook to make efforts to improve the records and supporting documentation.

3.5.7 St. George's Parish Council

The last financial statements issued by St. George's Parish Council were for the year ended March 2002. For 2003, the Council was unable to produce any accounting records or draft financial statements for audit, so no financial statements will be issued for 2003.

Denials of audit opinions

My auditor's reports on the Council's March 2004 and 2005 financial statements state that I was unable to express an opinion (i.e. a denial) on the statements for the reasons explained below. All annual financial statements issued by the Council since 1994 have received either a qualified or denied audit opinion.

Serious and widespread accounting and control

I denied audit opinions on the 2004 and 2005 financial statements because of serious deficiencies in the Council's systems of internal control and accounting records. The Council was unable to provide documentary or other evidence to verify the accuracy and completeness of most of the figures in the financial statements. In particular:

- accounting records and invoices were not available to verify the accuracy or completeness of all revenues and year-end accounts receivable,
- accounting records and invoices were not available to verify the accuracy or completeness of all expenditures and year-end accounts payable,
- there were no minutes of Council meetings held during the year or following the year-end,
- the amount owing to the Government's Consolidated Fund at the year-end could not be verified, and

- the Council would not provide me with a signed engagement letter.

The matters described in section 3.5.9 below were also reported to the Council at the conclusion of the 2004 and 2005 audits.

Subsequent event

The St. George's Rest Home opened in January, 2007. This increases considerably the Parish Council's responsibilities and the amount of public money it administers. Perhaps these increased responsibilities will bring a heightened awareness of the need for better accounting records and more up-to-date accountability reporting. I believe the Council should have an opportunity to show that it can meet its new obligations so I am refraining from making further recommendations at this time.

3.5.8 Warwick Parish Council

The last financial statements issued by Warwick Parish Council were for the year ended March 2004, and those were issued in August 2006. My audit report on those statements contained a denial because there was a total lack of systems of internal control and documentation and information to audit the Council's assets, liabilities, revenues and expenses. My audit reports on the Council's financial statements for the previous three years contained denials of opinion for the same reasons. No statements at all were presented for audit for the previous five years (1996 to 2000) because the accounting records were *so incomplete and unreliable that meaningful financial statements are impossible to prepare*.

Following the 2006 audit, the Council stated that *action is being taken to address this (denial of opinion) and other recommendations put forward by the auditors. We are confident that our 2004-05 fiscal year will be much better as we are working closely with newly appointed accountants*. Unfortunately, all indications are that the 2005 financial statements will also receive a denial of opinion. This means that for the nine years ended March 2005, there will have been no accountability for the \$500,000 to \$700,000 of public money spent each year by the Council. I give credit to the Council for its good intentions, but it is increasingly obvious that it lacks the ability to solve its accountability problems.

**Recommendation
No. 10**

The Ministry of Culture and Social Rehabilitation should give Warwick Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of its responsibilities to the Ministry of Culture and Social Rehabilitation.

Ministry response

The Ministry is aware of financial reporting issues pertaining to Parish Councils and has put in place a Parish Councils Coordinator (Consultant) whose primary responsibility is to work directly with Parish Councils to improve their financial reporting practices. We expect all Parish Councils to be up-to-date with their financial reports by the end of the 2009 fiscal year.

3.5.9 Other pervasive problems

To varying degrees, Parish Councils are not complying with legislative requirements

Aside from failing in their accountability responsibilities, virtually all Parish Councils continue to contravene various requirements of the Parish Council's 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. This year they all contravened the statutory requirement that financial statements be submitted promptly for audit each year. They 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.

Exactly why so many Parish Councils ignore their legislated responsibilities is unclear. There is evidence that attendance at Council meetings is often so poor they have trouble achieving a quorum, and some Council members attend meetings only infrequently. Over the years my own staff have experienced long delays in obtaining information or Council approvals to finalize audits, which also suggests a lack of commitment by Council members to their responsibilities. In my view, most Parish Councils have become irrelevant and an obstruction to accountability and its companion, good governance.

In my 2002 annual report, I questioned whether Parish Councils,

*Are Parish Councils
still needed?*

operating as they are at present, still serve a useful purpose. Appendix 2 to this report contains a recommendation that addresses this issue. The Ministry of Health and Family Services responded that Cabinet has approved a Board to consider moving the rest homes operated by Parish Councils to a different Ministry, thereby improving management oversight. This has not been done. Parish Councils now fall under the responsibility of the Ministry of Culture and Social Rehabilitation. I seriously doubt whether transferring responsibilities between Ministries will help. It will likely result in the same ineffective activities being carried out by the same ineffectual people. In my view, for the worst offenders a more effective action is to withdraw funding and transfer their responsibilities and operations to the Ministry.

3.6 AUDITS OF AIDED SCHOOLS' CAPITATION ACCOUNTS

I audit the capitation accounts of Bermuda's four aided schools because I am auditor (pursuant to section 6 of the Audit Act 1990) of Bermuda's Consolidated Fund, from which capitation accounts receive grants.

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

Financial reporting of only one school was up-to-date

At the date of this report (January 2008), financial reporting for St. George's Preparatory School capitation account was up-to-date. Financial reporting for the Berkeley Institute Capitation Account was one year in arrears, Sandys Secondary Middle School Capitation Account was two years in arrears, and the Whitney Educational Trust was four years in arrears.

Legislative reporting requirements are ignored

As well as failing in their responsibility to provide financial accountability to the Minister and to the House of Assembly, three of the four aided schools are contravening the Education Act 1996 which requires them to submit their accounting records and financial statements for audit within three months of fiscal year-ends.

The following are matters that arose from audits of capitation accounts that were completed since my last annual report (January 2007) and that I believe warrant the attention of the House of Assembly:

3.6.1 Berkeley Institute Capitation Account

Financial reporting is a year in arrears

The audited financial statements for the Berkeley Institute Capitation Account for the years ended March 2005 and 2006 were issued in January 2008.

Qualified audit opinion

My auditor's reports on the financial statements for both years contain reservations of opinion because I was unable to verify the accuracy of accounts receivable (\$241,950 at March 2005 and \$242,640 at March 2006) relating to the wireless laptop program. *Management agreed that documentary evidence should be obtained and retained to support these figures.*

Among other matters reported to the Institute at the conclusion of the 2005 audit was that, as in previous years, the audit process was delayed because information needed to complete the audits was not provided promptly. *Management agreed that information should be provided promptly.*

Status of the 2007 audit

The 2007 audit can now begin.

3.6.2 Sandys Secondary Middle School Capitation Account

Financial reporting is two years in arrears

The audited financial statements for Sandys Secondary Middle School Capitation Account were for the year ended March 2005 were issued in December 2007.

Among the matters reported to the School at the conclusion of the audit were:

- the School prepared its financial statements on a cash basis instead of an accrual basis. This and other accounting deficiencies necessitated numerous audit adjustments,
- some subsidiary accounting records could not be located covering the entire year,
- most of the minutes of School Board meetings were not appropriately approved,
- certain payroll benefits were not recorded correctly,
- cheques were issued with only one signature (instead of the required two),
- payments were often made late, thereby incurring late-charges or failure to take advantage of discounts, and
- many purchase orders were prepared incorrectly, were inappropriately approved, or were issued after the goods or services were received.

The School Board responded that all concerns raised by the audit are being dealt with.

Status of audits in arrears

The 2005 audit was substantially complete in January 2007 but was not finalized until December because the Board was slow in providing the final documentation and signatures. The accounting records for 2006 are available for audit but need updating to reflect material adjustments that arose from the 2005 audit before audit work can begin.

3.6.3 St. George's Preparatory School Capitation Account

None of the matters reported to the Board at the conclusion of the audit of the St. George's Preparatory School Capitation Account for the year ended March 2007 warrant the attention of the House of Assembly. The school's financial reporting process is exemplary.

3.6.4 Whitney Educational Trust

*Financial reporting
is four years in
arrears*

By virtue of appointment by the Board of Trustees, I am the auditor of the Whitney Educational Trust, not just its capitation account. The Trust's audited financial statements for the year ended March 2003 were issued in January 2008.

*Qualified audit
report*

My auditor's report on the 2003 financial statements contains a reservation of opinion for two reasons. First, certain capital assets are not recorded in the Trust's financial statements because neither the Ministry of Works & Engineering nor the Ministry of Education have cost-data for the Trust's capital assets that were paid for years ago by Government. And second, the Trust receives donation revenue which, by its nature, cannot be audited satisfactorily. This last qualification does not necessarily reflect adversely on the Trust's financial records.

Audit delays

*Delays followed
delays*

Completion of the 2002 audit was delayed because accounting records for that year were not available for audit until 2004. Then, when the audit was substantially complete, there were further delays because the Trust and the Ministry of Education took almost a year to provide information needed to finalize the audit. The 2003 audit experienced similar delays. The audit began in December 2005 and eventually was substantially complete in January 2007, but delays in receiving documents to finalize the audit held up the issuance of the statements until January 2008. As a matter of policy, we do not start the following audit until the financial statements of the current audit are released.

3.6.5 Other Concerns

The following concerns relate to all aided schools:

Capital costs incurred by Government

Under an unwritten agreement with aided schools, the Government in 1965 assumed responsibility for their capital construction costs. The agreement requires any aided school that leaves the Government system to refund to the Government the unamortized portion of its capital construction costs.

The Government cannot identify capital construction costs

This raises three concerns. First, an agreement as important as this should be legally executed. Second, aided schools should record and amortize in their financial statements the capital construction costs incurred on their behalf since 1965 by Government. However, they are unable to do so because Government cannot provide the necessary cost information. And third, most schools should (but do not) disclose this situation in their annual financial statements.

There is a solution to this problem

In a letter to the Ministry of Education in December 2005, I suggested how these last two concerns could be resolved. In 2002, the Government began recording its capital assets on the balance sheet of the Consolidated Fund at amortized cost. To do this, it established historical cost figures for all its capital assets, some of which were acquired decades ago, using a “book value calculator”. In response to my suggestion, the Ministry of Education has agreed to use similar methodologies to estimate historical capital costs for assets transferred to aided schools.

Appendix 2 to this report contains a recommendation made in past years to address the above concerns.

In January 2008 I received the following responses to this recommendation:

- Ministry of Works and Engineering - *The responsibility for aided schools is not under Works & Engineering, currently monitored by Ministry of Education.*
- Ministry of Education – *The Ministry of Education collates expenses separately for Aided Schools and will continue to do so in the future.*

These two responses are disappointing in that they show a lack of understanding of the problem. The Ministry of Works and

3. AUDIT OBSERVATIONS & RECOMMENDATIONS

Engineering does indeed build capital assets for aided schools e.g. Berkeley, and what collating expenses has to do with capital expenditure allocation is anyone's guess.

3.7 OTHER AUDITS

Office of the Bermuda Ombudsman

I am auditor of the Office of the Bermuda Ombudsman pursuant to the legislation under which that Office operates. The Ombudsman is independent of Government and reports directly to the Speaker and to the House of Assembly. The Office's audited financial statements and my comments thereon shall begin appearing in my next annual report.

With the approval of the Select Standing Committee on the Office of the Auditor General (see Appendix 11), I have accepted appointment as auditor of the following entities, even though I am not auditor by virtue of the provisions of the Audit Act:

Bermuda Amateur Boxing Association
Bermuda Cricket Board of Control
Bermuda Football Association
Bermuda Rowing Association
Bermuda Track and Field Association

All of these entities receive grant funding from the Government of Bermuda.

Bermuda Monetary Authority

Until a few years ago, I was auditor of the Bermuda Monetary Authority pursuant to its enabling legislation and the Audit Act 1990. However, the Bermuda Monetary Authority Amendment Act 2001 now allows the Minister of Finance to approve an auditor for the Authority other than the Auditor General. The legislative amendment recognizes that the manner in which Board Members hold office renders the Authority independent of Government. It therefore no longer satisfies the definition of a Government-controlled organization. On the recommendation of the Authority's Board, the Minister of Finance has continued to approve my appointment as auditor of the Authority.

4. OFFICE OF THE AUDITOR GENERAL



Auditor General's Arrest

Section 9(c) of the Audit Act 1990 provides for the Auditor General to “call attention (in his Annual Reports to the House of Assembly) to any...case that the Auditor General considers merits attention.” On June 18, 2007, I was arrested and held overnight in the Hamilton Police Station. The arrest of its legislative auditor has to be considered an incident significant enough to be of interest to the House of Assembly.

I was arrested on suspicion of being in possession of stolen goods. The alleged stolen goods were three binders of copies of police documents. How, you might ask, did I come into possession of copies of Police files and, why, knowing the very sensitive position I was placing myself in, would I expose myself to the strong arm of the law? In a nutshell, I felt I had little choice in the matter.

A Bermudian came to me and said that he was in possession of Police documents that indicated corruption at the highest levels of Government and a subsequent cover-up. If I thought, after reviewing a small portion of the contents, that the files might indeed indicate such activity, would I be willing to take possession of the documents? I cannot imagine any Auditor

General, faced with this, refusing to exercise his Constitutional responsibilities. Moreover, I had every expectation that in a contest between two Constitutional officers, one given the Constitutional right to ask for and receive all documents relating to audits, the Courts would be asked to decide where the law stood on the issues. Certainly, if the Courts determined, in considering the totality of the law, that I had to turn over audit documents to the Police, I would have done so. I never expected that the law allowed the Commissioner of Police to be the complainant, the judge and the enforcer where it appeared to me that all the law establishing my independence, my right to information, and my mandate to act, was being totally ignored.

In order to have my staff, some of whom were employees of local audit firms, released from an office lockdown, I had my wife obtain and bring the files to my Office. However, I would not reveal the source. As I was to learn, but have reason to believe the Police knew from whom the information came all along, copies could not be considered stolen property as a matter of law. In any event, I came to find out that the Police had been told the week before who my source was, information I confirmed once I became aware that my source had already readily admitted to it. With the reasons for my arrest now very much debatable, I feel that my arrest was an attempt to discredit me and was politically motivated.

During the period leading up to the December elections, politicians and political commentators, trying to score political points, accused me of being a criminal and accused my wife of having access to confidential Government documents and of rifling through them. I can confirm that those binders with copies of Police documents were never in my home, my wife never had access to them (and neither did anyone else), and she never looked through them. I have spent 30 years working with integrity as my constant guide, saying it as I see it. It is difficult to forgive anyone who attempts to destroy my integrity. Likewise, my family is off limits in the political fray. Rally-rousing, cheap political shots at the expense of my family are also difficult to forgive.

Finally a comment on controls. It is the responsibility of every Accounting Officer in the Civil Service, usually a head of Department, to ensure there is a system of controls in place sufficient to protect Government property, and to ensure that this system is working. Over the past few years, there have been too many misappropriations of Government property for the plain

reason that the opportunity was there – there was no effective system of controls in place or operating. We are all aware of the low-level clerk or the mid-level manager who has been charged and convicted. But in no case that I am aware of has responsibility been pushed up the chain as a result of poor management oversight, lack of an appropriate control system, or the failure to ensure that the control system is working. The failure of Accounting Officers to be held accountable for responsibilities for which they are being paid is contributing to a lack of motivation to perform and a perception that there are two disciplinary codes in the Civil Service. Last summer Bermuda was subjected to a traumatic chain of events because confidential Police files apparently went missing. My information is that those highly confidential files were left unattended in an unsecured public thoroughway for four to six weeks where any police officer or hired cleaner would have had unimpeded access to them. Lack of appropriate controls; opportunity. Responsibility? Accountability? I guess arresting the Auditor General seemed to be a good place to start.

**Legislative
Mandates**

The Office's mandate is provided by the Bermuda Constitution Order 1968 and the Audit Act 1990 (Appendices 10 and 13). Pursuant thereto I am auditor of all Government Departments and Offices, 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. I am also auditor of the Government's pension and other Public Funds, and all Government-controlled entities.

Independence

Section 88 of the Bermuda Constitution Order addresses the appointment, term, dismissal and, perhaps most importantly, the independence of the Auditor General. Independence is vital to the effectiveness of legislative auditors. Unless legislative auditors are, and are seen to be, completely independent of those whose affairs they audit, their credibility and effectiveness are compromised.

The legislative framework that provides for my independence emanates from the Constitution Order and is supplemented by the Audit Act 1990. A Regulation under the Constitution Order also delegates to me responsibility for hiring, employing and disciplining my staff (Appendix 10). Further, section 50(A) of the Rules of the House of Assembly (Appendix 11) creates a Select Standing Committee of five members of the House of Assembly responsible for reviewing my Office's annual budgets, staffing needs and salaries, thereby reducing the risk that those I

audit can impair my effectiveness by withholding needed resources.

Both the Constitution Order and the Audit Act set out broad principles governing auditor independence. They do not, however, prescribe a framework to ensure independence. Such a framework is established by regulations, rules, understandings and, of course, good faith. For example, both the Constitution and the Audit Act are silent on the provision of office premises for myself and my staff. This became a problem during 2006 as explained in section 2.3 of this report.

Legislative auditors must be strictly apolitical. They are neither servants nor allies of the government, its administrators, or of opposition parties. They must behave apolitically and be, and be seen to be, free from undue influence and direction by all except the legislative body to which they are ultimately accountable.

Audit Mandate and Mission

The Mission of my Office, which derives from the legislative mandate, is *to add credibility to the Government's financial reporting and to promote improvement in the financial administration of all Government Departments and controlled 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'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 partly by management control systems audits. My reporting practice in recent years has been to include management control systems audit findings and recommendations in a separate report tabled in the House shortly after my annual report. Because the audit of the Consolidated Fund (see section 3.2.2 of this report) again consumed so much of my Office's resources, I will likely be unable to undertake management control systems audits again this year. Before the end of the 2008 fiscal year, I will evaluate the situation with my management team.

Financial statement audits also generate recommendations for improved financial reporting and control, and are the source of most of the recommendations in this report.

Reporting Process and Practices

The Audit Act allows me discretion as to the form and content of my annual reports. My practice is to report matters that I believe are significant and constitute an actual or potential loss of public funds, a lack of financial control, an impairment of accountability, or non-compliance with legislation. I often do not report errors or deficiencies that have been or are being rectified, unless such deficiencies have resulted in loss or I believe that reporting them will be instructive to other Government entities.

All observations and recommendations that arise from audits are discussed with senior management and/or Department Heads, and opportunities are provided for them to respond. In the interests of brevity, some management responses contained in this report are summaries of the responses received. In most cases, management assertions that action has been taken to deal with reported problems could not be verified by my staff before this report was issued.

Appendix 2 to this report lists recommendations made in this and previous annual reports that have not yet been fully resolved. When reporting a problem that I commented on in a previous annual report, my practice is not to repeat the recommendation but to refer the reader to the recommendation and management responses in Appendix 2.

The following sections of the Audit Act prescribe what I must and can report, to whom I report, and when:

Section 6 Reports

Section 6 reports are reports on financial statements. They are similar to the reports that private sector auditors issue on the financial statements of their clients. These reports appear in front of the financial statements to which they relate. They contain my opinion as to whether the statements present fairly the financial position, results of operations and cash flows of the entity, or the extent to which they do not. Management is responsible for preparing financial statements; my responsibility is to audit and report on them.

Section 7 of the Audit Act requires me to deliver Section 6 reports to the Ministers responsible for the entities audited. Those Ministers are then responsible for tabling the reports and financial statements in the House of Assembly.

Section 8 Reports

Section 8 reports are usually called management letters, and are not public reports. Management letters are used to communicate audit observations and recommendations to management and, in

some cases, to the responsible Minister. Management letters also record management's responses to audit recommendations.

Management letters are usually addressed to the Department Head, or to the Chairperson or Chief Executive Officer of government-controlled organizations. In most cases, they are also copied to the relevant Ministry and to the Ministry of Finance. Most observations and recommendations included in my annual reports to the House are first communicated to management in management letters.

Section 9 Reports

Section 9 reports are my annual reports to the House of Assembly. This annual report is my Section 9 report for 2007.

Annual reports are on the work of my Office. In practice, my annual reports focus on the audits completed since the issue of my previous annual report. These reports contain only those audit observations and recommendations that I believe warrant the attention of the House of Assembly.

Section 9 reports are addressed to the Speaker of the House of Assembly. I also send copies to the Governor and the President of the Senate. Before doing so, however, drafts of these reports are reviewed by an Audit Committee established under Section 5 of the Audit Act and by the Ministry of Finance. Pertinent extracts are also sent to Heads of Departments, Chairpersons and/or Chief Executive Officers to elicit final responses. The purpose of these communications is to avoid misunderstandings and to acquaint Government and senior administrators with the contents of my public reports before they are issued.

Section 12 Reports

Section 12 reports are emergency or special reports. They are reports to the House on matters which, in my opinion, should not be delayed until my next annual (Section 9) report. In past years I have often used Section 12 reports to report findings and recommendations arising from management control systems audits that were completed shortly after my annual reports were finalized.

Like annual reports, Section 12 reports are addressed to the Speaker of the House of Assembly, and are forwarded to the Governor and the President of the Senate. Drafts of Section 12 reports are also reviewed by the Audit Committee and forwarded for comment to relevant Government Ministries, Departments and Government-controlled organizations.

**Accounting
Principles and
Auditing Standards**

The work of my Office is conducted in conformity with the professional auditing standards prescribed by the Canadian Institute of Chartered Accountants and promulgated by the Institute of Chartered Accountants of Bermuda.

These auditing standards are designed to promote compliance with generally accepted accounting principles as prescribed and promulgated respectively by the Institutes of Chartered Accountants of Canada and Bermuda. As well, the Public Sector Accounting Board of the Canadian Institute publishes accounting and auditing recommendations to guide government accounting and auditing. Because of the professional relationship between the Canadian and Bermuda Institutes, these recommendations apply in Bermuda.

Accounting principles generally accepted in Bermuda

Accounting principles generally accepted in Bermuda provide the basis for the fair and consistent disclosure of financial information in financial statements. They encompass specific accounting rules, practices and procedures, as well as broad principles and conventions of general application. The recommendations of the Public Sector Accounting Board recognize the unique and changing circumstances that sometimes warrant alternative accounting disclosures for governments and public sector organizations.

Generally accepted auditing standards

Generally accepted auditing standards are used by auditors to ensure the appropriateness of auditing procedures in relation to the audit objectives to be attained, the quality and extent of their application, and the suitability of the resulting auditor's report.

These standards require auditors to plan and perform audits to obtain reasonable assurance whether financial statements are free of material misstatement. They require an examination, on a test basis, of the evidence supporting the amounts and disclosures in the financial statements, and an assessment of the accounting principles used, any significant estimates made by management, and the overall financial statement presentation. Generally accepted auditing standards recognize that management is responsible for preparing financial statements, and that auditors are responsible for expressing opinions on those statements based on their audits.

Reporting Process

The matters reported in my annual reports undergo a rigorous process to ensure that all concerned or affected parties have prior knowledge of, and opportunities to challenge or respond to, those matters.

Management of entities audited are invited to meet to discuss matters arising from their audits. Minutes of these meetings are prepared to record management's responses and concerns. By circulating these minutes to those who attended the meetings, my staff attempt to minimize the risk of misunderstandings.

Audit observations and recommendations considered important enough to warrant the attention of senior management are then incorporated into management letters (Section 8 reports) which are normally addressed to the Chairpersons, Chief Executive Officer and/or the Accountant-General.

Matters considered important enough to warrant the attention of the House of Assembly are then selected from management letters for inclusion in my annual reports. Draft annual report sections are circulated for comment to affected Ministries, Departments, government-controlled organizations, parish councils, aided schools, and to the Ministry of Finance, with invitations to provide responses or to amend previously included responses. And finally, before the report is printed, it is reviewed by the Government's Audit Committee which can inform Cabinet of any matters in the report which, in its opinion, ought to be brought to Cabinet's attention so that there will be no surprises.

Audited Financial Statements

The audited statement of revenues and expenses of the Office of the Auditor General for the year ended March 31, 2006, is included at Appendix 14.

Organization Chart

Appendix 15 contains the organization chart for the Office of the Auditor General. It shows that two additional temporary posts have been added to the establishment of the Office of the Auditor General. These posts have been established to audit the backlog of accounts that have been promised to be made available.

2007 Operations

The following is the actual/budget statement of operations of the Office of the Auditor General for the year ended March 31, 2007:

	Actual	Budget	Over/Under
	\$	\$	\$
CURRENT ACCOUNT EXPENDITURES			
Salaries, training and recruiting	1,393,688	1,450,399	56,711
Professional services	479,117	463,300	15,817
Rentals	237,162	330,400	93,238
Annual report and compilation	53,558	45,000	8,558
Materials and supplies	21,410	19,000	2,410
Travel and hospitality	13,900	13,900	
Maintenance	11,859	17,500	5,641
Communications	11,382	19,600	8,218
	<u>2,222,076</u>	<u>2,359,099</u>	<u>137,023</u>
CAPITAL ACQUISITIONS			
Office furniture and equipment	<u>15,809</u>	<u>16,400</u>	<u>591</u>
REVENUES	<u>468,500</u>	<u>464,000</u>	<u>4,500</u>

Expenditures

The budget figures above reflect an approved transfer of \$34,000 from salaries to professional services. This transfer was anticipated because staff vacancies necessitated contracting for professional services from accounting firms. The \$56,000 salaries under-spending of the 2007 budget was also caused by staff vacancies, and more of the vacancies could have been anticipated and a further amount transferred to professional services. The rentals under-spending was mainly because my Office was moved to smaller less-expensive leased premises in May 2006 (see section 2.3 of this report).

Revenues

Revenues comprise audit fees charged to the organizations that legislation or the Select Committee has directed shall be billed for their audit services.

APPENDICES

	Page
Appendix 1	2007 Annual Report Recommendations..... 129
Appendix 2	Status of Outstanding Audit Recommendations..... 133
Appendix 3	Organizations Falling Within the Mandate of the Auditor General..... 156
Appendix 4	Audits Completed during the Reporting Period 157
Appendix 5	Payroll Tax Remittances in Arrears..... 158
Appendix 6	Pension Contribution Remittances in Arrears..... 160
Appendix 7	Land Tax Remittances in Arrears 161
Appendix 8	Minister of Finance Response on the Report of the Parliamentary Standing Committee on the Public Accounts for the Financial Years Ended 31 March 2003 and 2004 163
Appendix 9	Financial Statements of the Consolidated Fund..... 181
Appendix 10	Extracts from the Bermuda Constitution Order..... 231
Appendix 11	Extracts from the Rules of the House of Assembly..... 233
Appendix 12	The Public Service (Delegation of Powers) Regulation 2001. 235
Appendix 13	Audit Act 1990..... 239
Appendix 14	Office of the Auditor General – Audited Statement of Revenues and Expenses for the year ended March 31, 2006 249
Appendix 15	Office of the Auditor General Organization Chart..... 255

APPENDIX 1

2007 Annual Report Recommendations

The following recommendations appear in this report in the sections indicated. It is my reporting policy to include in the body of annual reports only new recommendations. Matters in this report that are addressed by recommendations made in previous annual reports are cross referenced to Appendix 2 which lists all unresolved recommendations, including the following.

2.2 Denials and Qualifications in Auditor's Reports

- No. 1** The Ministry of Finance should consider disciplinary action, including written warnings, penalties, and in significant or continuing situations, dismissals of Chief Executive Officers, Chief Financial Officers, Controllers, and Accounting Officers whose entities receive qualifications or denials of opinion in auditor's reports on their financial statements due to the unavailability of evidential documentation supporting disbursements of public funds.

3.2.11 Public Service Superannuation Fund

- No. 2** If inter-fund indebtedness of the Public Service Superannuation Fund to the Consolidated Fund is to be forgiven, to comply with legislative requirements the Ministry of Finance should include the Fund's anticipated annual cash flow deficits each year in annual appropriations bills (or obtain supplementary estimates) because such a forgiveness represents a Government contribution under Section 10A(2) of the Public Treasury (Administration and Payments) Act 1969.

3.4.3 Contributory Pension Fund

- No. 3** The Department of Social Insurance should reconcile the Contributory Pension Fund's monthly pension payment reports to the previous month's report to ensure that all necessary additions and deletions have been recorded on the system.

3.4.5 Government Employees Health Insurance Fund

- No. 4** The Ministry of Finance should set a deadline by which time the annual financial reporting, with unqualified audit opinions, of the Government Employees Health Insurance Fund should be brought up-to-date and, if the deadline is not met, the Fund's administration and accounting should be contracted out to a service provider.

3.4.7 Hospital Insurance Fund

- No. 5** The Ministry of Finance should set a deadline by which time the annual financial reporting, with unqualified audit opinions, of the Hospital Insurance Fund should be brought up-to-date and, if the deadline is not met, the Fund's administration and accounting should be contracted out to a service provider.

3.5 Parish Councils

- No. 6** With respect to parish councils to which it pays annual grants, the Ministry of Culture and Social Rehabilitation should heed the comments of the Minister of Finance who stated in a report to the House of Assembly in February 2007, "For accountability purposes it is important that organisations which receive grant funding from Government have their financial records up to date ... and those organisations that do not respond in a timely manner will be at risk of having funding withheld until their financial records are current."

3.5.1 Devonshire Parish Council

- No. 7** The Ministry of Culture and Social Rehabilitation should give Devonshire Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of its responsibilities to the Ministry of Culture and Social Rehabilitation.

3.5.3 Pembroke Parish Council

- No. 8** The Ministry of Culture and Social Rehabilitation should make immediate arrangements to withhold annual grant funding from Pembroke Parish Council and transfer its responsibilities to the Ministry.

3.5.4 Sandys Parish Council

- No. 9** The Ministry of Culture and Social Rehabilitation should give Sandys Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of its responsibilities to the Ministry of Culture and Social Rehabilitation.

3.5.8 Warwick Parish Council

- No. 10** The Ministry of Culture and Social Rehabilitation should give Warwick Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of its responsibilities to the Ministry of Culture and Social Rehabilitation.

APPENDIX 2

Status of Outstanding Audit Recommendations

The recommendations in this appendix are from my public reports (including this report) that have not been addressed satisfactorily. After each recommendation I indicate the year in which it, or a recommendation much like it, first appeared. Ministry responses have not been audited. At the end of this appendix I list recommendations from previous public reports that have been removed from this appendix this year, and explain why.

	Recommendations
Consolidated Financial Statements for Bermuda	1 – 3
Accountability	4 – 5
Financial Management	6 - 15
Central Payroll System	16
Debt Collection (taxes and pension contributions)	17 – 18
Identifying Taxpayers	19
Department of Education	20
H. M. Customs	21 – 23
Department of Financial Assistance	24 – 25
Department of Immigration	26 – 27
Ministry of Works and Engineering	28
Contributory Pension Fund	29 – 32
Government Employees Health Insurance Fund	33 – 34
Hospital Insurance Fund	35 – 36
Public Service Superannuation Fund	37
Bermuda Arts Council	38
Bermuda Housing Corporation	39 – 42
Bermuda Hospitals Board	43
Bermuda College	44
Bermuda Post Office	45 – 46
CedarBridge Academy	47 – 48
Aided Schools	49
Parish Councils	50 – 59
Office of the Auditor General	60 – 63

RECOMMENDATION	RESPONSES AND CURRENT STATUS
Consolidated Financial Statements	
<p>1. To provide a full and understandable overview of the Government's financial results and affairs, and to comply with reporting standards for governments, the Ministry of Finance should prepare and publish annual consolidated financial statements for the Government. (1992)</p>	<p><i>Consolidation cannot be accomplished until the current accounting system is upgraded. (January 2002)</i></p> <p><i>We agree there are benefits to issuing consolidated financial statements, but this cannot be accomplished until legislation is amended making consolidated statements a statutory requirement and giving the Accountant-General authority over the accounting systems of all Government-controlled organizations. (January 2004 & December 2005)</i></p> <p><i>The Accountant-General's Department will be working to recruit the resources to put this process in place within two years pending budget approvals. (January 2007)</i></p> <p><i>The Accountant General has identified a dedicated resource to lead this initiative and Consolidated Financial statements should be issued by March 2010. (January 2008)</i></p>
<p>2. To enable consolidated financial statements to be prepared for Government, the Accountant-General's Department should:</p> <ul style="list-style-type: none"> • improve the accounting for inter-departmental transactions, capital assets, other revenues, and total external debt, • give priority to removing the obstacles currently hindering the preparation of consolidated statements, and • develop a plan for the consolidation process that sets out the responsibilities and timelines of all parties involved in the process. <p><i>(This summarizes recommendations from 1995 to 2001)</i></p>	<p><i>Significant strides have been made. Most capital assets are disclosed on the Consolidated Fund balance sheet at March 2003. Inter-departmental and inter-quango transactions are also disclosed in the 2003 statements. Elimination of related revenue and expense amounts is planned for 2004. Until legislation is amended, we cannot proceed further with preparing of consolidated financial statements. (January 2004)</i></p> <p><i>Infrastructure costs will be disclosed in the financial statements in the coming fiscal year. (November 2004)</i></p> <p><i>Infrastructure costs were not capitalized in the 2005 statements due to delays in the obtaining software needed to calculate historical costs. These costs will be capitalized in 2006. (December 2005)</i></p> <p><i>We are working to add all remaining capital assets to the financial statements for the year ended March 2007. (January 2007)</i></p> <p><i>The remaining capital assets will be added to the financial statements for the year ended March 2008, except for infrastructure which will be disclosed in the financial statements for the year ended March 2009 (January 2008)</i></p>
<p>3. To enable consolidated financial statements to be prepared, the Ministry of Finance should seek legislative authority:</p> <ul style="list-style-type: none"> • for the preparation and issuance of consolidated financial statements, and • to enable the Accountant-General to require all Government-controlled Organizations (quangos) to provide the information needed. (2003) 	<p><i>Consideration must be given to resources, accounting systems, management roles and other factors that are critical in the accomplishment of this task. This is not a simple legislative fix. (January 2004)</i></p> <p><i>Whilst legislative changes are required, they are only one aspect of a complex approach required to achieve this accounting objective. Whereas accounting standards call for consolidated statements, the Ministry of Finance believes there are associated issues that first need addressing before consolidation can progress. Once these issues are addressed, the consolidation process can be progressed. (December 2005 and January 2007)</i></p> <p><i>The Accountant General has identified a dedicated resource to lead this initiative and Consolidated Financial statements should be issued by March 2010. (January 2008)</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
Accountability	
<p>4. To improve financial management, governance and accountability, the Ministry of Finance should use its authority to require Government (and Government-controlled) entities to bring their accounting up-to-date and, to make their annual financial statements available for audit in a timely manner. (1996)</p>	<p><i>The Accountant-General's Department uses its quarterly meetings with financial controllers to communicate the importance of timely information financial statements. (January 2002)</i></p> <p><i>Efforts are ongoing to encourage Government-controlled entities to produce annual financial statements at the earliest opportunity. (January 2004)</i></p> <p><i>The Ministry continues to encourage entities towards timely completion of year-end financials. (November 2004)</i></p> <p><i>The Ministry will do all in its power to ensure that entities accounting is brought up-to-date. The importance of completing audits of their accounts promptly will continue to be stressed to these entities. (December 2005).</i></p> <p><i>This matter has been discussed at the Civil Service Executive level and Permanent Secretaries have been directed by the Cabinet Secretary to constantly monitor this problem within their respective Ministries and to use their authority to ensure that accounts are brought up to date. (January 2007).</i></p> <p><i>The Ministry of Finance has been closely monitoring this situation and can report that steady progress is being made. (January 2008)</i></p>
<p>5. To improve accountability, governance and operational effectiveness of Government-controlled Organizations and Public Funds, the Ministry of Finance should publish guidelines requiring Boards and Management Committees to establish and operate under terms of reference that call for comprehensive stewardship roles and responsibilities. (2002)</p>	<p><i>The Ministry of Finance supports this recommendation and will review it during 2004-05 in conjunction with the Accountant-General of the existing terms of reference used by Boards and Management Committees and, where appropriate, amendments will be made to improve corporate governance. (January 2004)</i></p> <p><i>The Ministry of Finance supports this recommendation and has recently conducted a governance review of the Public Funds Investment Committee and its operations. The review resulted in improved policies, procedures, and documentation, providing better governance and better control for the Public Funds. (December 2005)</i></p> <p><i>The Ministry of Finance will continue to advise members of Boards and Management Committees of their roles and responsibilities. (January 2007 & 2008).</i></p>
Financial Management	
<p>6. The Ministry of Finance should consider disciplinary action, including written warnings, penalties, and in significant or continuing situations, dismissals of Chief Executive Officers, Chief Financial Officers, Controllers, and Accounting Officers whose entities receive qualifications or denials of opinion in auditor's reports on their financial statements due to the unavailability of evidential documentation supporting disbursements of public funds. (2007)</p>	

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>7. The Accountant-General's Department should enforce better compliance by Ministries and Departments with the contract tendering requirements in <i>Financial Instructions</i>, and the Ministry of Finance should require Government-controlled Organizations (quangos) to adopt procurement and tendering standards at least equal to those contained in <i>Financial Instructions</i>. (2002)</p>	<p><i>Financial Instructions deal with the Consolidated Fund. The Accountant-General does not have jurisdiction over quangos. (January 2004)</i></p> <p><i>The Accountant-General's Department will review this process to ensure that effective controls are in place. (December 2005)</i></p> <p><i>The Ministry of Finance will continue to advise members of Boards and Management Committees of their roles and responsibilities. This has been included in the latest release of the Financial Instructions. (January 2007)</i></p> <p><i>The Accountant General's Department has contacted all Quangos about the need for appropriate internal controls. Financial Instructions form the minimum requirement and will automatically apply where they do not have other controls in place (January 2008)</i></p>
<p>8. The Accountant-General's Department should include in <i>Financial Instructions</i> guidelines for who should be notified (including the Auditor General) and other courses of action to be followed or considered, when fraudulent activities are detected or strongly suspected. (2003)</p>	<p><i>Financial Instructions section 5.6 addresses the notification of irregularities or system deficiencies. If fraud or suspected fraud is detected, the department head or accounting officer is responsible for notifying the Accountant-Genera, who can then advise others of the results of the investigation. (January 2004)</i></p> <p><i>An internal audit section is being established and guidelines developed for how to best disseminate this information. This will be part of Internal Audit procedures and separate from Financial Instructions. (January 2007)</i></p> <p><u>Auditor's comment</u> It is important that the Auditor General be added to the list of those to be notified when fraudulent activities ate detected or suspected, and that users of <i>Financial Instructions</i> are aware of this.</p>
<p>9. The Ministry of Finance should consider seeking "whistleblower" legislation to encourage public employees to report apparent malpractice or other wrongdoings, and to protect employees who do so. The legislation should be supported by practices that demonstrate that reported malpractices are investigated fully without fear or favour that whistleblowers are protected, and that perpetrators of misappropriations and fraud are dealt with firmly. (2004)</p>	<p><i>The recently passed Ombudsman Act 2004 provides for redress for "whistle blowers" through the Human Rights Act. This provision was in recognition that persons who complain should feel free to complain without suffering discrimination of any kind. An independent Whistleblowers Act was discussed during the development of the Ombudsman Act, but at this stage there has not been a decision taken whether or not to proceed.</i></p> <p><i>The comment above still applies. (December 2005, January 2007 and January 2008)</i></p> <p><u>Auditor General's comment:</u> The Ombudsman Act 2004 provides neither opportunity nor protection for potential whistleblowers.</p>
<p>10. To reduce the risk of inaccuracies and delays in producing pension liability valuations, the Accountant-General's Department should periodically reconcile the information on pension plan databases and perform other procedures to ensure that the information is reliable and complete. (2004)</p>	<p><i>The deficiencies in the database are recognized and a new section within the Accountant-General's Department has been proposed. (November 2004)</i></p> <p><i>This section has been approved and staffing should be completed in the upcoming months. (December 2005)</i></p> <p><i>A new benefits section has been created and information has now been entered in to JDEdwards and an RPF issued for a pension database. Actuaries have been engaged to conduct annual data reconciliations. (January 2007)</i></p> <p><i>The RFP has been completed for a new pension system and a vendor has been selected. The anticipated date of implementation is March 2009 (January 2008)</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>11. Through its regular meetings with Ministry controllers or by other means, the Accountant-General's Department should spearhead the strengthening and efficient operation of internal controls in other departments. (2005)</p>	<p><i>Controls are discussed with controllers at quarterly meetings. Spearheading the strengthening and efficient operation of internal controls throughout Government Departments is a mandate of the newly re-established Internal Audit Section. We agree with this recommendation but full implementation is dependant on resources available. (December 2005 & January 2007)</i></p> <p><i>We are rescheduling internal control training and recommending that a section on Financial Instructions be included in orientation for new employees (January 2008)</i></p>
<p>12. Without further delay, the Accountant-General's Department should bring monthly reconciliations of all bank accounts up-to-date and maintain reconciliations in compliance with the requirements of section 21 of <i>Financial Instructions</i>. (2005)</p>	<p><i>Staff shortages and revamping business processes contributed to delays monthly bank reconciliations to the agreed standard of 30 days after month's end. Revised procedures are being introduced. The new supervisor is addressing the problems identified in the special audit, and is implementing enhanced procedures and controls including system changes in the financial reporting system. With a full staff complement and revised processes, timely monthly reconciliations of all bank accounts should be achieved by October 2005.</i></p> <p><i>Efforts are currently ongoing and high priority is placed in this area to ensure accounts are reconciled within 30 days after the month end. (2005)</i></p> <p><i>High priority has been placed on reconciliations and additional resources were seconded from audit firms to bring the October reconciliations current by November 30th. By then, all reconciliations were substantially complete except for two accounts. The outstanding points are being addressed and we are working to stay current. (December 2005)</i></p> <p><i>A Management Services review was conducted in 2006 which recommended four additional staff for this section. Three additional temporary staff have been hired. High priority is placed in this area to ensure accounts are reconciled within 30 days after the month end.. (January 2007 and January 2008)</i></p>
<p>13. To improve security over access to data stored on computer systems, and to promote appropriate access and restrictions to access by users, the Information Technology Office should:</p> <ul style="list-style-type: none"> • develop, approve, communicate and implement formal policies, standards, guidelines and procedures governing its program and data security practices, • configure its main processing equipment at a higher security level, • establish more rigorous password protocols, and • institute periodic monitoring to determine the appropriateness of user profiles and to identify and remove disabled profiles. (2006) 	<p><i>The Information Technology Office (ITO) responded that a formal IT security policy has been approved by the Civil Service Executive and a communication scheme containing guidelines and procedures for individual users and department management is being development and will be initiated during the first quarter of 2007. (January 2007)</i></p> <ul style="list-style-type: none"> • <i>The security policy remains in effect. The training package has been developed but was rescheduled to 2008 to coincide with implementation of the complex password policy.</i> • <i>Complete as of November 2007 with installation of new I-Series.</i> • <i>Self-help password management technology that will facilitate practical implementation of complex passwords has been procured and tested. Beta testing and full rollout is scheduled for 2008. The roll out was delayed from 2007 to allow concentration on the I-series installation project.</i> • <i>User profiles are updated on a weekly basis. Annual reconciliations with departments was initiated during the first quarter of 2007 with some success. The second annual reconciliation will be carried out during 2008 with a revised process (January 2008)</i>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>14. To increase the probability of a successful recovery and business resumption following a major disaster, the Information Technology Office should:</p> <ul style="list-style-type: none"> • complete the development of a disaster recovery plan, communicate it to all concerned, then test it and the related back-up processing arrangements, • execute a service level agreement to confirm the responsibilities of the offsite data storage facility and back-up data centre, and • monitor the activities of the off-site storage operation. (2006) 	<p><i>Proposals are being considered to address these points. (January 2007)</i></p> <ul style="list-style-type: none"> • <i>Disaster Recovery exercises were conducted for the Accountant-General and e-mail. Plans are being developed to extend the number of departments based on a real time recovery DR site currently being implemented.</i> • <i>A new Disaster Recovery location is being brought on stream during 2008 supporting a real time back up model. A Standard SLA is in place, but details to support specific Government processes need to be developed.</i> • <i>Offsite storage is visited on weekly basis when tapes are delivered. New processes and technology based on real time model will be introduced during 2008 (January 2008)</i>
<p>15. To prevent unauthorized changes to computer programs, the Information Technology Office should:</p> <ul style="list-style-type: none"> • establish procedures that prevent programmers having access to the production environment, and • collect information from user Departments on the results of their testing of maintenance changes. 	<p><i>Proposals and modifications are being considered to address these points. (January 2007)</i></p> <ul style="list-style-type: none"> • <i>The Change Process logs and approves implementation of changes into production, but it is not practical to fully prevent programmer access to the production environment due to resource constraints and diversity of systems. The Change Process is being refined to reduce programmer involvement to an exception basis and the granting and revocation of access will be recorded as events in the change log.</i> • <i>Requests for Changes are approved and filed by departments. The Request for Change Form will be modified to include a statement that the sponsoring department has tested and approves the implementation of the change. (January 2008)</i>
Central Payroll System	
<p>16. Through the work of the FIMS Steering Committee, or by other means, the Accountant-General's Department should establish an ongoing process to identify opportunities for automating processes and reducing clerical inefficiencies, and thereby ensure the full and efficient use of the central payroll system. (2000)</p>	<p><i>Opportunities to automate processes and reduce inefficiencies have been identified. Management is moving to an upgraded version of the computer software that will allow workflow, streamlining and more efficient processing of information. Interim changes to the process would not be efficient or cost-effective before a new system is implemented. When the new system is in place, systems and procedures will be enhanced etc. as necessary. (January 2002)</i></p> <p><i>In-depth testing and investigation of the capabilities of JDE are planned. It was found that basic hours can be pulled into payroll system, but when amendments are made to that time card, all information is lost for that individual and re-entered. The investigation will determine whether this process can be done effectively. (January 2004)</i></p> <p><i>Testing on this function is still pending. Hopefully this will be implemented in 2005. (November 2004)</i></p> <p><i>A system review is currently underway and should be completed by March 31, 2006, with any revisions required taking place in the subsequent months. (December 2005)</i></p> <p><i>The review noted above is still ongoing due to staffing and other system issues. In addition, funding has been requested to</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
	<p>move to the new server and upgrade the JDEdwards system to utilise certain features in the new release (version) of the software. (January 2007)</p> <p>We are currently reviewing JDEdwards and comparing it to three other ERP systems. Part of this project will be to identify opportunities to improve internal controls and make tasks and procedures more efficient. We will be looking for ways to automate tasks where appropriate. This is a multiphase project that will take at least two years (January 2008)</p>
Debt Collection (particularly payroll taxes and pension contributions)	
17.	<p>The Office of the Tax Commissioner should continue to develop initiatives and intensify efforts to encourage delinquent employers to remit past-due taxes, including ensuring that legislated penalties are levied promptly. (This recommendation, first made in 1998, has been modified to reflect recent Government-wide initiatives to assist with the collection of tax arrears)</p> <p>The Debt Enforcement Unit (the DEU) has had a significant impact on our ability to collect outstanding receivables. The timely processing and publicizing of writs has seen a significant increase in our collections for the first seven months of this fiscal year. (December 2005)</p> <p>The Office continues to develop initiatives to encourage taxpayers to pay their outstanding taxes. Cabinet has considered and approved recommendations to; (1) establish a Tax Court, (2) outsource the collection of land tax and (3) allow for a Payroll Tax Amnesty whereby taxpayers are permitted to pay their outstanding tax liability without penalty. (January 2007)</p> <p>The Tax Court (TC) has been approved by Cabinet but has not yet been established. Needless to say, the TC will greatly assist to the Tax Commissioner in the collection of outstanding debt. The outsourcing of collections from the most difficult tax offenders has been temporarily put on hold. We have drafted an agreement with a Collection Agency but have not finalized an agreement. We are currently reviewing the success of writing to tenants of delinquent landlords. The payroll tax amnesty has not yet been approved by Finance (January 2008)</p>
18.	<p>The Director of Social Insurance should intensify efforts to encourage delinquent employers to remit past-due pension contributions. (This recommendation, first made in 2002, has been modified to reflect recent Government-wide initiatives to assist with the collection of tax arrears)</p> <p>As a result of the establishment of the DEU, to date, \$670K has been collected and directly attributed to the efforts of the DEU. This has proven to be effective in encouraging delinquent employers to remit past due contributions. In addition, excellent Departmental liaisons with TCD and the Department of Immigration have also proven to be quite effective in collecting arrears and continue to be improved. (December 2005)</p> <p>Several strategies have been implemented to make the debt recovery process more aggressive and efficient including: 1.Installing Debt Management Software (TIGER) to better manage the debt collection process. 2.Reorganizing the DOSI Compliance and Contributions Sections to more effectively f/u delinquent employers. Contributions section is now responsible for 30 and 60 day delinquencies. Compliance is responsible for over 60 day delinquencies. DEU utilized for legal action, and 3.DOSI is in the process of hiring a senior debt collector to coordinate the debt recovery process. We expect the person to start in March 2008 (January 2008)</p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
Identifying taxpayers	
<p>19. The Office of the Tax Commissioner should retain evidence of the nature, extent and results of procedures used to identify potential taxpayers. Consideration should be given to establishing common identifier numbers or similar for all people and organizations that have dealings with Government, and using them to identify those who are not on the register of taxpayers. Computer comparisons/matching should be used wherever possible. (1998)</p>	<p><i>It is agreed that the Office is responsible for identifying potential taxpayers. Establishing taxpayer ID numbers would enable checking that vendors to Government are registered taxpayers and have valid payroll tax ID numbers. (October 2000)</i></p> <p><i>Newspapers and other publications are vetted daily to identify potential taxpayers, which leads to new registrations. Information is provided from Departments and sources and is acted upon. Significant progress in identifying potential taxpayers can only be achieved once a register of all businesses is set up, as recommended by the Tax Commissioner many years ago. (January 2003).</i></p> <p><i>The Director of Consumer Affairs and the Tax Commissioner have discussed recently the establishment of a business registry. (November 2004)</i></p> <p><i>The Bermuda Small Business Development Corporation has agreed to host and maintain the Business Registry. A draft Cabinet Paper has been prepared and approval is pending. (December 2005).</i></p> <p><i>The Business Registry proposed by the Bermuda Small Business Development Corporation does not meet our needs because its focus is primarily on small businesses. As such, we have recently partnered with the Department of Social Insurance and the Statistics Department to merge and match our respective databases. This will allow us to identify potential and unregistered taxpayers. Further enhancements to the Business Registry will be addressed during the re-engineering of our computer systems. (January 2007)</i></p> <p><i>A registry that will meet the needs of the Tax Commissioner, Social Insurance and other departments has not been established. The business registry established by The Bermuda Small Business Development Corporation does not meet the needs of the Office and we have not had any further discussions with the Social Insurance Department with respect to the merger of our databases. The Office is in the process of procuring funds for the reengineering of our computer system (January 2008)</i></p>
Department of Education	
<p>20. The Department of Education should establish procedures to identify problem student loans, to ensure that uncollectible loans are written off promptly, and to set up appropriate allowances for doubtful accounts at year ends. (2006)</p>	<p><i>These concerns will be addressed. (December 2006)</i></p> <p><i>The Department of Education has set up a provision for doubtful debt in 2007 and is making a recommendation to the Accountant-General that uncollectible sums be written off (January 2008)</i></p>
H.M. Customs	
<p>21. H.M. Customs should have better procedures to ensure that the true value of imported goods is assessed consistently and in accordance with the</p>	<p><i>A new automated process (CAPS) will be implemented in January 2001 and GATT amendments will be introduced in the summer of 2001. (October 2000)</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>Revenue Act 1898. Since Bermuda is a signatory to the GATT Agreement (through the United Kingdom), the procedures established should encompass the valuation guidance contained in the GATT Agreement. (1998)</p>	<p><i>Due to delays in implementing CAPS, replacement valuations will be enacted in 2002. Meanwhile a notice will be issued to advise customers of current valuation rules. The target date for the amendments is summer 2002. (January 2002)</i></p> <p><i>The CAPS project recommenced in November 2002. Legislation has been drafted to implement the GATT valuation rules and is expected to be enacted in February 2003. (January 2003)</i></p> <p><i>Due to delays in the legislative process, the GATT valuation rules are being presented for enactment in February 2004. (January 2004)</i></p> <p><i>GATT valuation rules were enacted in 2004 and will be implemented in March 2005. Training for staff and traders will be conducted from September 2004 to February 2005. (November 2004)</i></p> <p><i>The CAPS will be implemented in the Arrivals Hall in February 2005 and in the commercial areas later this year. (January 2005)</i></p> <p><i>The CAPS was implemented in the Arrivals Hall in February 2005 and will be implemented in the commercial areas in September 2005. (June 2005)</i></p> <p><i>The CAPS was implemented in the Hamilton Commercial Operation area as a pilot program in December 2005. Due to several traders not having electronic capabilities, the date of the full roll out is unknown (December 2005).</i></p> <p><i>The CAPS is still in the pilot program phase due to AS400 constraints. ITO have been mandated to up-grade the system, in order to meet our requirements. The anticipated full roll out of Phase 1 is unknown at this time. (January 2007)</i></p> <p><i>CAPS is still in the pilot program phase. ITO has fulfilled their mandate by completing their upgrade of the AS400 system. The full roll out of Phase I of CAPS, is expected in December 2008. (January 2008)</i></p>
<p>22. To safeguard the collection of duties, H.M. Customs should ensure compliance with all legislative requirements and procedural policies relating to the administration of bonded warehouses, particularly those relating to setting and periodically reviewing bonds, and ensuring that warehouses are appropriately licensed. H.M. Customs' information system should be expanded to capture and provide the current information needed to monitor and control the movement of inventory on which duty is payable. (1998)</p>	<p><i>H.M. Customs is nearing the end of a two-year project to review all practices and procedures at bonded warehouses and oil docks. New procedures will be introduced in 2001. (October 2000)</i></p> <p><i>Due to delays in implementing CAPS, the new bonded procedures have not been enacted. The new target date is summer 2002. (January 2002)</i></p> <p><i>The CAPS project recommenced in November 2002. Revisions to the bonded warehouse procedures are now planned for 2003 and 2004. We plan a full external audit of the major bonded operators in the spring of 2003. (January 2003)</i></p> <p><i>Phase 1 of the CAPS project is due for implementation in April 2004. Phase 2 (bonded operations) is scheduled for implementation in 2005-06. The audit of the major bonded operators was not done in 2003 due to budget restraints. Funding has been requested for 2004. (January 2004)</i></p> <p><i>Phase 1 of the CAPS project was postponed and is due to go live in April 2005. Phase 2 (bonded operations) is scheduled for development in 2006-07. Funding for an audit of the major bonded operators was not granted, but the Department has</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
	<p><i>reviewed all bonded operators to ensure that their warehouses are appropriately licensed. (November 2004)</i></p> <p><i>CAPS will be implemented in the Arrivals Hall in February 2005 and in the commercial areas later this year. (January 2005)</i></p> <p><i>The CAPS was implemented in the Arrivals Hall in February and will be implemented in the commercial areas in September 2005. (June 2005)</i></p> <p><i>CAPS was implemented in the Hamilton Commercial Operation area as a pilot program in December 2005. Due to several traders not having electronic capabilities, the date of the full roll-out is unknown.(December 2005)</i></p> <p><i>CAPS is still in the pilot program phase due to AS400 constraints. ITO has been mandated to up-grade the system, in order to meet our requirements. The anticipated full roll out of Phase I is unknown at this time. (January 2007)</i></p> <p><i>CAPS is still in the pilot program phase. ITO has fulfilled their mandate by completing their upgrade of the AS400 system. The full roll out of Phase I of CAPS, is expected in December 2008 (January 2008)</i></p>
23.	<p>HM Customs Department should take urgent steps to eliminate the serious control weaknesses in its procedures for handling and recording customs duty. (2006)</p> <p><i>This matter will be addressed when the CAPS is implemented in the near future. (January 2007)</i></p> <p><i>This matter will be addressed when CAPS is implemented in December 2008. (January 2008)</i></p>
Department of Financial Assistance	
24.	<p>The Department of Financial Assistance should accelerate the development and implementation of the new Financial Assistance Information System, and mitigate the difficulties that caseworkers and others will face delivering the new program before the new system is implemented. (2002)</p> <p><i>The Department knows the shortcomings of its information systems and will continue to do everything to ensure that operating and information needs are satisfied. (January 2003)</i></p> <p><i>Prospective vendors are short-listed and are being interviewed for final selection. (2004)</i></p> <p><i>The contract for the new IT system was signed in November and the Department is revamping existing forms to minimize/eliminate difficulties experienced by workers. This should take between 10-12 months. Meetings with the Department and Gateway will commence in December 2004. (November 2004)</i></p> <p><i>The Department has been involved in ongoing meetings with Gateway re. the building and implementation of our new IT system. We anticipate the system being operational in early 2006. (December 2005)</i></p> <p><i>Many unforeseen delays have the Department awaiting testing of our new system in February, 2008. We are anticipating going live shortly thereafter.(January 2008)</i></p>
25.	<p>In preparation for the new Financial Assistance Act and Regulations, and the proposed new Financial Assistance Review Board, the Department of Financial Assistance should continue to plan for the related operational changes as well as assess the adequacy of human resources (particularly caseworkers) to</p> <p><i>Agreed. Recovery of overpayments has improved with the appointment of the Investigations Officer, who is also helping to ensure that recoveries remain active. (January 2003)</i></p> <p><i>Changes in policy and procedures, mandatory home visits and a greater vigilance in monitoring public monies point to a need for additional staff. Based on a recent feasibility study, the Department seems likely to be the Government's official assessor of need. (2004)</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>carry out all its legislated duties and responsibilities. (2002)</p>	<p><i>The Department is currently re-establishing the Review Board as mandated by the Financial Assistance Act 2001. This should be in place by the end of December 2004. (November 2004)</i></p> <p><i>The Review Board was selected and gazetted in December 2004. The Department continues to assess its manpower in terms of our mandated role and our ability to carry out our legislated duties. We have requested Management Services to complete a further survey to assess the need for additional workers.(December 2005)</i></p> <p><i>The Financial Assistance Review Board is fully operational. The Department has requested an additional six (6) workers to handle the influx of new cases as a result of closure of the Medical Clinic in April 2007. A subsequent request for space was also made to accommodate the additional workers. (January 2008)</i></p>
Department of Immigration	
<p>26. The Department of Immigration should expand its documentation of staff duties and responsibilities to cover all revenue-generation and collection processes, and include information to enable staff to understand the controls inherent therein.</p>	<p><i>The documentary example provided by the Audit Office will be a useful guide to document the controls. With the assistance of Management Services, the Department has begun documenting the processes of its various sections and this should be complete by the end of the year. (January 2005 & December 2005)</i></p> <p><i>The production of guidelines with the assistance of Management Services has had to be postponed until the current phase of the IT systems has been implemented. (January 2008)</i></p>
<p>27. To provide assurance that revenues are collected and accounted for, the Department of Immigration should, where possible and cost-effective, reconcile periodically the numbers of licenses, passports and permits issued (or applied for) to the revenues derived from those sources.</p>	<p><i>This should and will be done immediately for land licenses and passports. However, the volume and varying types of work permits, together with cancellations and refunds, would make monthly reconciliations for these extremely clerically intensive. A new computer system, currently in the planning stage, will include the functionality to perform revenue reconciliations. Meanwhile, receipt of fees will continue to be checked before work permits are issued. (January 2005 & December 2005)</i></p> <p><i>Land license fees are periodically reconciled to the 5A forms. Similar reconciliations for other application types are not practical because of the labour intensive manual work required. The new computer systems currently being developed will have the functionality to perform revenue reconciliations. (January 2008)</i></p>
Ministry of Works and Engineering	
<p>28. The Ministry of Works and Engineering should update and re-issue its purchasing and procurement policies, and the procedures designed to ensure compliance with those policies should be reviewed. (2002)</p>	<p><i>The Ministry is updating these policies and is seeking to complete this process within the first quarter of 2004. (January 2004)</i></p> <p><i>Policy updating is still in process. (November 2004)</i></p> <p><i>The Ministry has concluded this process and has now undertaken the creation of an on-line tendering web-site as well as the enactment of approved vendor and contractor lists as a result. We expect the new process to be rolled out on or before April 2006. (December 2005)</i></p> <p><i>The Procurement document has been revised and is currently</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
	<i>being reviewed by the department heads and will be signed off on by the end of February 2008. (January 2008)</i>
Contributory Pension Fund	
29.	<p>To help reduce arrears in pension contribution remittances, the Department of Social Insurance should consider seeking legislative amendments to allow it to charge interest on such arrears. (2000)</p> <p><i>The Director of Social Insurance agrees with charging interest on delinquent accounts and will work towards implementing the technical support to process this. (January 2003)</i></p> <p><i>At present, the Department has limited technical resources to implement changes to an already complex system. (January 2004 and November 2004)</i></p> <p><i>The Director will start the process of legislative changes before the end of fiscal 2005-06. (December 2005)</i></p> <p><i>A change in the Legislative Review Committee in early 2006 delayed this exercise. The new Committee completed its findings which were provided to the Director of Social Insurance in December 2006. The results are to be forwarded to the Ministry of Finance for review in early 2007. Included in their recommendations are interest penalties.(January 2007)</i></p> <p><i>Recommended legislative changes have been forwarded to the Ministry of Finance and are expected to be placed before the House in the next legislative session. (January 2008)</i></p>
30.	<p>The Department of Social Insurance should ensure that Government contribution payments are recorded by the Fund on a timely basis, at which time employee contribution records should be updated. The records of the Fund should be reconciled to the Accountant-General's records on a regular basis. (1993)</p> <p><i>Work is ongoing with the Accountant-General's Department to reconcile the Fund's records with the Government account. (February 2001).</i></p> <p><i>Agreed. The Director plans to set up a task force during 2004 to deal with this backlog. Limited resources have prevented the Department from tackling this sooner. (January 2004)</i></p> <p><i>A task force was established in September 2004. An employee from the Accountant-General's Department is assisting with this effort. (November 2004)</i></p> <p><i>The task force decided that the project should be handled in three phases. An official seconded from the Accountant-General's Department worked with us for eight months to October 2005:</i></p> <ol style="list-style-type: none"> <i>1. Phase I was to reconcile accounts using a starters, leavers and transfer report with information based on 1995 – 2004 data. All departments and quangos from this phase have been reconciled with the exception of the Ministry of Education.</i> <i>2. Phase II was to reconcile accounts and quangos with information based on 1985 – 1995 data. To date nineteen accounts have been reconciled. It is expected that this project will take another three to six months to complete.</i> <i>3. Phase III involves ongoing maintenance following recommendations given.</i> <p><i>Limited staff resources became a problem again when the seconded official left. The Director's intends to try to complete the outstanding items of Phase I and much of Phase II by July 2006. (December 2005)</i></p> <p><i>DOSI and the Accountant-General's Department have jointly engaged a pension software developer to deliver a new pension system that will address this problem. Expected delivery is January 2009. In the interim, the Compensations section of the Accountant-General's Department has agreed to review</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
	<i>monthly DOSI billings for Government Departments and to provide the required statistical reports to allow a complete reconciliation prior to data migration to the new system. (January 2008)</i>
31.	<p>The Department of Social Insurance should seek amendments to the Contributory Pensions Act 1970 to delete references to superseded methods of contribution collection. Regulations should be issued governing the administration of contributions. (1993)</p>
	<p><i>The recommendation has been noted and appropriate action will be taken. (April 1997)</i></p> <p><i>The Director agrees with this recommendation. Efforts will be made to make the necessary amendments with respect to outdated procedures during the fiscal year ending July 2004. (January 2004)</i></p> <p><i>To be pursued during the financial year ending July 31, 2005. (November 2004)</i></p> <p><i>The Director established a Legislative Review Committee for the CP Act 1970 in September 2005 to identify outdated procedures, language, etc. as well as to identify possible anomalies therein, particularly with respect to benefits. Its findings should be available in January 2006. (December 2005)</i></p> <p><i>Recommended legislative changes have been forwarded to the Ministry of Finance and are expected to be placed before Parliament in the next legislative session (January 2008)</i></p>
32.	<p>The Department of Social Insurance should reconcile the Contributory Pension Fund's monthly pension payment reports to the previous month's report to ensure that all necessary additions and deletions have been recorded on the system. (2007)</p>
Government Employees Health Insurance Fund	
33.	<p>The Accountant-General's Department should take immediate action to address the serious and long-standing deficiencies in the accounting records and controls of the Government Employees Health Insurance Fund, to bring the Fund's financial reporting and accountability responsibilities up-to-date, and to comply with all legislated requirements. (2000 and before)</p>
	<p><i>The Fund's administrative and accounting issues are currently under review and daily operations are being assessed. (January 2002)</i></p> <p><i>A new accountant started in January 2003, and has undertaken a key IT project that will alleviate long-standing deficiencies in the accounting records and controls of GEHI. (January 2004)</i></p> <p><i>A new GEHI computer system is being developed with a target completion date of April 2005. This system will alleviate many of the accounting and system errors currently experienced. (November 2004)</i></p> <p><i>The new GEHI computer system is being operated simultaneously with the old system to ensure that it has been fully debugged. Draft statements have been prepared to the 2005 fiscal year. (December 2005)</i></p> <p><i>Draft financial statements have been prepared for all years through March 31, 2006. However, the Auditor General is only currently working on the 2003 statements. (January 2007)</i></p> <p><i>The audited financial statements for 2004 were issued in January 2008. (January 2008)</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>34. The Ministry of Finance should set a deadline by which time the annual financial reporting, with unqualified audit opinions, of the Government Employees Health Insurance Fund should be brought up-to-date and, if the deadline is not met, the Fund's administration and accounting should be contracted out to a service provider. (2007)</p>	
Hospital Insurance Fund	
<p>35. The Department of Social Insurance (Hospital Insurance Commission) should eliminate the numerous accounting and financial control deficiencies that are causing inaccuracies in the Hospital Insurance Fund's accounting records, and delays in its financial reporting. (1993) (This summarizes a number of audit recommendations that target the numerous accounting and control deficiencies identified.)</p>	<p><i>Computerization of the Hospital Insurance Plan's records is planned for 2001. The individual audit recommendations that support this recommendation are now being addressed. (1999)</i></p> <p><i>Limited resources have delayed the computerization of accounting records. A re-organization is underway that will ensure that appropriate resources are allocated. Financial reporting is now more up-to-date and only the Fund's 2000 financial statements are outstanding. (January 2000)</i></p> <p><i>Re-organization was approved by Cabinet in January 2002. A new policyholder maintenance system for HIP was completed in 2001. Procedures are currently underway for the implementation of a claims processing system. Claims processing is currently being done manually.</i></p> <p><i>Un-audited financial statements have been prepared to March 2003. (January 2004)</i></p> <p><i>Current un-audited financial statements continue to be prepared. (November 2004)</i></p> <p><i>The Director of Social Insurance stated that additional permanent staff have been hired and funding for temporary staff have been made available to bring the audits up to date. (January 2007)</i></p> <p><i>All working papers for both HIF and MRF are up to date to the year ended March 2007. Responses to RFPs for the automation and outsourcing of claims processing have already been received and a Cabinet paper has been prepared for discussion in January 2008. The Department is already utilizing an interim software system for certain claims types. In addition, several temporary staff have been hired within the past 6 months to assist in clearing the backlog with significant progress. Implementation of full automation initiatives is expected to start in 2008. (January 2008)</i></p>
<p>36. The Ministry of Finance should set a deadline by which time the annual financial reporting, with unqualified audit opinions, of the Hospital Insurance Fund should be brought up-to-date and, if the deadline is not met, the Fund's administration and accounting should be contracted out to a service provider. (2007)</p>	

RECOMMENDATION	RESPONSES AND CURRENT STATUS
Public Service Superannuation Fund	
<p>37. If inter-fund indebtedness of the Public Service Superannuation Fund to the Consolidated Fund is to be forgiven, to comply with legislative requirements the Ministry of Finance should include the Fund's anticipated annual cash flow deficits each year in annual appropriations bills (or obtain supplementary estimates) because such a forgiveness represents a Government contribution under Section 10A(2) of the Public Treasury (Administration and Payments) Act 1969. (2000 and before)</p>	<p><i>The Ministry of Finance will consider this recommendation during annual budget submissions.</i></p> <p><i>Agree. Going forward the Ministry of Finance will budget each year for these annual deficits as cash expenditures of the Consolidated Fund (December 2005).</i></p> <p><i>Commencing April 2006, contribution rates were increased and will be increased again in April 2007 and 2008. These increases will enhance the cash flow of PSSF resulting in positive cash flow, thus eliminating annual pension deficits. (January 2007).</i></p> <p><i>In its revised form, this recommendation is accepted. (January 2008)</i></p>
Bermuda Arts Council	
<p>38. The Bermuda Arts Council should ensure that annual reports are tabled in the House of Assembly as required by legislation. (2003)</p>	<p><i>A report for 2003 was submitted to Minister Dale Butler in January 2004 and was delivered to the House of Assembly shortly thereafter. (December 2005)</i></p>
Bermuda Housing Corporation	
<p>39. The Bermuda Housing Corporation should review its organizational, accounting, reporting and control needs as a basis for replacing its antiquated and unstable general ledger accounting system. (2005)</p>	<p><i>The need to replace this system is recognized. As resource availability is presently a concern, we are currently assessing the suitability of similar systems presently being implemented by other quangos to determine whether their pricing and functionality could meet the Corporation's needs. (2005)</i></p> <p><i>The Corporation continues to progress replacing of its operating and financial system software. Options are being assessed jointly with the Bermuda Land Development and the West End Development Corporations. All three Quangos are involved in property rental, maintenance and development and could benefit from shared training and support opportunities whether any merger of our operations takes place or not. We expect a replacement system to be identified by the end of fiscal 2007. The needs assessment recommendation has been noted and incorporated in the ongoing selection process. (January 2007)</i></p> <p><i>The Corporation has selected and purchased a new operating and financial system software (MRI-IRES). This system is currently being implemented with a target date to begin parallel testing on May 1, 2008. (January 2008)</i></p>
<p>40. The Bermuda Housing Corporation should develop a disaster recovery and business resumption plan to address the loss of critical computer equipment, programs or data. This should include arrangements to use servers and other vital equipment, and off-site storage of programs and data. The plan should be updated and tested periodically, communicated to relevant staff, and training should be provided where</p>	<p><i>Most processing is performed at the Government's main data centre, over which the Corporation has no control. Back-up in the event of loss of the Corporation's server, however, is a continuing concern, and additional hardware and software protection is being provided. A bank safe deposit is being rented to store back-up tapes and DVDs. (2005)</i></p> <p><i>Steps have been taken to ensure adequate backup processes are followed and that the backup media is protected offsite in addition to in-house storage. The formal documentation and regular testing of a disaster recovery plan is being incorporated in the contract to re-house the Corporation's</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
appropriate. (2005)	<p>server. (January 2007)</p> <p>The Corporation has developed a disaster recovery and business resumption plan that addresses these issues. This plan is in draft form and a simulated test run will be conducted by the end of February 2008. Once completed the plan will be reviewing for effectiveness and any necessary changes will be made. Once this process has been completed this plan will be formally approved by the Corporation's Board. It is anticipated that this will be completed by the end of the current fiscal year March 2008. (January 2008)</p>
<p>41. The Bermuda Housing Corporation should systematically investigate and either obtain title deeds or vesting orders for all real assets recorded on its balance sheet. (2005)</p>	<p>Documentation in this area is a long-term problem with its origins in history and the recent period when management controls were inoperative. It is a problem that will be addressed, but not in the short-term, due to the complexities involved and the resources currently available. (2005)</p> <p>The asset files and supporting vesting orders and deeds are a long term problem. This problem cannot be successfully addressed within the short term with current staffing, financial and physical resources. Steps have been taken to ensure that proper title and any encumbrances are established prior to developing any property. (January 2007)</p> <p>As part of the implementation process, a review of all properties owned and rented by the BHC will be undertaken and a list of properties which lack adequate documentation will be intensified and an action plan for resolution will be made. This problem will be very time consuming and can only be addressed within the current staffing, financial and physical resources of the Corporation. The Corporation has requested a significant operating grant from Government for the next budget year. This request included an increase for staffing levels including the hiring of a full time in-house lawyer whose responsibilities would include investigating and resolving vesting orders and title deeds that are missing or are in dispute. In the interim, steps have been taken to ensure that proper title and any encumbrances are established prior to developing any property within the Corporation's portfolio. The only risk is that vested properties will be withdrawn from the portfolio by Government after design or development has begun or that political interest will alter any Capital program established by the Corporation. The ownership records of the Corporation continue to be researched as resources allow and with some limited success (January 2008)</p>
<p>42. To reduce the risk of failing to obtain or retain critical documentation relating to property management contracts, property leases and mortgage loans, the Bermuda Housing Corporation should establish post-closing file review practices and documentation retention policies. (2005)</p>	<p>Inadequate documentation in files often reflects non-compliance with documentation standards in past years. The Board has been informed of these concerns and management is reviewing its documentation practices with a view to further developing practices to deal with the noted problems. (2005)</p> <p>Existing documentation still reflects the age of the underlying application system and past practices. Significant effort has been expended reorganizing but management accepts that further effort is required. The Board has been informed of this concern and is committed to replacing outdated information and filing systems. The document retention issue remains a particular concern with the limited archival and filing space</p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
	<p>available to the Corporation. (January 2007)</p> <p>The process of maintaining rental files remains a challenge at this time and is a primarily a result of the legacy process (see above). The process is manual and given the growth in the number of clients and properties without a corresponding increase in staffing levels it has been difficult for all files to be complete and up to date given the complexity of the work that is required (i.e. legal agreements between multiple parties who are not all necessarily all residing in Bermuda and are under differing terms and conditions).</p> <p>The solution to these problems has, however, been addressed as the new operating and financial system software that is being implemented for the BHC has software modules to electronically track rental clients, agreements, expiration dates of leases and agreements, etc. The files will be electronic and procedures whenever possible will be embedded into the system to create the standards of documentation, review processes and other controls to improve the completeness and timeliness of rental file documentation. As part of the implementation process a review of the documentation of all clients and properties will be completed in order to transfer the data into the new system. Any shortfall in the documentation will be identified at this time and appropriate action will take place to obtain the necessary information (January 2008).</p>
Bermuda Hospitals Board	
43.	<p>To improve financial management and control, the Bermuda Hospitals Board should strengthen or establish procedures to control and protect the assets and resources under its stewardship. (1997) (this summarizes a number of audit recommendations that target accounting and control deficiencies identified)</p> <p>The Board has maintained steady progress in recent years in improving internal controls and, in March 2005, initiated an Internal Audit function. We anticipate the completion of three internal audits by the end of March 2006. Each year we expect to complete three audits and this, along with the external audit, will help the Board focus on addressing key financial management and control issues. (December 2005)</p> <p>The Board continues to address its control deficiencies through the introduction of an Internal Audit function in March 2005. Since that time five internal audits have been completed and the implementation of the recommendations continues. (January 2008)</p>
Bermuda College	
44.	<p>The Board of Bermuda College should enable the Minister to table annual reports in the House of Assembly as required by legislation. (2003)</p> <p>The College's Annual Reports are submitted to the Ministry of Education. (January 2004)</p> <p>Noted. (November 2004 and December 2005)</p> <p>The Bermuda College submits its report to the Ministry of Education on an annual basis. (January 2008)</p>
Bermuda Post Office	
45.	<p>The Bermuda Post Office should intensify its efforts:</p> <ul style="list-style-type: none"> • to implement, at the earliest possible time, all operational and control aspects of its Point of Sale computer system, • to ensure ongoing technical support <p>Agreed. The Chairman of the technical support team will ensure that these issues are addressed. (April 2004)</p> <p>A Request For Proposal is currently being produced for a new Point of Sale system that will address these issues. (November 2004)</p> <p>The vendors that replied to the RFP have been short listed and</p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>for the system,</p> <ul style="list-style-type: none"> • to establish related control and reporting procedures that take advantage of the information the system can produce, and • to develop policy and procedures to ensure integrity and security over system data (data control and back-up, and business resumption plans). (2004) 	<p><i>we are in the process of finalizing our selection. (December 2005)</i></p> <p><i>The “Statement of Work” for the new Point of Sale system was signed in September 2006 and development of the software began in January 2007. The system is expected to go live in June/July 2007. (January 2007)</i></p> <p><i>User testing for the new point of sale system was completed in January 2008. The implementation roll out is planned for February 2008 in anticipation of the system’s formal launch in March 2008. (January 2008)</i></p>
<p>46. The Bermuda Post Office should review its legislation and regulations and, where necessary, seek updates to reflect current requirements and practices. (2004)</p>	<p><i>Agreed. Legislation will be reviewed for appropriateness and will be complied with or amendments sought as necessary. (April 2004, November 2004 & December 2005)</i></p> <p><i>Draft amendments to the Post Office Act 1900 and Post Office Regulations 1933 were submitted to the Ministry of Finance for review in September 2006. (January 2007)</i></p> <p><i>In November 2007, the Bermuda Post Office was transferred from the Ministry of Finance to the Ministry of Public Safety and Housing. Draft amendments to the Post Office Act 1900 and Post Office Regulations 1933 were re-submitted to the New Ministry for review in October 2007. Effective December 2007 the Post office has been transferred to the Ministry of Labour, Home Affairs and Housing, but retains the same Minister and Permanent Secretary as it did when it was under the Ministry of Public Safety and Housing. It is anticipated that the current review of the draft amendments to the Post Office Act 1900 and Post Office Regulations 1933 will continue uninterrupted under this most recent ministerial move. (January 2008)</i></p>
CedarBridge Academy	
<p>47. To enable proper physical control of capital assets and the reliable reporting of capital asset costs, CedarBridge Academy should upgrade its capital asset records by:</p> <ul style="list-style-type: none"> • eliminating the programming error in the system used to generate periodic amortization charges, and • identifying those assets that were acquired in whole or in part using capital grants and recording for each asset the amount of the capital grant that is amortized to revenue each year. (2005 but modified to reflect progress made) 	<p><i>A physical count of capital assets is planned for the 2005-06 fiscal year. The system supplier will be contacted to correct the amortization calculation. Acquiring and compiling a new capital asset register may be dependent on availability of funding. (2005)</i></p> <p><i>The programming error in the system used to generate periodic amortization charges has been rectified. The task of identifying those assets acquired using capital grants was not begun in 2006-7 but is due to be undertaken in the current fiscal year. (January 2008)</i></p>
<p>48. To limit the impact of continuing operating losses of the Ruth Seaton James Auditorium on the financial resources of CedarBridge Academy, the reasons for such losses should be investigated and cost-saving measures implemented where possible. Alternative funding arrangements for the</p>	<p><i>The feasibility study of alternative funding arrangements for the Auditorium is nearing completion and controls over cash revenues have been improved. (2005)</i></p> <p><i>The feasibility study of alternative funding arrangements has been completed and reviewed by the CBA Board of Governors, which has forwarded its recommendations to the Ministry of Education for a final decision as to the future funding and management of RSJ. (January 2008)</i></p>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p>Audit-orium should also be pursued. Meanwhile, controls over the Auditorium's revenue streams should be improved. (2005)</p>	
Aided Schools	
<p>49. The Ministry of Education or the Ministry of Works & Engineering should establish systems to record and control capital costs expended for the four aided schools, and the liability for unamortized construction costs of the schools. (1995)</p> <p>In this regard, the Ministry of Education should explore the practicality of using the Ministry of Works and Engineering's "book value calculator" methodology to establish estimates of capital costs for assets that were paid for by Government and transferred to aided schools. (2005)</p>	<p><i>The Ministry of Finance agrees and will request the Ministry of Education to establish such a system, with appropriate information provided by the Ministry of Works and Engineering. (November 1998)</i></p> <p><i>No progress has been made on this issue. (January 2001, 2002, 2003 & 2004)</i></p> <p><i>Following discussions with W&E, no capital costs are expended on a regular basis for aided schools. In cases such as Berkeley (a new construction) costs are recorded as WIP by the Accountant-General until they are capitalized, and then amortized in line with government amortization policy. (November 2004).</i></p> <p><i>Moving forward 2005 we have put systems in place to capture capital cost to aided schools by coding the expenses in a separate account. (December 2005)</i></p> <p>The responses to this recommendation received in January 2008 are dealt with in section 3.6.5 of this report.</p>
Parish Councils	
<p>50. The Ministry of Culture and Social Rehabilitation should consider dispensing with Parish Councils for parishes that traditionally have shown little interest in local issues. (2001)</p>	<p><i>The Ministry will review the role of Parish Councils to align their role with the needs of the community. (January 2003)</i></p> <p><i>A proposed Rest Homes Board will be established and Parish Councils will be relieved of the administration and financial management of Rest Homes.. (January 2004)</i></p> <p><i>Cabinet has approved the establishment of a Rest Homes Board to oversee the Parish Council Rest Homes and move the Parish Councils proper, under the Ministry of Community Affairs and Sport. This would put a layer of trained Management in place that did not previously exist and should complete the two-pronged approach that was missing. (January 2005)</i></p> <p><i>The Ministry of Health and Family Services makes every effort to appoint individuals who are committed to the community involvement. Note: the Cabinet decision to move the Parish Councils to The Ministry of Community Affairs and Sports is still pending. (December 2005)</i></p> <p><i>Responsibility for Parish Councils was transferred to the Ministry of Community and Cultural Affairs as of November 2006. However, the administration of the Rest Homes is still being reviewed. (Jan 2007)</i></p>
<p>51. With respect to parish councils to which it pays annual grants, the Ministry of Culture and Social Rehabilitation should heed the comments of the Minister of Finance who stated in a report to the House of Assembly in February 2007, "For accountability</p>	

RECOMMENDATION	RESPONSES AND CURRENT STATUS
<p><i>purposes it is important that organisations which receive grant funding from Government have their financial records up to date ... and those organisations that do not respond in a timely manner will be at risk of having funding withheld until their financial records are current.” (2007)</i></p>	
<p>52. Devonshire Parish Council should take urgent and immediate action to address the serious deficiencies in its accounting records and controls so that future annual financial statements can be audited and issued promptly in accordance with legislated requirements. (2006)</p>	<p><i>The Council agrees that immediate action is needed to address the above and other deficiencies revealed by the audit. (January 2007)</i></p>
<p>53. The Ministry of Culture and Social Rehabilitation should give Devonshire Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of responsibilities to the Ministry of Culture and Social Rehabilitation. (2007)</p>	
<p>54. The Ministry of Culture and Social Rehabilitation should make immediate arrangements to withhold annual grant funding from Pembroke Parish Council and transfer its responsibilities to the Ministry. (2007)</p>	
<p>55. Sandys Parish Council should take urgent and immediate action to address the serious deficiencies in its accounting records and controls so that future annual financial statements can be audited and issued promptly in accordance with legislated requirements. (2006)</p>	<p><i>Most of the deficiencies raised by the audit were the responsibility of the bookkeeping firm employed by the Ministry to maintain the Council’s financial records.(January2007)</i></p> <p><u>Auditor General’s comment:</u> Employ-ing a contractor does not relieve the Council of its legislated responsibilities to maintain accounting records and be accountable for the financial resources it receives and consumes.</p>
<p>56. The Ministry of Culture and Social Rehabilitation should give Sandys Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-</p>	

RECOMMENDATION	RESPONSES AND CURRENT STATUS
57. Southampton Parish Council should take urgent and immediate action to address the serious deficiencies in its accounting records and controls so that future annual financial statements can be audited and issued promptly in accordance with legislated requirements. (2006)	<i>The Council will make every effort to provide supporting documentation for the Auditor General's Office and our accountants going forward. (January 2007)</i>
58. Warwick Parish Council should take urgent and immediate action to address the serious deficiencies in its accounting records and controls so that future annual financial statements can be audited and issued promptly in accordance with legislated requirements. (2006)	<i>The Council accepts the denial of opinion as stated. This is viewed very seriously and action is being taken to address this and other recommendations put forward by the auditors. We are confident that our 2004-05 fiscal year will be much better as we are working closely with newly appointed accountants. (December 2006)</i>
59. The Ministry of Culture and Social Rehabilitation should give Warwick Parish Council a deadline for the setting up of internal control systems that protect public money and other property, the establishment of proper accounting records and supporting documentation, and the issuance of up-to-date annual financial statements that enable unqualified audit opinions. The Parish Council should be informed that failure to meet this deadline will result in withholding public funding and the transfer of responsibilities to the Ministry of Culture and Social Rehabilitation. (2007)	
Office of the Auditor General	
60. To enhance and help safeguard the Constitutional independence of the Office of the Auditor General, the Ministry of Finance should assign authority to the Office to establish and operate its own bank account and payments and payroll processing systems. Eventually this authority should be enshrined in legislation. (2006)	<i>The Ministry of Finance fully understands that independence is a vital safeguard for the Office of the Auditor General in fulfilling its responsibilities objectively and fairly. The statutory independence of the Auditor-General is clearly enshrined in legislation via the Constitution of Bermuda and the Audit Act which enables the Auditor to carry out its mandate independently of the government and its administration. The Ministry considers that the preconditions for the functional independence of the Auditor-General are currently in place with the current legislative framework. These are:</i> <ul style="list-style-type: none"> • <i>personal independence in relation to appointment and tenure;</i>

RECOMMENDATION	RESPONSES AND CURRENT STATUS
	<ul style="list-style-type: none"> • <i>a wide legislative mandate empowering the Auditor-General to audit the complete spectrum of government functions;</i> • <i>audit independence, including freedom to determine the audit programme, and to decide the nature and scope of audits to be conducted;</i> • <i>unrestricted access to information in performance of the audit function together with the right to report any findings to Parliament, and</i> • <i>adequate resourcing to fulfill audit functions effectively. (January 2008)</i> <p><u>Auditor General's comment:</u> see section 2.3 of this report for my comments on this.</p>
<p>61. To enhance and help safeguard the Constitutional independence of the Office of the Auditor General, the Ministry of Works and Engineering should formally assign authority to the Office to negotiate and be responsible for its own accommodation arrangements. Eventually this authority should be enshrined in legislation. (2006)</p>	
<p>62. To provide a legal framework for independence for the operations of the Auditor General, the Minister of Finance is hereby requested to seek legislation to establish the Office of the Auditor General as a legal, independent entity. (2006)</p>	<p><i>The Ministry of Finance fully understands that independence is a vital safeguard for the Office of the Auditor General in fulfilling its responsibilities objectively and fairly. The statutory independence of the Auditor-General is clearly enshrined in legislation via the Constitution of Bermuda and the Audit Act which enables the Auditor to carry out its mandate independently of the government and its administration. The Ministry considers that the preconditions for the functional independence of the Auditor-General are currently in place with the current legislative framework. These are:</i></p> <ul style="list-style-type: none"> • <i>personal independence in relation to appointment and tenure;</i> • <i>a wide legislative mandate empowering the Auditor-General to audit the complete spectrum of government functions;</i> • <i>audit independence, including freedom to determine the audit programme, and to decide the nature and scope of audits to be conducted;</i> • <i>unrestricted access to information in performance of the audit function together with the right to report any findings to Parliament, and</i> • <i>adequate resourcing to fulfill audit functions effectively. (January 2008)</i> <p><u>Auditor General's comment:</u> see section 2.3 of this report for my comments on this.</p>

Audit Recommendations removed from Appendix 2 this year

<p>If the Consolidated Fund continues to fund the annual pension deficits (excess of pensions paid over contributions received) of the Public Service Superannuation Fund, or if the accumulated balance owing to the Consolidated Fund is to be forgiven, the Ministry of Finance should budget each year for these annual deficits as cash expenditures of the Consolidated Fund. (2004)</p>	<p>Replaced by a more specific recommendation.</p>
<p>The Accountant-General's Department should implement the control and monitoring procedures that it agrees are needed to:</p> <ul style="list-style-type: none"> • ensure that any unauthorized vendor profiles set up on the central payments system, or any unauthorized changes to profiles, are detected and corrected promptly, • eliminate all duplicated vendors from the system and minimize the risk of duplications in future, • periodically review vendor accounts and remove or deactivate all disused vendor accounts that are no longer needed, • periodically review the user profiles of all Department staff with access to the system to ensure appropriate segregation of user privileges and capabilities, and • develop an improved staff training program to enhance operational efficiency of those who maintain the payments system. (2005) 	<p>Replaced by a more up-to-date recommendation.</p>
<p>To enable the Tax Commissioner, the Director of Social Insurance and others to identify all owners of businesses and other taxable entities, the Ministry of Finance should assign responsibility to an appropriate agency to establish a register of all businesses that operate in Bermuda.</p>	<p>This recommendation is now redundant.</p>
<p>The Ministry of Finance should consider repealing the Bermuda College Buildings Reserve Fund Act 1987. (1993)</p>	<p>The College is considering reactivating this Fund.</p>
<p>The Ministry of Finance and the Ministry of Health and Family Services should impress on the National Drug Commission the importance of maintaining proper accounting records and procedures, addressing the concerns raised by successive annual audits, and bringing its accounting and account-ability reporting up-to-date.</p>	<p>The National Drug Commission was dissolved in February 2006 but see section 3.3.11 of this report for details of the major problems that recent audits are revealing.</p>

APPENDIX 3

Organizations Falling Within the Mandate of the Auditor General

Funds	
Bermuda Department of Tourism North America Retirement Plan	March 31
Confiscated Assets Fund	March 31
Consolidated Fund	March 31
Contributory Pension Fund	July 31
Government Borrowing Sinking Fund	March 31
Government Employees Health Insurance Fund	March 31
Government Reserves Fund	March 31
Hospital 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
Government-Controlled Organizations	
Bermuda Arts Council	March 31
Bermuda College	March 31
Bermuda Health Council	March 31
Bermuda Hospitals Board	March 31
Bermuda Housing Corporation	March 31
Bermuda Housing Trust	March 31
Bermuda Land Development Company Limited	March 31
Bermuda Small Business Development Corporation	March 31
Board of Trustees of the Golf Courses	March 31
CedarBridge Academy	March 31
Pension Commission	December 31
Trustees of the National Sports Centre	March 31
West End Development Corporation	March 31
Parish Councils	
Devonshire Parish Council	March 31
Hamilton Parish Council	March 31
Paget Parish Council	March 31
Pembroke Parish Council	March 31
Sandys Parish Council	March 31
Smith's Parish Council	March 31
Southampton Parish Council	March 31
St. George's Parish Council	March 31
Warwick Parish Council	March 31
Aided Schools	
Berkeley Institute Capitation Account	March 31
Sandys Secondary Middle School Capitation Account	March 31
St. George's Preparatory School Capitation Account	March 31
Whitney Educational Trust	March 31
Other	
Office of Ombudsman for Bermuda	March 31

APPENDIX 4

Audits Completed during the Reporting Period

The following financial statement audits were completed between the effective date of my 2006 Annual Report (January 2007) and this Annual Report (January 2008)

	Funds
Bermuda Department of Tourism North America Retirement Plan	2006
Confiscated Assets Fund	2006
Consolidated Fund	2007
Contributory Pension Fund	2004 (July)
Government Borrowing Sinking Fund	2007
Government Employees Health Insurance Fund	2003, 2004
Government Reserves Fund	2006
Hospital Insurance Fund	2002, 2003
Ministers and Members of the Legislature Pensions Fund	2005
Mutual Re-insurance Fund	2003
Public Service Superannuation Fund	2005, 2006
Government-Controlled Organizations	
Bermuda Hospitals Board	2007
Bermuda Housing Corporation	2007
Bermuda Land Development Company Limited	2007
Bermuda Small Business Development Corporation	2005, 2006
Board of Trustees of the Golf Courses	2003, 2004
CedarBridge Academy	2007
National Drug Commission	2003, 2004
Pension Commission	2006 (December)
Trustees of the National Sports Centre	2007
West End Development Corporation	2006, 2007
Parish Councils	
Devonshire Parish Council	2005
Paget Parish Council	2005, 2006
Pembroke Parish Council	2002
Sandys Parish Council	2005
Smith's Parish Council	2006
Southampton Parish Council	2005
St. George's Parish Council	2004, 2005
Aided Schools Capitation Accounts	
Berkeley Institute Capitation Account	2005, 2006
Sandys Secondary Middle School Capitation Account	2005
St. George's Preparatory School Capitation Account	2007
Whitney Educational Trust	2003

APPENDIX 5

Payroll Tax Remittances in Arrears

*Employers who at June 30, 2007 owed more than \$40,000 to the Government
for Payroll Tax Remittances that were more than 90 days in arrears
(See commentary in section 2.5 of this report)*

	2007	2006	2005
	\$	\$	\$
Hamiltonian Hotel & Island Club	584,898	561,854	469,036
Fine Touch Construction & Maintenance Ltd.	481,801	460,474	368,476
C & N Construction	428,584	241,754	-
Island E TV Ltd	342,875	305,175	-
Creative Accents Ltd.	277,581	255,860	149,194
Link Contracting Limited	273,797	240,470	-
Premier Homes	270,827	246,093	146,192
Sea-Land Construction Co. Ltd.	243,344	243,344	243,344
Guardwell Security Services	240,100	203,129	-
Precision Management & Development Co. Limited	215,614	179,781	-
CCS Thompson Engineering Ltd.	195,409	160,325	-
Steven Smith	166,016	124,460	-
Hunts Sanitation Services Ltd.	156,580	82,044	-
Palmetto Palms Seniors Home	150,931	131,240	74,542
Bermuda Live Productions	150,239	130,918	-
Branches Mini Construction & Landscaping	145,744	130,315	53,358
Three Generations Construction	144,050	120,110	-
Sandcastle Limited	143,668	-	-
Paul's Home Improvement	132,600	132,600	132,600
Carlsen Phillip Barristers & Attorneys	132,595	132,595	134,595
Matcham & Matcham	127,343	109,847	-
Design - Tech	125,102	97,763	-
Springfield Landscaping Ltd.	124,091	-	-
Better Homes Construction	114,968	108,436	-
Evoke International Ltd.	110,990	84,982	-
Promisant Technology Limited	107,697	-	-
Terrylynne A. Emery	107,213	-	-
Ventura's & Steede's Maintenance	106,736	87,599	-
Office Cabling Technologies Ltd.	106,680	91,339	60,658
Somerset Bridge Recreation Club	92,242	91,006	54,555
Aptech Granite & Marble	91,924	93,491	-
Symonds Construction Company	91,874	76,606	-
Peter Thornton	89,700	56,550	-
Shabazz Bakery	88,743	70,647	-
Axiom Services Limited	87,556	136,290	-
Smith & Co.	85,858	104,603	119,112
Bermuda Hosts Ltd.	85,072	107,874	59,932
Integrated Systems of Bermuda Limited	83,730	-	-
F2 Property Management Group	79,009	52,267	-
Surf & Turf Restaurant	72,926	73,506	-

Browne, Scott & Associates	70,314	61,065	-
Temple Management Services Ltd.	60,567	110,809	105,388
T.C.S. Landscaping	60,538	-	43,019
Creative Accents Supply Limited	59,841	-	-
Bermuda Breads Limited	59,836	-	-
KLC Limited	59,039	50,145	-
K.C. Island Painting Contractor	56,246	59,510	-
Southside Office Depot Ltd.	55,530	-	-
Harry Lightbourne General Maintenance	54,048	-	-
Dr. James Brockenbrough	53,660	53,660	53,660
Flavius Private Trust Company Limited	53,530	49,709	-
Blue Dragon	52,150	-	-
Increte Systems Bermuda	52,143	43,665	-
Lynx Lomax Limited	50,613	-	-
Kalifa Day Care	50,378	-	-
Northrock Construction	50,303	-	-
Rodney W. Scott	48,356	-	-
Hi-Tech Electrical Service	48,086	49,071	50,365
VCG 2 Ltd C/O Don Laurencio	47,803	40,320	-
Island Hotel Supplies Limited	47,548	-	-
Brilliant Solutions Limited	47,258	-	-
Scott & Scott Management Services Limited	46,221	-	-
Astwood Cove Guest Apartments Ltd.	46,219	46,239	-
E. Video Bermuda Ltd.	46,064	-	-
Hibiscus Development Limited	44,267	-	-
Petty Enterprises Limited	43,990	40,463	-
Foran Specialties	43,546	-	-
Bermuda Fabricating & Welding	43,383	-	-
Southampton Rangers Sport Club	43,337	-	-
New Park Laundry	42,301	-	-
Crawford & MacMillan Limited	42,211	-	-
Salon Designs	40,828	44,505	-
St. David's Esso Convenience Centre	40,455	-	-
	<u>8,517,316</u>	<u>6,174,508</u>	<u>2,318,026</u>
Employers who were eliminating their arrears over periods of years under negotiated agreements	2,603,350	2,351,627	1,895,900
Employers who owed more than \$40,000 that was more than 90 days in arrears in prior years but have since reduced their arrears to less than \$40,000, or have gone into receivership or out of business		2,210,696	2,087,694
	<u>\$11,120,666</u>	<u>\$10,736,831</u>	<u>\$6,301,620</u>

Note: This appendix does not include employers, who have gone into receivership or out of business, who at June 2007 owed total payroll tax arrears of **\$5,615,915**

APPENDIX 6

Pension Contribution Remittances in Arrears

*Employers who at July 31, 2007 owed more than \$40,000 to the Contributory Pension Fund
in respect of Pension Contributions more than 90 days in arrears
(See commentary in section 2.5 of this report)*

	2007	2006	2005
	\$	\$	\$
Hamiltonian Hotel & Island Club	244,206	232,357	220,633
Darrell Contracting Services	197,464	186,264	175,842
C & N Construction	103,849	-	43,282
Beeline Transport Ltd.	96,727	109,327	108,024
Steven Smith Construction	71,085	50,502	58,658
Carlton R. N. Limited	70,029	70,029	70,029
Guardwell Security Service	68,195	42,487	-
Pro-Active Management Systems Ltd.	67,468	186,804	160,049
Palmetto Palms Seniors Home	57,401	57,401	57,401
Shabazz Bakery	54,316	50,023	44,996
Advanced Engineering	52,600	48,600	44,250
Eve's Group of Bermuda	52,430	72,493	67,398
Fernando Rego Bob-Cat	51,450	51,850	52,050
Marvin Seaman	49,747	43,587	-
Corner Stone Construction	48,102	-	-
Full Armour Christian Academy	46,571	-	-
Gem Cellar (The)	46,356	43,753	44,732
Creative Accents Ltd.	45,729	42,929	-
Bermuda Accounting and Management Services	44,652	43,052	44,148
T.C.S. Landscaping Company	42,636	42,636	50,793
Browne Scott & Associates	41,201	-	-
	1,552,214	1,374,094	1,242,285
Employers who are eliminating their arrears over periods of years under negotiated agreements.	268,236	492,463	418,996
Employers who owed more than \$40,000 that was more than 90 days in arrears in prior years but have since reduced their arrears to less than \$40,000, or have gone into receivership or out of business.	-	367,264	856,515
	\$1,820,450	2,233,821	2,517,796

Note: This appendix does not include employers who have gone into receivership or out of business who, at July 2007, owed total pension contributions in arrears of **\$1,997,821**.

APPENDIX 7

Land Tax Remittances in Arrears

Property-owners who at June 30, 2007 owed more than \$40,000 to the Government for Land Tax Remittances that were more than 90 days in arrears

(See commentary in section 2.5 of this report)

	2007	2006	2005
	\$	\$	\$
Hamiltonian Hotel & Island Club	388,029	346,408	307,631
Bermuda Transportation Co Ltd.	129,421	40,891	-
Lorenzo and Sonya Caletti	123,272	88,462	55,983
The Galleria	66,948	48,018	-
Lantana Resort Ltd.	64,306	-	-
Conrad Henry	55,077	54,929	56,169
St. George's Trust Co. Ltd.	52,808	-	-
Keith Robert Dunmore	48,938	-	-
Hill Air Corporation	48,376	-	-
Robert A. Mercer	47,632	-	-
Voorhees & Ellen Lightbourne	46,794	-	-
Rebecca Zuill & Lawrence Brady	45,765	-	-
Denise Brown-Trew	40,747	-	-
Rosalind Gail Ray	40,299	-	-
	<u> </u>	<u> </u>	<u> </u>
	<u><u>\$1,198,412</u></u>	<u><u>\$578,708</u></u>	<u><u>\$419,783</u></u>

APPENDIX 8

Minister of Finance Response on the Report of the Parliamentary Standing Committee on the Public Accounts for the Financial Years Ended 31 March, 2003 and 2004 and the Financial Year Ended March 31, 2005 **Regarding the Bermuda College**

Introduction

Mr. Speaker, I am grateful for this opportunity to respond to the Public Accounts Committee Report on the Public Accounts for the financial years ended 31 March, 2003 and 2004, and the financial year 2005 regarding the Bermuda College. The Progressive Labour Party Government appreciates that this process is an important component of the financial reporting accountability cycle within Government and will fulfill its duty to ensure that Government's financial reporting is raised to its optimal level.

Mr. Speaker, before I go into my formal response I would like to comment on the role of the Public Accounts Committee (PAC) and parliamentary procedure in general. While the PAC has an important role to play in government accountability, it is my opinion that its effectiveness could be hampered if the proper parliamentary procedure is not adhered to.

When the Auditor General tables a report in the House it is automatically referred to the PAC, Parliament's Standing Audit Committee. The Committee then selects the portions of the report it wants to scrutinise and calls public servants from audited organisations to appear before it to respond to the Auditor General's findings. The PAC also reviews any other Special Auditor Reports that have been tabled, and attempts to identify financial shortcomings of the Government in light of issues raised in the Auditor General's reports. The Committee then tables its report and makes recommendations to the Government for improvements in spending practices and request that the Minister of Finance formally replies to the points raised in the Report and it is debated including input from the relevant and accountable Ministries and Ministers.

Mr. Speaker, it is important for proper parliamentary protocol to be abided by if this process is to receive credibility. Although the Ministry of Finance has responsibility to provide overall financial management and control of all Government and Quango financial activities, the accountability for proper controls rests with relevant officials in the Departments and Quangos. Before commenting on any PAC matters the Ministry considers it appropriate and prudent to allow the relevant Department or Quango to reply in a timely matter to the Ministry of Finance in the first instance. In my opinion media comments by members of the PAC before the Minister of Finance has had the opportunity to receive feedback from relevant Ministries and formally reply to the PAC report is inappropriate as it flouts parliamentary protocol.

Since coming into office in November, 1998, the PLP Government has placed great emphasis on the need to address the numerous recommendations made by the Auditor over the years and on making continued improvements to Government's accounting and financial control systems and practices.

Mr. Speaker, before I go into my formal response I would like to highlight some of the progress that the Government has made in improving the financial and accountability framework relating to Public Financial Management. These will be detailed in the body of the Response. While overall the progress is satisfactory though, as always, more remains to be done.

Some of the very positive measures Government has undertaken to enhance Public Financial Management are as follows:

- The Accountant General has concluded the implementation of a government accounting infrastructure that involved placing qualified accountants throughout Government at the departmental or Ministry level, to ensure financial controls are improved and accounting needs are met;
- Co-ordination of Government's financial direction by bringing together key accounting personnel within government and in the QUANGO's for quarterly strategy meetings;
- Providing additional resources within the Accountant General's Department to improve operations, accounting systems and the internal control environment across Government;
- Re-establishment of the Internal Audit function in the Accountant General's Department;
- Executing a risk assessment of the entire Government of Bermuda to identify, categorise and to prioritise the risks;
- Updating of Financial Instructions;
- Establishment of the Debt Enforcement Unit;
- Timely completion of the Consolidated Fund Financial Statements (the Fund through which Government conducts the majority of its transactions) with a clean audit opinion;
- Bringing various Public Funds and Government related entities' financial statements up to date in an auditable condition.

For ease of reference, my remarks follow the sequence of items in the Committee's Report, which I have attached as Annex I.

The Accountant General's Department

Unauthorised Expenditures or overspending of approved budget appropriations by several Government Departments.

Mr. Speaker, The Ministry of Finance agrees that budget overspends are serious and warrant strong efforts to eliminate them. I also note the Committee's reference to overspends being "illegal". As has been stated already in prior responses, the Government disagrees with the PAC's terminology in this matter as it is inconsistent with the provisions of the Bermuda Constitution Order 1968.

Section 96 (3) of the Constitution provides as follows:

"If in respect of any financial year it is found –

- (a) that the amount appropriated by the Appropriation law to any purpose is insufficient or that a need has arisen for expenditure for a purpose to which no amount has been appropriated by that law; or
 - (b) 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."

Government considers that the language of the Constitution is clear in this regard. It simply requires for an overspent budget to be approved by the House of Assembly before it may be considered authorised. The Constitution is also clear that the money may, in some circumstances, be spent before the approval is obtained. The better view, as indicated, is that the term 'illegal' is inappropriate and that the correct reference should reflect such expenditures as "unauthorised expenditure".

Mr. Speaker, in compiling their report, in particular with regard to their comments on overspending of approved budget appropriations by Government Departments, the PAC have seemingly ignored provisions of the Public Treasury (Administration and Payments) Amendment Act 2004. As the Honourable House would be aware one of the purposes of the Act is to allow senior government officers who have responsibility for managing appropriated budget provisions the ability 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. This measure provides flexibility in financial management and reduces the incidence of technical supplementary estimates, that is, supplementary estimates that do not increase the overall appropriation amount but merely move funds around within a zero-sum total. The amendment gives effect to a policy change that enables Heads and Permanent Secretaries to transfer a part of a Department's appropriated budget provision to another Department within the same Ministry. This added degree of flexibility in financial management is considered useful in that it facilitates the redeployment of approved budget resources after the start of a financial year in the event that the Ministry priorities change as a result of unforeseen events. This

helps to create a more joined-up government and enhances delivery of services and programmes.

Fraud and misappropriation of funds and whether there exist a systemic problem that encourages such behaviour.

Mr. Speaker, financial impropriety is an unpleasant matter that can have a devastating effect on any organisation. It sometimes can tarnish the image and reputation of the entire organisation. However, I wish it to be known that the improper behavior of the few individuals involved in fraudulent activity is not a reflection of the moral and ethical standing of the Accountant General's Department or the civil service in general, which is 1,500 strong. As a body, our 1,500 civil servants are honest and have high integrity. The Accountant General's Department has already acted to improve financial controls by engaging an independent consultant auditor who examined cash receipting controls, electronic payments processes and their controls and made various recommendations for remediation of any deficiencies that were found. Government is committed to making sure that robust internal controls are in place in every Government Department and that such controls are rigorously monitored for compliance. Accordingly, Government has considered the recommendations of the independent consultant auditor as a matter of priority.

Regular reconciliation of bank accounts

Mr. Speaker, the regular reconciliations of bank accounts may not seem a complex function, but given the increasing volume and multiplicity of the types of transactions flowing through the Government's several bank accounts this function has become more time consuming and complicated. Based on a review by the Department of Management Services that had been requested by the Accountant General, specialised bank reconciliations administrators are to be hired. Three further administrators will be hired bringing the total staff complement to seven. This will comprise five reconciliations administrators, a supervisor and a qualified management accountant.

Staffing and segregation of duties

The Accountant General's Department is tasked with the responsibility of providing the required internal oversight over Government's financial affairs and establishing the internal standards of financial control within Government. These standards are clearly identified in the Financial Instructions issued by the Accountant General and these Instructions are constantly amended to improve and clarify the financial standards expected from all public officers.

Measures have been put in place to give the Accountant General the tools to do a proper job, including the hiring of more financial controllers in all Ministries and additional resources within the Accountant General's Department to improve operations, accounting systems and the internal control environment across Government.

Mr. Speaker, as the PAC report notes the Accountant General's Department has undergone organisational changes over the last few years. The former Salaries Section has been restructured into stand alone Compensation and Benefits Sections. Strategic reviews of the Treasury and Investments Section and the Information Technology Section are currently being undertaken.

Also of significance is the re-establishment of the Internal Audit function since June 2005. The Internal Audit section consists of an Internal Audit Manager, an Internal Audit Officer, an Internal Audit Assistant, a clerk and the periodic assistance of consultants on an as needed basis. Further funding for this section has been provided in the 2007/08 Budget. The section is operative and has been doing some key work during the course of the last year or so. The Internal Audit section's Mission Statement is to provide assurance on the economy, efficiency and effectiveness of Government operations and resources and to ensure that adequate internal controls are in place for the production of reliable, timely and accurate information. Its main objectives are to evaluate and improve the effectiveness of risk management and internal controls, provide analyses, evaluations and recommendations on how to improve the overall procedures and processes in Government Departments, implement and monitor internal controls in all procedures and processes in Government Departments and to ensure that Government Departments are in compliance with the proper procedures and regulations according to Financial Instructions, the Code of Conduct and any applicable legislation. In addition, the Internal Audit section investigates any fraudulent activity and thefts of Government property and prepares reports on findings and recommendations to prevent reoccurrence. The team also conducts presentations on Financial Instructions to all Government Departments, follows up on the implementation of the recommendations of previously issued internal audit reports as well as follow-ups on the implementation of the recommendations in the Auditor-General's reports.

All reports of the Internal Audit Section are forwarded to the Financial Secretary; also, if deemed necessary, information from the reports is communicated to the Auditor General.

Financial Reporting – Consolidated Financial Statements

Mr. Speaker, I note the PAC's ongoing and long-standing concerns with regard to late financial reporting of certain government entities and public funds.

Initially let me advise that the Consolidated Fund Financial Statements (the Fund through which Government conducts the majority of its transactions) have been completed, audited, published and will be tabled in the House of Assembly during this Budget Session. There is a clean audit opinion on the Consolidated Fund for the fiscal year

2005/06. This is a clear example of Government's commitment to a sustained programme of fiscal discipline and prudent management.

The Government understands the importance of timely financial information. As the Minister of Finance I consider it essential that all Government entities prepare annual financial statements on a timely basis. This has been a long-standing problem that has now reached the tipping-point and must be rectified without delay. The deficiencies in financial administration of some public funds and entities highlighted by the PAC are disquieting and must be addressed. For accountability purposes it is important that organisations which receive grant funding from Government have their financial records up to date. Those organisations that do not respond in a timely manner will be at risk of having funding withheld until their financial records are current.

To assist with the actual auditing of these outstanding accounts the Government has approved the Auditor General's request for additional budgeted funds for fiscal 2007/08. Relevant government entities are now mandated 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.

The consolidation of government accounts and the eventual preparation of Consolidated Financial Statements, including the reconciliation of interdepartmental and inter-entity accounts and transactions.

Mr. Speaker, the Auditor General has included a cautionary paragraph in the Auditor's Report on the Government of Bermuda Consolidated Fund's Financial Statements for the fiscal years ending March 2003, 2004, 2005 and 2006. This paragraph along with notes to the Consolidated Fund's financial statements make it abundantly clear to Government's primary financial statement user that these statements are not consolidated statements.

While legislative changes are required to effect consolidated reporting, they are simply one aspect of a complex approach that would be required to achieve this accounting objective. Consideration must be given to resources, accounting systems, management roles and other factors that are critical in the accomplishment of this task. Whilst recognising that there are other associated issues that need to first be addressed before consolidation can take place, the Accountant General's Department is currently in the process of hiring a consultant to evaluate this matter. This engagement will include an assessment of the legislation required to develop a body responsible for the consolidated financial statements.

Finally with regard to this matter the Ministry of Finance disagrees with the PAC statement that the absence of consolidated financial statements may have an effect on the excellent ratings of Bermuda Government Debt. Consolidation is an accounting matter while the rating of the Government's debt is based on other rating factors such as macro-economic policy and management and political risk. The Bermuda Government continually receives excellent credit ratings by the leading rating agencies who are

knowledgeable about the statutory requirements relating to the audit of the Consolidated Fund.

Debt Collection – Pensions and Taxes

Mr. Speaker, another concern noted by the PAC in their annual report and shared by the Government is the matter of pension contributions and taxes in arrears. As previously stated, this Government places a high priority on collecting outstanding amounts owed.

The Debt Enforcement Unit in the Attorney-General's Chambers has had a significant impact on the ability of the Office of the Tax Commissioner and the Department of Social Insurance to collect outstanding receivables. The timely processing of and publicising of writs has seen a significant increase in collections. Also utilising Letters of Action written by the Attorney-General's Chambers on behalf of the Department and sent to delinquent employers has enhanced collections. Despite these successes, the Ministry is neither satisfied nor complacent. As a result the Government has recently amended relevant tax and pension statutes to hold directors responsible for unpaid pensions and taxes.

I should also like to confirm at this time that the Ministry of Finance will continue to support the Tax Commissioner in her efforts to expedite the purchase and installation of the new accounting software package. I can report that a vendor has been selected and has documented and defined the overall framework and scope within which the new system will be required to function. This framework analysis document is being used to define the scope of each replacement system and the order of replacement. The Tax Commissioner has advised that staff departures and hiring difficulties have had a significant impact on their timetable for implementation of the new system. In the interim, the Office of the Tax Commissioner are still fine-tuning the Framework Analysis in order to ensure that they get the best possible system going forward. The Tax Commissioner anticipates that they will be in a position to put a Proposal out to tender by the end of May 2007 and complete the selection for a vendor in July 2007 with a revised start date for the project in September 2007.

Contributory Pension Fund – Social Insurance Department –GEHI and Hospital Insurance Fund

Contributory Pension Fund – Social Insurance Department

Mr. Speaker, the Ministry of Finance recognises that technology is critical in order for the Department of Social Insurance to improve their efficiency and effectiveness. To this end I am pleased to report that the Director of Social Insurance has advised that a Request for Proposal has been prepared for a new pension system and is currently posted on ITO's website. The deadline for proposals was January 31st 2007 and a final selection will be made by March 31st 2007. This system will be web based and will enhance the current procedures of record keeping for contributions and benefits as well as receivables management. Meanwhile, the Department of Social Insurance inspectors continue to diligently monitor the status of contribution payments due to the Contributory Pension Fund.

Hospital Insurance Fund (HIP)

The Director of Social Insurance has advised that a Request For Proposal is being prepared and is in the final stages for the purchase of a new health claims processing system. The Bermuda Health Council is assisting with this effort. A system is anticipated to be fully operational by April 1, 2008.

Meanwhile five temporary staff have recently joined the Department with the assistance of the Ministry of Finance in an effort to catch up on the backlog of health claims. The staff will stay on until computerization is complete.

Mr. Speaker, with regards to the Audit of Funds falling under the responsibility of the Department of Social Insurance I can report that the audit for the Mutual Reinsurance Fund (MRF) 2002 is completed and will be included in the Auditor General's 2006 report. The opinion is clean (unqualified). The audit for the HIP 2002 accounts are nearly completed with minor points outstanding and currently being resolved. Preparation of the draft accounts are completed up to 2006. A strategy has recently been implemented such that in order to expedite the outstanding audits from 2003 – 2006, a temporary accountant has been hired and dedicated to: 1) preparing schedules and working papers in support of the draft accounts and 2) work with the auditors to answer questions and queries. The Bermuda Health Council is currently working with the Office of the Auditor General to hire external auditors to assist in bringing the audited accounts up to date within this calendar year.

Government Employees Health Insurance Fund (GEHI)

Mr. Speaker, GEHI is administered by the Accountant General's Department. Over the last few years the section has been restructured and a new claims processing system implemented which has resulted in improved section efficiency. Currently the GEHI section is fully staffed and the claims payment process has been shortened. I am also

pleased to confirm that significant progress has been made in bringing the Government Employees Health Insurance financial statements up to date. The audit for the 2002 statements is complete and the statements for the years 2003, 2004, 2005 and 2006 have been completed and forwarded to the Office of the Auditor General to be audited.

National Drug Commission (NDC)

Mr. Speaker, the Ministry of Health and Family Services and the Ministry of Finance has constantly emphasised to the National Drug Commission and the former accounting firm the importance of maintaining proper accounting records and to bring the NDC accounts up to date. In February 2006, the NDC was dissolved and its operations now fall under the Department for National Drug Control in the Ministry of Social Rehabilitation. Meanwhile, the Ministry of Finance has taken on the responsibility of having all NDC accounts brought up to date. A consultant accountant was engaged by the Ministry in order to bring the NDC accounts up to date. The Ministry can report that the consultant accountant had success in getting the NDC's 2003, 2004, 2005 and 2006 accounts to an auditable state with supporting working papers, given the information at hand. However there is insufficient supporting documents and a denial of opinion may be issued by the Office of the Auditor General.

Bermuda Housing Corporation (BHC)

Mr. Speaker, over the last few years the BHC has made significant progress in improving their accounting and management controls. I can report that the BHC has completed their Annual Accounts for 2006 and have received a clean audit opinion. The PAC report with respect to the Bermuda Housing Corporation related mainly with the need to upgrade the Corporation's IT systems. Currently the tenant record kept by the current system is not carried from property to property or to the Bad Debt record. The BHC has advised that this problem could be addressed by any system that provides a tenant identifier separate from the property identifier. The BHC as a joint exercise with the Bermuda Land Development Corporation has been actively reviewing computer systems which will provide both organisations a viable system to meet their current and future needs. The Corporation anticipates the selection of a replacement application by the end of fiscal year 2007. The next step will be to identify the resources required and plan for the implementation of the system chosen.

The Bermuda Small Business Development Corporation

Mr. Speaker, I can report that the General Manager of the BSBDC has advised that all excess funds are now placed into interest bearing accounts to obtain maximum returns on its cash holdings. I can also report that the SBDC has made progress in bringing their accounts up to date. Accounting records and draft financial statements for 2005 have been made available to the Auditor General and the 2006 accounting records will be completed and submitted no later than March 31, 2007.

Department of Immigration

I note the Committee's satisfaction with regard to the new measures outlined by the Department of Immigration to improve their accounting controls. To this end Mr. Speaker, I can report that the Department of Immigration is in the process of implementing an Application Processing system. This system will have the functionality to perform revenue reconciliations, with Government's primary Point of Sale system (POS). The first phase of the new application processing system is scheduled to be implemented in April 2007 in a stand alone process. The second phase will come on line in May/June 2007 which will be directly interfaced to the POS. In November 2007 it is expected that the border control system will be implemented at the airport and will have the same functionality for receipts taken in by airport Immigration staff.

The Accountant General's Audit Compliance Team will inspect the system's modules as they are implemented to ensure that they function as expected. It has also been recommended that a compliance test be undertaken by the Internal Audit Team every six months to ensure that the desired functionality has in fact been achieved.

Golf Courses Board of Trustees

Mr. Speaker, I can report that significant progress has been made with regard to the financial reporting of the Golf Courses Board of Trustees. The Auditor General has just completed the audit for the year-end March 2002. The Auditor General has issued a reservation of opinion on the accounts because insufficient evidence was available to provide audit assurance that some of the amounts in the financial statements were accurately stated.

Prior to the audit, the Board had recognised that proper accounting procedures were not in place at the Golf Courses, and elected to outsource the accounting functions to a reputable accounting firm. The firm has reviewed all accounting functions and has implemented proper procedures and controls that have remedied the concerns that were raised by the Auditor General in the 2002 audit report. The accounting firm has prepared and presented management accounts to the Auditor General for the years ending 2003, 2004, 2005, which were completed in August 2005. The 2006 management accounts were completed in May 2006 and are also ready to be audited. After the accounts are audited the Board will be able to complete their annual report for these years.

The Board of Trustees reported that Port Royal Golf Course continues to operate with a positive cash flow while Ocean View Golf Course and St. George's Golf Course continue to operate at a negative cash flow, resulting in the combined courses operating at a loss. In previous fiscal years the Board did not request an operating grant to cover these losses, however, the Board has requested Government to provide an operating grant of \$1 million dollars to cover the Course's projected shortfall for 2007/2008.

Parish Councils

The Government recognises the need to improve the financial administration of the Councils and I can report that the Ministry of Health has made some strides in the updating of the Parish Councils' accounts and their financial reporting. However the challenges of record-keeping and management controls continue to exist. A new accounting firm has recently been employed and has a more applied approach to maintaining the records of the Parish Councils. The Ministry is currently reviewing new definitive avenues to address the long-standing issues affecting the financial status of the Parish Councils.

As of November 2006 the Parish Councils have been moved to the purview of the Ministry of Community and Cultural Affairs; however the administration of the Rest Homes still falls under the Ministry of Health.

The Ministry of Health can also report that Contributory Pension Fund contributions for Parish Council and Rest Home staff as highlighted by the Auditor in his 2003 Annual Report are now paid on a timely basis and at this point are current.

Ministerial Interference in responsibilities of civil servants

Government considers that the relationships between Ministers, Permanent Secretaries and Heads of Departments are clearly defined in the Conditions of Employment and Code of Conduct. All Ministers and civil servants are familiar with this established protocol and it is basically adhered to.

Public Accounts Committee Meetings

Mr. Speaker, while I agree that it may be beneficial for the PAC to be increased to seven, Mr. Speaker, this decision is not the Minister of Finance's and is for the House of Assembly or Speaker to determine.

The Bermuda College

Mr. Speaker, the Bermuda College Board of Governors and the Bermuda College Executive have reviewed the Report of the Public Accounts Committee and have submitted their replies to the Ministry of Finance.

The Ministry of Finance recognises that over the last few years the Bermuda College has been going through a transitional period and appreciates their ongoing efforts in correcting and addressing the outstanding issues raised in the PAC report. Their responses illustrate the College's desire to improve their governance framework, management processes and accounting controls. The Ministry urges the Board of Governors to resolve these matters on a priority basis.

In general, the Ministry agrees in that the financial procedures to operate a College will not be the same as that for the Government. All Universities and Colleges require strong and continuing private support from alumni, friends, corporations and foundations to help achieve their academic objectives. Private funding is part of a resource generation strategy involving government support, tuition revenue and research funding.

The Ministry has also conducted research on the compensation packages being offered to university and college presidents across the US. The research has revealed that the total compensation of presidents at U.S. colleges and universities, both public and private, have risen over the last few years. Salaries of educational institution leaders, like those in the corporate world, are rising as college presidents increasingly are viewed as chief executives who run complex institutions with large payrolls, multimillion-dollar budgets and fundraising campaigns. It was also noted that most colleges offer perquisites to their presidents and that the most common are cars, housing, supplemental life insurance, annual physicals, and country club membership.

The Ministry is satisfied with the replies of the Bermuda College Board of Governors in relationship to the PAC report and is pleased to include them in its formal response. For ease of reference, the remarks follow the sequence of items in the Committee's Report on the College.

Financial Instructions

The Bermuda College Board of Governors (BOG) recognises the importance of having financial procedures for the College. However, the BOG also realises that the financial procedures to operate a College will not be the same as that for the Government. The BOG will be phasing in financial procedures that affect a College over the next few months. The process has already begun and the BOG has the first set of financial procedures down for consideration and approval at the February 2007 meeting of the Board.

The procedures currently with the BOG for their approval are:

- Membership/Professional fees;
- Overseas Travel and Subsistence;
- Entertainment Expenses;
- Purchase of Goods and Services; and
- Budget process.

Once the various sections have been approved by the BOG, then they will be implemented with immediate effect.

Splitting the Duties of the CFOO

A few years ago the College Administration made a decision to make the current Controller position redundant.

The current Administration realises that the decision to make the position redundant was not in the best interest of the College and has had to wait a minimum of two years before the position could be re-instated.

The College has been operating with one qualified accountant for the past few years and is now going through the proper procedures to hire a qualified accountant for the position of Controller. It is anticipated that this position will be filled prior to the beginning of the next fiscal year, April 1, 2007.

The BOG is pleased to give its full support to the current Chief Financial & Operations Officer (CFOO) and is confident that, along with a Controller, the accounts of the College will be in good order.

Board Responsibilities

The BOG recognises the importance of notifying each member of their responsibilities. The BOG is currently in the process of developing written responsibilities outlining each of the members' duties and responsibilities.

Late Financial Reporting

The Committee expressed its concerns of late financial reporting. The lateness of the Bermuda College's financial statements was due to the fact that March 31, 2003 financial statements were not audited on time. The audit was substantially completed by the Office of the Auditor General (OAG) in late 2003. However, the OAG could not sign off on the financial statements until the audit of Stonington Beach Hotel was completed.

The OAG had been requesting for several months that the College resolve the situation (namely the Lease) between Stonington Beach Hotel Ltd and Coco Reef. Until this was resolved, the OAG could not sign off on the financial statements.

This set of circumstances was the first item that the current President and CFOO addressed as they were both hired in their posts on August 1, 2003. The President and CFOO requested information from the former CFOO, however no relevant information was forthcoming and countless hours were spent researching the information and getting the missing information for the OAG. The situation was finally resolved and the OAG completed the 2003 audit and signed off in December 2005.

The OAG currently has the files for the 2004 fiscal year and the 2005 files are ready for the auditors to audit.

It is the express mandate of everyone concerned that the College will have timely financial statements.

Investment Policy

The College has large sums of cash invested in financial institutions both locally and overseas. The College realises that there are other opportunities to ensure maximum return on its investment.

In an effort to ensure maximum return on investment, an Investment Policy has been prepared by the College that will ensure that funds are appropriately invested. This Policy has been presented to the BOG for their approval and has already received the approval from the Ministry of Finance. The primary investment objectives of the Endowment are to:

Preserve the real purchasing power of the principal, and;
Provide a stable source of perpetual financial support to endowment beneficiaries in accordance with the Bermuda College's spending policy.

The target asset allocation mix shall be to diversify investments among both equity and fixed income securities so as to provide a balance that will enhance total return while avoiding undue risk.

The BOG will ensure that an Investment Committee is established to review the investments on a regular basis.

Pension Fund Actuarial Report

This function is included as part of Government's actuarial report which includes a separate section on the College.

Building Reserve Fund

The College has numerous initiatives that it would like to implement and would also like to improve on its current initiatives. The College realises that it cannot depend solely on

Government for financing and is actively looking at other ways to increase cash flow. The College respectfully submits that the Building Reserve Fund Act 1987 not be repealed but to remain in force to allow the College to use the Fund to achieve its aims in relation to capital development. To this end, the College is working alongside the Honorary Fellows and Alumni Association to raise funds for the College.

Strategic Direction Initiative (SDI)

One of the objectives of the new President will be to conduct a review of the 2005 SDI and update it to ensure that it continues to meet the needs of Bermuda College's stakeholders. Over the course of the next year to 18 months, the College will also begin the process of developing a 10-year master plan to ensure that it is positioned to meet the emerging needs of the local community. This plan will include new programmes and facilities including a revisit of whether Bermuda College should offer bachelor's degrees in certain disciplines.

Management Audit

The Committee has recommended a management audit of the College. The Committee will be pleased to know that the College will be conducting a personnel audit with a tentative start date of April 2007 that will be focused on the following entities:

Management

Faculty

Staff

President's Lease

The College recognises that a documented lease between the tenant(s) of the Cottage and the College should be entered into by both parties. The BOG is currently in the process of finalising a lease for the Cottage for when the new President takes up residence. There will be no lease for the remaining few months of the tenure of the current President. The lease will outline specific terms relating to such items as utilities and any other benefits associated with the property.

Perquisites for the President

The BOG has reviewed the perquisites for other presidents at other colleges. Consequently the BOG made the decision to award the President with various perquisites throughout the President's tenure at the College. The perquisites included membership at the Royal Bermuda Yacht Club as this was thought to be a good avenue for the President to initiate contacts with a group of potential benefactors of the College. The long-standing members of the BOG have reiterated their support for the membership for the President. This decision has been retroactively stated to August 2004 and has been recorded in the minutes of the monthly BOG meeting held on January 30, 2007. The BOG respectfully disagrees with the recommendation that the amounts expended on Royal Bermuda Yacht Club bills (\$11,792.43) be recovered from the President.

The BOG also agreed that the electricity bills for Shamrock Cottage should be paid by the College and not by the President as the electricity is included as part of housing. The BOG respectfully disagrees with the recommendation that the amounts expended on electricity bills for Shamrock Cottage (\$8,255.76) be recovered from the President. All future prerequisites will be duly documented by the BOG in advance.

Performance Bonuses/Merit Awards

Merit awards at the College are to reward employees for their performance. An employee can only receive this award if he/she has reached the top of the salary range for their post. The BOG is not responsible for the day to day operations of the College and therefore would not be in a position to approve or deny all merit awards. The BOG has direct responsibility for the President only. Consequently, the BOG respectfully submits that it will not adopt the recommendation that merit awards be approved by the BOG.

Board Approval for Transactions

The College agrees that all BOG decisions that have financial implications should be duly recorded in the minutes prior to any action being taken on the decision.

Signing of Purchase Orders

The College has a policy in effect with regards to purchase orders. This policy states that the issuance of goods and services is signed by an individual independent of the person receiving the goods or services. This procedure will be further enhanced when the College hires a Controller in the near future.

The Chairman of the BOG will be a signatory to purchase orders in relation to expenditure directly related to the President.

Capital Expenditure/Renovations

As part of the process of developing Financial Procedures specific for the College, the BOG will ensure that the tendering process is adhered to for every capital expenditure in excess of a pre-determined amount, which will be set in the policy when it is approved by the BOG. The BOG will ensure that all future major capital expenditures at the College will adhere to this policy. This amount will be duly documented and authorised by the BOG.

The Buildings and Grounds Committee, a sub-committee of the BOG, meets regularly and reviews all major capital expenditures.

Ministerial Interference in Committee Matters

The BOG is unable to comment on this item on the basis that it is inappropriate to do so.

Summary

Bermuda College, as an institution of higher learning, has played an integral part in the academic and career success of many in the community. As Bermuda's community college, the institution is committed to ensuring that students have the academic environment, the supportive services and the facilities to maximise their options and opportunities for success for many years to come. The College demonstrates its commitment to its mission ("Setting Bermuda's Students on the Paths to Success") by providing quality education and training relevant to the needs of its industry and business partners; and providing its educational partners with confident and academically sound students.

The Strategic Direction Initiative underscores the College's commitment and accountability to its stakeholders and includes over one hundred recommendations that are helping to guide the institution towards its vision of providing the best possible educational and training opportunities for the community.

The Executive under the direction of the BOG and with the assistance of the Government is committed to building a more responsive, fiscally sound and dynamic institution so that its legacy of community empowerment continues for generations to come.

The BOG is pleased to submit this reply to the Honorable House for its consideration. It is truly grateful for the dedication and commitment of the Executive, faculty and staff. Equally, it is thoroughly pleased that Bermuda College is the first choice for many Bermuda students, adults and employers for their education and training requirements.

The BOG is resolved to maintain the Bermuda College as an excellent institution of higher education for all people of Bermuda.

Conclusion

Mr. Speaker, through Ministerial Statements, the tabling of annual reports and audited accounts, the Government has committed to providing detailed information on the operations of relevant Ministries through their Boards and Quango Reports. Also a considerable amount of information is available not just through reports tabled in Parliament but also on the websites of various Government Departments and Government Quangos and agencies.

However the Government acknowledges that further improvements in the frequency and timeliness of reports can be made in some instances, and it undertakes to do so. The Government is committed to continuing to maintain the trust and confidence of the people of Bermuda. Yet despite best efforts and a civil service that for the most part is professional in its service delivery there will still be problems and lapses. The cumulative impact of such problems and lapses if unaddressed could call into question the efficiency

and effectiveness of Government. Accordingly, a real attempt has been made to improve the processes and the control framework within Government.

Mr. Speaker, the first Annual Report of the independent Ombudsman is another example of enhancements that the Government has made to the overall accountability framework.

The Government is firmly committed to effecting ongoing improvements in its Public Accounts and in reporting to Parliament. Accordingly we welcome the efforts of the Public Accounts Committee to assess departmental performance in a systematic manner, identify strengths and weaknesses, and provide on how improvements can be made.

To improve the timeliness and reinforce accountability, the Government will continue to improve the timeliness of the information it provides to Parliament.

In conclusion, the Government has taken a number of steps to strengthen overall accountability and transparency relating to the Public Accounts. It is prepared to explore with the Auditor General and the Public Accounts Committee those recommendations that, in its view will usefully improve the framework, while at the same time respecting the legitimate authority of the Government and its legitimate policy objectives.

26th February 2007
FS 40-3

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

CONSOLIDATED FUND STATEMENTS

TO BE INSERTED BY
Bermuda Press Ltd.

APPENDIX 10

Extracts from the Bermuda Constitution Order

88. (1) Power to make appointments to the Office of the Auditor General is vested in the Governor acting in his discretion.
- (2) Subject to the following provisions of this section, the Auditor General shall vacate his office when he attains the age of sixty-five years:

Provided that the Governor, acting after consultation with the Premier, may permit an Auditor General who attains the age of sixty-five years to continue in office until he has attained such later age, not exceeding the age of seventy years, as may have been agreed between the Governor and that Auditor General.

- (3) The Auditor General may be removed from office only for inability to discharge the functions of his office (whether arising from inability of body or mind or any other cause) or for misbehaviour, and shall not be so removed except in accordance with the provisions of subsection (4) of this section.
- (4) The Auditor General shall be removed from office by the Governor if the Governor, acting in his discretion, is satisfied that he ought to be removed from office for inability as aforesaid or for misbehaviour.
- (5) During any period when the questions of removing the Auditor General from office for inability as aforesaid or for misbehaviour is being investigated by, or in pursuance of directions given by, the Governor, the Governor, acting in his discretion, may suspend the Auditor General from performing the functions of his office.
- (6) References in subsections (2) to (5) of this section to the Auditor General do not include references to a person appointed to act in the office of the Auditor General during any period when it is vacant or the holder thereof is unable to perform the functions thereof; and the appointment of such a person may be revoked by the Governor, acting in his discretion, at any time before the expiration of that period.

101. (1) There shall be an Auditor General whose office shall be a public office.
- (2) The accounts of the Senate, the House of Assembly, all government departments and offices (including the Public Service Commission) and all courts of Bermuda shall be audited and reported on annually by the Auditor General, and for that purpose the Auditor General or any person authorized by him in that behalf shall have access to all books, records, returns and other documents relating to such accounts.
- (3) The Auditor General shall submit his reports made under subsection (2) of this section to the Speaker of the House of Assembly who shall cause them to be laid before the House; and the Auditor General shall also send a copy of each report to the Governor and to the President of the Senate and the President shall cause the copy sent to him to be laid before the Senate.
- (4) In the exercise of his functions under the provisions of this section, the Auditor General shall not be subject to the direction or control of any other person or authority.

APPENDIX 11

Extracts from the Rules of the House of Assembly

Section 50(A) Committee on the Office of the Auditor General

- (i) There shall be a Select Committee to be known as the “Committee on the Office of the Auditor General”. This Committee shall be a Standing Committee appointed for the duration of the life of Parliament.
- (ii) The Committee shall consist of five members, inclusive of the Chairman thereof, appointed by the Speaker, who may discharge and replace any member serving on the Committee.
- (iii) The Committee on the Office of the Auditor General shall have the duty -
 - (a) of reviewing annual and any supplementary estimates requested by the Auditor General 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 General 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 General 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 General and his ability to carry out his functions and of recommending how those directions might be amended in their application to the Auditor General.
 - (e) of recommending to the Minister of Finance the basis and circumstances in which the Auditor General should levy fees as income to the Consolidated Fund.
 - (f) where the Auditor General 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 General.
 - (i) of receiving and considering in consultation with the Auditor General the reports of any practice reviews performed on the Office of the Auditor General, such reports to remain confidential to the Auditor General and Members of the Committee.

APPENDIX 12

BR /2001

BERMUDA CONSTITUTION ORDER 1968

THE PUBLIC SERVICE (DELEGATION OF POWERS) REGULATIONS 2001

ARRANGEMENT OF REGULATIONS

- | | |
|---|-----------------------------------|
| 1 Citation and commencement | 5 Reference to Commission |
| 2 Definitions | 6 Appeals |
| 3 Delegation of powers | 7 Revocation of BR No. 34/1979 |
| 4 Delegated powers to be exercised in accordance with Public Service Commission Regulations | 8 Transitional provision SCHEDULE |

The Governor, in exercise of the powers conferred upon him by section 83(1) of the Constitution and acting in accordance with the recommendation of the Public Service Commission, makes the following Regulations:

Citation and commencement

1. These Regulations may be cited as the Public Service (Delegation of Powers) Regulations 2001 and come into operation on 2001.

Definitions

2. In these Regulations—

"the Code" means the Conditions of Employment and Code of Conduct made by the Governor;

"the Commission" means the Public Service Commission for Bermuda established under section 81 of the Constitution;

"Department" means a department of the Government and includes any other organ or branch of the Government;

"Director" means the most senior personnel officer in the Department of Personnel Services;

"disciplinary offence" means misconduct or gross misconduct by a public officer as set out in the Code;

"disciplinary penalty" means a penalty for a disciplinary offence and "misconduct penalty" and "gross misconduct penalty" have the meanings assigned to those expressions in the Code;

"established office" means an office determined by the Governor acting on the advice of the Cabinet to be permanent;

"Head of Department" means the officer who manages and supervises a Department;

"non-established office" means an office that is not an established office;

"office" means a public office within the meaning given to that expression by section 102 of the Constitution;

"officer" means the holder of an office.

Delegation of powers

3. The powers vested in the Governor by section 82 of the Constitution in relation to the offices specified in Column 1 of the Schedule are delegated to the public officer specified in Column 2 of the Schedule to the extent set out in Column 3 of the Schedule and subject to the conditions set out in Column 4 of the Schedule.

Delegated powers to be exercised in accordance with Public Service Commission Regulations

4. The public officer to whom powers are delegated under these Regulations shall, in exercising those powers, act in accordance with the Public Service Commission Regulations 2001 as if references in those Regulations to the Commission were references to the public officer.

Reference to Commission

5. Where any power is by these Regulations delegated to any persons acting jointly, if those persons fail to agree on the exercise of the power the matter shall be referred to the Commission and the Commission shall exercise the power.

Appeals

6. The holder of an established office who is aggrieved by any disciplinary penalty imposed by a person to whom disciplinary powers are delegated by these Regulations may appeal in accordance with the Public Service Commission Regulations 2001:

Provided that where provision is made for an appeal in any statutory instrument specified in Column 4 of the Schedule relating to the exercise of disciplinary control that provision shall apply.

Revocation of BR No. 34/1979

7. The Public Service (Delegation of Powers) Regulations 1979 are revoked.

Transitional provision

8. Notwithstanding Regulation 7, any matter which is being dealt with under the regulations revoked by that regulation ("the revoked regulations") on the day these Regulations come into force shall be continued under the revoked regulations as if these Regulations had not been made.

SCHEDULE (Reg. 3)

Column 1 Public Offices	Column 2 Public Officer to whom Powers are Delegated	Column 3 Extent of Delegation	Column 4 Conditions of Delegation
7. For posts in the Office of the Auditor General below Assistant Auditor	Auditor General	All the powers of the Governor	

APPENDIX 13
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.

2 Reid Street
Hamilton HM 11
Bermuda

Mailing address:
Suite 600
12 Church Street
Hamilton
Bermuda

Tel: (441) 295 4800
Fax: (441) 296 6717
Email: msb@msb.bm
www.moorestephens.com

**INDEPENDENT AUDITORS' REPORT TO THE PARLIAMENTARY
STANDING COMMITTEE ON THE OFFICE OF THE AUDITOR GENERAL**

At the request of the Parliamentary Standing Committee on the Office of the Auditor General, we have audited the statement of revenues and expenditures for the year ended March 31, 2006 ('the Statement'), and the related notes to the Statement. The Statement is the responsibility of the Auditor General. Our responsibility is to express an opinion on the Statement based on our audit.

This report is made solely to the Parliamentary Standing Committee on the Office of the Auditor General, as a body. Our audit work has been undertaken so that we might state to the Parliamentary Standing Committee those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Parliamentary Standing Committee as a body, for our audit work, for this report, or for the opinions we have formed.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in Bermuda and Canada. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the Statement and related notes are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Statement. An audit also includes assessing the accounting principles used and significant estimates made by the Auditor General, as well as evaluating the overall presentation of the Statement and related notes.

We do not express any opinion in relation to the unaudited statement of revenues and expenses for the year ended 31 March 2005 included as comparative information in the Statement.

In our opinion, the statement of revenues and expenditures and related notes present fairly, in all material respects, the revenues and expenditures of the Office of the Auditor General for the year ended March 31, 2006 in accordance with the accounting principles described in Note 2.

Moore Stephens & Butterfield

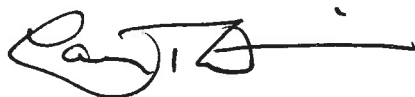
Chartered Accountants
Bermuda
December 11, 2006

OFFICE OF THE AUDITOR GENERAL
STATEMENT OF REVENUES AND EXPENSES
FOR THE YEAR ENDED MARCH 31, 2006

	2006	2005 (Unaudited)
	\$	\$
OPERATING EXPENSES		
Salaries, wages and employee benefits	1,277,223	1,096,451
Professional services	503,710	448,286
Rentals	299,971	296,772
Report printing	56,489	47,610
Materials and supplies	18,577	21,170
Communications	18,258	18,547
Repairs and maintenance	10,502	9,470
Travel	9,360	7,627
Training	6,997	1,196
Hospitality	997	656
Equipment	-	8,592
Recruiting	-	1,723
Miscellaneous	-	1,181
	<hr/>	<hr/>
TOTAL OPERATING EXPENSES	2,202,084	1,959,281
CAPITAL EXPENSES		
Computer equipment	14,172	16,757
Office furniture	-	15,340
	<hr/>	<hr/>
TOTAL CAPITAL EXPENSES	14,172	32,097
TOTAL EXPENSES	2,216,256	1,991,378
REVENUES		
Audit fees	336,477	524,533
	<hr/>	<hr/>
EXCESS OF EXPENSES OVER REVENUES	1,879,779	1,466,845
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes are an integral part of this statement of revenues and expenses.

These financial statements were approved on March 13, 2007 by;



Larry Dennis
Auditor General



Ottiwell Simmons
On behalf of the Parliamentary Standing Committee
on the Office of the Auditor General

OFFICE OF THE AUDITOR GENERAL

NOTES TO THE STATEMENT OF REVENUES AND EXPENSES

MARCH 31, 2006

1. AUTHORITY

The public office of the Auditor General is established under the Constitution Order 1968. In accordance with the Constitution Order, the Auditor General shall audit the accounts of the Senate, the House of Assembly, all Government departments and offices and all courts, and for that purpose the Auditor General shall have access to all books, records, returns and other documents relating to such accounts. In the exercise of these responsibilities, the Auditor General shall not be subject to the direction or control of any other person or authority.

The Constitution Order stipulates that the power to make appointments to the Office of Auditor General is vested in the Governor acting in his discretion. The Auditor General shall vacate his office when he attains the age of sixty-five, provided that the Governor, after consultation with the Premier, may permit an Auditor General to continue in office until he has attained the age of seventy, as may have been agreed between the Governor and the Auditor General. The Auditor General may be removed from office only for inability to discharge the functions of his office or for misbehavior. If the Governor is satisfied that the Auditor General should be removed from office for his above-noted inability or misbehavior, the Governor shall do so at his discretion.

The Audit Act 1990 (the Act) complements the Constitution Order 1968 by describing in more detail the Auditor General's mandate and responsibilities in respect to procedures for audits and making reports. Value-for-money audits are provided for and the Auditor General's mandate is extended to include audits of organizations that the Government controls by virtue of rights conferred by the constitution of those organizations, or by possession of voting power or the holding of shares in those organizations, or by its ability to secure by any other means that the affairs of those organizations are conducted in accordance with its wishes. The Act reinforces the Auditor General's entitlement to be supplied with any explanation, information or assistance which he may reasonably require for the performance of his functions, and access to all property and records of entities that are being audited. It stipulates that such number of public officers shall be appointed to assist the Auditor General in the discharge of his functions as may be required, and provides for the engagement (from funds provided for this purpose) of such further number of persons as the Auditor General considers necessary to assist him in the discharge of his functions. The Audit Act 1990 sets the salary of the Auditor General at not less than that of a Puisne Judge.

The Rules of the House of Assembly provide for the Select Standing Committee on the Office of the Auditor General. Its principal duties include:

- a) reviewing annual and supplementary estimates requested by the Auditor General and making recommendations thereon to the Minister of Finance;
- b) reviewing the establishment, including both numbers and gradings of posts comprising the Office of the Auditor General, and any changes proposed by the Auditor General and making recommendations thereon to the Minister responsible for Management Services;
- c) reporting to the House of Assembly the potential effect on the Auditor General's ability to carry out his functions in a timely manner of any changes to the estimates or establishment from those recommended by the Committee; and,
- d) reviewing General Orders, Financial Instructions or other directions of the Government so far as they may impinge on the independence of the Auditor General and his ability to carry out his functions, and recommending how those directions might be amended in their application to the Auditor General.

OFFICE OF THE AUDITOR GENERAL

NOTES TO THE STATEMENT OF REVENUES AND EXPENSES

MARCH 31, 2006

1. AUTHORITY (Continued)

In accordance with the Public Service (Delegation of Powers) Regulations 2001, the Auditor General has been delegated the power to make appointments to established offices in the Office of the Auditor General below that of Assistant Auditor General, and to remove or exercise disciplinary control over persons holding those offices.

2. SIGNIFICANT ACCOUNTING POLICIES

The Statement of Revenues and Expenses of the Office of the Auditor General (the Statement) has been prepared for the purpose of Parliamentary Standing Committee on the Office of the Auditor General pursuant to paragraph 50A of the Rules of the House of Assembly.

The accounting and practices adopted basically correspond to generally accepted accounting principles in Bermuda and Canada to the extent that they are relevant for the purposes of the Statement. The specific accounting policies adopted are described below.

Due to the limited purpose, form and content of the statement it is not intended to present the financial position and results of operations in conformity with generally accepted accounting principles in Bermuda and Canada and does not constitute full accounts or financial statements. The statement has not been prepared for general purposes and therefore some users may require further information.

Accordingly, the significant accounting policies of the Office of the Auditor General are as follows:

(a) Expenses

Expenses are recognized in the year in which the benefit from the goods and services is derived. Expenses include amounts paid and accrued for the services received.

Capital assets are expensed in the year of acquisition and recorded in the Statement as capital expenses.

The classification of expenses between capital expenses and operating expenses follows the classification used for approved budget estimates.

(b) Revenue Recognition

Audit fee revenues for billable audits are recognized when the audit is finalized. Audit fees are accrued at year-end for audits in progress where fieldwork has been substantially completed.

The Office of the Auditor General is precluded from charging fees in relation to its primary client engagement being the audit of the Consolidated Funds and no revenue is reflected in the Statement in relation to this assignment.

OFFICE OF THE AUDITOR GENERAL

NOTES TO THE STATEMENT OF REVENUES AND EXPENSES

MARCH 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Use of estimates

The preparation of financial statements or other statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues earned and expenses incurred during the year. Actual results could differ from these estimates.

3. BALANCE SHEET AND STATEMENT OF CASHFLOWS

A statement of assets and liabilities (balance sheet) and statement of cashflows have not been presented as in the opinion of management they are not required for the purposes of the Parliamentary Standing Committee pursuant to paragraph 50 of the Rules of the House of Assembly. The Office of the Auditor General does not operate a bank account and as noted in 2 (a) above, capital assets are expensed in the year of acquisition.

4. APPROVED BUDGET AMOUNTS

The budget limits for operating and capital expenses of the Office of the Auditor General are approved by Parliament through an annual appropriation. As part of the budget process, an estimate of audit fee revenues is made based on the projected billable audits to be completed during the fiscal year. The budget levels approved by Appropriation Act 2005 are presented below along with audit fee revenue estimate for the 2005-06 fiscal year.

	Budget <u>2006</u>	Actuals <u>2006</u>
Operating Budget		
Salaries, wages and employee benefits	\$ 1,290,668	\$ 1,277,223
Professional services	529,300	503,710
Rentals	330,000	299,971
Report printing	45,000	56,489
Communications	19,600	18,258
Materials and supplies	19,000	18,577
Repairs and maintenance	16,500	10,502
Training	12,500	6,997
Travel	8,900	9,360
Recruitment	7,000	-
Hospitality	<u>1,000</u>	<u>997</u>
Total Operating Budget	\$ <u>2,279,468</u>	\$ <u>2,202,084</u>
Capital Acquisitions Budget	\$ <u>14,300</u>	\$ <u>14,172</u>
Revenues Estimate		
Audit Fees	\$ <u>464,000</u>	\$ <u>336,477</u>

OFFICE OF THE AUDITOR GENERAL

NOTES TO THE STATEMENT OF REVENUES AND EXPENSES

MARCH 31, 2006

5. EMPLOYEE BENEFITS

a) Pensions

The employees of the Office of the Auditor General are included in the Public Service Superannuation Fund (the Fund), which is a defined benefit plan administered by the Government of Bermuda. Contributions to the Fund are required from both the employees and the employer. The employer portion of the contributions is paid directly to the Fund by the Government of Bermuda. No charge for contributions to the Fund is made to the Office of the Auditor General's accounts.

The Office of the Auditor General is not required under present legislation to make contributions with respect to actuarial deficiencies of the Fund.

b) Other Benefits

Other employee benefits include maternity leave, sick leave and vacation days.

Maternity leave does not accumulate or vest and therefore an expense is only recognized when applied for and approved. There were no maternity benefits applied for or approved at year-end and therefore, no expense has been accrued in the accounts.

Sick leave accumulates but does not vest, and like maternity leave, an expense is recorded only when extended leave is applied for and approved. There was no extended sick leave applied for or approved at year-end and therefore, no expense has been accrued in the accounts.

Vacation days accumulate and vest and therefore an expense is recorded each year. The vacation expense for the year ended March 31, 2006 is \$109,645 (2005 - \$90,452 unaudited) and is included in salaries, wages and employee benefits in the Statement.

6. ECONOMIC DEPENDENCE

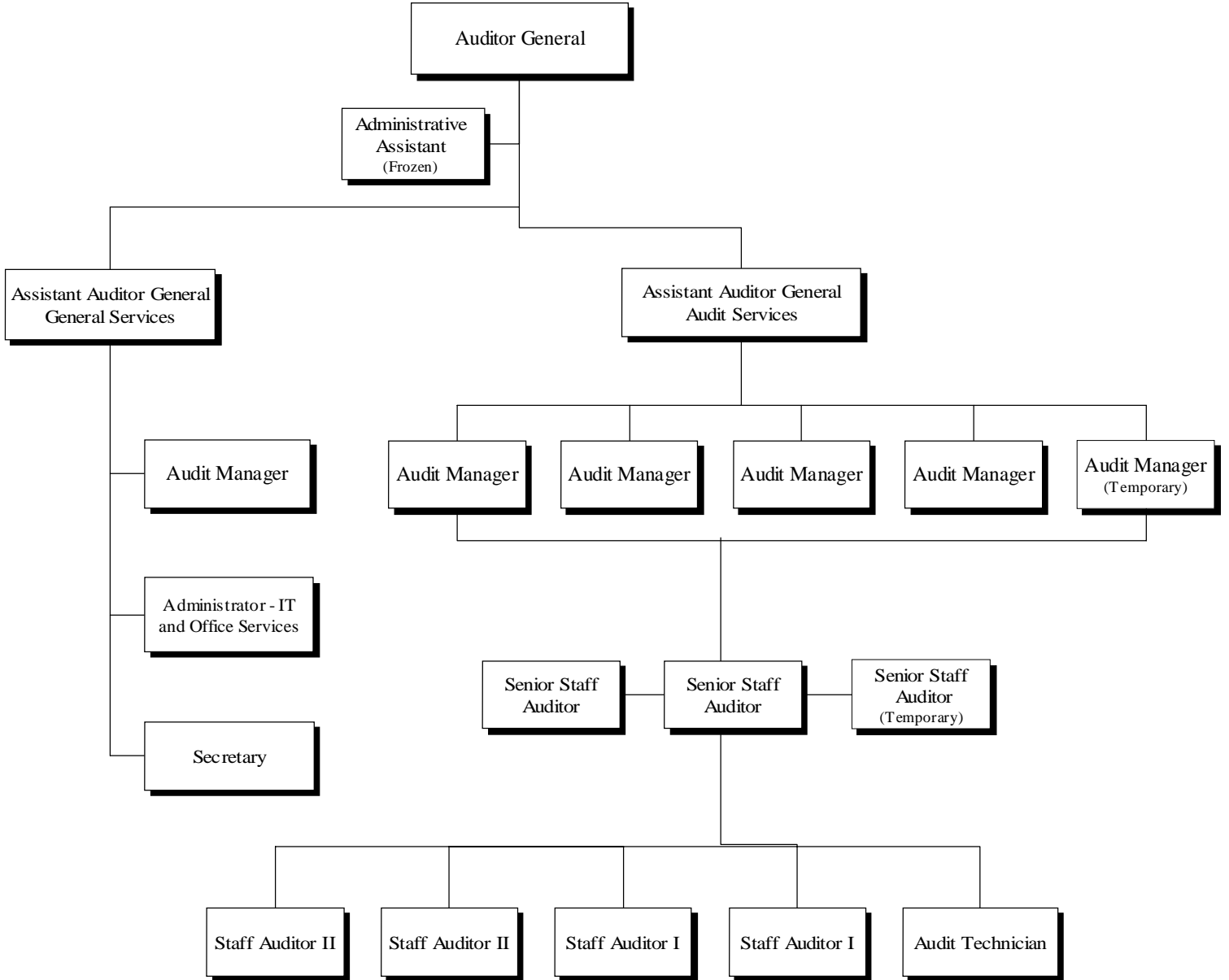
All funding for the operations of the Office of the Auditor General is reviewed by the Standing Committee on the Office of the Auditor General and is included in the Government of Bermuda's estimates as voted through the annual Appropriation Act by the House of Assembly. Accordingly, the Office is economically dependent on the Government of Bermuda.

7. UNAUDITED COMPARATIVE FIGURES FOR THE PRIOR YEAR

Figures for the 2004-05 fiscal year have not been audited. Therefore, the independent auditor does not present any opinion on these comparative figures.

APPENDIX 15

OFFICE OF THE AUDITOR GENERAL





Office of the Auditor General

Victoria Hall, 11 Victoria Street, Hamilton HM 11, Bermuda
Tel: (441) 296-3148 Fax: (441) 295-3849
www.oagbermuda.gov.bm