



General Audit Chamber

Algemene Rekenkamer

Financial Compliance 2012:

*Financial Statements Sint Maarten
2012*

May 2014

CONTENT

CONTENT	1
SUMMARY	3
RECOMMENDATIONS	6
1 METHODOLOGY	8
1.1 Purpose	8
1.2 Legal opinion/framework	8
1.3 Examination of the financial information	8
1.4 Examination of operational management	9
1.5 Examination of policy information	9
2 FINANCIAL INFORMATION	10
2.1 SOAB audit of the financial statements	10
2.2 Errors and uncertainties regarding financial information	11
2.3 Errors in content	17
2.4 Opinion regarding the financial information	17
2.5 Weaknesses Balance Sheet	17
2.6 Opinion regarding Balance Sheet	19
2.7 Regular Service (operational account)	20
2.8 Opinion regarding financial and material management	22
3 OPERATIONAL MANAGEMENT	23
3.1 2012 Financial Statements regarding operations	23
3.2 Cooperation Development program IVB	24
3.3 Improvement plan PEFA	27
3.4 Main conclusions operational management	29
3.5 Recommendations regarding operational management	29
4 POLICY INFORMATION	31
4.1 The importance of good policy information	31

4.2	Policy information 2012 Financial Statements.....	32
4.3	Other available information regarding probation services	32
4.4	Opinion regarding performance information and executed policy	34
4.5	Recommendations related to policy information	34
5	REACTION OF THE MINISTER OF FINANCE AND EPILOGUE OF THE GENERAL AUDIT CHAMBER	36
5.1	Reaction of the Minister of Finance	36
5.2	Epilogue.....	39
	ANNEXES	40
	LITERATURE	50

SUMMARY

The following is our report regarding the Financial Statements of Sint Maarten for the year 2012. These financial statements cover the period from January 1, 2012 to December 31, 2012 and represent the second financial statements of the new country of Sint Maarten. In this report we present the results of our financial compliance audit on the financial statements and the operations of the ministries of government of Sint Maarten.

Our task as prescribed by law is stipulated in article 23 of the National Ordinance General Audit Chamber (Lv AR) as well as in article 74 of the Constitution. Within the framework of this legal task we reviewed the financial and material management of the ministries of Sint Maarten. We also evaluated whether the information contained in the financial statements about the finances and policy at the ministries was conducted in compliance with regulation and whether the financial statements reflect such. In so doing, we made use of the findings from the investigations conducted by the SOAB (*Stichting Overheidsaccountantsbureau*) regarding the financial statements 2012 as authorized by article 25 of Lv AR. By means of our opinion as required by law, we seek to facilitate Parliament in terms of discharging ministers of their duties.

The most important conclusions of our review of the financial statements 2012 are:

1. The financial information contained in the financial statements 2012 of Sint Maarten does not meet the requirements stipulated in the National Financial Accounting Ordinance (CV) and the National Ordinance General Audit Chamber (see figure 1):.

- We identify serious and substantial weaknesses that influence the internal control and as a result the financial management. There are insufficient internal control (monitoring) procedures at every ministry. This has led to errors and uncertainties^[1] in the financial statements and comprehensive budget over- and underspending. The financial statements contain material errors amounting to ANG 45,7 million (see Table 7) and uncertainties (see Table 8) and budget over and underspending (see Table 1) as well.
- The majority of errors and uncertainties can, in our opinion, be resolved rather simply. The expectation is that the financial statements can be free of material errors and uncertainties within a reasonable period of time (a few years). The Ministry of Finance is working hard to insure that the figures in the financial statements are correct. At present the receivables and creditor files are being cleaned up.
- We believe that it is essential that the processes regarding wages and salaries, the procurement of goods & services, issuance of subsidies, tax collection and revenue from issuance of permits, are put in order and followed. The aforementioned deserves a high priority. Absent a properly functioning internal organization, there will be uncertainty regarding the accuracy and completeness of expenditures and revenue and as a result

^[1] There is uncertainty when the auditor, despite taking all possible control measures, is unable to determine the accuracy of the accounting provided.

the auditor will not be able to issue an unqualified opinion regarding the financial statements.

2. *Operational Management is not 'in control':*

- Despite a few positive developments within the 2012 Financial Statements (for example improved compliance with the National Financial Accounting Ordinance, clearer exhibits (statements) and additional explanations), ministries of Sint Maarten are not 'in control' of their operations. For instance, the figures are not linked to an increased reliability. In terms of the various improvement plans regarding financial management (IVB and PEFA), we conclude that definitive versions of these plans have not been presented to Parliament. Though certain aspects of the improvement plans have been implemented in a relatively prompt fashion, this is not the case for several very important aspects such as the establishment of a new Tax Office (*Nieuwe Belastingdienst*), the reliability of the budget and the supervision of the budget by Parliament.

3. *Insufficient informational value:*

- The information content of the Financial Statements 2012 does not meet the requirements stipulated in the National Financial Accounting Ordinance and there is little to no explanation in the Financial Statements. As a result, the 2012 Financial Statements, as is the case for the 2011 Financial Statements, do not contain sufficient information to allow users to form an opinion regarding the implementation of policy intentions and the management thereof.

Given the aforementioned findings, we are of the opinion that the 2012 Financial Statements (January 1, 2012 up to and including December 31, 2012) of Sint Maarten do not comply with the requirements and standards set forth in the National Financial Accounting Ordinance and the National Ordinance General Audit Chamber. The Financial Statements of the previous year were also not compliant. Given that the Financial Statements of 2011 were the first for Country Sint Maarten, we chose not to immediately issue an objection. The General Audit Chamber instead chose to discuss the necessary improvements with the Ministry of Finance. In addition, we noted in our *Financial Compliance Audit 2011* (AR, 2013b) that Sint Maarten faces a serious challenge going forward in terms of achieving the necessary improvements to limit errors and uncertainties. It is now obvious that improvement is absent in 2012 and we are considering the use of an objection if there is no improvement for next year's financial statements.

The General Audit Chamber can issue an objection¹ in the event a minister does not act in compliance with law in terms of expenditures or income. Moreover, we can object in the event a minister allows inconsistencies to persist in the financial and material management of his department. Issuance of an objection will be done after careful consideration. We will first inform the minister of our intention to issue an objection and seek dialogue. If improvement remains absent, the objection procedure will be considered. This procedure

¹ Refer to table 12.

of objection is meant to signal the need for urgent action. The objection procedure is outlined in articles 28 and 29 of the National Ordinance General Audit Chamber.

RECOMMENDATIONS

In the near future is it for Sint Maarten important that there is verifiable financial management. To contribute to this we issue the following recommendations:

Recommendations to Government

- Insure that operational management is in keeping with applicable laws and regulations and that account is given to Parliament for the income and expenditure for the years 2011 and 2012.
- Make financially substantiated provisions for determining pension contributions.
- Act in accordance with the National Financial Accounting Ordinance (article 54²) in terms of ratifying the financial management of ministers.

Recommendations to the Minister of Finance

- In our report regarding the 2011 Financial Statements, we recommended that the controllers of the ministries should report monthly to the Minister of Finance on the implementation of the budget and indicate possible overruns on budget items. Our recommendation has not yet led to concrete steps towards achieving monthly reporting. Therefore, we reiterate this recommendation.
- Complete the research regarding the collectability of existing outstanding 'receivables' as soon as possible in order to be able to report a reliable figure regarding receivables in the Financial Statements for 2013.
- Determine if establishing an accounting item 'additional provisions' is necessary. This relates to provisions for major maintenance of buildings and infrastructure (owned by Sint Maarten).
- Evaluate the manner in which budgeted amounts are calculated in order develop a true calculation of the relationship between personnel expenditures and the number of personnel.
- Develop agreements with the Security Service of Sint Maarten (*Veiligheidsdienst Sint Maarten-VDSM*) regarding that organization's financial administration and the manner in which the organization reports regarding expenditures. A Service Level Agreement (SLA) can be used in this regard.
- Act in accordance with applicable laws and regulations and also insure that account is given in the Financial Statements for the income and expenditure of the Crime Fund.

² Article 54

1. Within one month of the issue of the report of the General Audit Chamber, referred to in Article 53(3), the government must submit a draft national ordinance concerning the adoption of the financial statements to Parliament, for ratification of the financial management of the ministers in relation to the preceding service year.

2. The following shall accompany the draft national ordinance concerning the adoption of the financial statements:

a. an auditor's report and the accompanying report of the accountant;

b. the report issued by the General Audit Chamber on its finding regarding the financial statements.

3. If the declaration, referred to in paragraph 2(a) or the report, referred to in paragraph 2(b) are not available in good time, the government shall add a notice to the draft national ordinance, referred to in paragraph 1 concerning the reason for the non-availability and the time within which the declaration or the report can be sent to Parliament.

4. Parliament shall not approve the draft national ordinance concerning the adoption of the financial statements until it has been able to view the report, referred to in paragraph 2.

To insure that ministries are 'in control' of operational management in the near term, several improvement plans for financial management are being executed. In this regard, we have the following recommendations:

Recommendations to the Minister of Finance

- Implement the various improvement plans for financial management as quickly as possible. Particular attention is needed for the more important aspects of these plans such as the establishment of the new Tax Office (Nieuwe Belastingdienst), a reliable budget and Parliamentary supervision thereof.
- Address the shortcomings of the financial management that we have outlined, in a structured fashion and develop a realistic improvement plan.
- Issue progress reports regarding the implementation of the improvement plans to Parliament and have the internal auditors (SOAB) review the reliability (accuracy, completeness and appropriateness of the explanation) of the reporting.

Proper policy information is a prerequisite for a adequately functioning public administration (government). Information of good quality must be available on which to base policy decisions. Such information is also necessary to monitor (the execution of), account for, and -if necessary- amend policy. To do justice to the functioning of Parliament in terms of future budgeting and accountability, we recommend:

Recommendations to the Minister of Finance

- Policy objectives should be drafted specific, measurable, achievable and time-related.
- Insure that there is proper monitoring and evaluation of policy performance and policy effects through actual periodic reporting by the executing agencies regarding policy implementation and management thereof.
- Use information that is available (elsewhere), for example from the Law Enforcement Council (*Raad voor de Rechtshandhaving*-RVR) and the Central Bureau of Statistics (CBS). Insure that this information is up to date and always available in support of the work of policy makers and Parliamentarians.
- Insure that colleague ministers provide more/better³ input for the budget and the financial statements. This will aid the Minister of Finance in effectively executing his role as coordinator and also allow him to give proper account for the finances of the Country.

Recommendations to Parliament

- Establish budget agreements with ministers regarding policy performance and effects (objectives) to be achieved (as specific, measurable, achievable, realistic and time-related as possible).
- Establish agreements with ministers regarding receipt of timely and periodic information regarding the result of policy.
- Insure that ministries comply with presentation of memoranda etc. as required by the National Financial Accounting Ordinance.

³ S.M.A.R.T= Specific, Measurable, Achievable, Realistic and Time-related.

1 METHODOLOGY

1.1 Purpose

The Minister of Finance gives account in the Financial Statements regarding the manner in which ministries of Sint Maarten have performed and functioned in the last financial year. Article 52 of the National Financial Accounting Ordinance specifies that the financial statements concerning a service year shall be drawn up by the Minister of Finance before September 1st of the year following that to which they relate. The 2012 Financial Statements were presented by the Minister of Finance in correspondence dated February 21st 2014. We received the letter on February 27th 2014.

The financial statements must contain the financial position as well as the revenue and expenditure (financial information) of the ministries, the manner in which the ministries have functioned (operational management information) and whether the objectives and performance contained in the budget of the ministries was realized (policy information). We examined the information in the financial statements on each of these three aspects. In addition, we reviewed the underlying processes within the ministries. We developed our findings and opinions based on the aforementioned. Article 54 of the National Financial Accounting Ordinance stipulates that the financial statements cannot be approved without first examining our report.

The following topics are handled in this report: the finances of the ministries (chapter 2), the management (operational management) of the ministries (chapter 3) and the information regarding policy implementation of the ministries as contained in the Financial Statements (chapter 4). We conclude our report with the reaction of the Minister of Finance to the draft report and our epilogue (chapter 5).

1.2 Legal opinion/framework

In keeping with our task related to the financial statements as prescribed by law (National Ordinance General Audit Chamber and Constitution), we reviewed whether the information in the annual report regarding finances, operations and policy implementation was developed in accordance with the applicable regulations. We support Parliament by means of our opinions in terms of ratifying the actions of the ministers (*decharge*).

1.3 Examination of the financial information

According to the National Ordinance General Audit Chamber (article 23, paragraph 1, 2 and 3) we examine (a) the financial management conducted by the ministers and the annual financial statements concerning this, as well as the management of the parliamentary budget conducted by the Clerk to the Parliament on behalf of the Presidium of Parliament; (b) the administration kept for the purpose of that management and that accounting.

With regard to the financial management performed, the General Audit Chamber shall examine whether the revenue, costs and balance sheet transactions arose in accordance

with the national budget adopted and with other statutory regulations and whether care was taken for orderly and verifiable financial management.

With regard to the financial statements, the General Audit Chamber shall examine whether these are correctly presented and are drawn up in accordance with the regulations prescribed for these.

1.4 Examination of operational management

Article 41, paragraph 2 of the National Financial Accounting Ordinance stipulates that the minister responsible for management of the relevant budget functions, is also responsible for the effectiveness and efficiency of the underlying budget policy and the operations of a ministry. Accountability for the aforementioned must include in the financial statements.

1.5 Examination of policy information

According to the National Financial Accounting Ordinance (article 10 paragraph 2), the budget must contain a section regarding the financial consequences and coverage for new policy intentions or commitments. Moreover, the financial statements must include an annual report, or at least an explanation of whether and what extent the policy intentions formulated in advance with regard to the relevant budget year were realized (National Financial Accounting Ordinance article 32, paragraph 2).

2 FINANCIAL INFORMATION

Financial information includes obligations, expenditures and revenue of a ministry in the financial statement including an elucidation. Financial management of a ministry includes the entirety of decisions, activities and regulations necessary for the control and management of, and the accountability for, financial transactions and the balances for which the minister is (co)-responsible. Prerequisites for a proper financial management are 'orderliness' and 'accountability'. The financial management is considered to be proper when it meets, among others, the following requirements:

- Authority for executing financial actions are set out in clear regulations and for which there is compliance. As such, the responsibility for the safeguarding of financial resources must also be clearly established;
- The financial management must comply with the regulations established by law.

Accountability for the financial management exists when the available financial information enables the external auditors to easily recreate the decision making at any point in time.

To determine if the financial management is orderly and accountable, we first executed an initial review of the figures and examined whether there is compliance with the National Financial Accounting Ordinance as regards the Financial Statements. In analyzing the financial management we made use of the findings derived from the audits of the SOAB of the 2012 Financial Statement in accordance with article 25 of the National Ordinance General Audit Chamber.

We determined that the draft National Ordinance to establish the Financial Statements (annual accounts) for 2011 has not been issued within the period prescribed by the National Financial Accounting Ordinance (article 54).

2.1 SOAB audit of the financial statements

The SOAB conducted their audit of the financial statements in two phases, specifically;

- Examination of processes such as procurement of goods & services, collection of taxes, granting of subsidies and wages & salaries. This represented the interim audit.
- Final audit of the financial statements.

Given that the Minister of Finance is responsible for the drafting of the financial statements and the fact that the approval of the financial statements by the internal auditor is dependent on the quality of the financial management, it is very important that the Ministry of Finance supervises the financial management of other ministries.

As the Management Letter (ML) of 2011 is also applicable to the year 2012, the SOAB did not draft a separate ML for 2012. Ideally, ministers are informed during the budget year of accountant's (auditor's) audit findings. Of interest are issues related to the financial management, operations as well as financial risks. If ministers are informed in a timely fashion of existing financial risks, they have the opportunity to take corrective action.

Because the ML was definitively issued in December 2012 and March 2013, ministers were not afforded this opportunity in 2012.

Based on their examination, the SOAB issued their audit report and their audit opinion on the 2012 Financial Statements on April 9th, 2014 to the Minister of Finance. In essence, the audit opinion is adverse.

We evaluated the planning and execution of the audit conducted by the SOAB. To this end, we inspected the audit dossier. Additionally, discussions were held with the lead auditor. In our opinion, the issuance of an adverse opinion by the SOAB is justified. It should be noted that the SOAB was not afforded the opportunity to examine the decision lists of the meetings of the Council of Ministers, and the Ministers of Finance was not willing to sign off on the so-called Letter of Representation (LOR)⁴.

We are of the opinion that access to the decision list and signing of the LOR are important aspects of audit activities, both for the SOAB as well as the General Audit Chamber. We find no reason that justifies denying the SOAB access to decision lists.

2.2 Errors and uncertainties regarding financial information

We can establish that at every ministry the internal control (monitoring) procedures are insufficient. Furthermore, we have identified serious and significant deficiencies that affect the internal control and, therefore, the financial management. This has led to material errors and uncertainties in the financial statements. The revenue and expenditure account contains errors of up to ANG 45,7⁵ million.

With regard to the uncertainties, we concluded that the quality of the administrative organization and internal control is insufficient. This has led to material uncertainties in the financial statements regarding the accuracy and/or the completeness of the personnel expenditures, the income transfers, expenditure due to procurement of goods and services and the (tax) revenues.

The details of the errors are listed in annex 1 (see table 7). Uncertainties are found in the same annex 1 in table 8. Annex 2 contains a summary of the findings of significant influence on the internal control and/or the financial statements (see tables 9 and 10). The type and degree of influence are provided per finding. The degree of influence is stated as high, moderate or low. The findings are presented per ministry in table 11.

Figure 1 presents the areas where the financial statements fail to comply with the stipulations of the National Financial Accounting Ordinance and the degree to which the non-compliance is of (negative) influence on the insight the financial statements seek to provide. We also provide a comparison of our findings related to the Financial Statements 2011.

⁴ The Letter of Representation is also referred to as confirmation of the Financial Statements. The LOR is a part of the audit activity executed by the auditor. Management of the organization declares in the LOR that the organization has provided the auditor with complete and correct information. This confirmation of the financial statements serves to mitigate misunderstandings regarding information provided orally. In addition, the auditor wants to receive surety regarding the completeness of the information made available to him. For example, the auditor may have not been informed about ongoing activities that are not yet reflected in the administration but which are important to the financial statements. Recently received claims, pending litigation or "not yet" documented decisions are examples.

⁵ Table 7

Figure 1 Noncompliance with National Financial Accounting Ordinance

No.	Article	Explanation	Negative Influence 2011	Negative Influence 2012	Change
1.	Does the budget, multi-annual budget and the financial statements, including the elucidations, provide such insight into the financial position as well as revenues and expenses of the collective sector, to permit responsible insight? (A.B. 2010 no. 23 article 2)	No. The Financial Statements 2012 do not provide a true representation of the scope of all budget items given numerous uncertainties that exist for these budget items. The elucidation is not sufficiently adequate to provide proper insight. Templates added to the financial statements to provide information regarding the financial position regarding revenues and expenses of the collective sector.	High	High	Slight improvement
2.	Were the financial statements concerning a budget year drawn up by the Minister of Finance prior to September 1 of the year following that to which they relate? (A.B. 2010 no. 23 article 52 par 1)	No. The Financial Statements 2012 were presented more than five months late.	High	High	None
3.	Were the models of statements, reviews and recapitulations as defined in this chapter, established by decree of the Minister of Finance? (A.B. 2010 no. 23 article 17)	No. The Minister of Finance has, to date, not established the templates of the models of statements, reviews and recapitulations for the organization (layout) of the financial statements. The models have been drafted and are presented in the Financial Statements 2012.	High	Moderate	Slight improvement
4.	Does the statement of	No. Due to the many	High	High	None

No.	Article	Explanation	Negative Influence 2011	Negative Influence 2012	Change
	revenues and expenses including the elucidation thereto provide a reliable and structured view of the scope of all revenues and expenses as well as a balance? (A.B. 2010 no. 23 article 20 par. 1)	uncertainties of various budget items, the statement of revenues and expenses for 2012 does not provide a reliable representation of the scope of all revenue and expenses nor a balance thereof. The elucidations of the revenues and expenses is limited.			
5.	Are divestments explained in a separate section of the financial statements that includes the proceeds and the book value at the time of divestiture? (A.B. 2010 no. 23 article 24 par. 4)	Yes. There is a statement of investments including divestment (divestitures) included in the financial statements. Section C. 6.1.	High	None	Improvement
6.	Have amounts below which capitalization of investment need not occur been established by means of a National Decree containing General Measures? (A.B. 2010 no. 23 article 26 par. 5)	No. A National Decree needs to be established regarding capitalized amounts.	High	High	None
7.	Is there a review (statement) of the country's receivable subsidies, contributions and other income transfers still outstanding, by year of allocation, as well as a review of the subsidies, contributions and other income transfers settled during the year under review? (A.B. 2010 no. 23 article 29 par. b)	Yes. These reviews are included in the 2012 Financial Statements, specifically, statements 14 and 15.	High	None	Improvement
8.	Is there a statement of the tax assessments made in the	No. The statement of tax assessments and expected	High	Moderate/high	Slight Improvement

No.	Article	Explanation	Negative Influence 2011	Negative Influence 2012	Change
	past budget year and preceding budget years and the expected future tax revenues relating to these? (A.B. 2010 no. 23 article 29 par c)	future tax revenue is included in the Financial Statements for 2012, though it is blank. As a result, a true representation of outstanding tax revenue is absent.			
9.	Does the cash flow statement provide a full and specified explanation of the analyzed changes in cash assets in the course of the relevant service year by distinguishing types of incoming and outgoing cash flows? (A.B. 2010 no. 23 article 30)	Yes. The cash flow statement that is included in the 2012 Financial Statements provides a detailed overview. The overview provides insight in the incoming and outgoing cash flows and changes (mutations) for the year in question. Section C, 4,,	High	None	Improvement
10.	Were budget amendments presented to Parliament? (A.B. 2010 no. 23 article 44)	No. A proposal was presented to Parliament on July 4, 2012, but was later withdrawn on September 6, 2013.	High	High	None

Accuracy errors

We conclude that the accounting of the expenses (costs) per ministry contained materially significant errors and is therefore unreliable. These errors were often related to incorrect account classification (expenses were incorrectly accounted for – i.e. incorrect budget item) For example:

- The income and expenses for the Crime Fund are not accounted for in the financial statements (amounts are unknown); the expenses related to the Security Service (VDSM) are accounted for in the financial statements under budget item 3104 'Staff Bureau';
- The debt to the Social Security and Health Insurances institution-SZV (*Sociale- en Ziektekostenverzekering*) of ANG 40,0 million and thus also the related costs are not accounted for;
- The investment in the Seventh Day Adventist Schools of ANG 1,0 million relates to the year 2013 instead of 2012;

- The expenses related to social assistance (*onderstand*) for the month of January 2013 are included in the Financial Statements 2012.

Compliance errors

The budget approved by Parliament was published on April 23rd 2013 (A.B. 2012 no. 15). Parliament did not approve any amendments. According to article 44 of the National Financial Accounting Ordinance, the Minister of Finance must present to Parliament a memorandum in which he makes a provisional report on the preceding budget year and on the current budget year. No later than August 15th of each year, and then no later than November 15th the minister shall present a memorandum in which he makes a provisional report on the current budget year. These memoranda must also contain a review of suggested budget amendments. The Minister of Finance did not present these memoranda to Parliament nor was the information sent to the General Audit Chamber.

Paragraph 2 of article 48 of the National Financial Accounting Ordinance defines 'Overruns' as both expenses and investments that are higher, and income that is lower, than provided for in the budget. The following table presents budget overruns in 2012. The comparative data from 2011 shows that the overruns have increased.

Table 1 Total of budget overruns in Financial Statements 2011 and 2012

Budget overruns (in ANG)	2011	2012
- Higher budgeted expenses	72.485.018	85.087.339
- Lower than budgeted income	43.026.721	92.722.257
- Higher than budgeted investments	25.781.865	48.937.196

Budget authority is the purview of Parliament. It is important for information regarding possible overruns to reach Parliament in a timely fashion. In first instance, the Minister of Finance must be aware of possible overruns. In our report on the 2011 Financial Statements we recommended that the controllers at the ministries report on a monthly basis to the Minister of Finance regarding the execution of the budget and reporting about budget items that may have overruns. Our recommendation has not (yet) resulted in concrete steps towards realizing the monthly reporting. We therefore reiterate our recommendation in this regard.

An amount of ANG 4,7 million is presented in the 2012 Financial Statements to account for the costs related to services to the Tax Office. The tendering and assignment of this project was not compliant (with regulation).

Incorrect classification

Security Service Sint Maarten (VDSM)

The expenditures associated with the VDSM in 2012 (ANG 2,8 million) are classified and accounted for under the Staff Bureau (budget item 3104) in the 2012 Financial Statements. 'Staff Bureau' is seemingly means VDSM. To fund their operations, VDSM receives a quarterly advance from the Ministry of Finance. As far as we could determine, VDSM maintained an autonomous financial management of the funds. There is no Service

Level Agreement (SLA) between government and VDSM, meaning that there are no agreements regarding the manner in which the financial administration is to be carried out and the method for reporting regarding spending.

For 2012, VDSM provided a brief summary of the organization's spending. As VDSM did not submit supporting documentation to the Ministry of Finance, the ministry was unable to confirm whether the spending was in compliance with applicable rules and regulations. In 2012, the Ministry of Finance as well as VDSM paid rent for the offices of VDSM, in other words, a double payment. This error has been corrected and the excess payment settled against the advances.

The confidential expenditures for 2012, similar to last year, were not audited. The Secretary General and Chairman of the General Audit Chamber were not authorized to carry out the audit prior to completing a screening process. Their screening was completed in 2013 and both persons are authorized to audit the confidential expenditures. The examination of the confidential expenditure will start in 2014.

We are of the opinion that the confidential expenditures should be audited and accounted for in the financial statements (taking into account the special procedural rules stipulated by the National Financial Accounting Ordinance as well as the National Ordinance General Audit Chamber).

Crime Fund

The bank balance of the Crime Fund at the end of 2012 amounted to ANG 2,0 million (in 2011 it was ANG 2,3 million). These funds are not reported in the 2012 Financial Statements of Sint Maarten. In accordance with the National Crime Fund Ordinance (PB 1996, no. 1), the fund is management by the Minister of Justice. The manner of receipt of the funds and the use of the funds are set forth by ministerial decree of the Minister of Justice dated November 30th 2010.

The income and expenditure of the Crime Fund is not accounted for in the 2012 Financial Statements. As far as we have been able to ascertain, income and expenditure have not been budgeted in any budget year up to and including 2013. There has been to date no account given for the actual income and expenditures.

Government should insure that in the near term there is compliance with rules and regulations related to the Crime Fund and that account is given to Parliament regarding the income and expenditure of funds for 2011 and 2011.

Rental (Lease) Property

At the time this report was written, the new Government Building was not yet completed, despite the fact that the 2011 Financial Statements reported that the new building would be completed in 2013. An amount of ANG 21,0 million is estimated to be required to finish and equip the building. The cost of financing the building (finance expense) amounts to ANG 3,3 million per annum. Government did not make use of the option to finance the cost for finishing and equipping the building. As a result, the completion was unnecessarily delayed and office space continues to be leased (rented). This is an inefficient use of public funds.

2.3 Errors in content

Articles 18, 29, 30 of the National Financial Accounting Ordinance provide a listing of the elements of the financial statements. The 2012 Financial Statements contain all requisite statements, reviews and recapitulations as required by the aforementioned articles. In accordance with article 17 of the National Financial Accounting Ordinance, models (exhibits) of the statements, reviews and recapitulations, shall be enacted by a ministerial regulation of the Minister of Finance. Said enactment has not yet taken place.

Although there is compliance in terms of the statements, reviews and recapitulations (articles 18, 29 and 30), the financial statements do not represent a true and fair view of the scope and composition of the financial position, the assets and liabilities or the revenue and expenses (articles 23 and 20).

2.4 Opinion regarding the financial information

Opinion

We are of the opinion that the financial information contained in the 2012 financial statements of Sint Maarten does not meet the requirements stipulated in the National Financial Accounting Ordinance (CV) and the National Ordinance General Audit Chamber (see figure 1).

We note a broad range of serious weaknesses that influence the internal control and as a result, the financial management. There are inadequate control (monitoring) procedures at every ministry. This has led to errors and uncertainties to be present in the financial statements as well as large budget overruns.

The majority of errors and uncertainties can, in our opinion, be resolved rather simply. The expectation is that the financial statements can be free of material errors and uncertainties within a reasonable period of time (a few years). The Ministry of Finance is working diligently to insure that the figures in the financial statements are correct. At present the receivables and creditor files are being cleaned up.

We believe that it is essential that the processes regarding wages and salaries, the procurement of goods & services, issuance of subsidies, tax collection and revenue from issuance of permits, are put in order and followed. The aforementioned deserves a high priority. Absent a properly functioning internal organization, there will be uncertainty regarding the accuracy and completeness of expenditures and revenue and as a result the auditor will not be able to issue an unqualified opinion regarding the financial statements.

2.5 Weaknesses Balance Sheet

Our examination reveals that there is uncertainty regarding the valuation and existence of various balance sheet items.

Tangible Fixed Assets

Table 2 Table 2 Statement Tangible Fixed Assets

No..	Balance Sheet items Tangible Fixed	In ANG
1.	Land/Property	3.395.000
2.	Buildings under construction	43.616.000
3.	Buildings in use	118.383.000
4.	ICT resources and software	3.895.000
5.	Inventory	17.078.000
6.	Vehicles	1.028.000
Total		187.395.000

There is uncertainty regarding the valuation and division of the tangible fixed assets due to the lack of a recent valuation report for the budget item Buildings under construction (new Government Building) as well as the lack of an asset administration system.

Accounts Receivable

On the balance sheet, an amount of ANG 92,3 million is reported as Accounts Receivable. Because of the risk of bad and doubtful debts, a provision is made in the amount of ANG 60,7 million. The balance sheet item 'accounts receivable' is not substantiated by means of proper entries (reconciliation) and contains older items of unknown collectability. Therefore there is uncertainty about the existence and valuation of this balance sheet item. The cleanup process of the "claims" (receivables) has not yet been finalized by the Ministry of Finance.

We recommend that the research regarding the collectability of existing outstanding 'receivables' is completed as soon as possible in order to be able to report a reliable figure regarding receivables as of the Financial Statements for 2013.

Cash and cash equivalents

The balance of the cash on hand and cash at banks (bank balances) amounted to ANG 50,3 million in 2012; a year ago the balance was ANG 85,5 million. The most important cause for the reduction is funding investments.

The SOAB is currently investigating whether the cash or cash equivalents (cash on hand as well as cash at banks) of all institutions and entities of government are accounted for in the administration of government.

Provisions

The balance sheet as of December 31st 2012 contains provisions for three items:

Table 3 Statement Provisions

No.	Provisions (In ANG)	2012	2011
1.	General Pension Fund	58.762.000	51.000.000
2.	Participations	16.960.000	26.175.000
3.	Other	0	30.333.000
Total		75.722.000	107.508.000

The provision for the General Pension Fund (*Algemeen Pensioenfonds APS*) is comprised of an obligation for the payment of Cost of Living Allowance (*Duurtetoeslag*) of ANG 4,0 million and an obligation to cover the risk of payment of pension for unregistered participants and other possible variances of ANG 54,8 million. The provision is not yet substantiated by means of an actuarial⁶ calculation.

The provision "Participations" is formed to 'cover' the negative equity capital (net equity) of holdings that are assigned to Sint Maarten as a result of the division of assets of the former Netherlands Antilles.

Because the item "Other" provisions was not substantiated and given that there is no clarity regarding the use of these provisions, they were released in 2012 in favor of the Regular Service (Gewone Dienst or operational account). This caused the results for 2012 to be positively influenced in the amount of ANG 30,3.

We have further established that no other provisions were stated on the balance sheet. As such we recommend reviewing whether establishing an accounting item 'additional provisions' is necessary. This relates to provisions for major maintenance of buildings and infrastructure (owned by Sint Maarten).

Sint Maarten has a debt of at least ANG 40,0 million to SZV. This debt is not accounted for in the financial statements.

2.6 Opinion regarding Balance Sheet

Opinion

We believe that the balance sheet information does not give a true and fair view of the extent of all budget items, given the uncertainties that exist in different budget items. Furthermore, the explanatory notes provides insufficient insight.

⁶ An actuary or insurance mathematician is professionally engaged in calculating and evaluating risks. Actuaries issue a statement regarding the adequacy of the provision and the financial position of the insurer or the Pension Fund.

2.7 Regular Service (operational account)

Personnel management and costs

Proper personnel management is a long standing issue at the ministries. Due to missing and incomplete personnel files, the correctness (regularity) of personnel expenditures at the various ministries can still not be established. We established that the following in terms of the differences between budgeted and actual capacity:

Table 4 Overview of actual vs. budgeted capacity (staffing)

Ministry	Actual staffing as of 31/12/2012	Budgeted staffing as of 31/12/2012	Difference realized vs budget 2012	
Parliament and High Councils of State	66	65	1	2%
General Affairs	454	382	72	19%
Finance	199	153	46	30%
Justice	555	355	200	56%
Education, Culture, Youth & Sports Affairs	335	304	31	10%
Public Health, Social Development and Labor Affairs	162	169	(7)	-4%
Tourism, Economic Affairs, Traffic & Communication	191	198	(7)	-4%
Housing, Spatial Planning, Environment and Infrastructure	140	150	(10)	-7%
Total	2.102	1.776	326	18%

It is striking that despite the higher actual capacity compared to the budget, the actual cost of most ministries are lower than the budgeted expenditure. Total personnel expenditures amounts to ANG 177,7 million for 2012, though an amount of ANG 183,9 million was budgeted. The expenditures at the ministries of General Affairs and Justice are actually higher than budgeted. These ministries constitute the largest overruns. We recommend a review of calculation methods in terms of the relationship between personnel expenditures and actual staffing capacity in order to support development of realistic budgets.

An amount of ANG 4,0 million for Cost-of-Living is included in the salary expenditure of the Ministry of Finance. The expenditure of the Ministry of Public Health, Social Development & Labor Affairs included ANG 14,0 million for medical expenses of civil servants acting on behalf of the Country. These expenses are related to civil servants but are not attributed

over the ministries. As a result, the reporting of personnel expenditure per ministry is incorrect.

Pension management

In terms of the management of pensions we concluded (with a 95% reliability) in our audit report *Pensions Sint Maarten 2011* (AR, 2013a), that only 45% of the employees of the government were registered at the pension fund in 2011. If 45% were registered, it means that the remaining 55% of government employees were not. This situation need not necessarily result in financial consequences for government if the premiums deducted from employees and the employer contributions are transferred to the pension fund. We established that this transfer started as of 2012. In 2011, the APS' invoice (advance payment) was ANG 12,1 million less than the expected premium amount.

Sint Maarten does not have any financial substantiation to support the assessment of the pension payments. It is unclear whether the provision in the amount of ANG 54,8 million is sufficient. None of the relevant organizations (APS and the ministries of Finance and General Affairs) were able to provide insight into the scope of the problem. The absence of an overview of the financial implications is cause for concern.

Article 18, paragraph 7 of the National Pension Fund Ordinance (Lvo APS) requires that the board of the pension fund provide to the Minister of Finance, the Central Bank and the General Audit Chamber, the approved financial statements including the auditor's opinion and the annual report of the fund prior to November 1 of the year following the budget year in question. The financial statements for 2012 are not yet available. The APS has twice requested postponement for the submission of the financial statements from the Minister of Finance. The minister has agreed to both requests (postponement was granted respectively until March 31 and later May 31 2014). Based on article 18 of the National Pension Fund Ordinance, the General Audit Chamber started its examination of the 2011 Financial Statements of APS. As the 2011 Financial Statements were not presented within the required time frame by APS to us and due to an initial misunderstanding at APS regarding the scope of our examination, the review started later than anticipated. Our findings regarding the examination of the 2011 Financial Statements of APS will be issued to Parliament in a separate report.

Tax Revenue

Realized tax revenue is ANG 16,3 million lower than budgeted. Specifically the wage and income tax revenues show shortfalls (respectively ANG 13,2 million and ANG 16,3 million). The Turnover Tax yielded ANG 11,1 million more than budgeted.

For a number of years, there has been a project at the Tax Office aimed at increasing revenue. The costs of this project amounts to several million guilders. Despite this project and the investment therein, annual budgets have been adjusted downwards over the last few years. In the explanatory notes for this budget item, one can find no information regarding the causes for the lower results, i.e. lower tax revenue. There is also no information provided about the realization of the policy intention to increase tax revenue.

Other income

Sint Maarten (government) is entitled to a portion of the revenue derived from the activities of the Bureau Telecommunication & Post (BT&P). Because the financial statements of BT&P were not audited by the external accountant since October 10, 2010, the contribution to Sint Maarten from BT&P cannot be calculated. Sint Maarten has received advance payments.

Article 19 of the National Ordinance BT&P (PB 2006, no. 69) requires that the director present to the relevant minister, the financial statements and annual report within 6 months after the end of the operating year. It is of imminent importance to Sint Maarten that the financial statements up to and including 2012 are presented as soon as possible to the minister in order to determine the definitive contribution and to have that the funds transferred to government.

Finally, Sint Maarten also receives, on an annual basis, the so-called Bank License fee⁷ from the Central Bank of Curaçao and Sint Maarten (CBCS). The completeness of the amount cannot be accurately established by us given the absence of the CBCS auditor's statement.

Results of the Compliance (regularity) audit 2011

In our report on the 2011 Financial Statements of Sint Maarten (AR, 2011) we established that the statements contained risks due to missing resources, registrations, documentation and regulation. We conclude that these risks persist in 2012. Insufficient management actions have been taken. In addition, we determined that there were insufficient qualified personnel at the Ministry of Finance. Moreover, there are inadequate internal control procedures at every ministry.

To insure that the auditor can issue an unqualified opinion in future regarding the financial statements, we believe that priority must be given to putting the financial management in order.

2.8 Opinion regarding financial and material management

Opinion

The financial management and material management of the ministries in the year 2012 was not in order. The ministries are not 'in control' in terms of their operations.

As result, the financial statements contain many material errors (in total ANG 45,7 million) and uncertainties. The errors and uncertainties relate primarily to all expenses and revenue. This means that Sint Maarten faces a major challenge in coming years as it seeks to improve the internal organization, in order to limit the level of errors and uncertainties.

⁷ A 'Bank License fee' is an amount that a financial institution that performs banking services, must pay.

3 OPERATIONAL MANAGEMENT

We define operational management as the guidance and management of all operational processes required for the functioning of a ministry. This includes guidance and management of primary as well as supporting processes such as financial management and material management, as well as personnel, information, administration, communication and housing. If ministries properly execute the operational processes, they are considered 'in control' of their operational management.

To determine whether ministries are 'in control' in terms of operational management, we first looked at the information contained in the 2012 Financial Statements. Secondly, we reviewed the implementation of various improvement plans related to financial management. For this we made use of reports for the department of Kingdom and Internal Affairs (*Binnenlandse Zaken Aangelegenheden Koninkrijk-BAK*), reports from the Financial Supervision Council (*College Financieel Toezicht-Cft*), and reports from the SOAB and from Development Funding Management Agency USONA (*Uitvoeringsorganisatie Stichting Ontwikkeling Nederlandse Antillen*).

3.1 2012 Financial Statements regarding operations

In the 2012 Financial Statements the Minister of Finance states, that due to the lack of written policy and a policy-based budget, it is very difficult to measure the efficiency of operational management. During the change of government in 2012, there was a near standstill in terms of operational management followed by a change in operational management, according to the minister. Operational management in government, similar to the degree of policy formulation, is according to the minister, not optimal. In 2012, the minister claims that a number of steps were taken to improve the level of operational management:

- Since 2012, there is more attention given to PEFA with the objective of improving financial management.
- The financial statements of the Island Territory of Sint Maarten up to and including October 10, 2010 were drafted by an external company. During the drafting of the Financial Statements 2010/2011 in 2012, government started various activities to draft the statements internally. The 2012 Financial Statements were ultimately drafted by the Financial Accounting Department (*afdeling Comptabiliteit*) without the assistance of an external company.
- A number of necessary amendments were made in the interface between GEFIS (the computerized collection system used by the Receiver) and DECADE (the computerized financial administration system used by Financial Accounting). The reliability of the data used between the systems was improved.
- As outlined in the Governing Accord, in 2012 government achieved among others:
 - A public service center in Simpson Bay (official opening April 13, 2013);
 - An extensive waste water treatment system (delivered).

There are indeed a few positive developments present in the 2012 Financial Statements as compared with the financial statements of 2011:

- Of the ten items listed in the 2011 Financial Statements (figure 1) related to compliance with the National Financial Accounting Ordinance, two show slight improvement, and three were completely resolved.
- The 2012 Financial Statements are presented using a clearer format that better complies with legal requirements for the report. There is more reporting regarding the previous year and the format is more structured (policy, operational management and financials are presented in separate sections).
- There is also additional explanatory text in the 2012 Financial Statements. An attempt was made to provide explanations and highlights of figures (data) based on the limited information that was available within ministries.
- The reliability between computerized systems is improved, though still not directly reconciled with figures (accounts receivables). An example is the template statement regarding levied (tax) assessments which was left blank. There was no indication that the data will be available for the next financial statements.
- The progress in terms of the PEFA improvement plan will be handled in section § 3.3.

3.2 Cooperation Development program IVB

The objective of the Cooperation program Institutional Strengthening Administrative Efficiency (*Samenwerkingsprogramma Institutionele Versterking Bestuurskracht 2008-2012* IVB) of May 2008 is the support for the transition from Island Territory to Country Status with an emphasis on good governance, societal development, law and order and social-economic development (General Service, 2008). The program expanded on another initiative entitled Cooperation program Administrative Development 2002-2006 (*Samenwerkingsprogramma Bestuurlijke Ontwikkeling*), that was completed on December 31st, 2007 following an extension of one year. The program lines of the IVB program are:

1. *Strengthening of the civil service and the political administration*: this includes the set of human and material conditions needed to increase the professionalism of the civil service and to allow the political administration to function effectively.
2. *Good financial position*: this includes the improvement of the tax collection and assessment tax capacity and the improvement of the budgets and commitments-administration.
3. *Quality of laws and regulations*: this includes increasing the expertise in the legal and policy fields. In so doing, civil servants can apply regulations correctly.
4. *Modernizing government*: this includes improving business operations to allow reduction of processing times and improving the provision of information to citizens. In support thereof, an information plan was developed in 2007 entitled Information Plan 2007-2013 (*Informatieplan 2007-2013*). This plan provides the path government must follow to improve information provision. The plan contains a number of ICT objectives:
 - a. Improving customer service and reducing bureaucracy;
 - b. Reducing costs;
 - c. Increasing the knowledge and responsibilities of civil servants in the conduct of their tasks;

- d. Stimulating and facilitating the (socio-) economic development of Sint Maarten;
- e. Providing a national image and infrastructure on which to connect economic development.

Figure 2 Activities for the realization of the four program lines

Program Lines IVB 2008-2012	Activities
1. Strengthening of the civil service and political administration	a. Strengthening the policy sectors by expanding capacity.
	b. Creating <i>checks and balances</i> mechanisms by strengthening the support to the Island Council in the exercise of their supervisory task and the involvement of citizens in decision-making .
	c. Specific practical training.
	d. Developing and implementing an integrity policy for civil servants and political administrators.
2. Good financial position	e. Achievement of Concern Control.
	f. Establishment of the department of Fiscal Affairs and budget inspection.
	g. Expansion of the financial administration system.
	h. Replacement of the computerized tax system .
3. Quality of laws and regulation	i. New Tax Office Sint Maarten.
	j. Building legislative capacity.
	k. Legislation Program.
4. Modernizing government	l. Training policy officers/lawyers.
	m. Improving business operations Civil Registry (Census Office) (digitizing archive, securing valuable documentation, introduction Passport scanners).
	n. Streamlining of the basic registrations (registration of persons land lots, buildings, businesses, etc.) and the introduction of social security numbers.
	o. The creation of the ICT infrastructure for public services .

The IVB Program is in the final stages of its life cycle. We therefore examined the extent to which the planned activities, up to and including 2012, were actually achieved. According to BAK, the department responsible for the management of IVB as of 10-10-200, a number of major steps have been taken since 2011 and Sint Maarten should be satisfied given the large number of projects that are in final stages of completion. Most of the projects committed their funds prior to December 31st 2012. Five projects were granted extensions to allow full commitment of funds. These are:

1. Strengthening Financial Management New Tax Office Sint Maarten
2. Integrity
3. Build up Country System Sint Maarten
4. Build up High Councils of State

Figure 3 provides an overview of the activities to date and the level of realization of the four program lines of IVB.

Figure 3 Achievements related to realizing the four program lines

Program Lines IVB 2008-2012	Efforts realized up to 2012
1. Strengthening of the civil service and political administration	a. The 19 critical vacancies have all been filled. Strengthening at the Ministry of VROMI is not yet complete.
	b. The building of the High Councils of State is (mostly) complete.
	c. After a positive evaluation of the pilot training related to integrity, all practical training for civil servants is mandatory. The training carries through until 2014. Training for ministers and parliamentarians is experiencing difficulty in the startup.
	d. There is an integrity vision formulated (see 1 c). Also, the Integrity Bureau is set

	up, but not legally established, hence recruitment is not yet possible.
2. Good financial position	e. There is a Concern Controller appointed at the Ministry of finance.
	f. The structure of the Fiscal Affairs Department (staff and resources) has been completed. A new budget system was purchased in 2012 to support Budget Inspection This system did not meet the expectations and would be replaced in 2013. This hasn't happened yet.
	g. There were two updates for the system DECADE. The focus is now on further strengthening of knowledge within the department and on the next level of financial administration.
	h. No decision has yet been taken on what should replace the current computerized tax system.
	i. Staff have been recruited and have received training, capital investment has been done and elimination of backlogs has started.
3. Quality of laws and regulation	j. Recruiting legislative lawyers proved challenging. Currently there are three Dutch legislative lawyers recruited for a period of three years.
	k. Redrafting of legislation of the former Netherlands Antilles for Sint Maarten is complete. The translation of laws into English was delayed due default of the provider.
	l. In 2013 and 2014 at least two civil servants per Ministry have or will follow a (two-part) English legislative course. The first training took place in 2013.
4. Modernizing government	m. Digitizing the archive of the Civil Registry was successfully completed. The introduction of passport scanners was done at the beginning of 2013. The installation of the transportation system for valuable documents was done in 2013. The deadline for delivery (December 2012) of the Education Management Information System was not met.
	n. Streamlining the base registries had to be temporarily halted due to underestimation of the scope of the problem as well as a dispute with the provider. The introduction of social security numbers has not yet occurred.
	o. After a number of essential adjustments were made the establishment of the Public Service Center progressed at a significant pace. The location at the Simpson Bay Fish Market was chosen instead of the new Government Administration building. The Center was opened in the middle of April 2013. In addition, the setup of the various Microsoft solutions in the area of data links, CRM (customer relations management) and website management (such as the introduction of e-Login and online tax forms in 2013) contributed to an improvement of the information provision capability of the Country.

Last year we reported that based on the mid-term evaluation of the IVB of mid-August 2011, the important causes of delays were related to the limited capacity at the department BAK, USONA's strict implementation and tendering rules and the lack of availability of the New Government Building (BZK, 2011).

Despite some capacity strengthening at BAK in 2012 as well as a less rigorous application of the tendering rules by USONA (allowing preferred supplier tenders instead of public tendering), we conclude that the implementation of a number of important projects started or will start in 2013 and 2014. An example, is the delay in terms of decision making for the new computer system for the Tax Office. This 'tool' is important in terms of improving tax compliance on Sint Maarten. We noted that despite the millions of guilders spent in the last years to increase tax revenues, the desired results were not achieved in 2012.

In addition, we find that especially the completed projects from the second and third program lines of IVB (good financial position and quality of laws and regulations) have not always delivered the desired results. For example, after two updates to the financial management system, it still does not link to the GEFIS system at the Receiver. Redrafting the laws of the former Netherlands Antilles has been completed, though the additional national decrees of various national ordinances have not been included even though these are very important for the implementation of the laws (for example model exhibits for the budget and financial statements).

We also find that the use of USONA-funds has not always been efficient. Take for example the fact that in 2012 a new budgeting system for budget inspection was acquired, where after the system proved to be inadequate and did not meet expectations because

necessary amendments to the system (which were mostly identified at the beginning) proved too complex and too costly to achieve. Furthermore, the requirements of the primary process were tightened during the implementation because the organization itself was still in development. The conclusion was that it was better to turn around halfway, than to get lost completely. To continue with the chosen provider would be even less effective according to BAK. In 2013, a new system would be acquired.

Finally, we find that, up to and including 2012, an amount of ANG 12.069.000 of the entire IVB program was spent. This is less than half of the amount originally made available for IVB (ANG 30.290.000). The ministry could not – on short term -subdivide the “realized” expended amount across the four program lines nor could they provide a forecast regarding the progress of the four program lines.

Table 5 Budget program lines cooperation program IVB (in ANG x 1.000)

Program Lines IVB 2008-2012	2008	2009	2010	2011	2012	Total
<i>1 Strengthening of the civil service and political administration</i>	1.850	2.700	700	350	450	6.050
<i>2. Good financial position</i>	850	4.915	3.965	4.500	-	14.230
<i>3. Strengthening legislation and policy making capacity</i>	1.100	1.050	750	500	500	3.900
<i>4. Modernizing Government</i>	2.000	1.500	1.500	610	500	6.110
Total IVB	5.800	10.165	6.915	5.960	1.450	30.290

The final version of the development cooperation program IVB was not handled by the Council of Ministers, nor was it presented to Parliament. The Council of Ministers was informed of the program on several occasions. The establishment of the program and the making of agreements during various “reviews” was the purview of the so-called ‘ministerial meeting’ (not the Council of Ministers who only approve project proposals). Ministers of Sint Maarten meet with (a representative of) the minister of Interior Affairs and Kingdom Relations during the ‘ministerial meeting’. USONA is also present. Moreover, annual meetings took place between the Council of Ministers and the board of SONA. Amendment of priorities on program level and progress were discussed in those meetings. Finally, BAK reported annually with separate presentations regarding IVB program.

3.3 Improvement plan PEFA

In keeping with the Kingdom Law Financial Supervision Curaçao and Sint Maarten (Kingdom Law), the CFT supervises the financial management of the countries Curaçao and Sint Maarten regarding desired improvements.

Article 33 of the Kingdom Law stipulates that the Kingdom Council of Ministers will decide in 2015 whether or not to end, limit or continue the temporary financial supervision for

Curaçao and Sint Maarten. In order to end or limit the financial supervision after October 10th 2015, it is important that the budget meets the financial standards, but also that the financial management is in order. To objectively evaluate the financial management in 2015, CFT makes use of an internationally accepted system; the *Performance Measurement Framework of the work group Public Expenditure and Financial Accountability* (the PEFA-framework). The PEFA-framework is comprised of 28 indicators (with one or more sub-indicators) spread over six areas of financial management.

The first PEFA-assessment dates back to October 11th 2011, and is considered the baseline. This baseline showed that the financial management of Sint Maarten was far from being in order resulting in the drafting of an improvement plan covering a period of five years. This improvement plan establishes – per indicator – objectives for improving the financial management and includes a phased plan comprised of action items and a schedule that are supposed to lead to the achievement of the objectives (the desired scores for 2015). The desired scores for 2015 together with a path for growth were established by Sint Maarten in consultation with the CFT. The score 'A' is the highest that can be achieved and a 'D' is the lowest.

The results of the second PEFA assessment were published in February 2012 (CFT, 2013a). In our report of the Compliance Audit 2011 (AR, 2013b) we stated that the Ministry of Finance had abandoned the previously set interim goals of the PEFA five-year improvement plan in lieu of pursuing the so-called "low hanging fruit". The desired scores for 2015 would still be pursued. Although we understand the approach, we also recognized the risk that certain indicators could be ignored or would not be realized in a later stage. We also determined that a definitive version of the improvement plan had not been handled by the Council of Ministers nor had it been presented to Parliament.

In conjunction with various entities on Sint Maarten, the CFT recently carried out a third assessment of PEFA to measure the progress of the financial management (Cft, 2013e). This time, the CFT specifically reviewed the Financial Statements of 2011, the operations in 2012 and the budget 2013. This third assessment states that the financial management on Sint Maarten is virtually unchanged compared to the previous assessment. We note, however, that, compared to the previous assessment, 7 of the 28 indicators are improved and one indicator has deteriorated (but meets the level of ambition for 2012). All remaining indicators are unchanged as compared to the baseline assessment (see annex 3). According to the CFT, Sint Maarten is generally on schedule and in terms of a few indicators, Sint Maarten is ahead of schedule. For example, CFT states that the improvement related to internal procedures is progressing slowly but there is progress. The budget is increasingly more transparent and accessible and is becoming a better predictor of public expenditure and revenue. However, there are seven indicators for which Sint Maarten is behind schedule and the necessary activities need to be carried out to achieve the objectives set for 2015, according to the CFT. The major areas of concern are the salaries- and financial administration, the assessment and collection of taxes, and public tendering. There is no improvement to report in these areas and the CFT questions whether the objectives Sint Maarten set for itself (in this regard) can actually be achieved.

The traditionally low scoring indicators (such as the supervision of Parliament, use of the reports of the General Audit Chamber, the cooperation between departments, drafting of policy based budgets and political guidance during the budget process) show little improvement. With regard to the timely presentation of reports by General Audit Chamber, the CFT remarks that Sint Maarten is behind schedule and will have to make a serious effort to achieve its ambitions (indicator score 'B') by 2015. The CFT points out that the General Audit Chamber is dependent on other parties who must present financial statements in a timely fashion. So for example, the 2011 financial statements were submitted to the Audit Chamber in mid-2013. Although the General Audit Chamber presented its findings regarding the financial statements to Parliament within the legal limit of six weeks after receipt, the score of the third PEFA-assessment was a 'D' due to the initial delay of the financial statements. In accordance with the National Financial Accounting Ordinance, the financial statements cannot be drafted prior to April 30th of the preceding year (article 19). A score of 'A' (reporting to Parliament prior to the end of April) is therefore impossible. A 'B' (reporting prior to the end of August) is only possible if the Council of Ministers immediately approves the Financial Statements after completion (end of April). This does not seem realistic. In our view, a 'C' (reporting prior to the end of December) is the highest achievable score at this time.

Finally, the outstanding payments (arrears), represented by the fourth indicator in the PEFA framework, needs attention. There was no data available in budget year 2012 and as a result there was no scoring done in the third PEFA assessment for this indicator.

3.4 Main conclusions operational management

Main conclusion

Despite a few positive developments in the 2012 Financial Statements (for example, improved compliance with the National Financial Accounting Ordinance, clearer statement exhibits and additional explanatory information), the ministries of the Country Sint Maarten are not 'in control' of their operational management. Improved reliability cannot be directly related from the figures presented. Definitive versions of improvement plans for financial management (IVB and PEFA) have not been handled by the Council of Ministers and have not been presented to Parliament. Though certain aspects of the improvement plans have been implemented in a relatively quick pace, other important aspects such as the establishment of the new Tax Office, the reliability of the budget and the supervision thereon by Parliament have not progressed.

3.5 Recommendations regarding operational management

- Implement the various improvement plans for financial management as quickly as possible. Particular attention is needed for the more important aspects of these plans such as the establishment of the new Tax Office, a reliable budget and Parliamentary supervision thereof.
- Address the weaknesses of the financial management that we have outlined, in a structured fashion and have the Minister of Finance develop a realistic improvement plan.

- Issue progress reports regarding the implementation of the various improvement plans to Parliament and have the internal auditors (SOAB) review the reliability (accuracy, completeness and appropriateness of the explanation) of the reporting.

4 POLICY INFORMATION

4.1 The importance of good policy information

Information regarding the result of government policy is important in order to develop insight regarding the spending of public funds. Policy information is therefore a crucial element in the communication between the Council of Ministers and Parliament. Without information, Parliament cannot exercise its budget authority. Policy information must be of a good quality⁸ and provide insight into the execution of policy as it relates to the financial resources spent. In this way, Parliament and taxpayers are able to evaluate whether they receive 'value for money'. The ministers must provide information, so that Parliament can fulfill its supervisory function.

To determine if the citizen's tax money is well spent, Parliament must be able (1) to check whether the money is spent on the objective presented in the budget, (2) determine if the desired performance (as listed in the budget) was achieved and (3) to verify if the delivered performance matches the objectives and effects. In accordance with the National Financial Accounting Ordinance (see § 1.5), the financial statements must contain an elucidation of the realization of policy intentions. This elucidation is to be presented in a separate report that is included in the documents related to the financial statements.

For the 2012, we conclude that the financial statements of the Country Sint Maarten (once again) fail to provide information regarding the objectives and concrete policy efforts of ministers. The previously mentioned elucidation is not included.

Moreover, article 22 of the National Ordinance Structure and Organization of Government (*Landsverordening Inrichting en organisatie landsoverheid* - Lv IOL, A.B. 2010 GT no. 6) requires for implementation of the approved budget that each ministry, each department develop an activity plan per policy field or project. Each department head is required to report (periodically) on the progress of the plan to the Secretary-General of the ministry in question.

We have received all of three reports from the seven ministries: from Ministry of Public Housing, Spatial Planning, Environment and Infrastructure (VROMI), Ministry Tourism, Economic Affairs, Transportation and Telecommunication (TEZVT) and Ministry Public Health and Social Development & Labor Affairs (VSA). The Ministry of Justice provided an annual report drafted by an implementation agency (probation services). The reports contain information regarding the operational management of the implementation agencies of the various ministries and operational activities (whether or not associated with funds) that have been carried out or will be executed in future. The reports are not, as required by article 22, about the activities necessary to effectively and efficiently achieve policy intentions.

⁸We explain the quality standards related to the 'presentation' and 'development' of policy information in annex 4.

4.2 Policy information 2012 Financial Statements

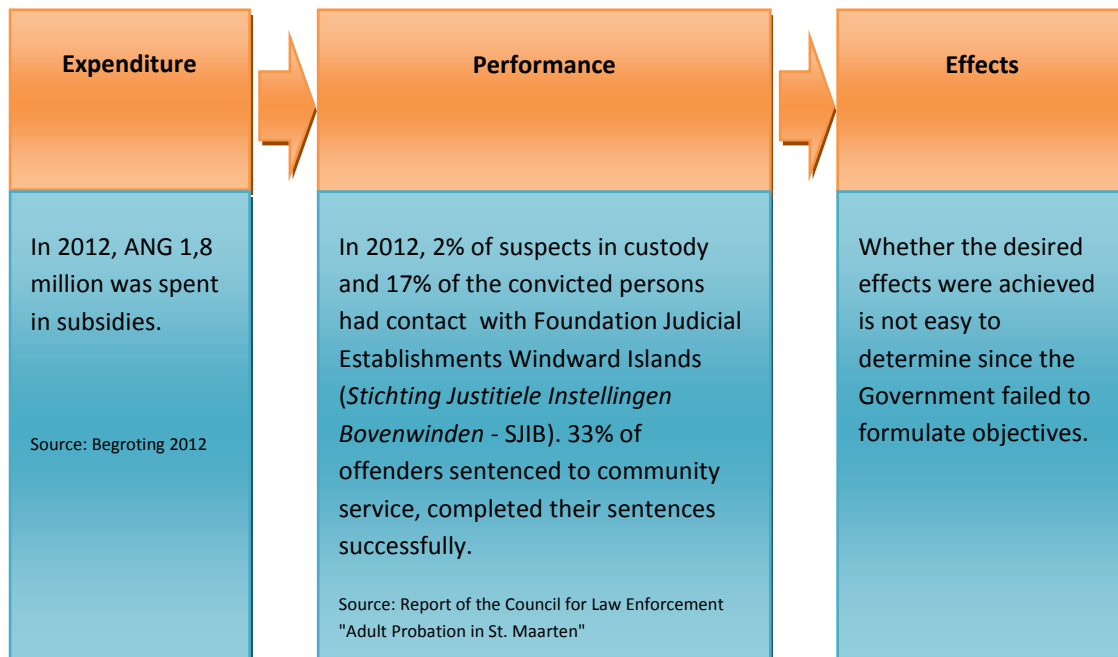
In the 2012 Financial Statements, the Minister of Finance reports that the ministers are aware that policy intentions must be formulated and that these must be linked to the available funds. Ultimately, the efficiency and effectiveness of the performance within the ministries must be measured. According to the Minister of Finance, this process does not (yet) function properly. The minister states that government must exert much more energy for this process and it is not expected that in the process will be at the desired level in the near term. In addition, the minister states that the Country does not have a policy based budget. Government of Sint Maarten has a lack of written policy for the execution of the authorized budget. However, there are a number of "Best Practices" applied within government. Within each ministry, the most essential policy required for the execution of tasks of the relevant ministries, departments and services is worked on, according to the minister. The progress of government and the ability to develop a reliable financial administration is dependent on the aforementioned. Determining and establishing policy is, according to the Minister, in the general interest for the progress of the Country.

We are pleased to learn of the awareness of the Minister of Finance and other ministers, and we are looking forward to the implementation in the annual financial statement 2013 and the budget of 2014. We would be happy to contribute to changing the current situation as quickly as possible. We therefore examined whether it is possible to offer Parliament information on the results of ministers' policy.

4.3 Other available information regarding probation services

For the policy theme 'probation services', we gathered all available (relevant) documentation that could improve the information value of the annual report; see figure below. We do this to determine the chances and limits related to the collection of information regarding the effects of policy, that can be of use to Parliament in evaluating the results of policy ('did we get something for our tax money?'). We illustrate how these three crucial parts of policy information look in practice, in the figure below for the policy theme 'probation services'.

Figure 4 Information regarding expenditure, performance and effects achieved: policy theme probation services.



The purpose of probation is to prevent recidivism and to encourage social reintegration of detainees. The Minister of Justice made ANG 0.74 million available to Foundation Judicial Establishments Windward Islands (*Stichting Justitiele Instellingen Bovenwinden SJIB*) in 2011 and ANG 1.79 million in 2012 for this purpose. Although the Minister of Justice is (directly and indirectly) involved in the results of this policy, he did not draft clearly defined objectives (effects) for the probation service. As a result, Parliament has no information regarding the extent to which the policy has led to achievement of objectives. Parliament can therefore not evaluate whether citizens received value for their (tax) money in this area of policy.

The SJIB, responsible for the implementation of the probation service, is one of the few executing agencies that prepared an annual report in 2012. Besides giving account for the executed policy, the annual report contains policy objectives for 2012. These objectives however, are related to the improvement of the functioning of SJIB (for example expanding staffing for probation services, introducing estimate scales for recidivism and developing prevention projects). The annual report does not provide a percentage for recidivism or a rate of successful offender reintegration.

Our research demonstrates that it is possible to currently provide more detail about the extent to which the objective of the probation service is realized. Research from the Law Enforcement Council (*Raad voor de Rechtshandhaving RVR*) shows that by far not all suspects in custody or convicted persons have actual contact with SJIB and only 33% those sentenced to community service actually successfully complete their sentence (RVR,

2014). The SJIB performs activities for the remainder of the cases (67%), but for various reasons these cases are not successful.

Table 6 Summary of the policy them probation services

	Probation (Minister of Justice)
Objective of policy	Preventing recidivism and encouraging social reintegration of detainees.
Responsibility of minister	The Minister is directly responsible for policy. He is indirectly responsible for implementation (through SJIB).
Financial relevance	ANG 1,8 million.
Funds to objective ?	Yes.
Performance achieved?	The Minister does not know. The percentage of recidivism or rate of successful reintegration is not reported by the foundation SJIB. There is reporting on projects for the improvement of the functioning of SJIB.
Objectives achieved?	Unknown; no objectives (goals/targets) were formulated.
Value for money?	Cannot be answered; clear objectives/targets are absent and there is a lack of data.
Parliament informed?	No.

However, our research illustrates that it is difficult to provide more information on the results of policies, if implementing organizations fail to report periodically on the implementation of their policies and management. As our example shows, there is quite a bit of information available from the implementing organization. The SJIB therefore agrees that, in cooperation with the Ministry of Justice, performance indicators should be developed to measure whether SJIB meets its targets in future.

4.4 Opinion regarding performance information and executed policy

Opinion

We believe that the information value of the 2012 Financial Statements is insufficient to allow users of the financial statements to form an opinion regarding the executed policy and management.

4.5 Recommendations related to policy information

Good policy information is a requirement for the adequate functioning of public administration (government). There must be good quality information on which policy decisions can be based and on the basis of which the policy (and its implementation) can

be monitored, accounted for and adjusted where necessary. To insure that more justice is done to future budgets and financial statements we propose the following :

Recommendations to the Minister of Finance and other ministers

- Policy objectives should be drafted specific, measurable, achievable and time-related.
- Insure that there is proper monitoring and evaluation of policy performance and policy effects through actual periodic reporting by the executing agencies regarding policy implementation and management thereof.
- Use information that is available (elsewhere), for example from the Law Enforcement Council (*Raad voor de Rechtshandhaving-RVR*) and the Central Bureau of Statistics (CBS). Insure that this information is up to date and always available in support of the work of policy makers and Parliamentarians.
- Insure that colleague ministers provide more/better input for the budget and the financial statements. This will aid the Minister of Finance in effectively executing his role as coordinator and also allow him to give proper account for the finances of the Country.

Recommendations to Parliament

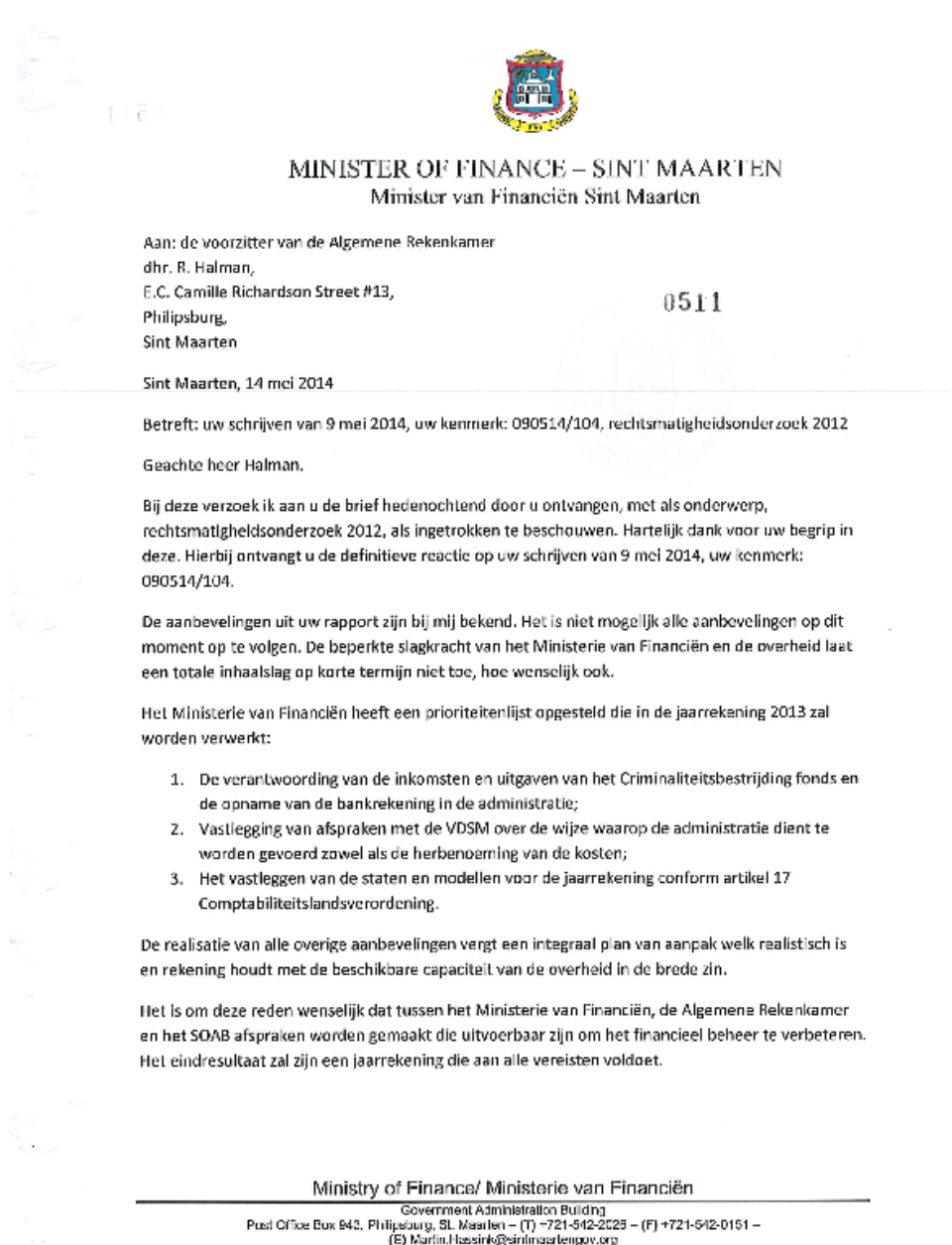
- Establish budget agreements with ministers regarding policy performance and effects (objectives) to be achieved (as specific, measurable, achievable, realistic and time-related as possible).
- Establish agreements with ministers regarding receipt of timely and periodic information regarding the result of policy.
- Insure that ministries comply with presentation of memoranda etc. as required by the National Financial Accounting Ordinance.

5 REACTION OF THE MINISTER OF FINANCE AND EPILOGUE OF THE GENERAL AUDIT CHAMBER

The Minister of Finance responded to our report. His unabridged reaction (in Dutch and also freely translated) is presented in section § 5.1. On the basis of the reaction of the minister we present an epilogue in section (§ 5.2).

5.1 Reaction of the Minister of Finance

The minister writes:





0511

MINISTER OF FINANCE - SINT MAARTEN
Minister van Financiën Sint Maarten

Ik zal u uitnodigen tot een gesprek over dit onderwerp, zodat wij spoedig tot een duurzame oplossing kunnen komen.

Vertrouwende u hiermede voldoende te hebben geïnformeerd.

Hoogachtend,


Martho Hassink

Minister van Financiën Sint Maarten



Ministry of Finance/ Ministerie van Financiën

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(E) Marth.Hassink@sinmaartengov.org

English translation letter of the Minister of Finance in reaction to the draft final report of the General Audit Chamber on the 2012 Financial Statements

To: chairman of the General Audit Chamber
Mr. R. Halman
E.C. Camille Richardson Street #13
Philipsburg
Sint Maarten

Sint Maarten, May 14 2014

Re: letter of May 9 2014, ref. 090514/104, compliance audit 2012

Esteemed Mr. Halman,

By means of this letter I wish to retract the previous correspondence sent this morning with as subject compliance audit 2012. Please consider that previous correspondence as not having been sent. The following is the definitive response to your letter of May 9 2014, reference 090514/104.

The recommendations issued in your report are known to me. At this time it is not possible to follow up every recommendation. Though desirable, the limited capacity of the Ministry of Finance and government make a catching up on all issues impossible in the near term.

The Ministry of Finance has developed a priority list of actions that will be processed as part of the 2013 Financial Statements. These are:

1. Accounting for revenue and expenditures related to the Crime Fund and inclusion of the requisite bank account in the administration:
2. Establishing agreements with the VDSM (Security Service) regarding the way their financial administration will be executed as well as reclassification of the expenditure;
3. Ratification of the models of the forms for the financial statements in accordance with article 17 of the National Financial Accounting Ordinance.

Achievement of other recommendations requires an integral plan of approach that is both realistic and in keeping with the available capacity of government in general.

For this reason is it appropriate that the Ministry of Finance, the General Audit Chamber and the SOAB develop agreements that can be implemented towards improving the financial administration. The end result will be financial statements that meet all requirements.

I will invite you to discuss this subject in order that we can reach a lasting solution.

Hoping to have sufficiently informed you ,

Yours sincerely,

Martin Hassink
Minister of Finance

5.2 Epilogue

On Wednesday, May 14th 2014, we received the response of the Minister of Finance on the draft report regarding the 2012 Financial Statements of St. Maarten. The Minister indicates in his reaction that he is aware of the recommendations presented our report.

We are pleased that the minister is prepared to adopt the recommendations, albeit that some of those recommendations cannot be achieved in the short term due of capacity constraints.

We support the intention of the Minister to process at least three priorities items in response to our recommendations, as part of the 2013 Financial Statements. We will, of course, when examining the 2013 Financial Statements, seek to verify the degree to which those intentions were achieved.

The Minister proposes the establishment of an integral plan of action for the improvement of the financial management. The end result the minister seeks are financial statements that meet all legal requirements. We consider this a positive development.

Finally, the minister proposes, together with the Audit Chamber and the government accountant (SOAB), to develop enforceable agreements for the improvement of the financial management. We are prepared to contribute – within the framework of our legal authority - to this process.

ANNEXES

Annex 1 Observed errors and uncertainties in the 2012 Financial Statements of Sint Maarten

The tables 7 and 8 provide a listing of all errors and uncertainties observed in the 2012 financial statements of Sint Maarten.

Table 7 Reliability errors in the 2012 Financial Statements Sint Maarten

No.	Description	In ANG
1.	Tangible fixed assets are too highly valued because no account was taken with past depreciations	Cannot be determined
2.	Valuation of properties is too high	1.400.000
3.	Valuation assets- schools is too high and relates to an investment made in 2013-	1.000.000
4.	Bank accounts for Crime Fund are not in the Financial Statements	2.000.000
5.	The provision for APS for early retirement (VUT), cost-of-living (duurtetoelag) and unregistered participants is too low.	Cannot be determined
6.	The debt to APS is too low.	1.000.000
7.	Subsidies are not all accounted for	275.000
8.	The contribution for the office of the public prosecutor is not fully accounted for	-275.000
9.	The debt to SZV is not reported in the Financial Statements	40.000.000
10.	Costs for social assistance in 2013 was reported in 2012	250.000
Total errors		45.650.000

Table 8 Uncertainties in the 2012 Financial Statements Sint Maarten

No.	Description
1.	Valuation of the division of Tangible fixed assets, due to the lack of an asset administration as well as recent valuation reports for building under construction.
2.	Financial fixed assets, long term study financing (loans). There are is no underlying explanation for the scope of the claim and the reported provision.
3.	Financial Fixed Assets, participations. Valuation is not reliable as a result of missing financial statements 2012.

No.	Description
4.	Accounts receivables after deduction of provision is unreliable because of a lack of underlying details and proper entries.
5.	Liquidity (cash). No confirmation received regarding two bank accounts; possibly more bank accounts are not accounted for.
6.	Short term debt, A/R. Absence of a balanced creditor administration and a lack of underlying documentation.
7.	Short term debt. No definitive division of assets established.
8.	<u>Revenue</u>
8a	Tax revenue: completeness and classification.
8b	Bank license fee. Lack of audit report for 2012 financial statements from the Central Bank.
8c	Economic and work permits due to lack of documentation.
8d	Income from positive balance BT&P due to lack of clarity regarding the division.
9.	Personnel expenditure. Insufficient internal organization and lack of sub-administrations and supporting documentation.
10.	Expenses for procurement of goods and services and scholarships. Insufficient internal organization and lack of supporting documentation.
11.	Expenditures for PP-cards due to a lack of audited reports from the executing agency.
12.	Subsidies. Inadequate internal organization and lack of supporting documentation.

Annex 2 Finding of significant influence on the internal control and/or the financial statements

Table 9 Finding of significant influence on the internal control⁹

Ministry of	Findings with significant influence	Findings with moderate influence	Findings with low influence	Total
Finance	13	14	5	32
Education, Culture, Youth and Sports Affairs	2	2		4
General Affairs	7	2	5	14
Public Health, Social Development & Labor	4	1	4	9
Justice	3	1	1	5
Tourism, Economic Affairs, Transportation & Telecommunication	3	1	1	5
Public Housing, Spatial Planning, Environment and Infrastructure	4	2	2	8
Total number of findings	36	23	18	77
Percentage of total	47%	30%	23%	

⁹ Source: SOAB, management letters 2011

Table 10 Findings of significant influence on the financial statements¹⁰

Ministry van	Findings with significant influence	Findings with moderate influence	Findings with low influence	Total
Finance	9	3	20	32
Education, Culture, Youth and Sports Affairs	1	1	2	4
General Affairs	3	2	9	14
Public Health, Social Development & Labor	2	2	5	9
Justice	2	1	2	5
Tourism, Economic Affairs, Transportation & Telecommunication	3	0	2	5
Public Housing, Spatial Planning, Environment and Infrastructure	1	2	5	8
Total number of findings	21	11	45	77
Percentage of total	27%	14%	59%	

¹⁰ Source: SOAB, management letters 2011

Table 11 Findings per ministry¹¹

Findings per ministry
Ministry of Finance
<u>Procurement</u>
1. The direct link between the policy to be pursued (what do we want to accomplish?) and the budget (what should it cost?) is insufficiently evident in the budget.
2. The procurement procedure is not efficient.
3. There is no formal procedure to establish that the purchase invoice is related (linked) to the receipt of goods or services or the underlying agreements.
4. The payment by Receiver of purchase invoices is not periodically processed in the financial administration (FA).
5. Purchases of drinking water and paper in tranches larger than ANG 50,000, are not publicly tendered.
6. Because all expenditures for telephone, water and electricity are charged to the budget of the Facility Services, the Financial Administration (FA) does not have insight into costs per ministry and per building. There is no exchange of information between FA and FS.
<u>Personnel Expenditure</u>
7. Internally, it is not established whether government workers who are on the payroll are actually still in service for the Government and/or if they are productive.
8. The internal control required for the accuracy and completeness of the processing changes (mutations) of staff is inadequate.
<u>Revenue from concessions</u>
9. The completeness of the revenue from concessions granted to BT&P and the CBCS are not checked internally.
10. The completeness of the revenue from the concession granted to the CBCS is not checked internally.
<u>Tax Revenue</u>
11. The Tax Office does not have reliable information on commercial tax payers; There is no link with data provided by the Chamber of Commerce.
<u>Granting of Subsidies</u>
12. There is no clear distinction between 'subsidies' and 'financial contributions'. A formal arrangement (regulation) governing 'financial contributions' is absent.
13. Compliance with the subsidy regulation is inadequate.
Ministry of Education, Culture, Youth and Sports Affairs
<u>Granting of Subsidies</u>
1. Compliance with the subsidy regulation is inadequate.
2. Incorrect account given for subsidies granted in the financial administration .
Ministry of General Affairs
<u>Procurement</u>
1. A formal procedure for the procurement of goods and services in the event of emergencies is absent.
2. The FA Department does not have an overview of potential tax payment arrears of vendors.
3. Purchases of drinking water and paper in tranches larger than ANG 50,000, are not publicly tendered.
4. Because all expenditures for telephone, water and electricity are charged to the budget of the Facility

¹¹ Source: SOAB, management letters 2011

Findings per ministry
Services, the Financial Administration (FA) does not have insight into costs per ministry and per building. There is no exchange of information between FA and FS.
<u>Revenues</u>
5. Insufficient internal control measures aimed at determining the completeness of the revenue of the Civil Registry.
6. The rates charged by the Civil Registry were not all in accordance with the Fees Regulation (Legesverordening). In the interim all fees have been brought in line with the regulation.
7. Not all products at the department of Civil Registry were listed in the Fees Regulation. In the interim, the missing products have been added.
Ministry of Public Health, Social Development and Labor Affairs
<u>Work permits</u>
1. The legal term for processing requests for work permits is often exceeded and in the case of work permits for 'hostesses' (<i>animeermeisjes</i>), fewer documents are presented than legally required.
<u>Issuance of Social Assistance and PP-cards (health assistance)</u>
2. The client files are missing required documents and internal procedures.
3. Internal control focused on the accuracy of the amounts to be paid in assistance is insufficient; There is no link between the pay list and registration of the requests handled by the Department of Social Welfare.
4. The procedure related to approving the issuance of social assistance and PP-cards is protracted. The internal review activities by the controller of VSA and the head of the section policy implementation of SOD are not evident.
Ministry of Justice
<u>Revenue excise tax</u>
1. The values reported by importers are not periodically inspected by Customs.
2. The automated system used by Customs for the declaration by the importers of fuels could not process the declaration of a new importer.
3. There is no clear distinction between 'subsidies' and 'financial contributions'. A formal regulation for 'financial contributions' is absent.
Ministry of Tourism, Economic Affairs, Transportation and Telecommunication
<u>Annual revenues from economic permits</u>
1. The file containing the listing of companies that require an annual economic permit is polluted.
2. The completeness of the revenue from the concession granted to BT&P is not checked internally.
<u>Granting of Subsidies</u>
3. Compliance with the subsidy regulation is inadequate.
Ministry of Public Housing, Spatial Planning, Environment and Infrastructure
1. Domain affairs does not have reliable information regarding the amount of government land. There is no link with the Land Registry Office (Cadaster).
<u>VROMI-permits</u>
2. With the exception of the building permits and nuisance permits, application forms for various permits are absent. Furthermore, procedures are not formalized nor structured. In most cases, the section concerning safety is not completed on the evaluation form for building plans
<u>Revenues for Building Permit Fees</u>
3. As a result of an input error the fees are consistently miscalculated.

Findings per ministry

Granting Subsidies

4. Compliance with the subsidy regulation is inadequate.

Table 12 Items for which the General Audit Chamber has objections

The Audit Chamber maintains objections regarding the following as relates to financial management		
	2011	2012
The financial management is not in order. As a result, there is uncertainty about the balance sheet items, reliability, legal compliance and efficiency of expenditures and revenues.	X	X
The Audit Chamber maintains objections regarding the following as relates to the financial statements		
	2011	2012
Quantifiable compliance errors	X	X
Quantifiable reliability errors	X	X
Uncertainties of a fundamental nature;	X	X
The revenue and expenditure of the Crime Fund are not accounted for in the financial statements	X	X
The expenditure of VDSM are stated under Staff Bureau (budget item 3104) in the financial statements and budgeted as subsidies	X	X
Financial information is missing in the 2012 Financial Statements (see figure 1)	X	X
Debt to SZV of ANG 40 million and therefore also the expenditure are not accounted for		X
The investment in the Seventh Day Adventist schools of ANG 1 million relates to an investment in 2013 instead of 2012		X

The expenditure for social assistance for January 2013 is reported in the 2012 financial statements

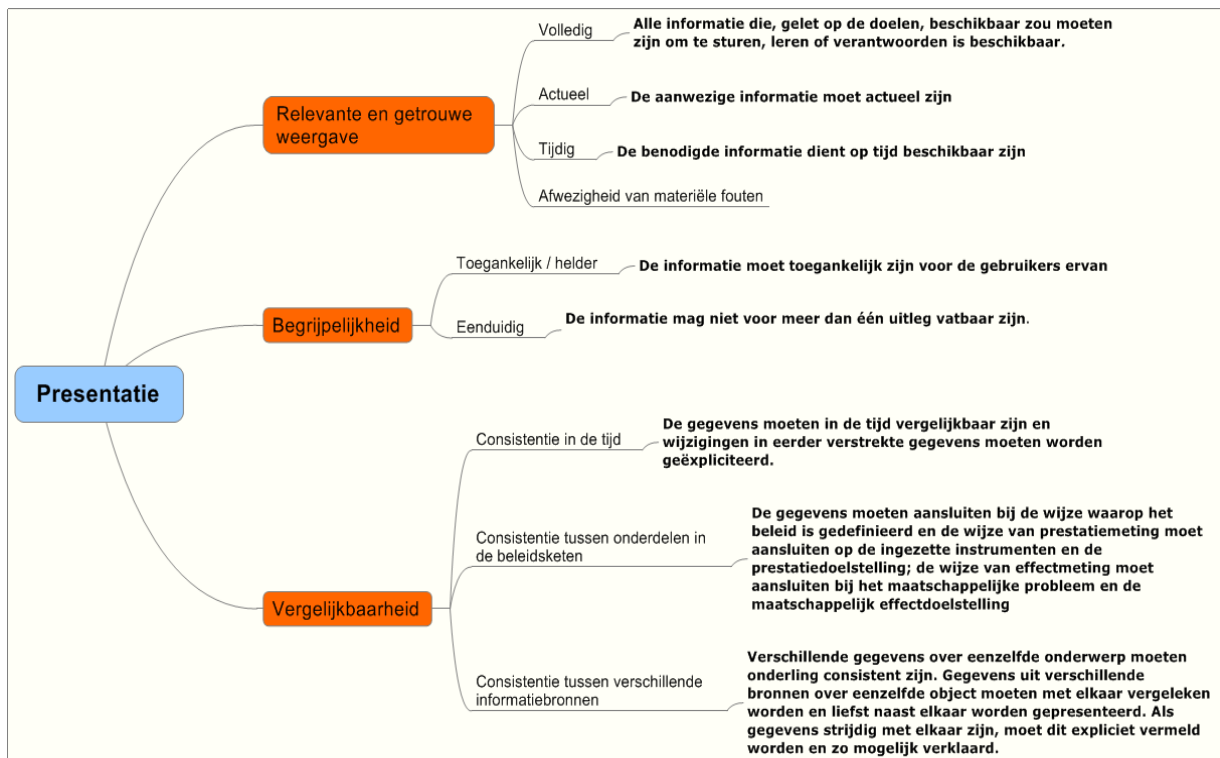
X

Annex 3 The PEFA scores per main indicator

PEFA indicators		Baseline 2010	Realized 2011	Realized 2012	Ambition 2015
Reliability of the budget					
1	Realization of the expenditure versus approved budget of the country.	D	B	B	C
2	Realization of the approved expenditure versus department budgets.	D	n.s.	n.s.	C
3	Realization of revenue compared to approved budget of the country.	D	C	B	C
4	Arrears	D	D	n.s.	C
Completeness and Transparency					
5	Budget Layout (presentation).	B	B	B	B
6	Completeness of information in budget explanatory remarks.	B	B	B	A
7	Income and expenditure flows outside the budget.	D+	D+	C+	A
8	Insight into financial risks related to independently functioning entities (ZBO's) and government companies (NV's).	D	D	D	C
9	Public access to financial budgetary information.	D	D	C	A
Policy based budgeting					
10	Participation in the annual budget process.	D+	D+	D+	B
11	Policy based multi annual budgets.	D+	C+	C+	B
Carefulness and internal control related to the implementation of the budget					
12	Clarity of tax duty (requirement).	C	C+	C+	B

PEFA indicators		Baseline 2010	Realized 2011	Realized 2012	Ambition 2015
13	Effective registration of taxpayers and tax assessments.	D+	C	C	B
14	Effectiveness of collection of tax assessments.	D+	D+	D+	B+
15	Predictability of available room for spending space to allow the making of financial commitments.	D+	D+	C+	C+
16	Establishing and managing bank balances, loans and guarantees.	C++	B	C+	B
17	Management of the salary administration.	D+	D+	D+	B
18	Public Tendering.	D+	D+	D+	B
19	Internal procedures of the financial administration	D+	D+	C+	C+
20	Internal audits.	D+	C+	C+	B
Administration, commitment and reporting					
21	Frequency and timeliness of financial closing and reconciliation procedures.	C+	D	D	B
22	Use of resources by educational and medical institutions.	D	D	D	B
23	Quality and timeliness of implementation reports.	D+	C+	C+	B+
24	Quality and timeliness of financial statements.	D	D	D+	B
External supervision and review					
25	Scope, nature and recommendation regarding the external review by the Audit Chamber recommendations.	D	D+	D+	B+
26	Supervision of Parliament regarding drafting of the budget.	D+	D+	D+	B+
27	Supervision of Parliament on reports of the General Audit Chamber.	D	D	D	B
28	Scope, compliance and supervision on corporate governance.	D+	D+	C+	C

Annex 4 Main norms for the evaluation of quality of information



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General Audit Chamber

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