



General Audit Chamber

Algemene Rekenkamer



COMPLIANCE AUDIT:

Financial Statements 2021 St. Maarten

JANUARY 2023



General Audit Chamber

Algemene Rekenkamer

*This document is an English translation of the original Dutch language report entitled:
"Rechtmatigheidsonderzoek: Jaarrekening 2021 van het Land". In the event of textual contradictions or any
other differences, the original Dutch text prevails.*

January 2023

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

PREFACE

This is our report on the 2021 Financial Statements of Government of Sint Maarten. The General Audit Chamber investigates the lawful and efficient use of public funds. The financial statement is the pre-eminent accountability document that should reveal whether Government's objectives were achieved lawfully and efficiently. Subsequently, it is up to Parliament to discharge each minister, thereby releasing that minister from any financial responsibility.

The 2021 Financial Statements, like those of all preceding years, could be more reliable, making it difficult, if not impossible, to use the actual figures to prepare Government's subsequent budget. Parliament needs to be provided with sufficient insight to make a substantive assessment of whether there was sound financial management and whether policy objectives were achieved.

Sound financial management produces, among other things, more efficient use of tax money, greater public confidence in government, higher tax revenues, improved likelihood of higher compliance, a reduced probability of corruption, decreased financial dependence on the Kingdom, and the elimination of (temporary) higher financial supervision.

CONTENT

Summary	1
Discharge	2
1 Our Audit	3
1.1 Basis and scope of the audit	3
1.2 The audit questions	3
1.3 Reading Guide	3
2 The Financial Statements	4
2.1 Were financial statements delivered on time?	4
2.2 What is the 2021 result?	4
2.3 The Kingdom Financial Supervision Act	4
2.4 Does the 2021 Financial Statements present a true and fair view?	4
2.5 Are there uncertainties in accountability?	5
2.6 Have the policy intentions been realized?	5
2.7 Have the 2021 Financial Statements been prepared according to the National Accountability Ordinance?	5
2.8 Are there improvements over previous years?	5
2.9 Opinion	6
3 Legal Compliance of Income And Expenses	7
3.1 Implementation of the 2021 National Budget	7
3.2 Legal compliance errors	7
3.3 Opinion	7
4 Financial Management	8
4.1 The shortcomings (deficiencies)	8
4.2 Opinion	8
5 Reaction of the Minister and our epilogue	9
5.1 Reaction of the Minister of Finance	9
5.2 Our epilogue	10
Appendix 1: Identified uncertainties by line item	11

SUMMARY

With our findings and opinions, we seek to contribute to ensuring that financial management is conducted in an orderly and auditable manner, thereby ensuring that public money is spent in a lawful, efficient, and effective manner.

By law, the 2021 Financial Statements must be sent to us on September 1, 2022. We received the final approved Financial Statements on November 7, 2022. By law, we report to Parliament within one and a half month of receiving SOAB's report. Accordingly, we received SOAB's report on December 21, 2022. This marked the start of our statutory time limit. As such, we presented this report to Parliament within the statutory period of 6 weeks.

The 2021 Financial Statements contain reliability errors and uncertainties. We conclude that the 2021 Financial Statements do not present a true and fair view of the financial position as of December 31, 2021, or the income and expenses for 2021.

In our opinion, the internal auditor (SOAB) correctly issued an adverse audit opinion regarding financial compliance. Expenditures were incurred for which no funds were budgeted, income was not realized, or was lower than budgeted. Both the 2021 National Budget and the 2021 Financial Statements lack the information required by the National Accountability Ordinance ([NAO](#)). Unless the budget is prepared in accordance with the NAO, the budget cannot serve as a standard for the financial statements.

DISCHARGE

Discharge is the final part of the budget cycle and means that Parliament decides whether to approve the Ministers' financial management.

We advise Parliament to ensure that upcoming financial statements show significant improvements and recommend that Parliament actively monitors this. After all, the quality of the 2021 Financial Statements does not facilitate Parliament with important information to assess whether the financial management of one or more Ministers was adequate.

We recommend that Parliament grant discharge, subject to the following comments:

1. Arrange for Government to present the draft National Ordinance adopting the Financial Statements to Parliament within one month of the submission of the General Audit Chamber report.
2. Ensure Parliament is consistently provided with policy information in the financial statements. Without clear information, verifying whether public funds were lawfully and efficiently spent and whether policy intentions have been realized is impossible.
3. See to it that Government prepares the memoranda in accordance with the National Accountability Ordinance. Even if Government issues quarterly reports, these are not equivalent to the memoranda specified in Article 44 NAO. By way of example, quarterly reports do not include information (by law) on required budget amendments or their impact on the multiannual budget.
4. Ensure that Government is in complete compliance with the rules contained in the National Accountability Ordinance; and
5. Call the relevant Minister to account when accountability information is absent.

1 OUR AUDIT

1.1 Basis and scope of the audit

The review of Government's Financial Statements is one of the most important tasks of the General Audit Chamber.¹ When we present our report to Parliament, we are facilitating Parliament with information on the financial management conducted for (in this case) 2021. Parliament uses our report when considering whether to grant discharge.

1.2 The audit questions

In this report, we answer the following audit questions:

1. Do the 2021 Financial Statements of Sint Maarten present an accurate and fair view of the financial position as of December 31, 2021, together with income and expenses for January 1 through December 31, 2021,² of the [collective sector](#)?³
2. Have the 2021 Financial Statements been prepared following the prescribed requirements?
3. Have the income, expenses, and balance sheet changes for 2021 been established according to the 2021 National Budget that entered into force⁴ and with other legal requirements?
4. Have ministers provided orderly and accountable financial management in 2021?

1.3 Reading Guide

- Chapter 2: Reliability and structure of the 2021 Financial Statements;
- Chapter 3: Are income and expenses compliant with the law?
- Chapter 4: Was financial management orderly and auditable?

¹ Article 23 of the National Ordinance General Audit Chamber and Article 53, paragraph 3 of the NAO.

² Article 2 of the NAO.

³ Government and institutions that implement social security: benefits that are collectively paid for and available to all.

⁴ Article 23, second paragraph of the National Ordinance General Audit Chamber Sint Maarten.

2 THE FINANCIAL STATEMENTS

Each minister is responsible for timely and complete reporting of all financial information to the Minister of Finance.⁵ Financial statements should be accurate, complete, and sufficient to allow Ministers' financial management to be evaluated.⁶

2.1 Were financial statements delivered on time?

The 2021 Financial Statements are due by September 1, 2021.⁷ We received an initial version of the 2021 Financial Statements on September 11, 2021. On November 7, 2021, we were provided with an amended version reflecting changes made to reflect a correction in the valuation of a Princess Juliana International Airport loan. After receiving SOAB's report on December 21, 2022, we submitted our report to Parliament within the statutory six-week time limit.

2.2 What is the 2021 result?

The result for the fiscal year 2021 is a negative ANG 95 million. The budget closed with a deficit of ANG 241 million.⁸ The ANG 146 million reduction of the deficit was largely due to higher revenues (ANG 54 million) and lower expenditures (ANG 92 million).

2.3 The Kingdom Financial Supervision Act

The budget must be balanced.⁹ In exceptional cases, it is possible to deviate from this rule.¹⁰ A [Second Chamber document](#) reveals that on February 26, 2021, the Kingdom Council of Ministers [approved](#) the deviation from the budget standard due to the pandemic.¹¹ The Kingdom Council of Ministers' maximum allowable deficit for the full year 2021 is [ANG 174 million](#).¹² The deficit for 2021 is within the maximum permitted by the Kingdom Council of Ministers.

2.4 Does the 2021 Financial Statements present a true and fair view?

The Financial Statements present a true and fair view if the figures are accurate and complete. It is only possible to form an opinion on the implemented financial policy through adequate disclosures.¹³ This applies to the (multiannual) budget and the financial statements. Our previous reports highlighted that the liability due to future payments of cost-of-living allowance (at the end of 2021 ANG 120.6 million) was not accounted for in the balance sheet as a liability.

Our opinion is that this is a material reliability error. However, the liability has been disclosed in the explanatory notes to the balance sheet.¹⁴ We clarified our position in more detail as part of our review of the 2021 Financial Statements and attempted to elicit a response from the Ministry of Finance. However, a response to our position has not been provided to date.

We also note several smaller reliability errors amounting to ANG 6.3 million. Considering the total number of errors (ANG 126.9 million), we maintain an adverse opinion regarding the 2021 Financial Statements. According to the internal auditor's audit opinion, the amount involved is ANG 14.2 million. What constitutes the difference is unclear.

⁵ Paragraphs 1 and 2 of Article 52 of the NAO.

⁶ Article 2 NAO.

⁷ Article 52, paragraph 1, of the NAO.

⁸ Financial Statements 2020, Preface. The fourth implementation report reveals a budget deficit of ANG 197 million.

⁹ Article 15 Kingdom Financial Supervision Act.

¹⁰ Article 25 Kingdom Financial Supervision Act.

¹¹ Letter from State Secretary of the Interior and Kingdom Relations dated February 26, 2021, reference 2021-0000104029.

¹² Committee for Higher Supervision (herein after: Cft), Response to the Third and Fourth Implementation Reports 2021, reference Cft 202100146 and 202200009.

¹³ Article 2 NAO.

¹⁴ Explanatory notes to the Balance Sheet, C.6.10, Off-balance sheet rights and liabilities.

2.5 Are there uncertainties in accountability?

Internal control is inadequate with respect to recording:

- the outcomes of processes in the procurement of goods and services;
- the granting of subsidies;
- the payment of salaries; and
- whether the levying and collection of taxes and fees are accurate and complete.

As a result, uncertainty exists as to whether the accountability in the financial statements for these is accurate and complete. Appendix 1 lists all material uncertainties along with their financial impact.

2.6 Have the policy intentions been realized?

Ministers submit estimates (including explanations of policies to be pursued) to the Minister of Finance by no later than May 1.¹⁵ Budget policies represent the three W-questions. The financial statements include the three H-questions. Figure 1 depicts the questions.

Figure 1: the three W- and H-questions

The budget questions:



The financial statement questions:



As in previous years, we note that both the 2021 Budget and the 2021 Financial Statements do not include the information required by the NAO. Consequently, we cannot assess whether and to what extent the policy intentions were realized. As long as the budget is not prepared following the NAO, the budget cannot be used as a standard for the financial statements.

2.7 Have the 2021 Financial Statements been prepared according to the National Accountability Ordinance?

The 2021 Financial Statements are only partially prepared in accordance with the NAO. For example, only some investments are adequately explained in the explanatory notes on capital accounts, and the statement of income and expenses does not fairly and systematically present the type and scope.

The 2021 Financial Statements contain all the legally required summary templates. Two summary templates are not/not fully completed (Summary Templates 12 and 14).

2.8 Are there improvements over previous years?

The internal auditor observed that more documentation (audit evidence) was provided as compared to previous years. Furthermore, the Ministry of Finance and the Temporary Work Organization (hereinafter: TWO) conducted a "clean-up of the Balance Sheet and General Ledger" as part of the Country Packages.

¹⁵ Article 34 NAO.

As a result, the quality of the Financial Statements improved. However, the Internal Auditor notes that the corrections resulting from the clean-up have not been verified internally and audit evidence for key financial statement items still needs to be included.

Because of the above, we have reservations about the improvements. Specifically, we do not see improvements sufficiently reflected in the magnitude of the uncertainties.

The financial statements remain unreliable, making it difficult, if not impossible, to use the actual figures in the preparation of Government's subsequent budget and for Parliament to assess if sound financial management was conducted by each individual minister.

2.9 Opinion

In our opinion, the 2021 Financial Statements, along with the explanatory notes, do not present a true and fair view of the financial position as of December 31, 2021, or of the result for 2021, and have not been prepared in accordance with all provisions of NAO.

In respect of the presentation of the financial statements, our opinion is that improvement is still needed. Similar to previous years, the explanatory notes to the financial statements are insufficient in terms of the realization of the policy intentions.

3 LEGAL COMPLIANCE OF INCOME AND EXPENSES

In this chapter, we assess whether the income, expenses, and balance sheet changes were achieved in accordance with the 2021 National Budget and other legal requirements. This is known as financial (legal) compliance.

3.1 Implementation of the 2021 National Budget

The Minister of Finance is required to report three times a year on budgetary implementation and realization. These reports are called memoranda.¹⁶ Parliament, nor we received these memoranda for the fiscal year 2021. We did receive quarterly reports for the fiscal year 2021. However, we believe these are different from the memoranda stipulated in Article 44 of the NAO. For example, quarterly reports do not address required budget amendments or their effects on the multiannual budget.

3.2 Legal compliance errors

When income, expenses or balance sheet changes are not in compliance with the National Budget or any other legal requirement, there are [legal compliance errors](#). Table 1 displays [over-and under budget](#) totals for Parliament and Ministries.¹⁷

Table 1: over- and under budget totals

Parliament & Ministries	2021 Over budget (x ANG 1.000)	2021 Under budget (x ANG 1.000)	2020 Over budget (x ANG 1,000)	2020 Under budget (x ANG 1.000)
Parliament	3.704	9.834	3.134	5.420
General Affairs	13.384	22.733	10.897	18.800
Finance	10.842	115.728	4.575	49.899
Justice	7.393	20.990	6.568	14.055
ECYS	6.393	13.037	11.717	11.268
TEATT	18.652	20.878	22.256	11.282
VROMI	113	10.023	325	7.293
VSA	31.567	24.403	11.529	6.278
Total	92.048	237.626	71.001	124.295

When overspending is offset against underspending, on balance there is an under-performance of the budget of ANG 146 million (2020: ANG 53 million). Government can adjust through budget amendments.¹⁸ Impending overruns should be prevented in a timely and appropriate manner whenever possible.¹⁹

3.3 Opinion

Income, expenses, and balance sheet changes were not prepared in accordance with the 2021 National Budget and other legal requirements. No improvement compared to previous years was evident to us.

¹⁶ Article 44, first paragraph of the NAO.

¹⁷ 2021 Financial Statements of Government of Sint Maarten, Summary Template 18.

¹⁸ Article 44, of the NAO requires that preliminary reports and the opportunity to submit a budget amendment occur at three intervals throughout the year: on May 15, August 15, and November 15.

¹⁹ Article 48, first paragraph of the NAO.

4 FINANCIAL MANAGEMENT

In this chapter, we present the results whether there was an orderly and auditable [financial management](#).

4.1 The shortcomings (deficiencies)

[Shortcomings](#) or deficiencies (risks to the accuracy and completeness of the financial statements) negatively impact whether an unqualified opinion is issued. Deficiencies are found across all ministries. Table 2 lists the top 5 serious (and long-term) shortcomings

Table 2: Summary of serious and long-term deficiencies

No.	Shortcoming (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 control information.
3	Tax revenue	Expiration of suspense accounts not transparent and inadequate internal control of payment of refunds.
4	Cost of social services	Inadequate structure and functioning of internal procedures and lack of adequate control information.
5	Scholarships, subsidies, and transfers	Inadequate structure and functioning of internal procedures and lack of adequate control information.

There are inadequate internal control procedures across all ministries. As a result, there are [material uncertainties that have a profound impact](#) on the financial statements. More is needed to achieve the Government's goal of attaining auditor-approved financial statements. The shortcomings highlighted above will need to be addressed first. In his preface to the 2021 Financial Statements, the Minister of Finance mentions that efforts are underway to improve the verifiability of the financial statements so that they can also progress toward an unqualified audit opinion.

4.2 Opinion

Shortcomings in financial management exist across all ministries. Until these are eliminated, future financial statements may not receive an unqualified audit opinion.

5 THE REACTION OF THE MINISTER AND OUR EPILOGUE

As part of our audit protocol, the draft report was submitted to the Minister of Finance for his response on our findings, conclusions, and recommendations. The Minister responded on January 17th, 2023. His response is included in full in paragraph 5.1. His response relates to appendix 1. In paragraph 5.2 we conclude the report with our epilogue.

5.1 Reaction of the Minister of Finance



Minister of Finance

Ardwell M.R. Irion
Minister

Soualiga Road 1
P.O. Box 943
Pond Island, Great Bay,
Philipsburg, St. Maarten

Ardwell.Irion@sintmaartengov.org

To: General Audit Chamber
Attn. Mr. A. Gumbs MSc
Juancho Yrasquin Boulevard 10, Unit 4-5
Sint Maarten

Date: January 17, 2023
Ref. no. 4579

Subject: Reaction on draft compliance report on the 2021 financial statements

Dear Mr. Gumbs,

We thank you for providing us with your draft compliance report on the 2021 financial statements of the government of Sint Maarten. We would like to make use of the opportunity to respond to a specific matter as stated in your report to provide clarity on the topic.

In the appendix to your report the following sentence is stated on page 9 which was retrieved from the SOAB report:

'Ook kan de accountant niet bevestigen dat de opruiming werd uitgevoerd op een onbevooroordeelde manier en dat de juiste autorisaties hadden plaatsgevonden voor het verwijderen van specifieke posten uit de financiële administratie'

We would like to provide some clarity on the clean-up project and the manner in which it was executed in combination with the compilation of the financial statements for the year 2021. During the compilation of the financial statements for the year 2021 we were also busy with the clean-up project of the financial administration. During the compilation of the financial statements for the year 2021 the then known ending balances retrieved from the clean-up project were taken up in the financial statements for the year 2021 as these balances provided of course the most true values. We would like to clarify that the corrected balances were taken up in the financial statements however these were not booked in the financial administration as yet.

The clean-up project is currently in its final stage whereby a final report will be issued which will include the findings noted, recommendation and suggestions. After review and authorization of this final report the necessary booking adjustments will be made in the financial administration. The audit by SOAB on the balances year-end 2021, their comments thereon and confirmation on the correct balances also provides substantiation to the bodies that have to authorize the corrections, to what extent the ending balances have correctly been determined. We would like to make clear that no bookings were or will be eliminated from the financial administration. The necessary adjustments will be made via correction bookings to come to the correct ending balance in the financial administration for the specific financial statement line items for the year 2021. During the audit of the financial statements for the year 2022 the underlying evidence of authorization, final report and processing in the financial administration will be provided to the auditors.

The statement as included in the SOAB report and in appendix 1 of the audit chambers report may give the perception that based on the clean-up items were eliminated from the financial administration. However, this is certainly not the case.

To date no correction bookings were made in the financial administration and no bookings has or will be eliminated from the financial administration. After receipt of the final report and review and approval of this report the necessary corrections bookings will then be booked in the financial administration.

Hoping to have informed you sufficiently.

Yours sincerely,

Minister of Finance
Ardwell M.R. Irion



CC: - Prime Minister of Sint Maarten

5.2 Our epilogue

Legislation requires the General Audit Chamber to submit its report to Parliament within one and a half months after receiving SOAB's findings on the country's financial statements. We received SOAB's report on December 21, 2022. The General Audit Chamber, since its inception, has always adhered to statutory deadlines. We remain committed to following the budget cycle. By eliminating the backlog of financial statements, the Government made progress in meeting statutory deadlines. Nevertheless, we remain critical of the late delivery and hope that the 2022 Financial Statements will be delivered on time.

Going forward, we expect the Government to advance the content and quality of financial statements. In this regard, we take into consideration the planned implementation of the country packages, which is expected to, among other things, generally produce higher-quality financial statements and financial management.

We thank the Minister and his Ministry for their cooperation during this audit.

APPENDIX 1: IDENTIFIED UNCERTAINTIES BY LINE ITEM

Line Item	2021 Scope ANG million	2021 Uncertainties ANG million	Magnitude (%)	2020 Uncertainties ANG million	Difference 2021 vs 2020 (ANG million)
BALANCE SHEET					
Tangible Fixed Assets	169	4	2	0	4
Shareholdings	369	137	37	265	-128
Long-term Receivables	73	23	32	29	-6
Security Deposits	1	0	N/A	0	0
Current Assets	127	26	20	58	-32
Equity Capital	-378	378	100	-294	84
Provisions	13	5	38	0	5
Long-term Debt	906	0	N/A	44	-44
Short-term Debt	198	89	45	192	-103
Total balance sheet	1.478	662	45	882	-198
INCOME					
Taxes	303	16	5	NQ	16
Licenses	17	NK	N/A	NQ	N/A
Concession, fees and other contributions from entities	42	0	N/A	0	0
Contributions and grants received	53	0	N/A	0	0
Other Income	15	10	67	22	-12
Total Income	430	26	6	22	+4
EXPENDITURE					
Personnel	203	NK	N/A	NQ	N/A
Goods & Services	103	56	54	NQ	56
Social provisions/liabilities	36	7	20	NQ	7
Subsidies & transfers	133	30	22	86	-56
Scholarships	4	0	N/A	0	0
Asset Write-off	18	0	N/A	0	0
Depreciation	14	0	N/A	0	0
Allocation to / release of provisions	3	0	N/A	0	0
Interest	11	0	N/A	0	0
Total Expenditure	525	93	18	86	+7
Total expenditure & income	955	119	12	108	+11
Total balance sheet, expenditure & income	2.433	781	32	990	-187

NQ = not quantifiable; N/A= not applicable

According to SOAB's audit report on the 2021 Financial Statements, the total identified reliability uncertainties for 2021 amount to ANG 1.3 billion (2020: ANG 1.6 billion). This includes the size of items for which the scope of the uncertainties cannot be quantified. Precisely because of the latter, we have not included these items in the summary above. The summary only includes the quantified uncertainties.

The summary above demonstrates that the level of uncertainties compared to 2020 declined by a net total of ANG 209 million in 2021 (less uncertainty ANG 383 million and more uncertainty ANG 174 million). Regarding 'Investments' on the Balance Sheet, the level of uncertainty decreased due to the receipt of audited financial statements or the availability of additional audit evidence. In addition, according to the Minister of Finance's preface accompanying the 2021 Financial Statements, the decrease in uncertainty is mainly due to the clean-up action on balance sheet items. Here we note that the auditor has indicated that they are not aware of the internal approval of the adjustments made by the preparer of the financial statements.

Furthermore, the auditor cannot confirm that the clean-up was performed in an unbiased manner and that proper authorizations for the removal of specific items from the financial records had been obtained. Finally, the auditor notes that they could not verify the accuracy of all material corrections processed during the clean-up process since they did not receive sufficient supporting documentation for several adjustments.²⁰

²⁰ In his reaction on the draft report, the Minister of Finance notes the following: No correction bookings were made in the financial administration to date and no bookings have or will be eliminated from the financial administration. The necessary adjustments will be made via correction bookings this will happen after review and internal approval of the final report of the clean-up project.



General Audit Chamber

Algemene Rekenkamer