



General Audit Chamber  
Algemene Rekenkamer



**Compliance Audit:**

# 2019 Financial Statements St.Maarten

MARCH 2022



General Audit Chamber

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*This document is an English translation of the original Dutch language report entitled: "Rechtmatigheidsonderzoek: Jaarrekening 2019 Land". In the event of textual contradictions or any other differences, the original Dutch text prevails.*

**March 2022**

General Audit Chamber, Juancho Yrausquin Blvd #10, units 4 & 5.

## PREFACE

Here is our report on the Government of Sint Maarten's 2019 Financial Statements. Financial statements are supposed to show the net financial results for a specific year (in this case, 2019). As such, the financial statements play a critical role in allowing a reader to understand Government's financial performance. The information contained in the financial statements must be complete, accurate, and auditable. Over the past ten years, this information has been deficient, resulting in a disclaimer of opinion; it is impossible to determine whether the financial statements are adequate (primarily because of the lack of information).

This situation makes it impossible for the Parliament to substantively and, based on accurate facts, release the Minister(s) of their financial responsibilities (also called discharge). We can only express the hope that the financial management will fundamentally improve with the upcoming plans defined in the Country Packages.

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## SUMMARY

The Government's Financial Statements are the pre-eminent document in which Ministers give account to the Parliament for the financial management of a specific fiscal year. We examine the efficient and legitimate (legally compliant) use of public funds in this process.

The 2019 Financial Statements contain irregularities and deficiencies. There were expenses for which no funds were budgeted and unrealized or lower than budgeted revenues. We conclude that the 2019 Financial Statements do not present a true and fair representation of the financial position as of December 31, 2019, and the income and expenses for 2019.

The 2019 Financial Statements should have been prepared by September 1, 2020. We received the 2019 Financial Statements on October 20, 2021. By the law, we report to the Parliament within six weeks of receiving SOAB's report, in this case, provided on February 25, 2022. We reported within six weeks, thereby complying with our legal obligation.

In our opinion, the SOAB (Stichting Overheids Accountants Bureau) has correctly issued an adverse audit opinion regarding financial legal compliance. Both the 2019 National Budget and the 2019 Financial Statements fail to contain the information required by the [National Accountability Ordinance](#) (Hereafter: NAO). As long as the budget does not follow the NAO, the budget cannot serve as a standard for the financial statements.

With the third financial statement presented in less than a year, the Government is seeking to make up ground in terms of tidying up the management of its finances. We consider this a positive development, although a quality improvement is still absent. We hope that financial management will fundamentally improve with the implementation of the [country packages](#).

We have provided the Minister of Finance the opportunity to respond to our report. This opportunity has been left unused.

## DISCHARGE

We advise the Parliament on whether to grant a discharge. Discharge is the final stage of the budget cycle and means that the Parliament either approves or disapproves of financial management carried out by the Ministers.

Given the implementation plans and the execution of the upcoming Country Packages related to fundamentally improving financial management, we recommend that the Parliament grant discharge for the fiscal year 2019 while noting that the Parliament should consider the following items:

1. Structurally facilitate the Parliament by providing policy information in the financial statements. Without clear information, it is impossible to check whether the expenditure of public funds is legitimate and effective and whether policy intentions are achieved;
2. Fully comply with the rules outlined in the National Accountability Ordinance;
3. Prepare the draft National Ordinance establishing the Financial Statements on time; and
4. Hold the relevant minister responsible when accountability information is not forthcoming.

## 1. OUR AUDIT

### 1.1 Basis and scope of the audit

Examining the Government's Financial Statements is one of our core tasks.<sup>1</sup> Our report becomes public once we present it to Parliament.<sup>2</sup> With our report, we facilitate the Parliament by providing information on the financial management conducted for a specific fiscal year, in this case, 2019.

### 1.2 The audit questions

In this report, we answer the following audit questions:

1. Do the Government's 2019 Financial Statements 2019 provide a true representation of the financial position as of December 31, 2019, and the income and expenses for the [collective sector](#)<sup>3</sup> for the period January 1 to December 31, 2019?<sup>4</sup>
2. Are the 2019 Financial Statements prepared in accordance with the relevant regulations?
3. Were the income, expenditures, and balance sheet drafted in accordance with the approved 2019 National Budget<sup>5</sup> and other regulatory requirements?
4. Did the ministers provide an orderly and verifiable financial management in 2019?

### 1.3 Reading guide

- Chapter 2: reliability and content of the 2019 Financial Statements;
- Chapter 3: Are income and expenditures legally compliant?
- Chapter 4: Was there orderly and auditable financial management?

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1 Article 23 of the National Ordinance on the General Audit Chamber and Article 53, third paragraph of the NAO.

2 Article 100, paragraph 4, of the Constitution.

3 The government and institutions that implement social services: facilities that are paid for collectively and that everyone may use.

4 Article 2 of the NAO.

5 Article 23, paragraph 2 of the National Ordinance General Audit Chamber Sint Maarten.

## 2. THE FINANCIAL STATEMENTS

Each Minister bears responsibility for providing all financial information to the Minister of Finance in a timely and comprehensive manner.<sup>6</sup> The Financial Statements must be accurate, complete, and comprehensive to allow the evaluation of the financial management conducted by Ministers.<sup>7</sup>

### 2.1 Were the financial statements presented on time?

The 2019 Financial Statements need to be prepared before September 1, 2020.<sup>8</sup> The [Committee for Financial Supervision](#) (Cft) receives the Financial Statements (draft or otherwise) no later than August 31.<sup>9</sup> We received the 2019 Financial Statements on October 20, 2021.<sup>10</sup> Upon receipt of SOAB's report (on February 25, 2022), we are required to report to Parliament within six weeks.

On a related note, in the preface to the Financial Statements 2019, the Minister of Finance explains that the position of the Head of Accounting, which is vital for the financial statements, is vacant. As of 2022, the position remains unfilled. We recommend filling the position soon.

### 2.2 What is the result in 2019?

For the fiscal year 2019, the result is a deficit of ANG 20 million. The budget projected a negative result of ANG 71 million. The improvement of ANG 51 million is the higher-than-expected revenue (ANG 41 million) and lower cost (ANG 10 million).

### 2.3 Deviation from the Kingdom Act Financial Supervision Act

A budget is balanced.<sup>11</sup> In exceptional circumstances, deviation from that rule is possible.<sup>12</sup> Due to the aftermath of Hurricane Irma, the Kingdom Council of Ministers (RMR) agreed on November 23, 2018, to deviate from the budget standards for the 2019 budget.<sup>13</sup>

### 2.4 Do the 2019 Financial Statements present a true and fair representation?

The financial statements provide a true representation of the financial situation if the figures are correct and complete. They must be explained. Without this, it is not possible to form an opinion on the implementation of the Government's financial policy.<sup>14</sup> This applies to the budget, multi-annual, and financial statements.

The liability for the cost-of-living supplement of ANG 123 million to be paid at a future date has not been accounted for as a provision on the balance sheet (but is explained in the notes to the balance sheet).<sup>15</sup> We consider this to be a material reliability error.

After all, according to article 28 of the NAO, a provision is formed for (among other things) obligations and losses where the magnitude is uncertain as of the balance sheet date but which can reasonably be estimated. This concerns an obligation to pay the cost-of-living supplement. The amount of the supplements to be paid is not precisely known but can be reasonably estimated at ANG 123 million.<sup>16</sup>

In addition, we still observe reliability errors up to an amount of ANG 9 million. Given the total scope of the errors, we issue a negative opinion on the 2019 Financial Statements.

<sup>6</sup> Article 52, first and second paragraphs of the NAO.

<sup>7</sup> Article 2 of the NAO.

<sup>8</sup> Article 52, paragraph 1, of the NAO.

<sup>9</sup> Article 18 of the Kingdom Financial Supervision Act.

<sup>10</sup> E-mail from the secretary general of the Ministry of Finance dated October 20, 2021

<sup>11</sup> Article 15 Kingdom Financial Supervision Act.

<sup>12</sup> Article 25 Kingdom Financial Supervision Act

<sup>13</sup> Letter from Committee for Financial Supervision dated September 2, 2019.

<sup>14</sup> Article 2 of the NAO.

<sup>15</sup> C.6.10, Off-balance sheet rights and obligations

<sup>16</sup> Based on recently performed actuarial calculations.



## 2.5 Uncertainties

There are insufficient internal checks and controls to ensure that the recording of the results of processes for the purchase of goods and services, granting of subsidies, payment of salaries, and the assessment and collection of taxes and fees are correct and complete. Appendix 1 shows all material uncertainties along with their financial impact.

## 2.6 Have policy intentions been realized?

Ministers are required to submit estimates (including explanations of policies to be implemented) to the Minister of Finance by May 1.<sup>17</sup> For the policy intentions included in the budget, three W-questions are posed. For the financial statements, three H-questions are applicable. Figure 1 shows the questions.

Figure 1 The three W and H questions

The budget questions:



The questions for the financial statements:



Both the 2019 Budget and the 2019 Financial Statements, like in previous years, do not contain the information required by the NAO. As such, we cannot assess whether and to what extent the policy intentions have been realized. As long as the budget is not prepared following the NAO, the budget cannot serve as a standard for the financial statements.

## 2.7 Are the 2019 Financial Statements prepared in accordance with the National Accountability Ordinance?

The 2019 Financial Statements were not compiled in full accordance with the NAO. For example, not every investment is adequately disclosed in the capital account memorandum, and the statement of income and expenses does not reliably and systematically reflect the character and magnitude of the investment. The 2019 Financial Statements include all mandatory summary template statements prescribed by law. Two summary templates are not/not fully completed (summary template statements 12 and 14).<sup>18</sup>

## 2.8 Opinion

### Our Opinion

In our opinion, the 2019 Financial Statements 2019, along with the explanatory memoranda, do not provide a true and fair representation of the financial position and results of operations and have not been prepared in accordance with all the provisions of the NAO.

With regard to the content of the Financial Statements, we believe that improvement is still necessary. As in previous years, the explanation of these Financial Statements is inadequate concerning the realization of policy intentions.

<sup>17</sup> Article 34 of the NAO.

<sup>18</sup> Summary template statement 12 refers to assessments levied in the fiscal year and the prior fiscal year. Summary template statement 14 relates to the subsidies in detail.

### 3. LEGAL COMPLIANCE OF INCOME AND EXPENSES

In this chapter, we assess whether the income, expenditure, and changes to the balance sheet were carried out in accordance with the 2019 National Budget and other relevant regulations. We call this financial legal compliance.

#### 2.9 Implementation of the 2019 Budget

The Minister of Finance is required to issue a report three times during a fiscal year regarding the execution and realization of the budget. These reports are called memoranda.<sup>19</sup> We did not receive these memoranda during the 2019 fiscal year. However, we received quarterly reports. We contend that the quarterly reports are not identical to the memoranda referred to in article 44 NAO. The quarterly reports, for example, do not address changes needed in the budget or the consequences for the multi-annual budget.

#### 2.10 Compliance errors

There are compliance errors when income, expenditure, or balance sheet changes do not correspond to the National Budget or any other statutory regulation. Table 3 presents total budgetary overruns and underruns for the Parliament and the ministries.<sup>20</sup>

Table 3: Total over- and under-expenditures

Parliament and ministries	Overruns (X ANG 1,000)	Underruns (X ANG 1,000)
Parliament	4,134	5,580
General Affairs	15,417	16,346
Finance	10,689	26,355
Justice	11,666	12,756
Education, Culture, Youth, and Sports	2,496	5,505
Tourism, Economic Affairs, Transportation and Telecommunications	4,465	41,119
Public Housing, Spatial Planning, Environment, and Infrastructure	395	6,015
Public Health, Social Development, and Labor	20,173	6,743
<b>Total</b>	<b>69,435</b>	<b>120,419</b>

Table 3 presents total overruns of ANG 69 million. Along with the overruns, there are also underruns (underutilization). When these are settled against each other, the result is a net underrun of ANG 51 million. The government has the option of adjusting the budget through amendments.<sup>21</sup> Impending overruns must – as much as possible – be prevented using timely and appropriate measures.<sup>22</sup>

#### 3.3 Opinion

##### Our opinion

Income, expenditures, and changes to the balance sheet were not achieved in accordance with the 2019 National Budget and other relevant regulations (such as the NAO). We have not established the existence of improvement compared to previous years.

<sup>19</sup> Article 44, paragraph 1, of the NAO.

<sup>20</sup> 2019 Financial Statements Government of St. Maarten, Summary Template Statement 18.

<sup>21</sup> Article 44, of the NAO requires that the provisional reports and the possibility to submit a budget amendment occur three times during the year: on May 15, August 15, and November 15.

<sup>22</sup> Article 48, first paragraph of the NAO.

## 4. FINANCIAL MANAGEMENT

In this section, we discuss our findings regarding [orderly and auditable financial](#) management

### 4.1 The shortcomings

Deficiencies (risks to the reliability and comprehensiveness of the financial statements) have a negative impact on an auditor's unqualified opinion. Deficiencies were present in all ministries. Table 4 presents the top 5 serious (and long-lasting) [shortcomings](#).

**Table 4: Overview of serious and long-term shortcomings**

No.	Deficiency (Since October 10, 2010)	Description
1	Wages and Salaries	Inadequate structure and functioning of internal procedures.
2	Goods and services	Inadequate structure and functioning of internal procedures and lack of adequate audit information.
3	Tax revenue	The settlement of suspense accounts is not transparent, and there is inadequate internal control of refunds.
4	Cost of social services	Inadequate structure and functioning of internal procedures and lack of adequate audit information.
5	Scholarships, grants, and transfers	Inadequate structure and functioning of internal procedures and lack of adequate audit information.

There are inadequate internal audit procedures in every ministry.<sup>23</sup> This has resulted in [material uncertainties](#) with a significant impact on the financial statements.

### 4.2 Improvement as compared to 2018 Financial Statements

SOAB's audit report stated that additional (though not sufficient) audit evidence had been received compared to the two previous years. Also, a contact person with technical and operational knowledge was appointed. We believe these are minor improvements in favor of the audit process.

### 4.3 Opinion

#### Our opinion

With the Government's efforts to make up ground in the delivery of the 2019 Financial Statements, the groundwork is being laid for a possible systematic improvement in complying with the legal deadlines. Concerning the recently submitted Financial Statements for 2017, 2018, and 2019, we observe that improvement in the quality remains weak. However, minor improvements are apparent in terms of the audit process. With the implementation of the Country Packages, the objective is to substantially improve both the process and the content of the Financial Statements over the next few years.

<sup>23</sup> Based on findings from SOAB. For example: topics that occur in each ministry such as: "Goods and Services" and "Personnel Costs".

## APPENDIX 1: IDENTIFIED UNCERTAINTIES IN THE FINANCIAL STATEMENTS BY LINE ITEM

LINE ITEMS	Scope in ANG x 1 million	Uncertainty in ANG x 1 million	Magnitude in %
<b>BALANCE SHEET</b>			
Tangible fixed assets	171	14	8
Financial assets	428	25	6
Current assets	226	190	84
Equity capital	-113	113	100
Short-term debt	361	180	50
<b>Total Balance Sheet</b>	<b>1,649</b>	<b>522</b>	<b>32</b>
<b>INCOME</b>			
Taxes	353	NQ	N/A
Licenses	21	NQ	N/A
Concession and fees	57	0	N/A
Contributions and subsidies received	5	0	N/A
Other income	17	NQ	N/A
<b>Total income</b>	<b>453</b>	<b>NQ</b>	<b>N/A</b>
<b>EXPENDITURE</b>			
Personnel	212	NQ	N/A
Goods and services	119	NQ	N/A
Social provisions	38	NQ	N/A
Scholarships	4	0	N/A
Subsidies and transfers	95	56	57
(Reversal) write-off of assets	-21	0	N/A
Depreciation	11	0	N/A
Allocation to / release from provisions	1	0	N/A
Interest	13		N/A
<b>Total expenditure</b>	<b>473</b>	<b>56</b>	<b>14</b>
<b>Total expenditure and income</b>	<b>926</b>	<b>56</b>	<b>6</b>
<b>Total balance sheet, expenditure, and income</b>	<b>2,575</b>	<b>578</b>	<b>22</b>

NQ = not quantifiable; N/A= not applicable

### Amendment to the calculation methodology

Before 2022, entries in the financial statements were classified as completely uncertain if the quality of the administrative organization was deficient. Starting in 2022, we are applying a different calculation method, consistent with the method of calculation used by the internal auditor (SOAB). Where we conclude that the amount of uncertainty in an entry is not quantifiable, we report it as "not quantifiable" (NQ). This results in a lower uncertainty of the "total balance sheet, expenses, and revenues" (22% total uncertainty in the 2019 financial statements, compared to, for example, 45% total uncertainty in the 2018 financial statements).

For clarity, we note that this does not imply that the level of uncertainty has declined; instead, the method of calculation has been adjusted.



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