

Compliance Audit: 2014 Financial Statement of Sint Maarten



General Audit Chamber

Algemene Rekenkamer

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This report is an English translation of the original document entitled "Rechtmatigheidsonderzoek: Jaarrekening 2014 van Sint Maarten". In the event of textual contradictions or any other differences, the original Dutch text will prevail.

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PREFACE

In the following report, we present the result of our compliance audit regarding the 2014 Financial Statement of Sint Maarten. This is the fourth year that, as part of our legal tasks¹, we have reviewed the financial and material management of the Government of Sint Maarten.

Four years after the attainment of the status as Country within the Kingdom, we conclude that Sint Maarten has been unable to present a reliable and auditable financial statement. We find this lack of progress unfortunate.

Because of the lack of progress, we feel justified in stating our concern that there will be little improvement, in the near term, towards improving the quality of the financial statements, complying with legal requirements and reducing uncertainties in the financial statements. In our opinion, improvement can only take place once Government, the ministers and Parliament, respectively, take responsibility.

¹ Refer to the National Ordinance General Audit Chamber (article 23) and the Constitution (article 74), as well as de National Accountability Ordinance (article 53, third paragraph).

SUMMARY

In keeping with our legal task, we audited the 2014 Financial Statement. Based on our findings and conclusions we seek to contribute to an orderly and accountable financial management so as to guarantee that public funds are spent in a legitimate, efficient and effective manner.

The Minister of Finance is responsible for drafting the financial statement. In support hereof, each minister submits the requisite financial and related information, to the Minister of Finance.² The financial statement must include a report in the explanatory notes of the financial statement containing, at the very least, an elucidation whether (and the extent to which) policy intentions were achieved.³ We conclude that the information value of the report accompanying the financial statement is inadequate. The financial statement, similar to previous years⁴, fails to include an explanation of the level of achievement of stated policy intentions and the associated costs. Parliament is therefore not provided the opportunity to form a proper opinion regarding the implementation of policy and the management thereof.

The financial information contained in the financial statement must be developed in accordance with the budget and related regulations. We determined that the financial information does not meet the requirements of the National Accountability Ordinance (NAO).⁵ Moreover, based on the scope of the errors related to reliability, legal compliance and document composition, we believe that the accountant correctly issued an adverse opinion on the financial statement. A few notable shortcomings are:

- 55% of the summary templates⁶ contained in the financial statement are not correctly filled in;
- 73% of the line items of the 2014 Financial Statement are uncertain;
- quantifiable reliability errors amount to ANG 12.9 million.

The uncertainties and errors found in the financial statement are such, that we conclude that the financial statement is unreliable again this year.

In the financial statement, account is given regarding the financial and material management that was carried out. We determined that from 2011 to 2014, Government provided too little information in the financial statement. This affects the reliability of the financial data. The Minister of Finance drafted, based on our recommendations regarding the 2013 Financial Statement, a new plan to improve the financial management. One year hence, we note that the plan is, for the most part, not complete. None of the subsets (sub plans) of the plan have been formally presented to the Audit Chamber.

We are of the opinion that the 2014 Financial Statement does not contain sufficient information to adequately give account for the implemented financial and material management.

² NAO (article 52, first paragraph).

³ NAO (article 32, second paragraph).

⁴ Refer to table 1 in section 2.2.

⁵ Refer to table 2 in section 3.2.

⁶ Summary templates established by the Minister of Finance in accordance with article 17 NAO. These templates are used in the financial statement.

RECOMMENDATIONS

It is of great importance that future budgets and financial statements meet the legal requirements as stipulated by the NAO. To achieve this, it is necessary that consideration is given to the following recommendations.

Recommendations to Parliament

- do not accept budgets unless individual ministers indicate what policy goals and desired effects they intend to achieve, and at what cost;
- demand that the policy goals and policy effects are formulated as specific, measurable, up-to-date, realistic and time-related as possible;
- do not accept the failure of the Minister of Finance to provide Parliament with timely, interim reports regarding results, costs and effects of policy per ministry.

Recommendations to individual ministers

- include in the draft budget, for each intended policy goal, the costs and the desired effect. These goals should be formulated as specific, measurable, up-to-date, realistic and time-related as possible;
- ensure a proper monitoring and evaluation of the policy goals, the costs and effects thereof;
- give account for the policy goals at the end of the fiscal year to the Council of Ministers.

Recommendations to the Minister of Finance

- ensure that the individual ministers provide timely interim information regarding the achievement of proposed policy intentions, the costs and effects thereof;
- make sure that the financial statement includes a report regarding the achievement of proposed policy intentions, the costs and effects thereof per ministry;
- make certain that Management Letters are issued on an annual basis by the *Stichting Overheidsaccountantsbureau* (SOAB) in order to provide ministers with the opportunity to take corrective measures regarding the internal management at their respective ministries;
- ensure that the financial statement reliably and systematically records all income and expenses, as well as the financial position, in an accurate fashion, thus improving the situation whereby the SOAB can issue an unqualified opinion;
- complete the remaining subsets of the plan for the improvement of the financial management by the first quarter of 2016. Formulate the subsets as specific, measurable, up-to-date, realistic and time-related as possible;
- formalize the plan (including subsets) by National Decree by no later than May 1st, 2016, and present the plan to us and to Parliament;
- keep Parliament and us informed of the progress in carrying out the plan, and specifically, the execution of the subsets of the plan.

1 OUR AUDIT

1.1 Background

This is the fourth year in which we have conducted a compliance audit regarding the financial statement of Sint Maarten. Within the framework of our legal tasks regarding the financial statement as described in the National Accountability Ordinance (NAO) and the National Ordinance General Audit Chamber (NGAC), we review if the information contained in the annual report regarding policy execution and financial management was carried out according to applicable regulations.

By means of our conclusions we facilitate Parliament in terms of granting discharge to ministers. This represents the final element of the budget cycle. By granting discharge, by virtue of approving the draft national ordinance for the establishment of the financial statement, Parliament approves the ministers' financial management and the accountability provided thereon. Parliament does not approve the draft national ordinance before taking note of our report and the SOAB auditor's statement.⁷

1.2 Audit Questions

To assist in forming an adequate opinion regarding the financial statement, we formulated the following audit questions:

1. To what extent does the financial statement explain the degree to which established policy intentions were achieved and what are the costs and effects associated therewith?
2. Were the income, expenses and balance sheet adjustments established in keeping with the budget and the related regulations?
3. Does the financial statement give account for the financial and material management that was carried out?

Policy information

The NAO stipulates that the financial statement must be accompanied by a separate report containing an explanation of the extent to which the policy intentions included in the budget have been achieved. The report must also include the costs and the effects of the achieved policy.⁸

Financial information

According to the NGAC, we are required to review whether the income, expenses and balance sheet changes recorded in the financial statement are in accordance with the approved budget and other regulations.⁹ There must be an orderly and accountable¹⁰ financial management, which must be presented, in the financial statement in a sound manner, as well as in keeping with legal requirements.

⁷ NAO (article 54).

⁸ NAO (article 32, second paragraph).

⁹ NGAC (article 23, second paragraph).

¹⁰ The available financial information allows external auditors to, at any desired time, easily reconstruct the manner of decision-making.

Operational management

Finally, the respective ministers are accountable for the efficient and effective execution of policy as outlined in the budget, and for effective operational management of his ministry.¹¹ The budget must therefore contain the financial consequences of policy intentions, on which subsequently the ministers must report in the financial statement.

1.3 Methodology

For our review, we made use of activities carried out by *Stichting Overheidsaccountantsbureau* (SOAB).¹² We also met with the Ministry of Finance, the Council for Financial Supervision (*College Financieel Toezicht-Cft*) and the department of Interior Affairs and Kingdom Relations (*Binnenlandse Zaken Aangelegenheden Koninkrijk-BAK*) of the Ministry of General Affairs.

Using the aforementioned sources, we were able to form an opinion of the material and financial management of the ministers and the annual accounting thereof.

1.4 Reading guide

In the second chapter we will, in keeping with our first audit question, deal with the policy information. We first provide a review of the development of policy information from 2011 and thereafter we provide our opinion regarding the policy information contained in the 2014 Financial Statement.

Chapter three deals with the financial development at the various ministries and we draw up an answer to our second audit question. We review whether the income, expenses and balance sheet changes were established in accordance with the budget and other regulations.

In the fourth chapter we answer our third audit question by providing a review of the developments in terms of operational management from 2011. Then we go on to provide our view on the extent to which the operational management of the ministries was in order in 2014.

The Minister of Finance provided his reaction on our report on December 3rd, 2015. Based on his reaction we provided an epilogue. Chapter five contains both the Minister's reaction as well as our epilogue.

¹¹ NAO (article 41, second paragraph).

¹² We make use of the findings of the SOAB on the basis of article 25 of the National Ordinance General Audit Chamber.

2 POLICY INFORMATION

The Minister of Finance is responsible for drafting of the financial statement. In support hereof, each minister submits the requisite financial and related to the Minister of Finance.¹³ The financial statement must include a report in the explanatory notes of the financial statement, containing, at the very least, an elucidation of, and the extent to which, policy intentions were achieved.¹⁴ We reviewed whether the Minister of Finance succeeded in doing so in 2014. First we provide a review of the framework we used to do so as well as the developments of policy information since 2011.

2.1 Framework

To clearly give account for the achievement and the costs related to pre-formulated policy intentions, we believe it is important to provide answers to the following questions in the budget:

- What do we want to achieve?
- What will we do to achieve it?
- What should it cost?

In the subsequent financial statement, Parliament must determine whether the objectives derived from the w-questions were implemented and achieved sufficiently, efficiently and effectively. To do so, the financial statement must provide answers to the following questions:

- Did we achieve our goals?
- Did we do what we planned to do?
- Did it cost what we thought it would?

2.2 Developments in policy information from 2011 to 2013

In the following table, we provide an overview of the development level of policy information contained in budgets and financial statements during the period 2011 to 2013 for Sint Maarten.

Table 1. Presence of policy information in budgets and financial statements

POLICY INFORMATION	2011	2012	2013
Answering the following questions in the budget:			
<ul style="list-style-type: none">• What do we want to achieve?• What will we do to achieve it?• What should it cost?	x	x	x
Answering the following questions in the financial statement:			
<ul style="list-style-type: none">• Did we achieve our goals?• Did we do what we planned to do?• Did it cost what we thought it would?	x	x	x

¹³ NAO (article 52, first and second paragraph).

¹⁴ NAO (article 32, second paragraph).

We determined that every budget and financial statement from 2011 to 2013, contained insufficient policy information to allow both Parliament and us, the review of the results related to the policy and management that was carried out.

In the report accompanying the financial statements up to 2013, the Minister of Finance did not provide information per ministry, regarding the extent to which formulated policy intentions were achieved, what the costs were and what effects were realized.¹⁵ As such, the financial statements for the years 2011 to 2013, did not comply with the requirements and standards of the NAO.

At the time of our audit of the 2011 Financial Statement, we understood that answering the three w-questions was a process that could not be completed in a single year. As such, we recommended that the Minister of Finance advise the other ministers of the importance of policy information as well as introduce the process of answering the three w-questions during the preparation of the next budget.

Given that the 2011 Financial Statement was presented to us more than ten months late, we realized that it would not be possible for the Minister of Finance to follow up on our recommendation during the preparation of the budgets of 2012 and 2013. However, for the drafting of the 2014 Budget and the 2014 Financial Statement, this should have been possible. In the next section, we discuss whether the minister was successful in doing so.

2.3 2014 Financial Statement: policy information

We note that the 2014 Budget of Sint Maarten, once again, failed to include an explanation of policy intentions per ministry. It is therefore not surprising that the 2014 Financial Statement also fails to include information regarding the extent to which policy intentions were achieved, and the costs and effects thereof.¹⁶

In the annual report accompanying the 2014 Financial Statement, the Minister of Finance only states that the process is not what it should be.¹⁷ Government, according to the minister, should prioritize the preparation of commonly used 'best practices' into legal and policy processes. To date, we have not been privy to these 'best practices'. Furthermore, the minister states that developing and formalizing internal control is very important. We conclude that as of 2014, the proposed improvement is still merely an intention.

We question when action will be taken. For example, the minister has still not drafted additional budget rules related to guiding the preparation and organization of financial estimates for policy objectives.¹⁸ At this rate, the way public money is spent and the benefit thereof, remains unclear to the average citizen.

¹⁵ NAO (article 32, second paragraph).

¹⁶ Idem.

¹⁷ Refer to section A. 1.1 of the 2014 Financial Statement Sint Maarten, dated September 9th, 2015.

¹⁸ NAO (article 34, fourth paragraph).

2.4 Opinion of the presentation of information related to executed policy

Opinion

We believe that the informational value of the report accompanying the 2014 Financial Statement is, similar to previous years, insufficient. The financial statement, once again, fails to include an explanation regarding the extent to which policy intentions were achieved, the costs and the effects thereof. As a result, Parliament is not able to form an adequate opinion regarding the execution of policy and the related management.

2.5 Recommendations regarding policy information

Recommendations to the individual ministers

- include in the draft budget, for each intended policy goal, the costs and the desired effect. These goals should be formulated as specific, measurable, up-to-date, realistic and time-related as possible;
- make sure there is proper monitoring and evaluation of the policy goals, the costs and effects thereof;
- give account to the Council of Ministers for the policy goals during and at the end of the fiscal year.

Recommendation to the Minister of Finance

- ensure that the individual ministers provide timely interim information regarding the achievement of proposed policy intentions, the costs and effects thereof;
- make sure that the financial statement includes a report regarding the achievement of proposed policy intentions, the costs and effects thereof per ministry.

Recommendation to Parliament

- do not accept budgets unless individual ministers indicate what policy goals and desired effects they intend to achieve, and at what cost;
- demand that the policy goals and policy effects are formulated as specific, measurable, up-to-date, realistic and time-related as possible;
- do not accept the failure of the Minister of Finance to provide Parliament with timely, interim reports regarding results, costs and effects of policy per ministry.

3 FINANCIAL INFORMATION

A minister must give account for the financial management of his respective ministry. The explanatory notes of the financial statement must contain a report that, at least, provides principles for the calculation of the income and expenses¹⁹. We reviewed whether the income, expenses and balance sheet changes were established in accordance with the national budget and related regulations. In conducting our analysis of the financial management, we made use of the findings related to the audit activities of the SOAB of the 2014 Financial Statement. In support of our conclusion, we carried out a financial assessment, as well as a review of the legal compliance of the NAO. We also made use of information from meetings with the Head of the Department of Financial Accounting, Cft, BAK and SOAB.

3.1 SOAB's audit of the financial statement

Prior to carrying out the review of the financial statement, it is important to be aware of the shortcomings found by the internal auditor as a result of the internal organization of the ministries (interim audit). These shortcomings mostly refer to risks in terms of the accuracy and completeness of the information recorded in the financial statement. It is important that the internal auditor informs ministers in a timely fashion of the financial risks, and if necessary, provides advice by means of a Management Letter²⁰. In so doing, the ministers are provided with an opportunity to take corrective measures.

As part of the interim-audit of the 2014 Financial Statement, SOAB reviewed the extent to which previously identified shortcomings still existed. Since October 10th, 2010, the SOAB has issued only one Management Letter per ministry (2011). Given the possibility of the existence of new shortcomings, we recommend that the SOAB issues a Management Letter annually, thus providing the ministers with the opportunity to take corrective actions related to their internal management at their respective ministries.

The SOAB issued their report and audit statement regarding the 2014 Financial Statements to the Minister of Finance on October 27th, 2015. They issued an adverse audit statement. The fact that during the audit the SOAB was not provided with sufficient accounting information is the most salient reason for the issuance of the adverse audit statement. Moreover, various line items, overviews and summaries were not correctly or adequately recorded.

Based on our review of the 2014 Financial Statement, as well as the audit activities conducted by the SOAB, we confirm that the issuance of an adverse statement is justified.

3.2 Our findings regarding legal compliance

To provide Parliament with insight into the implementation of the budget, it is important that they remain informed of potential budget deficits and surpluses during the fiscal year.

¹⁹ NAO (article 31, section b).

²⁰ A Management Letter is a report from the internal auditor

To this end, the law requires the Minister of Finance to present a Memorandum three times a year (no later than May 15, August 15 and November 15) to Parliament, in which he reports about the budget realization and advises about potential budget amendments.²¹ We note that none of the aforementioned required Memoranda were drafted and sent to Parliament or to us.²² Quarterly reports are drafted. It is important to emphasize that quarterly reports do not include budget amendment proposals. In our opinion, quarterly reports are insufficient because, particularly the budget amendment proposals, allow for timely management of potential budget deficits and surpluses.

We confirmed the 2014 Budget of Sint Maarten was amended once, based on advice from the Cft.²³ This amendment related to, among others, a judicial instruction required to realize the investment in the Emilio Wilson Park. The budget therefore increased from ANG 426.7 million to ANG 430.7 million.

The minister, according to the NAO, must draft the financial statement prior to September 1.²⁴ The minister did not manage to comply in the case of the 2014 Financial Statement. The financial statement was drafted by the Minister of Finance on September 9th, 2014 and presented to the SOAB and the General Audit Chamber on September 15th, 2014.²⁵

Parliament discharged the ministers for the 2011 Financial Statement in 2014. The Council of Ministers did not include a draft national ordinance to the 2012 and 2013 Financial Statements. In so doing, the Council of Ministers failed in their duty and acted contrary to article 54 of the NAO.

We found that 2014 Financial Statement reports a negative result amounting to ANG 20.6 million as compared to the budget. The reason provided for this deficit is twofold; actual income was ANG 1.0 million lower than projected, while actual expenses were ANG 19.6 million higher than budgeted.²⁶ The additional expenditure was due primarily to underestimates (additional redundancy pay, higher personnel expenditures and higher overtime costs).

Development of deviations from the NAO in the 2011 to 2014 financial statements

Table 2 provides an overview of conformity of financial statements from 2011 to 2014 in terms of a number of articles of the NAO. In 2011 we listed all articles that were not complied with. The table compares the articles, with which the 2011 Financial Statement was not in compliance with the NAO, against subsequent years. We note that half of the articles that were not complied with in 2011 were resolved in 2013. The situation did not improve in 2014. We are surprised that the positive trend did not continue after 2013.

²¹ NAO (article 44, first paragraph).

²² NAO (article 45).

²³ AB 2014, no. 68.

²⁴ NAO (article 52, first paragraph).

²⁵ NAO (article 53, first paragraph).

²⁶ A 'surplus' (under budget) occurs when the income is less than budgeted. A 'deficit' (over budget) occurs when expenses and investments exceed the budget.

Table 2. Development legal compliance of NAO articles: 2011 to 2014

Compliance						
	Articles of NAO	Description	2011	2012	2013	2014
1	2	The budget, de multi-annual budget and the financial statement, together with the explanatory notes, provide sufficient information into the financial position as well as the income and expenses of the collective sector, so as to gain reasonable insight.	✗	✗	✗	✗
2	17	Templates, overviews and summaries are established by a regulation from the Minister of Finance.	✗	✓	✓	✓
3	20, first paragraph	The account of income and expenses, and the explanatory notes thereof, provide a reliable and systematic representation of the nature and scope of all income and expenses, including the balance thereof.	✗	✗	✗	✗
4	23, first paragraph	Do the balance sheet and the explanatory notes provide a reliable and systematic representation of the financial position of the country, as well as the scope and composition by asset and liability class at the end of the fiscal year?	✗	✗	✗	✗
5	24, fourth paragraph	Are investments explained in a separate chapter of the financial statement including proceeds and book value at the time of divestiture?	✗	✓	✓	✓
6	26, fifth paragraph	Is there a National Decree regarding general measures for specification of amounts below which investments are not capitalized?	✗	✗	✗	✗
7	29, section b	Is there an overview of unsettled subsidies, contributions and other transfers of income per contribution year, and an overview per fiscal year of settled subsidies, contributions and other transfers of income?	✗	✓	✓	✓
8	29, section c	Is there a summary for the last fiscal year and previous fiscal years of assessments, and the related potential future tax proceeds?	✗	✗	✗	✓
9	30	Does the cash flow statement provide a complete and detailed statement of specified changes by type of incoming and outgoing cash flow of the liquidity throughout the fiscal year?	✗	✓	✓	✓
10	31, section c	Are at least amendments to the budget included in the explanatory notes of the financial statement?	✗	✗	✓	✓
11	46, second paragraph	Has the Minister of Finance, or together with the respective minister, by National Decree, lent money to third parties?	✗	✗	✗	✗
12	52, first paragraph	Did the Minister of Finance draft the financial statement prior to September 1?	✗	✗	✓	✗

Composition errors

The NAO requires a specific composition for the financial statement.²⁷ We note that the 2014 Financial Statement contains all legally required summary templates.

Table 3. Completeness of the summary templates of the 2014 Financial Statement

Correctly filled out	45%
Incorrectly or incompletely filled out	55%

One of the main causes for the lack of information is, in our opinion, the absence of supporting financial documentation at ministerial level. The Minister of Finance does not receive the requisite supporting financial information from the other ministers or entities.²⁸ Appendix 1 provides an overview of the summary templates that are incomplete.

3.3 Our findings related to the uncertainties and errors in the financial statement

After four years, we note that there are still inadequate internal control procedures at all ministries. This leads to errors and material uncertainty in the financial statement. The uncertainties are also caused due to the lack of supporting documentation to verify the accuracy of the financial data in the statement. The errors in the files at the ministries result in errors in the financial statement.

Table 4. Overview: number of uncertainties identified in financial statement line items²⁹

	Number of items	% of the total
Identified uncertainties	83	73%
No uncertainties	31	27%
Total financial statement line items	114	100%

During the audit we determined that 73% of the line items in the 2014 Financial Statement were uncertain. We will discuss the two most important line items below.

Uncertainty regarding 'other short-term debt'

There is uncertainty regarding the accuracy of the valuation and the completeness of the debt to the General Pension Fund (*Algemeen Pensioenfonds-APS*), the outstanding costs to the General Insurance Special Medical Costs (*Algemene Volksgezondheid Bijzondere Ziektekosten-AVBZ*) and the Implementing Agency Social and Health Insurances (*Uitvoeringsorgaan Sociale Ziektekosten Verzekering-USZV*). Negotiations are currently underway with APS and USZV (including AVBZ) regarding the outstanding debt. There is a possibility that the debt will change significantly depending on the outcome of these negotiations.

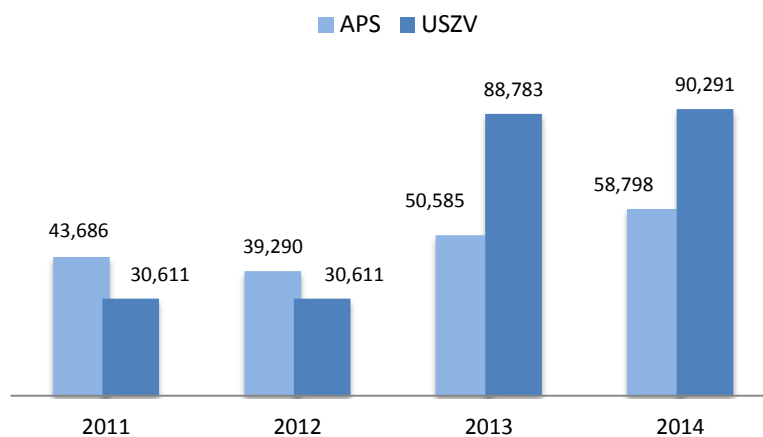
²⁷ NAO (chapter 3).

²⁸ Auditor's statement from SOAB based on the audit of the 2014 Financial Statement Sint Maarten, *uncertainties*, no.3.

²⁹ Financial statement line items are: all information in the items as stated in the explanation of the balance sheet and the account of income and expenses of the operational account.

There is uncertainty regarding the valuation of creditors and “other short-term debt” of respectively ANG 50.6 million and ANG 43.2 million, due to the lack of supporting documentation. As a result, we consider the creditors and other short-term debt budget items as uncertain. We emphasize that it is financially and socially important that the short-term debt of the APS (ANG 58.8 million) and USZV (ANG 90.3 million) is settled. Because of the debt, APS’ coverage ratio is too low.³⁰ In terms of USZV, the existence of debt means that there are fewer resources to meet the obligations as a health cost insurer. The following graph provides an overview of the short-term debt of both APS and USZV (including ABVZ).

Figure 1. Short-term debt APS and USZV (x ANG 1.000)



Uncertainties regarding personnel expenditures

There is uncertainty regarding the reported personnel expenses. The reason is due to the inadequacy of the setup and operation of the internal control procedure for the salary administration. In paragraph 4.4 we discuss the matter in detail.

We were unable to verify the accuracy of the medical insurance costs component of the personnel expenditure. The advance payments paid by Government to USZV have not been reconciled with the actual expenses. As a result, we consider the cost recorded in the financial statement as uncertain.

The challenges regarding personnel management have, for the last few years, been a recurring theme at the ministries. The legitimacy of the expenditure for personnel has, in the past four years, not been verified because of missing or incomplete personnel files.

We initiated an investigation regarding personnel expenditure for 2014 earlier this year. We review, among others, the completeness of personnel files in 2014 as compared to the situation in 2011. The results of this investigation will be presented early in 2016

Reliability errors

To verify whether the data presented in the financial statements complies with reliability standards, we review accuracy, completeness and availability of sufficient explanation. We

³⁰ Refer to our report *Audit of the 2013 Financial Statements of the Pension Fund Sint Maarten*.

note that, similar to previous years, the 2014 Financial Statement contains serious and extensive errors. The most significant reliability errors are listed in the following table.

Table 5. Most significant reliability errors in the 2014 Financial Statement

No.	Description	x ANG 1,000
1	The participation in the Development Bank of the Netherlands Antilles is overstated.	1.100
2	The cash (liquid assets) are overstated.	3.445
3	The provision for Winair is understated	612
4	The intrinsic value of the participation in GEBE is overstated in the explanatory notes.	7.700
5	The income from the Ministry TEATT is understated, and the income for the Ministry of Justice, is overstated. There was shift between the Ministry of Justice and Ministry of Tourism, Economic Affairs, Traffic and Telecommunication (TEATT) in terms of the budgeted excise taxes and actual receipts.	unknown
6	The explanatory notes of off balance sheet obligations are missing for the early retirement and cost-of-living allowance. Furthermore, there is no calculation for the early retirement and cost-of-living allowance. De deviation will have significant impact.	unknown
7	The explanatory note for the capital account on project basis is missing or incomplete.	-
8	The explanatory note for the carry-over projects at the end of the year is missing or incomplete.	-
9	The explanatory note for the guaranteed money institutions is missing or incomplete.	-
10	The explanatory note for other guarantee obligations is missing or incomplete.	-
11	The explanatory note for the off balance sheet obligation is missing or incomplete.	-
12	The explanatory note of subsidies and contributions issued to Government is missing or incomplete.	-
13	The explanatory note of the summary overview for the collective sector is missing or incomplete.	-
14	In the explanatory note for the participation Development Bank of the Netherlands Antilles, the level of participation is overstated (9.81% instead of 7.08%).	-
Total reliability errors		12.857

As was the case with the financial statements of 2011, 2012 and 2013, we note that the 2014 Financial Statement contains material errors and large uncertainties and is therefore *unreliable* once again.

Based on the information contained in the financial statement, we determined that the result for the 2014 fiscal year for Sint Maarten is a deficit of ANG 20.6 million.

3.4 **Opinion regarding financial management**

Opinion

We believe that the financial information contained in the financial statement is not in accordance with the budget and related regulations.

The uncertainties and errors in the 2014 Financial Statement are such that we conclude that the financial statement is unreliable.

3.5 **Recommendations: financial information**

Recommendations to the Minister of Finance

- make certain that Management Letters are issued on an annual basis by the *Stichting Overheidsaccountantsbureau* (SOAB) in order to provide ministers the opportunity to take corrective measures regarding the internal management at their respective ministries;
- ensure that the financial statement reliably and systematically records all income and expenses in an accurate fashion, thus improving the situation whereby the SOAB can issue an unqualified opinion.

4 OPERATIONAL MANAGEMENT

A minister is responsible for the operational management of his respective ministry. The policy on which the budget is based, has to be both effective and efficient, but the operational management of a ministry also has to be efficient.³¹ The Minister of Finance is responsible for drafting the financial statement. In support of the drafting of the financial statement, every minister must provide the Minister of Finance with the required relevant financial data and other information, in a timely fashion.³²

We reviewed the manner in which the Minister of Finance reported regarding the operational management of the ministries in the financial statement. Firstly, we will discuss the framework of standards that we use and the development in terms of operational management from 2011 to 2013. Thereafter we will discuss the various improvement plans related to financial management. We conclude with our opinion regarding the operational management as stated in the 2014 Financial Statement of Sint Maarten.

4.1 Standards

Operational management refers to the guidance and management of operational processes within a ministry in order to achieve policy objectives. It includes the guidance and management of both primary processes (implementation of policy) as well as supportive processes (operational management of ministries).

- An efficient primary process is present when the intended policy objectives are achieved against minimal cost.
- The primary process is effective when the policy objectives that are achieved also deliver the desired results.
- The supportive processes are efficient if the operational management of a ministry is managed at minimal cost.

4.2 Operational management development in financial statements 2011 to 2013

In the table below we show the trend in terms of the availability of information on the efficiency and effectiveness of executed policy, as well as the efficiency of operational management of ministries over the period 2011-2013.

Table 6. Availability of information regarding operational management

	2011	2012	2013
Does the financial statement contain (sufficient) information about the efficiency and effectiveness of executed policy?	✘	✘	✘
Does the financial statement contain (sufficient) information about the efficiency of the operational management of ministries?	✘	✘	✘

³¹ NAO (article 41, second paragraph).

³² NAO (article 52, first and second paragraphs).

In our report of the 2011 Financial Statement, we noted that there were many errors and uncertainties caused by inadequate management of internal operational processes, for example, the lack of resources, registrations, archives and regulations.

The 2012 and 2013 financial statements showed a few positive developments; in a number of areas there was improved compliance with the NAO, the summary templates were clearer and contained more explanation. Nevertheless, the operational management remained weak and financial management was unsuccessful, as evidenced by the errors and uncertainties in the financial statement.

4.3 Improvement plans IVB and PEFA

To determine whether the management of internal processes improved in 2014, we reviewed, among others, the implementation of the various improvement plans related to financial management. We made use of reports from BAK and Cft in this regard:

- Cooperation program Institutional Strengthening of Institutional Management 2008-2012 (*Samenwerkingsprogramma Institutionele Versterking Bestuurskracht 2008-2012* -IVB);
- Improvement Plan PEFA 2011-2015.³³

Once again, we note that the definitive versions of the improvement plans were not handled by the Council of Ministers nor were they presented to Parliament.

IVB 2008-2012

The objective of the IVB plan was supporting the constitutional transition of Sint Maarten to Country status within the Kingdom, as well as guaranteeing sustainable, good governance. The IVB was aimed at strengthening capacity of institutions, civil servants and those holding public office.

The ministries continue (despite training courses) to struggle with the lack of sufficient qualified staff. The financial position of Sint Maarten has not improved. There are not enough internal controls in place and the financial administration has not yet been elevated. In addition, the streamlining of the basic records and the introduction of citizen service numbers (*Burgerservicenummers*), required to modernize government, have not materialized.

Improvement Plan PEFA 2011-2015

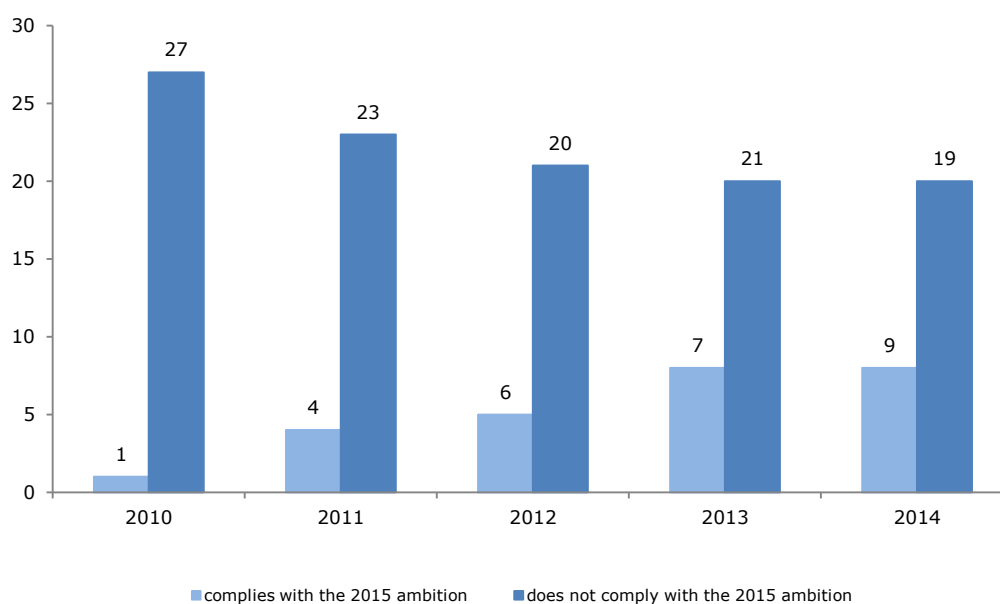
The Cft supervises the financial management and execution of the budget of the countries Curaçao and Sint Maarten. In order to objectively annually measure the financial management until 2015, the Cft uses the international standard: the PEFA-framework. This system is comprised of 28 indicators (including one or more sub-indicators) spread over six segments of financial management.

According to the Cft, the financial management on Sint Maarten improved slightly over the last years. Adequate financial management requires, according to the Cft, fundamental

³³ Performance Measurement Framework of the working group Public Expenditure and Financial Accountability.

improvement.³⁴ Next we provide the extent of improvement of the 28 PEFA-indicators, in the period 2011 to 2014 (2010 was the baseline).

Figure 2. Development of PEFA-indicators from 2011 to 2014³⁵



We recognize, just as Cft does, only a slight improvement. Critical indicators, such as the realization of the budget expenditures, Parliamentary budget oversight, and payment arrears, are lagging behind.

4.4 2014 Financial Statement: Operational Management

Based on our opinion of the 2012 Financial Statement, we considered issuing an objection if there was no improvement evident in the following financial statement, i.e. 2013. Six of the ten topics that we found objectionable were (partially) resolved. Although these improvements held off an objection, we believed that further improvement of financial management had to be prioritized. We insisted that the Minister of Finance develop a realistic plan within six months that would ensure that the identified shortcomings of the financial management would be resolved within a few years.

Financial Management Plan (2014-2018)

One year on, the plan has not been completed. None of the subsets of the plan have been formally presented to the Audit Chamber.

We noted that where procedures are in place at departments, they are not properly followed. We have encountered this situation before (for example in our audit regarding Optimizing Tax Revenue³⁶). Reasons for this are:

- Ineffective use of staff;
- staff members are not always aware of the rules and procedures;

³⁴ CFT, fifth Report, PEFA inventory financial management Sint Maarten, 2015, Chapter 4.

³⁵ One indicator was not measured in 2011 and two were not measured in 2012.

³⁶ General Audit Chamber (2014).

- the consequences of not following procedure is often unknown;
- there is no review of implemented procedures;
- lack of integrity: managers often do what they want to.

Establishing a department of internal control would offer a solution to the issue of “not following procedures”, in our opinion. It would also benefit the budget, the annual report and the multi-annual estimates. As an example, we use the procedure for the personnel and salary administration. The process for personnel and salary administration, in broad strokes, can be described as follows:

1. decision-making regarding appointment/promotion/termination;
2. processing revisions in the personnel and salary administration;
3. paying and settling income tax, social payments and third party deductions.

There is a ‘fixed’ file for government employees. This file changes based on appointments (hiring) and terminations. Changes, such as promotions and periodic increases (raises), result in changes to the gross salary. We believe that it is important to ensure that only authorized revisions can be made to the personnel and salary administration. That can be guaranteed if the following procedure is used.

1. Decision-making

The Department of personnel affairs prepares, on the basis of decisions taken by the designated authority, instructions for revisions to be processed by the Department of personnel and salary administration. These decisions/instructions are recorded in a decision register (name, function, salary scale, date in/out). The recorded decisions are summarized on a monthly basis and logged in the revision and status register. Monthly, the new status is calculated for the number of employees including gross salary (start status +/- changes = end status). The end status, according to the revision and status register, ‘predicts’ the result after the completion of processing revisions in the personnel and salary administration.

2. Processing revisions

Staff of the Department of personnel and salary administration processes the instructions for revisions issued by the Department of personnel affairs. Another member of staff who is not involved in the recording of changes, checks a report of these revisions. The controller will sign off on the report of revisions as evidence of internal control.

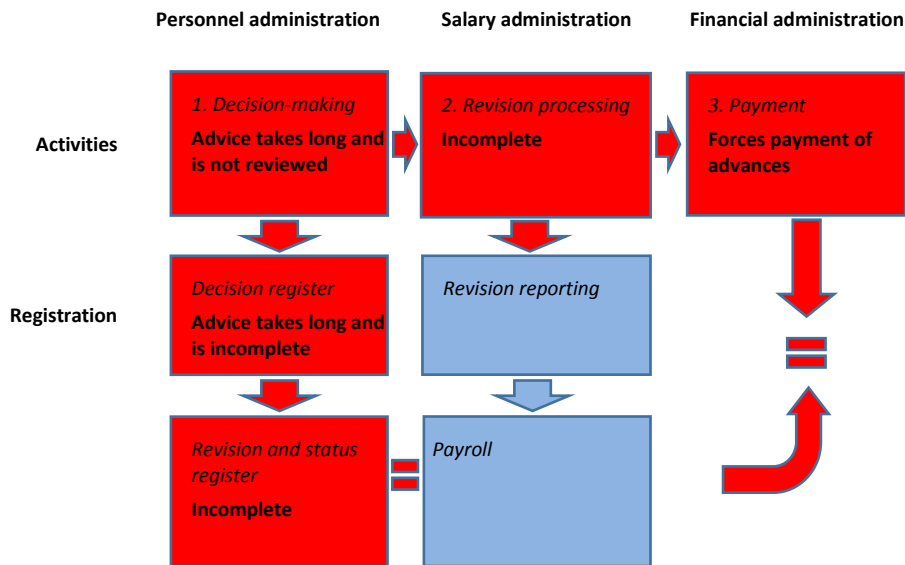
3. Payment

After processing of all revisions, the payroll is printed. The payroll is presented to the Department of Finance for disbursement, after the head of the salary administration department approves it. The staff member from the Department of personnel affairs confirms the total number of government employees and the total gross salary against the totals from the previous payroll. The same is done for the disbursement list sent to the various banks for payment.

Because the result of each element of the process is recorded it is possible, on a monthly basis, to simply and efficiently verify that the salary administration is accurate and complete, and coincides with the status register. The following graphic illustrates how we believe the process of personnel and salary administration currently operates on Sint

Maarten. Based on inquiries we learned of challenges to the process.³⁷ The elements shown in red are the problem areas within that process. These problems can be resolved by improving internal controls.

Figure 3. Current sequence of the process for personnel and salary administration



4.5 Opinion regarding operational management

Opinion

We believe that the 2014 Financial Statement inadequately gives account for the implemented financial and material management.

Our opinion is that this situation is avoidable and unacceptable because the ministers do not take the requisite responsibility.

4.6 Recommendation regarding operational management

Recommendation to the Minister of Finance

- complete the subsets of the plan for the improvement of the financial management by the first quarter of 2016. Formulate the subsets as specific, measurable, up-to-date, realistic and time-related as possible;
- formalize the plan (including subsets) by National Decree no later than May 1st, 2016, and present the plan to Parliament and to us;
- keep Parliament and us informed of the progress in carrying out the plan, and specifically, the execution of the subsets of the plan.

³⁷ Refer to verification of identified challenges in email from Head of Financial Accounting, dated November 13th, 2015.

5 REACTION OF THE MINISTER AND EPILOGUE

5.1 Reaction of the Minister of Finance

The minister writes:

The following is the translated text of the letter.

To: The General Audit Chamber Sint Maarten
Attn: Mr. Ronald Halman, Chairman
E. Camille Richardson St. #13
Philipsburg, Sint Maarten

Date: December 2nd, 2015
Ref: 1127a/15
Subj: Compliance audit 2014 Financial Statement Sint Maarten

Esteemed Mr. Halman,

I received your report shortly after I took office as Minister of Finance. In said report you provide an impression of the financial management and the quality of the financial accountability of Country Sint Maarten based on the 2014 Financial Statement. You also provide recommendations for improvement. I hereby provide my reaction to your report.

Recommendations regarding policy information:

-“Recommendations to individual ministers”

- The recommendation is logical and clear. However, given that a new cabinet recently took office, it is impossible to immediately implement the recommendation. These recommendations will be discussed, in the near term, with all ministers. Ideally, policy objectives and financial performance should be linked in the 2016 budget. But it is unrealistic to expect this to occur prior to the 2017 budget. Currently, attention is being given to ongoing issues, such as monitoring the 2015 budget as well as quality requirements set forth by the Kingdom Council of Ministers.

-“Recommendations to the Minister of Finance”

- Each minister is responsible for monitoring their respective budget and implementing ministerial policy intentions. Although plans can be drafted based on timely and interim information from ministers, in the end it is dependent on joint cooperation;
- A financial statement can only report per ministry regarding achievement of policy intentions, the costs and effects thereof, if there is a policy-based budget. The expectation is that such a budget will be achieved in fiscal year 2017.

-“Recommendations to Parliament”

- In order to achieve approval of the 2016 budget prior to the end of January 2016, it is not possible to include all desired policy performance and results due to policy in that budget. Based on your recommendation, it is desirable, in future, to present Parliament with the policy-based budget. Only by means of a policy-based budget can Parliament remain informed of results, costs and effects on policy per ministry, as is required by law.

Recommendations regarding financial information:

-“Make certain that Management Letters are issued on an annual basis by the SOAB.....”

- After consultation with the SOAB, this is possible and should not be a problem.

-“Ensure that the financial statement reliably and systematically records”.

- The Plan for Improvement of Financial Management (2015-2017), seeks to eliminate all structural shortcomings. This will hopefully lead to the SOAB issuing an unqualified opinion.

Recommendations regarding operational management:

- *"Complete the subsets of the plan for the improvement of the financial management by the first quarter of 2016. Formulate the subsets as specific, measurable, up-to-date, realistic and time-related as possible;"*

o Currently, the Department of Financial Accounting is collaborating with the SOAB to finalize the subsets of the Plan. These will be ready in March 2016.

-*"Formalize the plan (including subsets) by National Decree no later than May 1st, 2016, and present the plan to Parliament and to us;"*

o The Plan for improving financial management was already approved and formalized by means of National Decree LB-15/0625, exclusive the subsets;

o Subsets of the Plan relate to the operational implementation of tasks contained in the Plan itself, and as such, are constantly subject to amendment. If we formalize the subsets by means of National Decrees as recommended, the implementation can be hindered due to among others:

- a. little or no flexibility to allow change
- b. unnecessary delay in implementation

-*"Keep Parliament and us informed of the progress in carrying out the plan, and specifically, the execution of the subsets of the plan."*

o A steering group has been established to monitor the implementation of the Plan. There is also a project coordinator. A project leader will be responsible and also supervise the execution of tasks per subset of the Plan;

o The project leaders report on a monthly basis to the project coordinator, who in turn reports on a quarterly basis to the steering group;

o The steering group will report on a quarterly basis to the Minister of Finance so that he can inform the Council of Ministers;

o After approval by the Council of Ministers, these reports will be sent together with quarterly reports to Parliament and the Audit Chamber.

For sake of completeness, I note that in the overview of reliability errors in table 5 of your report, erroneously reports information from the elucidation of the financial statement. Specifically, the error relates to the (ANG 7.7 million) overstatement of the intrinsic value of the participation in GEBE as reported in the elucidation of the 2014 Financial Statement. This is separate from the valuation on the balance sheet. The total of reliability errors of ANG 12.9 million, as currently stated, provides a distorted view of the actual amount of reliability errors on the balance sheet and the profit & loss statement. I therefore request that you change this to ANG 5.2 million.

Finally, I wish to emphasize that the Plan for the Improvement of Financial Management 2015-2017 is, in fact, an acknowledgement of the necessity of structural improvement by means of a multiannual project. Expectations are that the initial results of the Plan for the Improvement of Financial Management will be evident in the 2015 Financial Statement.

Respectfully,

Richard Gibson
Minister of Finance Sint Maarten

5.2 Epilogue

On November 26th, we sent the draft final report to the Minister of Finance in keeping with the consultation phase of our audit. His reaction was received on December 3rd, which is included in its entirety in our report. Based on our procedure, we presented an epilogue, in the form of a letter, to the Minister of Finance. The following is the content of that correspondence.

“We have taken note of your response whereby you state that the Plan serves as an acknowledgement of the necessity for structural improvement. You state in your letter that initial results from the Plan will become evident in the 2015 Financial Statement. We feel this is a positive intention. Furthermore, we take note of your optimistic reaction to our recommendations. Nevertheless, you indicate that in terms of the recommendations issued to individual ministers, follow up is not realistic until budget 2017.

Despite intentions to improve the quality of the financial statement in future, we conclude that five years since attainment of country-status, the executive branch has not been successful in terms of presenting an adequate and auditable financial statement. We therefore look forward to observing the promised measures outlined in your correspondence. For example, you mention that the Department of Financial Accounting is presently collaborating with the SOAB in order to finalize the subsets of the Plan for the Improvement of Financial Management. These subsets will be completed by March 2016, and we look forward to receiving them.

Moreover, you indicate that the Plan was already approved and formalized by National Decree (LB15-0625), with exception of the subset plans. In this regard, please note that we are of the opinion that the National Decree is inexpertly formulated. The Decree in question only indicates that action will be taken regarding the concerns that, among others, the Audit Chamber expressed in terms of the financial management of Government. However, nowhere is it explicitly stated that the Plan has been, in fact, formalized.

You further mention that the overview of reliability errors in table 5, incorrectly reports information in the elucidation. It relates to the overstatement of the intrinsic value of the participation in GEBE N.V. of ANG 7.7 million. We note the following in this regard:

We concur with your contention that the ANG 7.7 million is separate from the valuation of the participation reported on the balance sheet. Nonetheless, we perceive that the amount is incorrectly recorded in summary template number 6, thus affecting the reliability of the financial statement. In terms of “reliability”, we reviewed the accuracy, the completeness and the sufficiency of the elucidation. We presented the reliability errors using an summary in the form of table 5, which we quantified, as much as possible based on available data.

Finally, based, in part on our recommendations, the General Audit Chamber looks forward to future improvement of the situation regarding financial management and the associated quality of the financial statements”.

APPENDIX 1

Table 7. Incomplete summary templates

#	Summary template	Completed	Accurate and Complete
4	Investment on project basis	No	
5	Carry over projects at year end	No	
9	Guaranteed monetary loans	No	
10	Other guarantee obligations	No	
11	Off balance sheet obligations	No	
12	Tax assessments for the fiscal year and previous years	Partly	No linkage with supporting sub-administrations and insufficient supporting documents for the estimate of future income regarding outstanding assessments as of December 31, 2014
14	Specifications of subsidies	Partly	No insight in accordance with art 29, section a of the NAO ³⁸
15	Development of the subsidies and contributions issued to Government	No	
16	Balance sheet for the collective sector	Partly	9 of 16 entities are not recorded (56%). Of 7 of the recorded entities, one (14%) did not provide information to allow verification of the information.
17	Account of income and expenses of the Collective Sector	Partly	See no. 16

³⁸ An overview of pending settlements to institutions, contributions and other income transfers, per contribution year as well as a summary of the settled subsidies, contributions and other income transfers.

ABBREVIATIONS

APS	General Pension Fund Sint Maarten (<i>Algemeen Pensioenfonds Sint Maarten</i>)
AVBZ	General Insurance Special Medical Costs (<i>Algemene Volksgezondheid Bijzondere Ziektekosten</i>)
BAK	Interior Affairs and Kingdom Relations (<i>Binnenlandse Zaken Koninkrijk Aangelegenheden</i>)
BTP	Bureau Telecommunication & Post (<i>Bureau Telecommunicatie & Post</i>)
Cft	Council for Financial Supervision Sint Maarten and Curaçao (<i>College financieel toezicht Sint Maarten en Curaçao</i>)
NAO	National Accountability Ordinance
IVB	Institutional Strengthening Public Administration (<i>Institutionele Versterking Bestuurskracht</i>)
NGAC	National Ordinance General Audit Chamber
ML	Management letter
PEFA	Performance Measurement Framework of the workgroup Public Expenditure and Financial Accountability
SOAB	Stichting Overheidsaccountantsbureau
USZV	Implementing Agency Social and Health Insurances (<i>Sociale Ziektekosten Verzekering</i>)
TEATT	Ministry of Tourism, Economic Affairs, Traffic & Telecommunication
VUT	Early Retirement (<i>Vervroegde Uitdiensttreding</i>)

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General Audit Chamber

Algemene Rekenkamer

