



General Audit Chamber

Algemene Rekenkamer

COMPLIANCE AUDIT:

2013 FINANCIAL STATEMENTS OF ST. MAARTEN

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SUMMARY

In this report we present the results of our compliance audit of the financial statements and management of the ministries of Sint Maarten for the year 2013. The financial statements 2013 of Sint Maarten cover the period January 1st, 2013 to December 31st, 2013, and is the third set of annual accounts of Sint Maarten.

As part of our legal duties¹, we reviewed the budgetary and material management of the ministries of Sint Maarten. We sought to verify whether the information contained in the financial statements regarding finances, the operations and the policies implemented at the ministries was established according to the applicable rules, and are fairly represented in the financial statements. We make use of the findings reported by the SOAB (*Stichting Overheidsaccountantsbureau*) as part of their audit of the 2013 financial statement.² Our compliance opinions facilitate Parliament in releasing the relevant ministers of their duties as relate to the financial year in question.

The main results of our audit into the 2013 financial statements of Sint Maarten are:

1. *We find that the financial information does not conform to the requirements stipulated in the National Government Accounting Ordinance (NGAO) and the National Ordinance General Audit Chamber:*
 - There are serious and significant deficiencies in terms of the internal control and in the financial management. These result in material errors and uncertainties in the financial statements and major budget overruns and budget overages.
 - There are uncertainties due to the lack of information needed to verify the accounts. We believe that the lack of information (documents, specifications, explanatory notes, etc.) is both avoidable as well as irresponsible.
 - Most errors and uncertainties - in our opinion - are easy to correct. As such, it is reasonable to expect the financial statements to be drafted free of errors and uncertainties within a reasonable period of time.
2. *We find that ministries are not 'in control' in terms of their operations:*
 - The organizational merger of the tax department (the integration of the departments within the tax administration and the integration/renewal of the ICT systems) has not yet taken place.

¹ Our legal tasks are stipulated in article 23 of the National Ordinance General Audit Chamber and also in article 74 of the Constitution.

² We make use of the SOAB's findings based on article 25 of the National Ordinance General Audit Chamber.

- This situation, coupled with the lack decision-making regarding the new computerized tax system as well as the difficulty in securing sufficient qualified personnel, makes the challenge of increasing compliance on Sint Maarten, an almost impossible task.
 - Detailed rules, as stipulated by the NGAO³, regarding the manner in which public tendering should be carried out and implemented, have not been established. As such, there is no guarantee that procurement is being carried out in a transparent, objective and non-discriminatory manner.
 - Despite the fact that the various improvement plans for the financial management are almost at an end, they have not been handled by the Council of Ministers and have also not been presented to Parliament.
 - We do not always agree with the "self-generated" PEFA scores of the various ministries. In particular we note that the scores regarding the reliability of the budget and the supervision thereof by Parliament, are on the high side.
3. *We find that the information content of the financial statements is deficient:*
- The annual report of the Minister of Finance, provides insufficient information to Parliament regarding the effectiveness of public expenditures.
 - Ministers should adequately inform Parliament about the effective use of subsidies to recipients by requiring the institutions to periodically provide reports on their respective activities, costs, achievements and results.
 - The ministers hardly, if ever, check, whether the granting of subsidies occurs in accordance with the General Subsidy regulation.

On the basis of the above findings, we are of the opinion that the 2013 financial statements of Sint Maarten do not meet the requirements and standards as required by the NGAO. We believe that the SOAB is justified in issuing a negative opinion in their audit report of the financial statements.

³ Article 47, par. 6.

RECOMMENDATIONS

In our audit of the 2012 financial statements, we identified elements that we found objectionable, and also noted that improvements were absent. We therefore indicated that we would consider issuing a formal objection in the event there was no clear improvement. The General Audit Chamber can issue an objection in the event a minister acts contrary to regulation when spending or (failure in) collecting. In addition, we can issue an objection when a minister allows deficiencies in the financial and material management of his/her ministry to persist.⁴

Of the ten topics we characterized as objectionable⁵ in 2012, six were (partly) solved. Below we provide a summary of the resolved items:

- The revenue and expenditure of the Crime Fund were not recognized in the financial statements of 2012. We note that the items are included in the financial statements of 2013, though scattered across several budget items.
- The cost of the Security Service of Sint Maarten (VDSM) was accounted for in the 2012 financial statements as expenditures of the Staff Office and budgeted as subsidies. The Minister of Finance indicates that this could not be rectified in the 2013 Budget, though it will be included correctly in future budgets. The Ministry of Finance reviewed the expenditure of VDSM in 2013 and is in the process of making agreements with VDSM regarding the financial management.
- The debt to the Social Health Insurance Fund (SZV) of ANG 40 million, and as such also the relevant costs, were not accounted for in the 2012 financial statements. We note that these items are included in the 2013 financial statements, but the deficits to the Sickness and Accident Insurance Fund are not included.
- The 2012 financial statements failed to include certain financial information (the templates of overviews and statements). We see that the templates were established on July 17th, by the Minister of Finance.⁶
- The investment for the Seventh Day Adventist schools of ANG 1 million relates to 2013 instead of 2012.
- The cost of financial aid (*onderstand*) for the month of January 2013 is accounted for in the 2012 financial statements.

Although these improvements have, after careful and lengthy deliberation, led us to reconsider issuing an objection this year, we believe that priority should be given to further reform of the financial management. Case in point is the uncertainty regarding the legitimate use of at least ANG 220,000 of the Crime Fund. We are very concerned about the financial management of said Fund.

⁴ The procedure for issuing an objection is governed by articles 28 and 29 of the National Ordinance General Audit Chamber.

⁵ Table 13

⁶ Ministerial Decree 2014. AB 2014 GT. No. 48.

The Minister must ensure that, in the near future, the Auditor can issue an unqualified audit report on the financial statements. We therefore require that the Minister of Finance develop (within 6 months) a realistic plan with which to ensure that the deficiencies we have identified in terms of the financial management, are resolved within a few years. To support the minister in this, we also provide the following recommendations regarding financial management:

- Ensure that there is access to the decision lists of the Council of Ministers and sign the Letter of Representation (LOR). This is important for both the SOAB and us, given that these are important elements of our audit work.
- Make sure that, on the basis of the interim audit of 2014, a Management Letter (ML) issued by SOAB to the ministers, so that ministers are aware of existing financial risks and have the ability to take corrective action in a timely fashion.
- Make certain that Parliament is informed in a timely manner of impending overruns. To achieve this, the Minister of Finance must first be made aware of future overruns.
- Ensure there is sufficient audit information available (documents, specifications, supporting documentation, etc.). Instigate an investigation into the legitimate use of cash withdrawals related to the bank account of the Crime Fund. There is a risk of unauthorized expenditure.
- Improve the internal organization so as to guarantee that all expected income will actually be achieved.
- Give high priority to organizing the process of salary payments as well as the evaluation of work performance.

For the further improvement of the management of the ministries, we provide the following recommendations:

- The various improvement plans related to the financial management should be diligently finalized, and in particular, attention is needed for important aspects such as the setup of the new tax department, a reliable budget and supervision thereof from Parliament.
- The remaining shortcomings we have identified related to financial management should be addressed in a systematic fashion, and the Minister of Finance needs to draft a realistic improvement plan.
- Report on the progress of the implementation of the various improvement plans to Parliament and instruct SOAB to investigate the reliability (accuracy, completeness and adequacy of the explanatory memorandum) thereof.
- Formally ratify the Plan for the Project Integration and Strengthening of the Tax Department Sint Maarten, and immediately develop the plan using the SMART+C⁷ methodology and proceed to implementation.

⁷ Specific, Measurable, Attainable, Realistic, Time-bound and Consistent.

- Establish detailed rules for determining and carrying out public tendering.

To further improve policy information and the use thereof, we recommend:

- Formulate policy goals within the budget in a specific, measurable, attainable, realistic, time-based, and consistent manner and give account for the achievement and outcome thereof in the financial statements.
- Ensure that there are amendments to the National Ordinance on Subsidies so that the efficiency and effectiveness of subsidies can be guaranteed.
- Act in strict accordance with the Subsidy Ordinance when issuing subsidies, both in terms of the accounting for the activities pursued, as well as the expenditure of funds.
- For specific recommendations regarding the process of securing a more effective implementation of a future subsidy regulation, please refer to table 12. For practical advice related to the evaluation of subsidies, please refer to section 4.2.

1 OUR AUDIT

1.1 Background

In this report, we present the results of our compliance audit of the 2013 financial statements of Sint Maarten. In the financial statements, the Minister of Finance is expected to provide the financial position, for example, the income and expenses of the ministries (financial information)⁸, as well as detail the manner in which the ministries functioned over the past year (information management)⁹, and report to what extent the ministries achieved the goals and outcomes that were agreed upon in the budget (information about policy)¹⁰.

We have reviewed the information contained in the 2013 financial statements for each of those three areas and we also examined the underlying processes within the ministries. On this basis, we have formulated findings and opinions. Based on our opinions on compliance, we support Parliament in releasing the relevant ministers of their duties (*decharge*) for financial year in question. Parliament may not approve the financial statements prior to consulting our report.¹¹ It is therefore important that we receive the financial statements in a timely fashion, and in any case, by September 1st at the latest.¹² The 2013 financial statements, accompanied by a letter dated August 27th, 2014, were presented to us on September 3rd, 2014, by the Minister of Finance.

In the following chapter, the finances of the ministries are first examined. We determine whether the financial management was orderly¹³ and accountable¹⁴. Chapter 3 deals with the operations of the ministries and whether this is in order and to what extent the ministries are "in control". In Chapter 4, we discuss the presentation and development of information of the annual report, which is part of the financial statements, related to expenditure on policy, as well as the subsequent results and effects of policy (annex 4).

The Minister of Finance's response to our report is dated November 27th 2014. Based on the aforementioned reaction, we provide an epilogue. The minister's reaction and the epilogue are presented in the final chapter of this report.

⁸ National Ordinance General Audit Chamber (article 23, par. 1,2 and 3).

⁹ NGAO (article 44, par. 2).

¹⁰ NGAO (article 10, par. 2 and article 32, par. 2).

¹¹ NGAO (article 54).

¹² NGAO (article 52).

¹³ Financial management: the authorities to take financial actions and the accounting thereof are clearly stipulated in regulations and these are complied with.

¹⁴ The financial information available allows external auditors to easily reconstruct the manner in which decisions were made for any given moment.

2 FINANCIAL INFORMATION

To determine whether there is orderly and accountable financial management, we carried out an initial financial assessment. In addition, we evaluated the extent to which the financial statements are in compliance with the National Government Accounting Ordinance. As part of the analysis of the financial management, we used the findings from the SOAB's audits of the 2013 financial statements.

2.1 SOAB's audit of the financial statements

The SOAB audits the financial statements in two phases. The first phase involves the intermediate or interim-audit, where research is conducted regarding processes such as procurement of goods and services, collection of taxes, issuance of subsidies and payment of wages and salaries. The second phase involves the final audit of the financial statements, that reviews whether balance sheet items, and expenditures and revenues, recorded in the financial statements, are correct and complete, in addition to being sufficiently explained.

The interim-audit of the SOAB should ideally lead to the issuance of a ML (management letter) in which the ministries are informed about the findings. The findings concern matters relating to financial management, business operations and the financial risks related thereto. The SOAB, once again, did not issue a ML following the interim audit in 2013. The last ML was issued in 2011. In previous reports, we noted that the absence of a ML means that that ministers are not informed of existing financial risks in a timely fashion and are therefore deprived of the possibility of taking corrective measures. We consider it very important that SOAB issues a ML to the ministers after the interim audit of 2014.

On October 21st, 2014, the SOAB issued the report of their findings and their opinion of the 2013 financial statements to the Minister of Finance. The substance of their audit report is negative due to excessive errors and uncertainties in the financial statements. The uncertainties in the financial statements are mostly caused by a lack of internal control and the absence of documentation for items reported in the financial statements. Consider the fact that the SOAB was unable to carry out reviews to determine accuracy or completeness in 24 instances (balance sheet, cost and revenue items) because information was missing. We find the lack of information (documents, specifications, explanatory notes etc.) can be avoided and is also irresponsible.

We evaluated the planning and implementation of SOAB’s audit and discussed the matter with auditor. We believe that the SOAB, in its audit report, justly issued a negative opinion of the 2013 financial statements.

In 2013, the SOAB was, once again, denied the opportunity to review the decision lists of the meetings of the Council of Ministers. In addition, the Minister of Finance was, again, unwilling to sign the LOR. We are of the opinion that the review of the decision lists and the LOR are important elements needed for the audit activities of both SOAB and the General Audit Chamber. We can find no reasons why the SOAB and the General Audit Chamber are denied review of decision lists.



2.2 Uncertainties and errors regarding the financial information

We note that there are insufficient control procedures present at (all) the ministries. We further identify serious and extensive shortcomings that have an effect on the internal control and, therefore, on the financial management. The aforementioned situation leads to material errors and uncertainties in the financial statements. The errors in the financial statements total at least ANG 25.2 million¹⁵.













With regard to the uncertainties, we conclude that the quality of the administrative organization and internal control are inadequate. This has resulted in material uncertainties in the financial statements in terms of the accuracy and/or the completeness of personnel expenditures, income transfers, costs due to procurement of goods and services and (tax) revenues.






We have included an overview in annex 2 of the material errors (see table 14) and uncertainties (see table 15). In table 1, we indicate how the 2013 financial statements differ from the provisions of the NGAO and to what extent (high, medium or low) said deviations have a (negative) influence on the informational value of the financial statements. Furthermore, we provide information (depiction of smiley faces) related to the degree of improvement that has taken place as compared to the financial statements of 2012.

Table 1 - Deviation Financial Statements 2012 and 2013 as compared to National Government Accounting Ordinance

Article	Description	2012	2013
2	The budget, the multiannual budget and the financial statements, together with the explanatory notes, do not provide sufficient information regarding the financial position nor the income and expenses of the public sector, to form a reasonable understanding..	High 	High 

¹⁵ Table 14

Article	Description	2012	2013
52	The financial statements for 2013 were drafted by the Minister of Finance prior to September 1 st , 2014.	High 	High 
17	The templates of financial statements, reviews and recapitulations were established by the Minister of Finance.	Medium 	Medium 
20 par. 1	The account of income and expenditure and the notes thereto do not faithfully nor systematically reflect the nature and extent of all income and expenses nor the balance thereof.	High 	High 
26 par. 5	There are no amounts specified by national decree (related to general regulations) below which investments are capitalized.	High 	High 
29 par. c	There is a statement for the previous fiscal year(s) regarding imposed tax assessments and the expected tax receipts related thereto, but it is not filled in.	High/Medium 	High/Medium 
44	Budget amendments are not presented to Parliament.	High 	High 

Legend	
 Resolved	 Improvement compared to previous year
 No improvement	 Slight improvement compared to previous year
 Deterioration compared to previous year	

Reliability errors

We find that the 2013 financial statements contain material errors and are therefore unreliable. As previously stated, the quantified errors amount to ANG 25.2 million. The reliability errors are:

- ANG 10 million in personnel expenses that were erroneously accounted for as Social Security costs. This relates to the payment for early retirement (VUT), the cost-of-living supplement and the reservation for the Fund Medical Expenses Public Sector Pensioners (FZOG);

- ANG 7.5 million in favor of the Operational Account that was erroneously accounted for as equity. This concerns the proceeds from a correction of depreciation costs that was erroneously reported;
- Underreporting of the item Liquidity /cash on hand (deposits) by ANG 6 million and the related budget item "Creditors";
- Underreporting of the provision for investments by an amount of ANG 1.7 million;
- Absence of a provision for "Cost-of-Living";
- Many inaccuracies at function level in the statement of income and expenses (Statement template 18);
- Amounts listed in the column "Budget" that do not link to the budget approved by Parliament.

Compliance errors

Budget

The original 2013 Budget adopted by Parliament and the first (and only) amendment thereof, were ratified on September 16th, 2013, by National Ordinance, despite the fact that such should have occurred in December 2012 in accordance with the National Government Accounting Ordinance.¹⁶ At the time of the approval of the first budget amendment, the initial 2013 Budget was retroactively approved by National Ordinance.

Because the second and third budget amendments were never drafted, significant overruns and underruns developed. Overruns refer to both expenditures and investments higher than budgeted, as well as lower than expected realized income. The resulting overruns represent expenditures not authorized by Parliament and are therefore considered unlawful expenditures. We consider unlawful expenditures to be compliance errors (non-compliance).

Table 2 - Total budget overruns of Financial Statements 2012 and 2013

Budget overruns (in ANG)	2012	2013
Expenditure higher than budgeted	85.087.339	95.216.241
Income less than budgeted	92.722.257	48.541.568
Investment higher than budgeted	48.937.196	70.177.759

It is important that Parliament is informed in a timely manner of possible overruns. Therefore, the Minister of Finance, in first instance, must remain informed of impending overruns. That is not the case here, as the excesses only became evident in the financial statements.

Memoranda

The Minister of Finance is required by the National Government Accounting Ordinance, to present a memorandum to Parliament on May 15th as a

¹⁶A.B. 2013, no. 36.

preliminary report of the preceding fiscal year as well as of the current fiscal year. The minister is also required to present interim reports to Parliament no later than August 15th and November 15th of the current fiscal year. These memoranda must also include an overview of government's proposed budget amendments.¹⁷ Government drafted the aforementioned memoranda. The last memorandum was presented to Parliament; the first two were not.

Other compliance errors

Other compliance errors include:

- a long-term loan was provided without an authorization ex Article 46 (par. 2) of the NGAO (refer to § 2.5);
- subsidies were granted in violation of the General Subsidies Ordinance (refer to § 4.2).

2.3 Errors in content

We confirm the statements, templates and recapitulations, as stipulated by the National Government Accounting Ordinance, were included and ratified by the Minister of Finance in the 2013 financial statements.¹⁸ Nevertheless, the financial statements – in our opinion – fail (once again) to provide a fair and true representation of scope and composition of the financial position, assets and liability as well as the income and expenses.¹⁹ This is because:

- Statements and templates are incompletely filled in;
- An explanation of the differences between the budgeted and realized costs per ministry based on functions and economic categories is incomplete;
- The annual report does not include information regarding the achievement of policy intentions.²⁰

2.4 Opinion regarding the financial information

Opinion

We find that the financial information in the 2013 financial statements of Sint Maarten does not meet the requirements stipulated by the National Government Accounting Ordinance (see table 1).

We identify serious and extensive shortcomings in the internal control and in the financial management. There is evidence of inadequate internal control procedures at all ministries. This has led to material errors and uncertainties in the financial statements and major budget over- and underruns. In our view, it is essential that the processes relating to wages and salaries, the procurement of goods and services, the granting subsidies, tax revenues and income from licensing are in order and are adhered to. We believe that these items deserve high priority.

¹⁷ In accordance with article 44 of the NGAO.

¹⁸ Articles 18, 29, 30 provide a summary of the required elements for the financial statements. According to article 17, said requirements must be ratified (established) by the Minister of Finance.

¹⁹ NGAO (article 23 and 20).

²⁰ NGAO (article 32).

Opinion

Absent a properly functioning internal organization, uncertainty will persist in terms of the accuracy and completeness of expenditures and revenues. In addition, the risk that the auditor will not issue a positive audit opinion, will remain.

There are also uncertainties due to the lack of information needed to verify the financial statements. We find that the lack of information (documents, specifications, explanatory notes, etc.) is both avoidable and irresponsible.

In our opinion, most errors and uncertainties can be easily resolved. We therefore consider it reasonable to expect that the financial statements, will, within a reasonable period (few years), be free of errors and uncertainties.

2.5 Shortcomings on the Balance Sheet

Our research shows that there is uncertainty as to the valuation and the existence of various items on the balance sheet. In fourteen instances, this is due to missing information required for the audit of the balance sheet. Table 3 provides an overview of the balance sheet items in question and the missing information.

Table 3 - Overview of balance sheet items that could not be audit due to lack of information

No.	Balance Sheet item	Missing information
1.	Fixed tangible assets	A statement of assets
2.	Participation (investments)	Financial Statements from 2013
3.	Long-term receivables, student loans	Closing balance specification of the claims
4.	Long-term receivables	National Ordinance and loan agreement
5.	Accounts Receivable	Closing balance specification on the balance sheet
7.	Other receivables	Closing balance specification, documentation or proof of settlement.
8.	Bank balance VDSM	Bank statement
9.	Cash on hand Crime Fund	A specification of the deductions
10.	Equity, deduction	Substantiation of the amount
11.	Provision for participation	Financial statements 2013 of 2 participations (investments)
12.	Creditors	Closing balance specification

No.	Balance Sheet item	Missing information
13.	Other current liabilities	Registration of deposits, closing balance specification
14.	Off-balance sheet commitments	Decision list and/or minutes of meetings of the Council of Ministers

We believe that the lack of information (documents, specifications, explanatory notes etc.) is avoidable and irresponsible. We require adequate audit information to be available in future.

Long-term receivables – Sint Maarten Postal Services N.V.

The Sint Maarten Postal Services N.V. (SMPS) received an amount of ANG 2.000.000 which is accounted for as a long-term receivable. However, there is no loan agreement with SMPS. Because the National Decree is absent, this is considered not in compliance with the law, i.e. unlawful.²¹

Cash and cash equivalents

The balance sheet item "Cash and cash equivalents" includes cash in the amount of ANG 239.000. Of this amount, ANG 220.000 relates to monies of the Crime Fund. Based on our audit, we determined that this is not related to cash on hand. Instead, the amount relates to payments from the bank account of the Crime Fund. The legitimate use of these funds could not be substantiated with payment requests, delivery receipts, invoices and the like. This means there is a risk that expenditures for an amount of ANG 220,000 were unlawful. We recommend that the lawfulness of the aforementioned spending (compliance) is investigated.

Furthermore, under the balance sheet item "cash and cash equivalents", deposits up to an amount of ANG 10 million were accounted for. One deposit for ANG 6 million was incorrectly accounted for in fiscal year 2014 instead of 2013.

Provisions

The Balance Sheet contains 2 provision per December 31st 2013:

Table 4 - Detail of the provisions

No.	Provisions (in ANG)	2012	2013
1.	General Pension Fund	58.762.000	11.674.000
2.	Participation (investments)	16.960.000	14.976.000
Total		75.722.000	26.650.000

²¹ NGAO (article 46).

General Pension Fund Netherlands Antilles (APNA)

Sint Maarten's portion of the division of assets of the General Pension Fund of the Netherlands Antilles (APNA) amounts to ANG 290,8 million.²² Sint Maarten was previously issued an advance of ANG 291,6 million, thus resulting in a debt of ANG 0,8 million. This amount is accounted for as Provision General Pension Fund Sint Maarten (APS). In 2013, the difference between provisions to APS from previous years was withdrawn and accounted for in favor of the Operational Account.

The provision for unregistered participants to the Fund amounts to ANG 11 million at the end of 2013. There is no substantiation provided for this amount. In future, a correction is possible based on the calculated pension premium (25% instead of the invoiced 22% premium). This means that uncertainty exists regarding the amount of the provision.

The extent of the commitment of Sint Maarten to retired civil servants to pay an annual cost-of-living supplement and early retirement (VUT) has not yet been determined. The National Government Accounting Ordinance requires that a provision is made to cover this commitment incurred in the past.²³ The 2013 financial statements do not include said provision.

Provision for Participations

The negative equity related to C-Post International NV amounts to ANG 4,4 million at the end of 2013, while the provision in the 2013 financial statements amounts to ANG 2,7 million. Based on accounting principles, this provision underreported by an amount of ANG 1,7 million.

Guarantees

According to a decision of the Council of Ministers, Sint Maarten is the guarantor for a loan of \$ 170,000 and two land-lease loans of \$ 20,000. These guarantees are not listed in the financial statements (Statement 9, Guaranteed cash loans). Moreover, we were not informed of these letters of guarantee and these, along with the supporting documents, were not made available for registration. This should have occurred in accordance with the NGAO.²⁴

2.6 Opinion on the Balance Sheet**Opinion**

We find that the information regarding the balance sheet does not provide a true

²² Final version of the Asset Division Report as of October 9th 2010 of APNA dated May 12th 2014.

²³ Article 29 (A.B. 2010 no. 87).

²⁴ As referred to in the National Ordinance General Audit Chamber (article 43, par. 2).

Opinion

and fair representation of all items, due to existing uncertainties. The explanatory notes provide insufficient insight. We are also of the opinion that the lack of information required for the audit of the balance sheet, is an avoidable and irresponsible situation.

2.7 Operational Account

Table 5 contains an overview of the four processes with the greatest financial importance, and for which the financial management is not yet proper.

Table 5 - Overview of the processes for which the financial management is not proper

Processes	Amount in 2013 (ANG x 1 MM)	Portion of total expenditure/ revenue
A. Personnel expenditure	187,0	38%
B. Other goods & services and study financing	116,4	24%
C. Income transfers	86,1	18%
D. Costs PP-cards	10,7	2%
Total A, B + C	400,2	80%
Total expenditures	491,5	
E. Tax Revenue	328,8	67%
F. Income from licensing, casino's and lottery fees	15,4	3%
Total E + F	344,2	70%
Total income	491,0	

The overview shows that the financial management processes that are not in order, cover 80% of the expenditures and 70% of the income. This means that there is uncertainty as to the accuracy, completeness and lawfulness of the expenditure and income. Moreover, it means that there is a chance that the actual expenditure is higher than reported in the 2013 financial statements. It is therefore recommended that the internal organization is improved to ensure that income will actually be completely achieved.

The explanatory notes of the 2013 financial statements under line item goods and services, state that there is no official policy related school transportation and as such, it is difficult to verify these costs. Furthermore, the costs associated with the consumption of water and electricity are not well supervised nor managed according to the financial statements.

There is also uncertainty regarding the accuracy and completeness of expenditures and revenues because in ten instances, information necessary for

the audit of items recorded in the Operational Account, are absent. Table 6 provides an overview of the items in question.

Table 6 – Overview of the items of the Operational Account that could not be audited due to missing information.

No.	Item	Missing Information
1.	Costs health insurance civil servants	Financial statement of the implementing agency
2.	Procurement other goods and services	Underlying documents, such as purchase orders, delivery receipts and rental contracts
3.	Granting of subsidies	Application forms, financial and non-financial accountability about expenditures
4.	Costs of PP-cards	Audited accounts of the implementing agency
5.	Study financing	Documents regarding the issuance of study grants
6.	Tax revenues	Documentation required to verify the correct classification
7.	Tax revenues	Documentation required to verify the adjustments in the accounting of income
8.	Income from licensing and permits	Files concerning permits issued
9.	Revenue BT&P	Audited annual financial statements for the years 2012 and 2013
10.	Revenue lottery	Documentation on the number and type of lotteries

We find that the lack of information (documents, specifications, explanatory notes, etc.) is avoidable and irresponsible. Adequate audit information must be available in future.

Personnel management and expenditure

Personnel management has, for some time, needed quite a bit of attention. As a result of missing and incomplete personnel files, but also because of an inadequate administrative organization, the compliance (lawfulness) of personnel expenditures cannot be established. For example, there is a possibility that changes in the payroll are processed without the benefit of internal verification or control. Moreover, there is no internal verification to determine whether employees actually perform their duties. As a result, there is uncertainty regarding the compliance (lawfulness), efficiency, and accuracy of the recorded personnel expenditures.

We believe that this is a serious, though avoidable situation, and we therefore advise giving high priority to resolving the issues affecting the organizational processes related to salary payment and assessment of job performance.

Pension management

According to the National Ordinance General Pension Fund Sint Maarten (LV APS), the board of APS must present the financial statements and annual report, including an opinion from a certified public accountant, to the Minister of Finance, the Central Bank and the General Audit Chamber, prior to November 1st following the year to which they relate.²⁵ The 2011 financial statements of the APS were presented to us on June 21st, 2013, and we evaluated these statements²⁶. We are of the opinion that there are significant uncertainties in these financial statements in relation to the division of assets of the Netherlands Antilles, the completeness of the participant administration and the explanation of the principles for calculation of pension liabilities, as well as the debt to the APC. The aforementioned reasons led to us withholding the issuance of an opinion about the reliability of the financial statements. We were also not able to conclude that the financial position of the APS was sound on December 31st, 2011.

In accordance with article 18 of the National Ordinance General Pension Fund Sint Maarten, we started our audit of the 2012 financial statement of APS in 2014. These financial statements were presented to us on August 12th, 2014. We will report our findings in a separate report to Parliament and the Minister of Finance.

APS issued a request to the Minister of Finance asking for additional time, until April 7th, 2015, to draft and present the 2013 financial statements. At the time of this report, the Minister of Finance had not yet taken a decision.

Crime Fund

In the 2013 financial statements, the bank transactions (receipts and payments) of the Crime Fund are accounted for across several cost centers among which the MOT (Unusual Transactions Reporting Center (*Meldpunt Ongebruikelijke Transacties*), VDSM and the Police. As a result, expenditures and revenues of the Fund are not evident in the financial statements. In § 2.5 we indicated that expenditures up to an amount of ANG 220,000 could not be justified as lawful due to lack of documentation. As far as we have been able to determine, no income or expenditure has – to date - been budgeted for the fiscal years up to and including 2013. We are very concerned about the financial management of the Fund and recommend further research to investigate the lawfulness of the expenditure.

Expenditure of the Security Service (*Veiligheidsdienst Sint Maarten - VDSM*)

The expenditure of VDSM (ANG 2.7 million) is accounted for as costs in the 2013 financial statements of the Staff Bureau. Staff Bureau refers to VDSM.

²⁵ National Ordinance General Pension Fund Sint Maarten (article 18, par. 7).

²⁶ Report regarding the Financial Statements 2011 APS, July 2014.

VDSM provided the Ministry of Finance with an overview of costs. On the basis of underlying documents, the Ministry of Finance audited the reported expenditures. The Ministry of Finance is currently in talks with the VDSM regarding developing agreements for financial management.

Tax Revenue

Compared to the 2013 budget 2013 tax revenues were less than budgeted by an amount of ANG 11.9 million (in 2012 the amount was ANG 16.3 million less). Profit tax, in particular, was less (ANG 7.5 million; in 2012 ANG 16.3 million). Compared to 2012, the result of 2013 is slightly better (ANG 1.4 million or 0.4%).

In October 2014, we published the results of a performance audit on tax revenue. The results of this research are discussed in § 3.4.

Other Income

Bureau Telecommunication and Post (BT&P)

As Sint Maarten maintains a financial interest in BT&P, Sint Maarten is entitled to a portion of the proceeds from operations. In accordance with the National Ordinance BT&P, the Director of BT&P is required to present the financial statements and the annual report to the relevant Minister within six months after the end of the financial year.²⁷ Sint Maarten's share could not be determined for the 2012 and 2013 financial statements because the 2012 financial statement of BT&P was not audited and the 2013 financial statement of BT&P was not drafted. We intend to initiate an audit of BT&P in 2015.

Central Bank of Curaçao and Sint Maarten (CBCS)

Sint Maarten receives a so-called Bank license fee from CBCS²⁸ on an annual basis. The totality of this revenue cannot be verified, because the Auditor's Opinion for CBCS is absent.

Correction for depreciation costs

In 2013, past depreciation costs amounting to ANG 7.5 million, were corrected. Because it involves correction of the depreciation prior to 2013, the correction should have been recorded in favor of equity and not in favor of the result. As a consequence, the result, according to the 2013 financial statements, is over reported by ANG 7.5 million and the balance sheet item Equity is under reported.

Results Compliance Audit 2012

²⁷ Article 19 (PB 2006, no. 69).

²⁸ A 'Bank License fee' is an amount that a financial institution must pay to the Country for which it performs banking services.

We established in our reporting regarding Sint Maarten's financial statements 2011 and 2012 (AR, 2011 and 2012), that risks existed due to missing resources, registrations, files and legislation. We find that in 2013, these risks still exist. Adequate control measures were not enacted.

To ensure that the auditor can issue an unqualified audit opinion on the financial statements in future, we believe that putting the financial management in order must be given priority. We therefore require that the Minister of Finance present, within six months, a realistic plan of action. The plan's objective is to ensure the resolution of all the identified deficiencies in the financial management within a few years.

2.8 Opinion regarding the Operational Account

Opinion

We find that the financial and material management of the ministries for the fiscal year 2013, was not is in order. This resulted in material errors and uncertainties in the Operational Account. Just as in 2012, the uncertainties relate to both expenditures and revenues. We are of the opinion that too few concrete steps have been taken to eliminate the causes of the uncertainties.

In addition, we believe that:

- Too few concrete steps have been taken to eliminate the causes of the uncertainties;
- The Minister of Finance, must, within 6 months develop a realistic plan to ensure that, within a few years, the deficiencies identified in the financial management are resolved.

We are also of the opinion that the lack of information required to verify expenditure and revenue items, is avoidable and irresponsible.

3 OPERATIONAL MANAGEMENT

Ministries should guide and manage business processes so as to remain 'in control'. In our examination of the information contained in the 2013 financial statements, we evaluated the extent to which the ministries were successful. We also used the implementation of various improvement plans related to financial management to carry out our evaluation. Other sources of information included, previously issued reports from our institution, reports from the department of Interior Affairs and Kingdom relations (*Binnenlandse Zaken Aangelegenheden Koninkrijk-BAK*), the Council for Financial Supervision (*het College financieel toezicht Curaçao en Sint Maarten-Cft*), SOAB, as well as information from the organization tasked with coordination of development aid projects, USONA (*Uitvoeringsorganisatie Stichting Ontwikkeling Nederlandse Antillen-USONA*).

3.1 2013 financial statements regarding operations

In terms of operations, the Minister of Finance concludes that three years after obtaining the autonomous status of Country, there is still much to be done. In terms of economic growth, according to the Minister, Sint Maarten is doing reasonably well, and as such, major financing shortages should not exist. One of the biggest sticking points for Sint Maarten, according to the Minister, is the fact that public finances are under pressure, because tax revenues lag behind economic growth.

We agree with the Minister that one of the biggest challenges for Sint Maarten is increasing compliance. Last year, we noted that the implementation of some important projects only took place in 2013 and 2014. For example, a decision on the new computerized Tax System is absent. Yet, this is the most important 'tool' needed to increase compliance on Sint Maarten. The importance of a properly functioning Tax Department is evident given that fact that, despite three years of effort, the cost of assessment and collection have risen slightly and estimates regarding compliance have significantly declined (refer to § 3.4).

3.2 Development Cooperation project IVB

After completion of the Development Cooperation program "Administrative Development 2002-2007", a new program was started in May of 2008, i.e. "Institutional Strengthening Administrative Efficiency" (*Samenwerkingsprogramma Institutionele Versterking Bestuurskracht 2008-2012-IVB*). The objectives of this program were the facilitation of the constitutional transition of Sint Maarten to Country status within the Kingdom, and the ensuring sustainable and proper governance. Four program lines were agreed to as part of the IVB program:

1. Strengthening of the civil service and the political administration.
2. Securing a good financial position.
3. Improving the quality of laws and legislation.
4. Modernizing government.

In their 2013 annual report regarding the IVB program (*Jaarrapportage IVB programma Sint Maarten 2013-BAK, 2013*), BAK indicates that individual projects of these program lines were extended one or more times in order to achieve the desired objectives. The IVB program is aimed at capacity strengthening of institutions, civil servants and political administrators. Simultaneously building this capacity, according to BAK, is a complex process that took more time than initially estimated.

The year 2013 was, according to BAK, mainly dedicated to implementation of ongoing projects, initiating the remaining projects related to the buildup of Country Sint Maarten, as well as formally committing the remainder of available resources. In the course of 2013, BAK repeatedly reviewed whether funds were underutilized within projects and within existing commitments. Of the total budget of ANG 30.3 million, approximately ANG 8 million had not yet been spent. This will have to be done in 2014, according to BAK.

We briefly examined, up to the end of 2013, to what extent the planned efforts of the four IVB program lines were actually achieved including effects thereof. As far as we were able to ascertain, a final version of the IVB program was (again) not handled by the Council of Ministers, and also not presented to Parliament in 2013. However, as we indicated last year, the Council of Ministers were informed about the program on multiple occasions. The establishment of the program and agreements reached during various "reviews", was the purview of the so-called "ministerial consultations" (and not the Council of Ministers, that only approves project proposals). Sint Maarten's ministers discuss the program during the consultations with (a representative of) the Minister of the Interior and Kingdom relations of the Netherlands. USONA is also present at that consultation. In addition, annual consultations were held between the Council of Ministers and the SONA-Board. At those meetings, adjustments to priorities at program level are discussed along with the progress of projects. Finally, BAK delivers a separate presentation each year about the IVB program.

Table 7 – Achievements and effects of the four program lines

Program lines IVB 2008- 2012	Achievement and effects
1. Strengthening of the civil service and political	a. The projected capacity increase at policy sectors occurred. With this achievement, the general problem of having sufficient qualified personnel is not resolved. Additional measures are needed. b. The support to the Island Council has been strengthened by the buildup of the High Councils of State. The involvement of citizens in decision-making has not gotten off the ground.

Program lines IVB 2008- 2012	Achievement and effects
<i>administration</i>	<p>c. Specialized training courses were completed in June 2014. The training for Island Council members and the Secretariat continue to be postponed. Again, this does not mean that all civil servants and political administrators are now suitably qualified.</p> <p>d. An integrity policy for civil servants and political administrators was developed. It has not yet been implemented. Once again, the recruitment of suitably qualified staff for the planned Integrity Bureau is an obstacle.</p>
2. Good Financial Position	<p>e. A concern controller was appointed but this fact (especially considering our opinion of the financial and material management) doesn't mean that there is sufficient control of the organization.</p> <p>f. A Department of Fiscal affairs was established. Of the five fte needed, two are fte are filled. The department of Budget inspection has not been established.</p> <p>g. The financial administration system was expanded, but this did not support bringing the financial administration to a higher level.</p> <p>h. No decision has yet been taken on the replacement of the current tax system ICT system.</p> <p>i. Setting up a new tax department for Sint Maarten was not successful. See also § 3.4.</p>
3. Quality of law and legislation	<p>j. There are currently three legislative lawyers recruited for a period of three years. It is not clear how many were originally wanted to strengthen the legislative capacity and whether that number would be sufficient to carry out all work.</p> <p>k. Redrafting and translating of legislation was completed in October 2013 and a database was set up .</p> <p>l. In 2013 and 2014, the course Legislative Law was provided to 22 participants in which 2 lawyers per ministry were present. The course "Public Law" had 23 participants of which at least 2 of each ministry. The Governor was also represented with 1 participant.</p>
4. Modernizing government	<p>m. Digitizing the Civil Registry archives was completed at the end of 2012. The secure transportation system for important documents was realized in the third quarter of 2013 (albeit with ANG 63,000 in additional cost). Finally, in 2013 Passport scanners were introduced at the airport.</p> <p>n. Streamlining of the basic registrations was temporary halted due to an underestimation of the extent of the problem as well as due to a dispute with the vendor. The project was restarted in September 2013 (see § 3.4). Also the project Education Management Information System is not progressing well and is not expected to be completed until June 2014. The introduction of social security numbers has not yet taken place. To allow a degree of online submission of income tax, a type of DigiD²⁹ was introduced.</p> <p>o. With the operationalization, at the end of 2013, of the Public Service Center at the Simpson Bay Fish Market and with the use of various Microsoft solutions in the areas of data links, customer relationship management and website management, an irreversible improvement in the provision of information of St. Maarten was achieved. This last project was scheduled for completion in June 2014.</p>

²⁹ In the Netherlands, a DigiD code is comprised of a user name and a password with which citizens can log on to internet sites of government entities.

After intensive analysis of the IVB project budgets for the entire program, the ministry made a calculation of remaining funds. Based on this calculation, six 2013 projects and two 2011 projects were chosen for execution:

1. The project Cleanup Civil Registry Files Sint Maarten (*Opschonen Bestanden Burgerzaken Sint Maarten*) (commenced in September 2013 with a duration of approximately nine months).
2. The project Bureau Intellectual Properties (*Bureau Intellectuele Eigendom*) (started with a duration of approximately 13 months).
3. The project *Gaming Control Board* (started in 2013 with a duration of approximately 10 months).
4. The project Design National Accounts Statistics (*Opzet National Accounts Statistics*) (started with a duration of 12 months).
5. The project Core business analysis (*Kerntaken analyse*) (SOAB ready to start and duration is estimated to be 12 months).
6. The project Strengthening Legislative Capacity (*Versterking Wetgevingscapaciteit*) (training policy lawyers at the Academy of Public Sector Lawyers of The Hague).
7. Additional support for the *EMIS project* (start in 2014).
8. An investigation into the quality of the democratic system, integrity, public administration and social characteristics and experience (start in first quarter of 2014).

In addition, BAK is preparing for the evaluation of the IVB program which will take place in early 2015.

Last year we noted that the implementation of some important projects would take place in 2013 and 2014, for example the new ICT Tax System. This was due to delayed decision making even though this system was/is an important 'tool' necessary to increase compliance on Sint Maarten. This important decision was absent in 2013. Taken together with the failure to establish the New Tax Department Sint Maarten, as well as the problem of recruiting sufficient qualified personnel (see § 3.4), the challenge of increasing compliance on Sint Maarten seems to be an almost impossible task.

3.3 PEFA Improvement Plan

The Cft oversees the financial management as well as the improvements to be pursued for the countries Curaçao and Sint Maarten. To eliminate or diminish the level of financial supervision after October 10th, 2015, it is important that not only the financial standards for the budget, but also the financial management itself, are brought up to par. The Cft uses the so-called PEFA framework³⁰ to evaluate the financial management of the country. The PEFA-framework consists of 28 main indicators (with one or more of sub indicators) divided into six areas within financial management.

³⁰ Performance Measurement Framework of the work group Public Expenditure and Financial Accountability.

On the basis of the first PEFA-review of October 11th, 2011 (Cft, 2011), also called the baseline, it was evident that financial management on Sint Maarten was not in order and as such, a five year improvement plan was drafted. In our Compliance Audit 2011 (AR, 2012), we determined that the Ministry of Finance had abandoned the previously established goals of the five-year PEFA improvement plan and had chosen to pursue the so-called "low hanging fruit". Despite our understanding for the approach, we felt that there was a risk that certain indicators would be overlooked, or that the goals would not be achieved. In its third PEFA-review (Cft, 2013) dated October 2013, Cft reported that financial management on Sint Maarten remained unchanged as compared the first review. The major areas of concern, according to the Cft, were the salaries and financial administration, tax assessment and collection, as well as public tendering. Furthermore, the Cft reported no improvement in terms of Parliamentary supervision, the use of reports of the General Audit Chamber, policy-based budgeting, the cooperation between departments and political guidance in drafting the budget. The budget were, however, more transparent and accessible, and were becoming ever better at estimating expenditure and revenue, according to the Cft. The fourth PEFA-review (Cft, 2014), in which the findings relate to the fiscal year 2013 and are compared to the objectives of 2015, the Cft reports that of the 28 main indicators:

- five main indicators are already at the desired operational level and for which financial management is in order;
- twelve main indicators require additional improvement to achieve proper financial management;
- eleven main indicators are at a questionable level as compared to the desired goal or the minimum level necessary to achieve a proper financial management.

Of the aforementioned eleven main indicators, that are presently two levels behind, or for which the goals are set above the minimum level required, six are critical public financial management functions considered essential for a proper financial policy. The Cft advises, at the very least, that measures are taken to improve the following main indicators:

Table 8 – Six PEFA main indicators that are of high priority according to Cft

No.	Description Main Indicator
2.	Achievement of the approved expenditure versus departmental budgets
4.	Arrears
9.	Understanding of the financial risks of independent agencies (ZBO's) and government owned companies
11.	Participation in the annual budget process
22.	Frequency and timeliness of financial reconciliation procedures

No.	Description Main Indicator
29.	Scope, compliance and supervision of corporate governance

We conclude that based on the fourth PEFA-review, as compared to the previous review, seven of the 28 indicators show improvement and three show a decline. The remaining indicators are, according to the Cft, unchanged as compared to the baseline (see annex 3). As we stated last year, we are not always in agreement with the PEFA-scores attributed to certain main indicators. The following table outlines our estimates of the main indicators in question.

Table 9 – PEFA-score versus our estimate

No	Description Main Indicator	PEFA-score	Our estimate
1.	Achievement of the expenditure versus approved budget	C in 2013	Not yet a C given the number of compliance errors, see table 1. Moreover, results are worse in 2011 than 2012, while scored as a B.
3.	Achievement of revenue versus approved budget	B since 2012	Not yet a B given the number of compliance errors, see table 1.
6.	Completeness of information in explanatory notes of the budget	B since 2010	Not B, but D- given the lack of explanation per policy area (if these were established)
12.	Policy based multi annual estimates	C+ since 2011	Not yet a C+ given limited policy based budgeting and the fact that the level has declined over the years.
20.	Internal procedures for financial administration	C since 2011	Still no C since the SOAB provides a negative opinion of the internal procedures related to procurement, revenue from concessions, grants and work permits. The internal procedures concerning debtors-creditors are improved.
26.	Scope, nature and recommendation of the external audit of the General Audit Chamber	B+ in 2013	A B-score (reporting prior to the end of August) is only possible if the financial statement is immediately approved by the Council of Ministers. This is not realistic at this time. We believe that pursuing a C-score (reporting prior to the end of December) is likely, for the time being, the highest achievable.

For the first and third main indicator, estimate differences can be caused by the fact that the PEFA assessment does not account for reliability and (legal) compliance errors. It should be further noted that in terms of the PEFA-review, scores are based on self-assessment. The reported PEFA-scores are thus, for the most part, based on the estimates of the ministries. The fact that the Cft is not always in agreement with these "self-assessments", is evidenced by their opinion regarding the second main indicator (achievement of expenditures as compared to approved departmental budgets). Although the ministries scored themselves a C since 2010 (also the goal for 2015), the Cft feels that this indicator is but one of the eleven that is running two levels behind or for which the goal is below the minimum. As such, Cft advises the need for improvement measures.

3.4 Results of the Performance Audit Optimizing Tax Revenue

Our performance audit 'Optimizing Tax Revenue' of October 2014 (AR, 2014) noted that in first instance, it is not clear how the original five policy objectives established to optimize tax revenue³¹ were interrelated nor was it clear what priority each was assigned. The subdividing of the policy objectives did not make the situation any clearer. This was confirmed by virtue of the large discrepancy we encountered between the content of the budgets of the last three years and the everyday operations at the Tax Department and the department of Fiscal Affairs.

Secondly, we came to the conclusion that not all measures related to the initial five policy objectives were implemented and achieved. There was little to no attention given to harmonizing the tax system with French St. Martin, the elimination of free-riders and the review of the Tax Holiday facilities.

Thirdly, we determined that despite all the external hiring, issuance of reports and advices, significant elements for strengthening the organization of the Tax Department were not achieved. The Inspectorate, the Receiver and the Audit and Criminal Investigation departments continue to work as stand-alone entities. Staff, resources (including housing) and systems were not integrated. Moreover, there are no detailed rules established by Sint Maarten, regulating how public tendering should be organized and carried out.³² As such, there is no guarantee that public tenders are conducted in a transparent, objective and non-discriminatory manner. Furthermore, there is no definition as to when public tendering can be waived in the public interest.

We were concerned, as was the Tax Department, that absent the resolution of staffing shortcomings, the next improvement plan (the not yet formalized Project Plan Integration and Strengthening Tax Department Sint Maarten of

³¹ The original five policy objectives from Budget 2011 for optimizing tax revenue are: (1) improving assessment and collection, (2) simplification of the tax system, (3) harmonization of the tax system with French St. Martin, (4) increasing compliance and elimination of free-riders, and (5) reviewing Tax Holiday facilities.

³² As stipulated in the NGAO (article 47, par. 6).

May 2014 (*Plan van Aanpak project Integratie en Versterking Belastingdienst Sint Maarten*), would not reach full implementation due to the lack of the requisite persons. We agreed with the vision of the new Plan: reform the organization before dealing with fiscal reform (amendment, simplification of the tax system).

The fact that a proper functioning Tax Department is essential, is evidenced by the slight increase in the cost of assessment and collection and the estimate of significant reductions in compliance, despite the efforts of the last three years. In addition, the result of control activities were very difficult to quantify because systems were not linked and there is no overall overview. It was therefore not possible to provide an answer to the question how expenditures relate to the budgets. The Minister of Finance would first have to provide proper and verifiable insight of the situation.

Finally, the Minister of Finance, to our knowledge, did not inform Parliament during the last three years, regarding the way in which measures to achieve the aforementioned policy objectives were implemented and achieved and the costs related thereto. To our knowledge, Parliament did not call the Minister to give account during the same period either.

3.5 Main conclusions on Operations

We are in agreement with the Minister that one of the biggest challenges for Sint Maarten is increasing compliance. The lack of decision-making on the new automated Tax System and recruitment of sufficient qualified personnel, makes this challenge, in our opinion, a near impossible task. The importance of a properly functioning Tax Department is evidenced by the fact that despite the efforts of the last three years, the cost of assessment and collection has increased (slightly) and estimates of compliance show significant decline.

In terms of the various improvement plans for financial management (IVB and PEFA), we also conclude that although these are close to completion, they have not been formally handled by the Council of Ministers nor have they been presented to Parliament. Though certain aspects of the improvement plans have been implemented at a reasonable pace, this is not the case for a number of very important elements such as establishing the new Tax Department, the reliability of the budget and the Parliamentary supervision thereof. We are therefore, similar to the Cft, not always in agreement with the "self-assessed" PEFA scores of the ministries.

3.6 Recommendations regarding operations

- The various improvement plans related to financial management should be diligently completed, and in particular, attention should be given to most important aspects such as the setup of the new tax department, a reliable budget and Parliamentary oversight.

- Report to Parliament regarding the progress of the implementation of the various improvement plans and have the SOAB carry out research into the reliability (accuracy, completeness and adequacy of the explanatory memorandum) thereof.
- The Project Plan "Integration and Strengthening Tax Department Sint Maarten" (*Het Plan van Aanpak Project Integratie en Versterking Belastingdienst Sint Maarten*) should be formally established, detailed in a SMART+C fashion and executed.
- Establish detailed rules as to how to organize and carry out public tendering.

3.7 **Opinion regarding financial and material management**

Opinion

We find that the financial and material management of ministries is not in order in 2013. The ministries were not 'in control' in terms of their operations.

4 POLICY INFORMATION

In the annual report issued as part of the financial statements, the Minister of Finance gives account about the cost related to the achievement of policy as well as the outcomes. We evaluated the extent to which the Minister was successful in that regard in 2013. In addition, this year we focused on subsidies. We evaluated how recipient institutions reported to the relevant ministers regarding their activities, expenditures, results and outcomes. We further reviewed what the Minister of Finance included in the annual report³³ on this matter. We are also examined whether the General Subsidy Ordinance offers sufficient guarantees to ensure an efficient expenditure and review thereof. We close this chapter by providing practical advice that can facilitate the future evaluation of subsidy issuance (as a process) and which can benefit the quality and utility of the end result (the evaluation proper itself).

4.1 Report as part of the financial statements 2013

Since the release of the first annual financial statements of the Country Sint Maarten in 2011, we have informed both the ministries and Parliament, that according to the National Government Accounting Ordinance (see § 1.1), the financial statements must include disclosure about the achievement of the policy intentions. On this point, the Minister of Finance, in his annual report as part of the 2013 financial statements, simply states that the process does not currently function properly. The policy budget, should receive attention from all ministries, but as a country, we are dealing with a learning curve.

We were partially able to confirm the learning curve to which the minister refers, and we find that it has not yet resulted in a policy based budget or accountability thereof. Despite the fact that in 2012, the Minister of Finance admitted that determining and establishing policy is of general interest for the further progress of Sint Maarten, the budget and the financial statements of 2013 contain almost no information regarding the ambitions and achievement of policy within the various ministries. As such, we once again point out, that Parliament will not be able to perform their statutory function; i.e. evaluating the results of policies and policy management.

4.2 Accountability regarding subsidies

Issuing grants or subsidies is a tool that Government can use to achieve policy goals. It is important that Government understands, over time, which subsidies achieved the desired social effect, and which did not. This is particularly true given the significant amount that Government annually spends on subsidies. Approximately ANG 87,0 million was planned for subsidies in the 2013 budget. According to the 2013 financial statements,

³³ As stipulated in article 32 by the NGAO.

approximately ANG 78.2 million was paid to 58 institutions (including schools, and excluding transfers) in 2013.

Table 10 – Budgeted, realization and audited subsidies in 2013

ANNEX 14	Budget	Realization	Audited
General Affairs*	2.320.000	1.326.000	0
Justice	3.141.000	2.816.000	1.031.000
Tourism, Economic Affairs, Transportation & Telecommunication	1.600.000	772.000	1.202.000
Public Health, Social Development and Labor	4.798.000	3.695.000	580.000
Public Housing, Spatial Planning, Environment & Infrastructure	751.000	1.098.000	867.000
Education, Culture, Youth and Sports Affairs (excl. schools)	8.911.000	5.770.000	4.673.000
	21.521.000	15.477.000	8.353.000
Schools~	65.459.000	62.681.000	0
Total	86.980.000	78.158.000	8.353.000

The subsidies examined by us refer to actual (granted) subsidies. Furthermore, the * means that this amount is not included in our research and ~ signifies that the amount is not covered by the subsidy ordinance.

The General Subsidy Ordinance³⁴ stipulates that an institution that is granted an annual subsidy, must present the minister with a financial accounting describing (in general terms) the activities carried out and the effects, as related to grant objectives. For 2013, we evaluated whether 21 subsidies complied with the subsidy ordinance.

In twelve cases, we failed to receive documents from the responsible ministries. As a result, we were unable to audit the subsidies. In terms of the remaining nine grants, we determined that none complied with the legal requirements. As such, we conclude that in all cases there is non-compliance (unlawful)³⁵.

Moreover, we note that the manner in which the General Subsidy Ordinance is applied in practice, inadequately guarantees efficient expenditure. For example, there is a lack of review regarding lawful issuance and expenditure by the recipient institutions. The recipient institutions also do not sufficiently account for the activities carried out. As a result, there is currently limited to no insight regarding the extent to which the desired social effect for which the subsidies are granted is actually achieved. In our opinion, the ordinance is antiquated and additional adjustments are needed to the National Subsidy

³⁴ AB 2013, GT no. 38.

³⁵ Table 11

Ordinance to guarantee the efficiency and effectiveness of grant issuance. The following table provides, besides our general findings, specific recommendations per element of the process, to allow for an effective implementation of the subsidy ordinance in future.

Table 12 – Summary of the subsidies audited by the General Audit Chamber in 2013

Process elements	Findings	Recommendations
1. Translating policy to products to be acquired	<ul style="list-style-type: none"> No policy or policy is unknown. No policy based/accountable budgeting. No translation of policy to products. No prioritizing of objectives. 	<p>Mandatory training for all important stakeholders (at all levels) with regard to the drafting of policy.</p> <p>Publicizing policy.</p> <ul style="list-style-type: none"> ✓ Internally: active dissemination and communication of policy. ✓ Externally: publication of policy and requiring that policy is included in the POR³⁶ so that all institutions are aware of the policy.
2. Drafting Program of Requirements (POR)	<ul style="list-style-type: none"> Objectives and expected results are not formulated in a SMART+C fashion. POR is not comprehensive. POR is not publicized/published. 	<p>Drafting of KPIs³⁷ at ministerial level that can be further translated on the level of sectors/executing agencies.</p> <p>Drafting of unambiguous instructions for drafting of a POR in which topics should be included (consider using templates per type of application/subsidies).</p> <p>Annual updating and publication of the POR.</p>
3. Evaluation of subsidy requests	<ul style="list-style-type: none"> No evaluation framework for the assessment of applications. Subsidies are not used as a policy instrument. Documents submitted are incorrect/or incomplete. 	<p>The evaluation framework refers to the POR. As such, issues under point 2 must be addressed so that these can be properly used for evaluating the applications.</p> <p>Formalizing of subsidy applications and as such providing civil servants with unambiguous instructions/checklists for use in assessing applications.</p>
4. Choice of subsidized organization	<ul style="list-style-type: none"> There is no market and as a result, often also no price competition. There is insufficient expertise to evaluate applications. 	<p>Regular executing benchmark reviews and/or performing analyses to seek possible cost-reduction measures.</p> <p>Formalizing grant applications and in doing so, provide unambiguous instructions/checklists to the civil servants responsible for the assessment of applications.</p>
5. Drafting Subsidy Decree	<ul style="list-style-type: none"> No agreements regarding progress of activities. No compliance of the Subsidy Ordinance. Subsidy decree is not drafted in a timely fashion or not authorized. Decrees are not prepared. As such, payment is made based 	<p>Formalizing decrees, and providing unambiguous instructions/checklists to the civil servants charged with drafting of decrees.</p> <p>Preparing a timeline in which the deadlines of the subsidy process are synchronized with the</p>

³⁶ Program of Requirements

³⁷ Key Performance Indicator.

Process elements	Findings	Recommendations
	<ul style="list-style-type: none"> on previous years. No additional requirements are included. 	<p>deadlines for the budget process. Communicating the timeline internally.</p> <p>Introducing a 'transition regulation' in which it is made clear (also to the recipient organizations) that the faulty "practice" will be ended given that it is contrary to current law and regulation.</p>
6. Monitoring subsidy activities	<ul style="list-style-type: none"> There is no (interim) monitoring of activities (because it is not regulated in the POR (2) of the decree (5)). 	Formalizing the interim monitoring and formally including such in the POR (2) and the Decree (5).
7. (Final) Accounting	<ul style="list-style-type: none"> Accounting is not auditing by a Certified Public Accountant or <i>Registeraccountant</i>. Documentations presented is not correct or incomplete. Audit is not possible because there is no POR(2) Achievement is not auditable given that the format of the documents presented with the accounting is not equivalent to the format of the documents presented with the application (3). 	<p>Instructing the civil servants responsible for assessing the accounting.</p> <p>Actively communicate with the foundations that this is no longer acceptable.</p> <p>The preparation of unambiguous instructions/checklists for the civil servants charged with assessing the accounting.</p> <p>See suggestion by 2 and 5 in which prerequisites are required about the format of documentation submitted.</p>
8. Establishing the subsidy	<ul style="list-style-type: none"> There are no final statement since there is no adequate final accounting (7). 	See suggestions by 7 and also the use of a "timeline".
9. Application of sanctions	<ul style="list-style-type: none"> Sanctions are not used. 	Introducing a transition regulation in which it is made clear to foundations, that the various incorrect practices will be ended because these are contrary to current law and regulation. In addition, inform them that as of a specific date, sanctions will be included in the ordinance that will be strictly enforced.
10. Archiving	<ul style="list-style-type: none"> There is a lack of adequate archiving due to the lack of norm regarding the content of files. 	Formalizing archiving and drafting of unambiguous instructions in terms of the content of files for each subsidy recipient.

We find that the subsidy policy receives little attention from Government. That is not only evidenced by the aforementioned, but also based on the fact that the General Subsidy Ordinance was signed on February 21st, 2013, and went into effect retroactively as of October 10th, 2010. In addition, the ML issued by the SOAB in 2011, suggests that improvement to the granting of subsidies is needed, particularly in terms of legal compliance.

We recommend that in granting subsidies, the Subsidy Ordinance is strictly adhered to in terms of issuance as well as in giving account for activities carried out and the expenditure of funds.

4.3 Main conclusion on policy information

On the basis of our audit of the policy information we conclude that:

- The Minister of Finance does not inform Parliament sufficiently regarding the effective use of public funds.

- The minister can do a better job of informing Parliament regarding the effective use of subsidies by requiring the relevant recipient institutions to report regarding their activities, expenditure, results and outcome.
- The ministers hardly, if ever, review whether the subsidies granted occur in accordance with the General Subsidy Ordinance.

4.4 Opinion regarding the information presented related to implemented policy

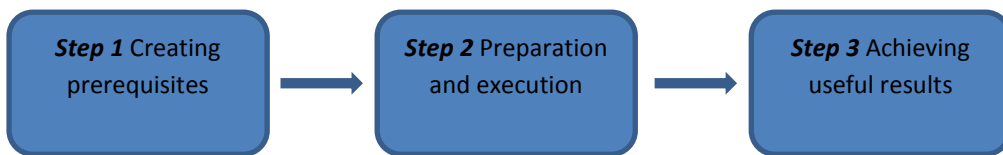
Opinion

We find that the informational content of the report included in the 2013 financial statements is insufficient to allow users of the financial statements to assess the implementation of policy and the management that was carried out.

We are also of the opinion that the granting of 21 subsidies did not take place in accordance with the subsidy ordinance, and as such is unlawful (non-compliant). The subsidy ordinance, in our opinion, does not provide, in practice, sufficient guarantees to ensure efficient subsidy expenditure.

4.5 Practical advice for evaluating subsidies

In this section, we offer, based on the document Guidelines Impact Assessment for Subsidies (*Handreiking effect evaluaties van subsidies*) from the Court of Audit of the Netherlands (Algemene Rekenkamer Nederland, 2011), a few practical suggestions to aid in simplifying the evaluation of subsidies (including the process) in future, as well as to improve the quality and utility of the final result (the evaluation itself). In this way, we hope to contribute to the development of a more structured approach for the evaluation and issuance of subsidies. In our view, subsidy evaluation is based on three steps:



Step 1 relates to the creation of prerequisites: in developing a subsidy, consideration should already be given to the fact that evaluation will occur at a later date. Step 2 involves the preparation and implementation of the evaluation: from the onset, adequate expertise and quality must be secured, both in the design and the implementation, as well as the completion of the evaluation. Step 3 involves the use of the evaluation results: upon completion of the evaluation, the results must be adequately used to provide accountability to Parliament regarding subsidy expenditures, and should also be used as a learning tool. Below, we provide a short list of pointers for each step.

Step 1: creating prerequisites**Pointers for the shaping of a new subsidy**

- Preparation of a new subsidy:
 - Approach the preparation of a new subsidy in a structured manner: build in the possibilities of a proper impact assessment from the start.
- Establish the objective and policy theory:
 - Draft a problem analysis.
 - Describe the manner in which the subsidy should lead to the desired activity and how the activity will lead to the desired social impact or outcome (policy theory).
 - Formulate the objectives as specifically and as measurable as possible.
 - Formulate the objectives both on the level of the activity as well as the level of the outcome.
 - Define the goal, as much as possible, in the form of a target value.
 - Formalize the objectives and the policy theory, preferably in a public document or in an easily accessible digital file.
- Planning of the evaluation and monitoring:
 - Plan the evaluation from the onset and avoid it taking place prior to the effects becoming visible.
 - Determine whether the subsidy should be best evaluated separately or in combination with other measures.
 - Determine what information will be necessary for the evaluation and develop, if necessary, a monitoring system includes said information.
 - Carry out a baseline study.
 - Research the possibility of a pilot project and use evaluation experts.
 - Set the evaluation date.

Step 2: preparation and execution of the evaluation**Pointers for a proper impact assessment**

- Include evaluation experts in the review.
- Decide if outsourcing makes sense. If so:
 - Select an executing agency that can deliver good quality.
 - Think along with the executing agency during the design and execution.
 - Develop proper agreements regarding the reporting. Include: what will be measured, how measurement and analysis will occur, and how conclusions will be based thereon.
 - Evaluate the report and conclusions based on quality.
- Ensure that the evaluation has practical utility for users.
 - Consider, from the start, what the results of the evaluation will be used for and which data is required.

Pointers for a proper impact assessment

- Review possible reasons for the level of effectiveness of the subsidy.
- Define the objectives of the subsidy.
 - Determine if the objective and the policy theory of the subsidy are clear enough for the assessment, and if no, whether reconstruction is possible.
 - Clearly frame the evaluation: which objectives will be included?
- Monitor the quality of the measurements.
 - Validity: think carefully about the accuracy of the indicators.
 - Reliability: use and compare different measurements and methodologies in terms of effectiveness. Describe the methods well.
 - Causality: consider together with the executing agency and the assessment experts, the causal link between subsidy and the plausibility of the measured effect. Stay alert regarding the (im)possibilities of the suggested methods.
- Monitor the quality of the conclusions.
 - Provide clear conclusions regarding effectiveness.
 - Please justify conclusions with valid and reliable findings.
 - For subjective conclusions, provide explicit standards, or replace the opinion with a more factual conclusion.
- Ensure the greatest possible degree of independence in the implementation of the evaluation.

Step 3: use the results of the evaluation

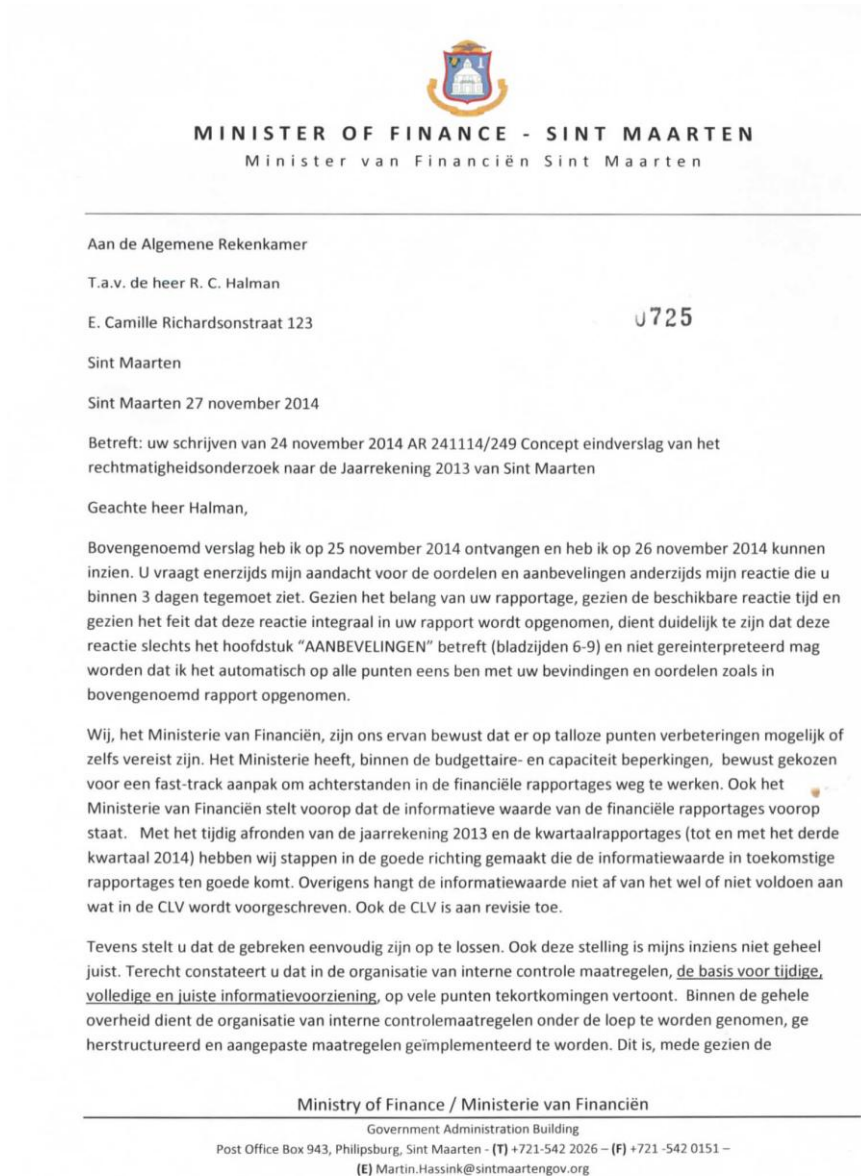
Pointers for making the results useful

- With a view towards using the evaluation for the purpose of accountability:
 - Send the evaluation in its entirety to Parliament.
 - Report subsequent policy reaction only on properly documented conclusions regarding effectiveness or indicate that the effectiveness cannot be demonstrated.
 - Summarize the results in a balanced fashion.
 - Make a clear distinction between the results and the opinion from the evaluation, and the opinion/reaction of the Minister.
- With a view towards drawing lessons from the use of the evaluation:
 - Discuss the interim results in the policy departments during the implementation of the evaluation.
 - Distribute the evaluation among relevant parties (not only those directly involved in the policy field) and make sure there is debate.
 - Only use adequately documented conclusions for changes of the subsidy.
 - Pay attention to signals that the subsidy is (partially) ineffective (gift effect).

5 RESPONSE OF THE MINISTER AND OUR EPILOGUE

5.1 Reaction of the Minister of Finance

The minister writes:



budgettaire- en capaciteit beperkingen, een project van enige jaren en is niet eenvoudig in korte tijd te verwezenlijken. Overigens worden op dat gebied ook stappen in de goede richting gezet. Gesteld dient te worden dat de Ministers, zolang er niet intentionele onvolkomenheden bestaan in de organisatie van interne controle maatregelen, niet verantwoordelijk kunnen worden gehouden voor de gevolgen van deze tekortkomingen.

Met betrekking tot de aanbevelingen zoals opgenomen op bladzijde 7 informeer ik u als volgt:

1. *Zorg voor inzage in de besluitenlijsten en tekenen van de LOR voor zowel de SOAB als de ARK aangezien dit belangrijke onderdelen van onze controle werkzaamheden vormen.*

Het Ministerie van Financiën heeft er geen probleem mee dat u en de SOAB inzage krijgt in de besluitenlijsten. Ik zal dit in de Ministerraad voorleggen ter besluitvorming. Het tekenen van de LOR is uiteraard afhankelijk van wat in de LOR is opgenomen.

2. *Zorg ervoor dat naar aanleiding van de interim-controle in 2014 een Managementletter door de SOAB aan de ministers wordt aangeboden, zodat ministers hierdoor tijdig op de hoogte zijn van de bestaande financiële risico's en de mogelijkheid hebben corrigerende maatregelen te treffen.*

Deze aanbeveling zal met de SOAB worden besproken en de resultaten voorgelegd aan de Ministerraad.

3. *Zorg ervoor dat de Staten tijdig geïnformeerd worden over dreigende overschrijdingen. Daarvoor is het nodig dat in eerste instantie de minister van Financiën tijdig op de hoogte is van dreigende overschrijdingen. Dat is nu niet het geval, de overschrijdingen worden pas duidelijk in de jaarrekening.*

Uw bevinding is niet juist en uw aanbeveling ondersteun ik niet. Overschrijdingen worden op kwartaalbasis gerapporteerd aan de Ministerraad en de Staten. Daarnaast wordt de Ministerraad regelmatig op de hoogte gebracht van inkomstenontwikkelingen en algemene uitgavenontwikkelingen. Daarnaast is er een project opgestart dat dient te leiden tot maandelijkse ministeriele financiële verantwoordingen juist om de Ministers bewust te maken van hun verantwoordelijkheden.

4. *Zorg voor voldoende controle informatie. Stel een onderzoek in naar de rechtmatige bestedingen van de kasopnames van de bankrekening van het Criminaliteitsfonds. Er bestaat het risico dat uitgaven onrechtmatig worden gedaan.*

Deze aanbeveling zullen wij opvolgen.

5. *Verbeter de interne organisatie zodanig dat gewaarborgd wordt dat alle te realiseren baten ook daadwerkelijk worden gerealiseerd.*

Ministry of Finance / Ministerie van Financiën

Government Administration Building

Post Office Box 943, Philipsburg, Sint Maarten - (T) +721-542 2026 – (F) +721-542 0151 –

(E) Martin.Hassink@sintmaartengov.org

J 725

Zie ook opmerking sub 7.

6. *Geef hoge prioriteit aan het op orde brengen van de organisatie rond het proces van salarisbetalingen en rond het beoordelen van arbeidsprestaties.*

Zie ook opmerking sub 7.

7. *Laat de Minister van Financiën binnen zes maanden met een realistisch plan van aanpak opstellen, die ervoor zorgt dat binnen een termijn van enkele jaren de door ons geconstateerde tekortkomingen in het financieel beheer zijn opgelost.*

Deze aanbeveling wordt opgevolgd met de volgende aantekeningen:

- a. Het plan van aanpak betreft de organisatie breed. De medewerking van alle Ministers is vereist,
- b. Het proces kan worden versneld indien de betreffende kosten als kapitaaldienst kosten kunnen worden opgevoerd,
- c. Niet alleen de door de ARK geconstateerde tekortkomingen verdienen de aandacht, alle tekortkomingen zullen moeten worden opgelost.

Met betrekking tot uw aanbevelingen inzake de bedrijfsvoering van de Ministeries, informeer ik u als volgt:

1. *De verschillende verbeterplannen ten behoeve van het financieel beheer met voortvarendheid af te ronden, en daarbij met name aandacht te hebben voor de belangrijke aspecten zoals de opzet van de nieuwe belastingdienst, een betrouwbare begroting en de controle daarop door de Staten.*

Deze aanbeveling wordt onverkort aangenomen en gecommuniceerd met de ministeries.

2. *Over de voortgang van de uitvoering van de verschillende verbeterplannen aan de Staten te rapporteren en de SOAB onderzoek te laten doen naar de getrouwheid hiervan.*

Deze aanbeveling, voor zover al niet in uitvoering, zal worden opgevolgd.

3. *Het Plan van Aanpak Integratie en Versterking Belastingdienst Sint Maarten officieel vast te stellen en direct over te gaan naar SMART+C uitwerking en uitvoering hiervan.*

Onlangs is een nieuw Hoofd belastingdienst benoemd die dit project verder zal oppakken en uitvoeren. Een aantal stappen zijn reeds genomen.

4. *Nadere regels vast te stellen waarop aanbestedingen moeten worden verricht en uitgevoerd.*

Vorbereidingen hiertoe zijn reeds in uitwerking.

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(E) Martin.Hassink@sintmaartengov.org

Met betrekking tot uw aanbevelingen inzake het verder verbeteren van de beleidsinformatie informeer ik u als volgt:

De gedane aanbevelingen betreffen alle ministeries en niet alleen het Ministerie van Financiën. Het Ministerie zal deze aanbevelingen voorleggen aan de Ministerraad en aanbevelen de aanbevelingen op te volgen en erop toezien dat dat ook gebeurt.

Hoogachtend,



Martin J. Hassink

Minister van Financiën

Ministry of Finance / Ministerie van Financiën

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Translated Text

To the General Audit Chamber
Attn: Mr. Ronald C. Halman
E. Camille Richardson Street 123 [sic]
Sint Maarten

Sint Maarten, November 27, 2014

Ref: correspondence of November 24 2014 AR 241114/249 Draft final report of the compliance audit regarding the financial statements 2013 of Sint Maarten

Esteemed Mr. Halman,

I received the above referenced report on November 25th 2014, and was able to review it on November 26th 2014. On the one hand, you request my attention to the opinions and recommendations, and on the other you request my reaction within three days. Given the importance of your report as well as the time available to respond, and the fact that said response will be included in your reporting, it should be evident that this reaction solely regards the chapter "recommendations" (pages 6-9), and as should not be misconstrued as full agreement with your findings and opinions found in the report.

We, the Ministry of Finance, are cognizant of that improvement is possible and even necessary on many aspects. The Ministry has, within budgetary and capacity constraints, consciously opted for a fast-track approach to remove backlogs in the financial reporting. The Ministry also places priority on the informational value of financial reports. By finalizing the financial statements of 2013 as well as the quarterly reports (up to and including the third quarter of 2014), we have taken steps in the right direction that will benefit future reporting. It should be noted, that the informational value is not dependent on compliance, or lack thereof, with stipulations contained in the National Government Accounting Ordinance. That Ordinance itself is subject to revision.

You also state that shortcomings can easily be solved. This statement is also not entirely correct in my opinion. You rightfully find that in the organization of internal control measures, which is the basis for timely, complete and correct provision of information, there are many shortcomings. Within the entirety of the government, the organization of internal control measures needs to be reviewed; restructured and amended measures must be implemented. This is, partly due to budget and capacity limitations, a project of a number of years and is not easily achieved in a short period of time. Besides, steps in the right direction are being taken. It should be noted, that the ministers, as long as intentional shortcomings exist in the organization of internal control measures, cannot be held accountable for the consequences of said shortcomings.

In terms of the recommendations as listed on page 7, please be informed of the following:

1. *Ensure access to the decision lists and the signing of the LOR for both the SOAB and the General Audit Chamber as these form important elements for our audit work.*

The Ministry of Finance has no problem that both you and the SOAB are granted access to the decision lists. I will put this forward for decision making in the Council of Ministers. Signing of the LOR is obviously dependent on what is contained in the LOR.

2. *Ensure that a management letter is presented to the ministers by the SOAB on the basis of their interim audit, in order that the ministers are aware, in a timely*

fashion, of existing financial risks, and so they have the opportunity to take corrective measures.

This recommendation will be discussed with the SOAB and the result thereof will be put before the Council of Ministers.

3. *Ensure that Parliament is informed in a timely fashion of pending overruns. As such, in first instance, the minister of Finance must be informed in a timely fashion of pending overruns. That is not the case at the moment as overruns become evident only in the financial statements.*

This finding is not correct and I do not support your recommendation. Overruns are reported on a quarterly basis to the Council of Ministers and Parliament. In addition, the Council of Ministers is regularly informed of developments related to income and general expenditures. Moreover, a project has started that will lead to monthly ministerial accountability particularly to alert ministers of their responsibilities.

4. *Ensure that there is sufficient audit information. Instigate research into the legal compliance related to the expenditures of cash payments of the bank account of the Crime Fund. There is a risk that expenditures were not legally compliant.*

We will follow up on this recommendation.

5. *Improve the internal organization in such a way as to guarantee that all income to be achieved is actually realized.*

See reaction under sub 7.

6. *Issue a high priority to bringing order to the organization related to the process of salary payments and the evaluation of work performance.*

See reaction under sub 7.

7. *Let the Minister of Finance draft, within six months, a realistic plan that will ensure that the shortcomings identified by us related to financial management, will be solved within a period of a few years.*

This recommendation will be followed with the following notes:

- a. The plan will be organization-wide. The cooperation of all Ministers is required,
- b. The process can be speeded up if the related costs can be presented as capital costs,
- c. All shortcomings, not only those identified by the General Audit Chamber will have to be resolved.

In regard to your recommendations related to the operations of the ministries, I wish to inform you as follows:

1. *Expediently execute the various improvement plans related to financial management and provide particular attention to the important aspects such as the set up of the new Tax Department, a reliable budget and Parliamentary supervision thereon.*

This recommendation is wholly accepted and will be communicated to the ministries.

2. *Report to Parliament regarding the execution of the various improvement plans and request that SOAB review the reliability thereof.*

This recommendation, inasmuch as it is not already in execution, will be followed.

3. *The Plan Integration and Strengthening Tax Department Sint Maarten should be formally ratified and immediately detail it in a SMART+C manner and start execution.*

A new head of the Tax Department was appointed who will further take charge and implement this plan. A number of steps have already been taken.

4. *Establish further rules upon which public tendering is organized and carried out.*

Preparations are already underway.

In terms of your recommendations regarding further improving the policy information, I wish to inform you as follows:

The recommendations related to all ministries and not only the Ministry of Finance. Our ministry will present these recommendations to the Council of Ministers and suggest following the recommendations as well as ensuring these are carried out.

Respectfully,

Martin J. Hassink
Minister of Finance

5.2 Epilogue

Mr. Martin Hassink
Minister of Finance
Clem Labega Square
Philipsburg

December 1st, 2014

Our Reference: AR011214/252

Subject: Reaction to the draft final report regarding the compliance audit of the 2013 financial statements of Sint Maarten

Esteemed Minister Hassink,

We received your response on November 27th, 2014 (number 0725). Our thanks for your prompt reaction. In our accompanying letter of November 24th, we pointed out the limited timeframe available for reporting (National Government Accounting Ordinance - NGAO, article 53, par. 3), as well as the fact that your ministries' civil servants verified the facts by means of the process of consultations. Your response to, in particular, the recommendations, is therefore justified. Of course, our recommendations are based on and directly related to the facts, findings and opinions.

Below we will provide a point by point reaction to your response, though, we first wish to make a general comment:

We have taken note of your position that the Ministry of Finance is aware of the need for improvement. In our past audits of the financial statements, including 2013, we have identified improvement. These improvements, as far as we are concerned, need to be continued in a structured and intensive manner in order to have an effect, within a reasonable period of time, on the financial management of the country. The importance of a realistic plan, formalized by Government and

presented to Parliament is therefore evident. We reiterate our request to draft and present such a plan to us within six months.

NGAO

You state that the information value of reporting is not dependent on legal compliance with the NGAO. Your reasoning is that the NGAO requires revision. Until such time as the NGAO has been formally amended, it will remain the legal basis for the composition of the budget, the execution thereof and as a consequence, the structure and content of the financial statements. The ministers are required to comply with the law, and we will continue to review the level of compliance as part of our statutory task. We do agree with the minister that the NGAO is subject to improvement. For example, the standards regarding financial management and the specifications for structuring and carrying out public tenders would be of benefit by clarifying the specific requirements of the financial cycle. We are prepared to consider and provide input for this process.

Ministerial accountability

You are not fully in agreement with our position wherein we state that shortcomings can be easily resolved. Moreover, you state that ministers, as long as unintentional shortcomings exist in the organization of internal control measures, cannot be held accountable for the consequences of said deficiencies. You further state that the whole organization must be considered in terms of the organization of internal control measures, and that due to budgetary and capacity limitations, an improvement project is not easily realized in the short term.

In our report we state that most of the errors and uncertainties found in the financial statements can be easily resolved. This means that it is not unreasonable to expect that within an acceptable timeframe of a few years, the financial statements can be made free of errors and uncertainties. Recommendations toward this end were made. Moreover, multiple improvement processes and plans have been instituted over the last years aimed at putting the financial management in order. We ourselves have noted a slight improvement over the last three years. The processes in need of improvement have been identified by SOAB, among others. In our view, Government, together with SOAB, need to work on the further detailing of the approach necessary to achieve results / improvement. Under the heading "Drafting Plan of Approach", we will provide additional elucidation.

It should be noted that each minister is responsible for a properly functioning administration organization and internal control (AO/IC). A proper AO/IC must prevent errors and/or discover them in a timely fashion. We do not fully understand what you mean by "unintentional shortcomings". It is our opinion that the minister is, and remains, accountable for the organization and the consequences, among which is the continued absence of solutions for problems within the organization.

Access to decisions lists of the Council of Ministers and signing of the LOR

We look forward to receiving additional information following the deliberations and decision-making of the Council of Ministers with respect to the access to the decision lists.

Management letter from SOAB related to the interim audit of 2014

We welcome information about the result of the consultation with the SOAB and the deliberations within the Council of Ministers.

Information about looming overruns

You indicate that the finding is not correct and you do not support our recommendation. You state that overruns are reported to the Council of Ministers and Parliament on a quarterly basis. Moreover, according to you, the Council of Ministers is regularly informed regarding developments in the area of income and general expenditures. Finally, you reference a project that will lead to monthly ministerial financial accountability, and which was specifically initiated to draw the attention of ministers to their responsibilities.

We specifically mentioned impending (looming) overruns in our report. We state that it is important for Parliament to be informed in a timely fashion about impending overruns. And we therefore find that it is necessary in first instance, that the Minister of Finance is informed in a timely manner regarding said impending overruns. Furthermore, we noted that, in accordance with the NGAO, the Minister of Finance must provide an interim report to Parliament by May 15th regarding the last fiscal year and the current fiscal year. No later than August 15th and November 15th, the Minister must present a memorandum in which he provides an interim report of the current fiscal year. These memoranda were drafted by Government. The last one was presented to Parliament; the other two were not. Moreover, the two budget amendments in 2013 were not drafted in accordance with the NGAO, which resulted in significant under and overruns.

It is not clear to us from the reaction of the Minister if the quarterly reports, that we do not receive, reported on impending overruns or those that were already a fact. In any event, reporting to Parliament in accordance with NGAO, did not occur in 2013. To improve the completeness of our information, the Minister could send the aforementioned quarterly reports to us.

Crime Fund

We look forward to receiving the results of the investigation.

Drafting Plan of Approach

In your response under number 5, 6 and 7, you explained the improvements aimed at the process of AO/IC. You indicate that our recommendation will be followed, though you present three considerations.

Your first consideration, carrying out the plan of approach throughout the entire organization, is very ambitious. You also state, that because of budgetary and capacity limitations, it is a project of several years. We recommend prioritizing elements of the plan and involving SOAB in this regard. Processes such as salary payments, issuance of subsidies, entering into financial commitments, as well as processes related to various fees (duties) such as building permits and work permits, should first be given attention. The majority of these processes concern the entire organization. Ministries can, for example, in first instance, describe the processes in general terms, where after they can determine the essence of the problems. We are prepared to indicate where the essential gaps are in these processes.

We would also like to comment, that it is not entirely clear to us why the process of preparing a plan of action is advanced through inclusion on the capital account. Usually capitalization of intangible assets is related to research and development costs. We are not convinced that the drafting of a plan of action should be handled in this manner. The NGAO only stipulates, in article 24, that intangible assets are to be included separately under Fixed Assets.

Finally, we are of the opinion that the plan of action developed must be ratified by Government and should be presented to Parliament. We look forward to receiving the realistic plan of action by no later than July 1st, 2015.

Reaction to recommendations regarding operations

We are pleased that these recommendations will be followed up and look forward to receiving further information regarding the progress, results and outcomes. We will, in any case, comment on this in our future audit reports on the financial statements.

The General Audit Chamber,

R.C. Halman
Chairman

J. Dovale-Meit
Secretary-General

ANNEXES

Annex 1 Opinion regarding the financial management in the 2013 financial statements**Table 13 – Our opinion regarding financial management and the 2013 financial statements.**

We maintain the following opinion regarding the financial management:	2011	2012	2013
Financial management is not in order. As a result, there is uncertainty regarding the balance sheet, the reliability, the legal compliance and the efficiency of expenditure and revenue.	X	X	X
In terms of the financial statements, we have the following opinion:	2011	2012	2013
Quantifiable compliance errors	X	X	X
Quantifiable reliability errors	X	X	X
Uncertainties of a significant nature	X	X	X
The revenues and expenditure of the Crime Fund are not accounted for in the financial statements	X	X	solved
The expenditure of the VDSM is accounted for in the financial statements as Staff Bureau (item 3104) and budgeted as subsidy	X	X	solved
Financial information absent in the financial statements (see figure 1).	X	X	solved
The debt to SZV of ANG 40 million and related expenditures are not accounted for		X	solved
The investment in SDA schools of ANG 1 million relates to 2013 instead of 2012		X	solved
The expenditure of financial aid for January 2013 are accounted for in the 2012 financial statements		X	solved

Annex 2 Errors and uncertainties detected in the 2013 financial statements Sint Maarten

Tables 9 and 10 provide a summary of all the reliability errors and uncertainties we detected in the 2013 financial statements.

Table 14 – Reliability errors in the 2013 financial statements Sint Maarten.

No.	Description	In ANG
1.	The expenditure related to payment of early retirement (VUT), the cost-of-living supplement and the reservation for the Fund Medical Expenses Public Sector Pensioners (FZOG) are accounted for as Social provisions instead of personnel expenditure	10.000.000
2.	The proceeds from a correction erroneously accounted for as depreciation cost is wrongly recorded on the balance sheet as Equity	7.500.000
3.	The cash on hand (deposits) is under reported and linked to the budget item Creditors	6.000.000
4.	The provision "Participations (investments) is under reported	1.700.000
5.	A provision for "cost of living" was not made	not quantifiable
6.	Multiple quantitative errors in Statement/Template 18, the statement of income and expenditure at function level	not quantifiable
7.	Amounts in the column "Budget" do not correspond to the budget approved by Parliament	not quantifiable
Total Errors		25.200.000

Table 15 – Uncertainties in the 2013 financial statements of Sint Maarten

No.	Description
1.	Valuation and division of Tangible Fixed Assets, due to a lack of an asset administration and a recent valuation report for Buildings under construction.
2.	Financial Fixed Assets, Long Term loans. There is no underlying explanation for the scope of the claim and the reported provision.
3.	Accounts receivables after deduction of provision is unreliable because of a lack of underlying specifications and proper entries.
4.	Liquidity (cash). No confirmation from banks.
5.	Short term debt. Lack of documentation regarding APS. Short term debt, APS due to provision for back service on pensions. Short term debt, Creditors. Absence of a closing creditor administration.
6.	Short term debt. A definitive division of assets is absent.
7.	<u>Lack of details and explanations for:</u>
7a.	Reservation for expenditures and other commitments.
7b.	Provisions expenditures.
7c.	Other commitments.
8.	<u>Revenue</u>
8a.	Tax Revenue – completeness and categorization.
8b.	Bank license fee. Lack of the audit report of the 2013 financial statements of CBCS.
8c.	Absence of a legal basis van for collection of the "Casino Controllers" fee.
8d.	Proceeds from Business License Fees. Lack of a correlation between the general ledger and the administration of the Ministry of Tourism, Economic Affairs, Transportation and Telecommunication.
8e.	Proceeds Domain Affairs. Lack of asset administration.
8f.	Proceeds BT&P, lack of audited financial statements BT&P.

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No.	Description
8g.	Other proceeds. Origin unclear . Other proceeds. Lack of documentation.
9.	Personnel Expenditures. Inadequate internal organization and lack of sub-administrations and supporting documentation.
10.	Costs related to purchase of goods and services, including the costs of medical treatment of PP-patients and BZV-insured. Insufficient internal organization and lack of underlying documents .
11.	Subsidies. Insufficient internal organization and lack of underlying documents.
12.	<u>Other Uncertainties</u>
12a.	The SOAB was not provided access to the decision lists of the meetings of the Council of Ministers.
12b.	Chapter 11.5 of the financial statements. The SOAB received insufficient supporting documentation.

Annex 3 Policy information**Table 11 - Overview of 21 subsidies audit in 2013 by the General Audit Chamber**

No.	Audited institutions	Amount ³⁸ (in ANG)
1.	St. Maarten Housing Development Foundation	867.000
2.	Nature Foundation	0
3.	Turning Point	1.611.000
4.	Foundation Sport Development	112.000
5.	Foundation for Youth and Child Development (<i>Stichting Jeugd en Jongeren Ontwikkeling</i>)	54.000
6.	Foundation Cultural Development (<i>Stichting Culturele Ontwikkeling</i>)	791.000
7.	Staff Cultural Development (<i>Staf Culturele Ontwikkeling</i>)	0
8.	No Kidding With Our Kids Foundation	133.000
9.	Foundation Philipsburg Jubilee Library	1.485.000
10.	St. Maarten Museum Heritage Foundation	90.000
11.	St. Maarten Little League	32.000
12.	Olympic Games	61.000
13.	Other*	336.000
14.	SSS4	1.306.000
15.	Foundation Sport Up keep	273.000
16.	St. Maarten Carnival Development Foundation	0
17.	Heineken Regatta	500.000
18.	Book Fair	0
19.	SMART	22.000
20.	Miss Caraibes Hibiscus Pageant 2013	0
21.	Video X Game Festival	180.000
Total		8.353.000

³⁸ Amounts are based on Statement/Template 14 of the 2013 financial statements

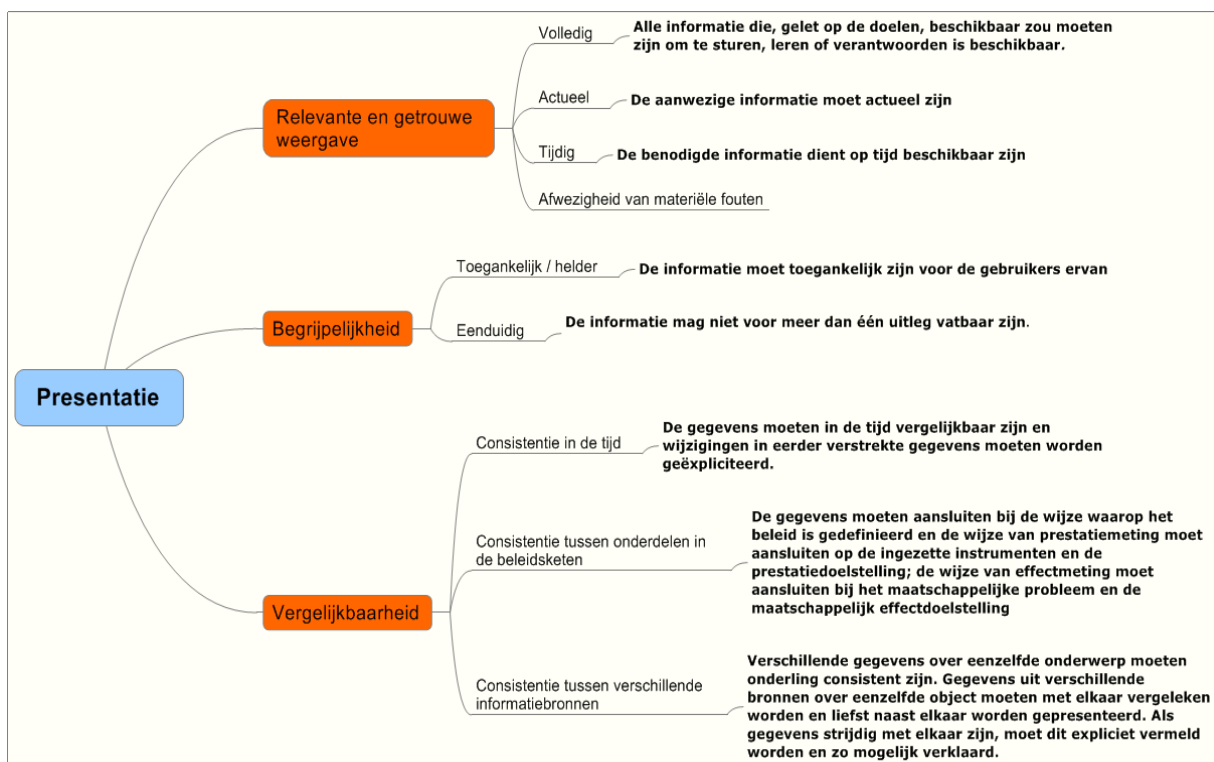
Table 16 - Scores per PEFA main indicator

PEFA indicators		2010	2011	2012	2013	Goal 2015
Reliability of the budget						
1	Realization of the expenditures as compared to the approved budget of the country.	D	B	B	C	C
2	Realization of the approved expenditure as compared to departmental budgets.	D	g.s.	g.s.	C	C
3	Realization of revenue compared to approved budget of the country.	D	C	B	B	C
4	Arrears.	D	D	g.s.	D+	C
Completeness and Transparency						
5	Budget layout (formatting).	B	B	B	B	B
6	Completeness of information in explanatory remarks of the budget.	B	B	B	B	A
7	Income and expenditure flows outside the budget.	D+	D+	C+	B+	A
9	Insight into financial risks related to independent entities (ZBO's) and government companies (NV's).	D	D	D	D	C
10	Public access to financial budgetary information.	D	D	C	C	A
Policy Based Budgeting						
11	Participation in the annual budget process.	D+	D+	D+	D+	B
12	Policy based multi annual budgets.	D+	C+	C+	C+	B
Care and internal control related to the implementation of the budget						
13	Clarity of tax requirement (duty).	C	C+	C+	C+	B
14	Effective registration of taxpayers and tax assessments.	D+	C	C	C	B
15	Effectiveness of collection of assessments.	D+	D+	D+	D+	B+
16	Predictability of budget availability to allow financial commitments to made.	D+	D+	C+	C+	C+
17	Establishing and managing bank balances, loans and guarantees.	C+	B	C+	B	B
18	Management of the salary administration.	D+	D+	D+	D+	B
19	Public Tendering.	D+	D+	D+	D+	B
20	Internal procedures of the financial administration.	D+	D+	C+	C	C+
21	Internal audits.	D+	C+	C+	C+	B
Administration, documenting and reporting						
22	Frequency and timeliness of financial closing and reconciliation procedures.	C+	D	D	D	B
23	Use of (financial) resources by educational and medical institutions.	D	D	D	D	B
24	Quality and timeliness of implementation reports.	D+	C+	C+	C+	B+
25	Quality and timeliness of the financial statements.	D	D	D+	C	B
External supervision and audit						
26	Scope, nature and recommendations regarding external review from the General Audit Chamber.	D	D+	D+	B+	B+

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PEFA indicators		2010	2011	2012	2013	Goal 2015
27	Parliamentary oversight regarding drafting of the budget.	D+	D+	D+	C+	B+
28	Parliamentary oversight related to the reports of the General Audit Chamber.	D	D	D	D	B
29	Scope, compliance and oversight related to Corporate Governance.	D+	D+	C+	D+	C

Annex 4 Main standards for evaluating the quality of information



ABBREVIATIONS

APNA	Algemeen Pensioenfonds Nederlandse Antillen (<i>General Pension Fund Netherlands Antilles</i>)
APS Maarten)	Algemeen Pensioenfonds Sint Maarten (<i>General Pension Fund Sint Maarten</i>)
AR Maarten)	Algemene Rekenkamer van Sint Maarten (<i>General Audit Chamber Sint Maarten</i>)
BAK	Binnenlandse Zaken Aangelegenheden Koninkrijk (<i>Interior Affairs and Kingdom Relations</i>)
BT&P	Bureau Telecommunications and Post
BZV	Bureau Ziektekosten Voorzieningen (<i>Bureau for Provision of Medical Costs</i>)
CBCS	Central Bank of Curaçao and Sint Maarten
Cft	College financieel toezicht Curaçao en Sint Maarten (<i>Council on Financial Supervision Curaçao and Sint Maarten</i>)
CV	Comptabiliteitslandsverordening (see NGAO)
FZOG	Fonds Ziektekosten Overheidsgepensioneerden (<i>Fund Medical Expenses Public Sector Pensioners</i>)
IVB	Institutionele Versterking Bestuurskracht 2008-2012 (<i>Institutional Strengthening Administrative Efficiency 2008-2012</i>)
LOR	Letter of Representation
Lv	Landsverordening (<i>National Ordinance</i>)
ML	Management letter
NGAO	National Government Accounting Ordinance
PEFA	Performance Measurement Framework of the working group Public Expenditure and Financial Accountability.
SMART+C Consistent	Specific, Measurable, Attainable, Realistic and Time-bound and Consistent
SOAB	Stichting Overheidsaccountantsbureau
SSS4	Sint Maarten Student Support Services
SMPS	Sint Maarten Postal Services N.V.
SZV	Sociale Ziektekosten Verzekering (<i>Social Health Insurance</i>)
TEVZT	Tourism, Economic Affairs, Transportation and Telecommunication
USONA	Uitvoeringsorganisatie Stichting Ontwikkeling Nederlandse Antillen
VDSM	Veiligheidsdienst Sint Maarten (<i>Security Service Sint Maarten</i>)

VSA	Volksgezondheid, Sociale Ontwikkeling en Arbeid (<i>Public Health, Social Development and Labor</i>)
VUT	Vervroegde Uitreiding (<i>Early Retirement</i>)

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General Audit Chamber

Algemene Rekenkamer