

**REPORT OF THE PARLIAMENTARY STANDING
COMMITTEE OF THE PUBLIC ACCOUNTS ON:
THE ANNUAL REPORT OF THE AUDITOR GENERAL
ON THE WORK OF THE OFFICE OF THE AUDITOR
GENERAL AND ON THE ACCOUNTS OF THE
GOVERNMENT OF BERMUDA FOR THE FINANCIAL
YEARS APRIL 1, 2008 TO MARCH 31, 2009 AND
APRIL 1, 2009 TO MARCH 31, 2010**

TO HIS HONOUR THE SPEAKER AND THE MEMBERS OF THE HONOURABLE HOUSE OF ASSEMBLY:

The Parliamentary Standing Committee on the Public Accounts has the honour of submitting the following Report:

1 Introduction

Your Public Accounts Committee (PAC) is pleased to report to the Honourable House of Assembly that we have reviewed the Annual Report Of The Auditor General On The Work Of The Office Of The Auditor General And On The Accounts Of The Government Of Bermuda For The Financial Years April 1, 2008 To March 31, 2009 and April 1, 2009 to March 31, 2010, tabled In This House on 22 June, 2012.

2 Meetings

PAC held ten meetings on this report with the Auditor General and staff, current and former public officers, and had deliberations amongst the committee. Below are the dates of the meetings:

- September 12, 2013
- September 19, 2013
- September 26, 2013
- October 24, 2013
- October 31, 2013
- May 29, 2014
- June 12, 2014
- July 3, 2014
- July 10, 2014
- July 18, 2014

3 Witnesses

Given the reports were over two years old, PAC sought to glean essential information from Public Officers responsible for the supervision of government budgets and spending. The list below identifies the persons who provided information to PAC. All oral testimony was held “in camera”.

Oral Testimony:

- Mr. Anthony Manders - Current Financial Secretary
- Mr. Donald Scott - Former Cabinet Secretary and Financial Secretary during the period covered by the Report
- Mrs. Tina Tucker - Principal Budget Officer
- Ms. Lucia Peniston - Tax Commissioner
- Ms. Wendy Greenidge - Debt Enforcement Unit

Invited to Attend (but not available):

- Mrs. Heather Thomas - Director of Internal Audit

4 Findings

1. Bermuda's budget process has not kept up with modern needs.
 - a. PAC is concerned that Estimates of Revenue and Expenditure (Estimates) were submitted to Parliament with financial projections that senior civil servants considered unrealistic and unattainable. Such revelations showcase the weaknesses of our current budget process.
 - b. Parliament must oversee the Budget process, but there is limited independent review of the Budget.
 - i. Larger Parliaments have their own independent budget offices to scrutinise the Executive's budget to ensure it is able to deliver planned programmes.
 - ii. Supplementaries are received in arrears, a long time after spending has occurred, with minimal Parliamentary scrutiny as the money has already been spent.
2. There have been some improvements in budget control.
 - a. PAC heard of new measures, first implemented in 2012 and further enhanced in 2013, to catch budget creep at an earlier stage. Some of the measures detailed were:
 - i. Ministries were required to enhance their monthly reports pertaining to their expenditure versus budget allocations so that any slippage can be arrested; additionally, quarterly reports are made to Cabinet.

- ii. The introduction of budget checking in the ERP system ensures that Ministries and Departments have budgeted funds available before committing to the procurement of goods and services.
 - iii. A Budget Implementation Group has been established at the civil service level to ensure that members of the civil service are motivated to deliver on the mandates of the budget.
- 3. The Government continues to face challenges in the raising of revenue and collection of monies owed to the Government.
 - a. PAC heard testimony about the Government's revenue challenges. These challenges have been exacerbated by the numerous tax concessions that have been given and difficulty in collecting taxes. Witnesses also recommended that the Government may wish to look at reforming the tax system to enhance Government revenue and broaden the tax base as a way to address the revenue challenges.
 - b. PAC heard that Bermuda's tax culture is poor and that additional measures need to be taken to increase levels of compliance with existing tax legislation. As of July 10, 2014 there was \$30,597,673 in land taxes that were more than 90 days overdue with the Office of the Tax Commissioner; and \$50,336,577 in Payroll and other taxes that were more than 90 days overdue.
 - c. PAC heard that increased cooperation and information sharing between Government departments is necessary to increase tax compliance.
 - d. PAC heard that the Debt Enforcement Unit is currently under-resourced. The Unit has had success in obtaining judgement against debtors; however the enforcement of those judgements remains a challenge.
- 4. PAC heard conflicting evidence on whether civil servants had been surcharged for violations of Financial Instructions. It should be noted that since the report time period, violations of Financial Instructions are now criminal offences.
- 5. There is an ongoing challenge that exists with the quality and timeliness of accounts submitted for audit. The Auditor General has confirmed a large number of accounts have not been audited, some dating back to 2005. In addition, a significant number of these accounts have been submitted with incomplete information. As the Auditor General has to audit these accounts, this task is made very difficult due to the lateness and quality of the information submitted. PAC understands that in many cases there have been recommendations from the Auditor General as to the improvements to be made but these have not been made. These outstanding accounts increase the risk of financial irregularities going undetected.
- 6. Disposition of Auditor General's Recommendations
 - a. Accounting officers have responsibility for the review and implementation of the recommendations made in the Report of the Auditor General.

- b. The Auditor General made eleven new recommendations in this report; however there were 73 outstanding recommendations from previous reports.
- c. In 2010 the Department of Internal Audit and the Office of the Auditor General signed a memorandum of understanding. As a result of the agreement, the Department of Internal Audit monitors the implementation of the Auditor General's recommendations.
- d. PAC will meet with the Director of Internal Audit to ascertain what progress has been made on the Auditor General's Recommendations.

5 Recommendations

1. Given the findings mentioned in Section 4 of this report, PAC makes the following recommendations to modernise the budgetary process:
 - a. PAC recommends that the House considers updating budget rules to make supplementary funding a more disciplined process.
 - b. Consider implementing "pay-go" rules to ensure that any additional, nonemergency, spending that occurs during the budget year is offset by additional revenue or corresponding cuts. Approval should be sought from the Legislature prior to additional funds being spent.
 - c. Increases in capital estimates often are missed because total allocated funding increases are not shown in the Estimates of Revenue and Expenditure. PAC recommends that the Annual Estimates of Revenue and Expenditure include the historical total allocated funding so that the Legislature and the public can understand the increasing costs of capital projects.
2. PAC believes that additional transparency in the budget process will lead to better budgetary control by Parliament, therefore PAC recommends:
 - a. The Minister of Finance should, as a matter of routine, submit a mid-year report on Government finances to the House no later than November 15 in any given year. This statement should include any spending changes and provisional estimates for approval in advance of additional and unbudgeted monies being spent.
 - b. The Minister of Finance should publish quarterly revenue and spending figures by Department.
 - c. The Minister of Finance should include Zero Based Budget rankings in the Annual Estimates to ensure the Committee of Supply is aware which ongoing programs are funded in the Government Budget.
 - d. The Minister of Finance should publish the disposition of supplementals and surcharges so that members of the public can know the extent to which action has been taken with those who violate Financial Instructions.
3. Given the testimony about Government revenue, mentioned in Section 4 of this report, PAC recommends:

- a. That Government review the current tax system with a view to increasing the efficiency of revenue collection and to broaden the tax base.
- b. That Government take immediate steps to increase cooperation between Government departments to withhold government services from those who are not in good standing with the Office of the Tax Commissioner. Services such as work permits, business licences, vehicle registrations, should be withheld from non-compliant businesses and persons.
- c. That Government develop a Memorandum of Understanding (MOU) for all Government Departments that are involved in revenue collection and debt enforcement. This MOU will formalise the information sharing between Government Departments and will aid debt enforcement.
- d. That Government assign additional and dedicated resources the Debt Enforcement Unit to aid in the recovery of debts.
- e. That Government should again examine a Tax Court and specific legislation to facilitate the recovery of funds owed to the Government. Any new Tax Court should be established in addition to existing civil courts.
- f. The Government should again examine the establishment of a Business Registry as highlighted in previous reports of the Auditor General to facilitate the identification of potential taxpayers.

6 Conclusion

1. PAC would like to acknowledge the advice and assistance provide by the Auditor General, Mrs. Heather Jacobs Matthews, and her professional staff during our deliberations. We would also like to acknowledge the sterling work done on behalf of the Committee by Deputy Clerk to the Legislature, Mr. Clark W Somner, and the contributions of the Honourable Jeanne Atherden, J.P., M.P., who served on PAC prior to being appointed a Minister.
2. PAC recommends that the Minister of Finance be requested to inform the Honourable House of Assembly of the action that is to be taken on the points raised in this report.

ALL OF WHICH US RESPECTFULLY SUBMITTED.

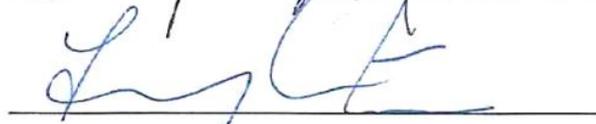
Mr. E. David Burt, J.P., M.P. – Chairman



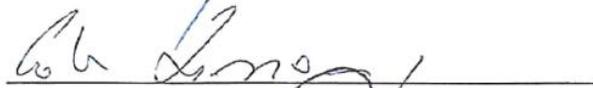
Ms. Lovitta F. Foggo, J.P., M.P.



Mr. Terry E. Lister, J.P., M.P.



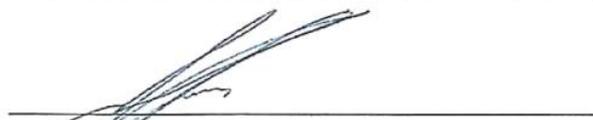
Mr. N. H. Cole Simons J.P., M.P.



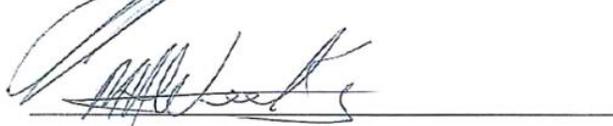
Mr. Glen C. Smith, J.P., M.P.



Mr. Jefferson C. Sousa, J.P., M.P.



Mr. Michael A Weeks, J.P., M.P.



Dated: 18th July, 2014