



General Audit Chamber

Algemene Rekenkamer

**Compliance Audit:  
Financial Statements of St. Maarten  
2017**

**June 2021**



General Audit Chamber

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Algemene Rekenkamer

*This document is an English translation of the original Dutch language report entitled: "Rechtmatigheidsonderzoek: Jaarrekening 2017 Land". In the event of textual contradictions or any other differences, the original Dutch text prevails.*

**June 2021**

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

## PREFACE

By law, the Minister of Finance should have prepared the Government's 2017 Financial Statements before September 1<sup>st</sup>, 2018. The 2017 Financial Statements, for a variety of reasons, were provided on October 8<sup>th</sup>, 2020, and presented to SOAB for audit on October 30<sup>th</sup>, 2020. Consequently, SOAB had 6 weeks to send its report and opinion to the Minister of Finance and the General Audit Chamber. We received the SOAB report and opinion on June 11<sup>th</sup>, 2021.

Each year, the General Audit Chamber publishes the financial calendar that lists legal deadlines. We do this, to emphasize the importance of complying with the budget cycle and in so doing financial management. Each stakeholder (the Government, SOAB, the General Audit Chamber, and Parliament), as a matter of good financial management, should adhere to the deadlines. Accordingly, the General Audit Chamber has never missed its legal deadline for reporting. Click [here](#) to view the financial calendar.

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## SUMMARY

The General Audit Chamber examines whether St. Maarten's public funds were spent in a legally compliant and effective manner. The country's Financial Statements play an essential role in this regard, as they provide an account of expenditures.

In this report, we answer the question of whether the 2017 Financial Statements of the Government of St. Maarten provide a true and fair representation of both the financial position as of December 31<sup>st</sup>, 2017, and 2017's income and expenses. We have also examined whether the financial statements were prepared in accordance with relevant regulations, whether the actions taken were legally compliant, and if the financial management of ministers was orderly and verifiable.

The 2017 Financial Statements should have been drafted on September 1<sup>st</sup>, 2018. We received the 2017 Financial Statements on October 30<sup>th</sup>, 2020. Our legal timeline to report started on June 11<sup>th</sup>, 2021. On that date, SOAB presented its report and opinion to us.

Both the 2016 and 2017 Financial Statements contain numerous errors and uncertainties. Expenditures were made for which no funds were budgeted, income was not realized, or was below budget. We conclude that the 2017 Financial Statements do not provide a true representation of the Government's financial position as of December 31<sup>st</sup>, 2017, nor of 2017's income and expenses.

In addition, we note that both the 2017 Budget and the 2017 Financial Statements, similar to in previous years, do not contain the information required by the National Accountability Ordinance (hereafter: [NAO](#)). If the budget is not drawn up in accordance with the NAO, it cannot serve as a standard for the Financial Statements.

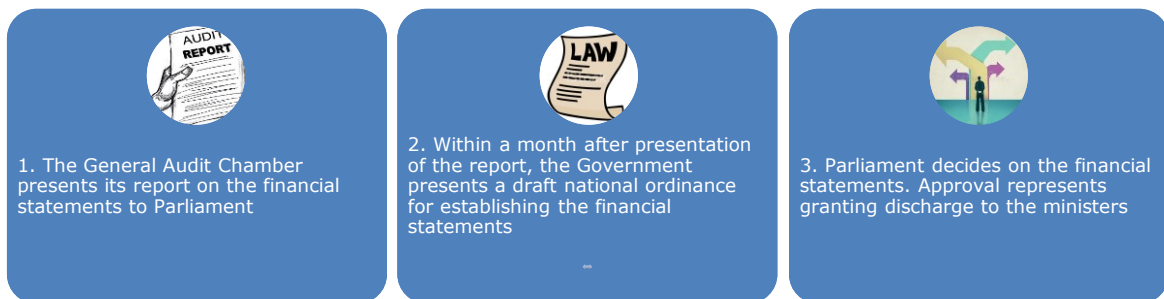
The Minister of Finance, through the Secretary-General of the Ministry of Finance, indicated he had no further comments to the report.

## DISCHARGE

Normally, when debating the budget, the Parliament should possess a previous year's financial statements along with the relevant report thereon. This allows Parliament to assess whether the budget matches the previous year's expenditures and to judge whether ministers have conducted sound financial management.

Within one month after the Audit Chamber's financial statements audit report is presented, the Government is required to submit a draft national ordinance for establishing the financial statements to Parliament.<sup>1</sup>

*Approval of the draft national ordinance establishing the financial statements by the Parliament represents approval of the financial management that was conducted. In that case, Ministers are granted discharge.*



In light of the devastation and aftermath of Hurricane Irma and the impact this disaster had on the financial management, we advise the Parliament to grant [discharge](#) for the fiscal year 2017, while we recommend that they issue the following guidance to Government:

1. Systematically facilitate Parliament by providing policy information contained in the financial statements. Without clear information, it is not possible to verify whether public expenditures were in legal compliance and spent efficiently, nor whether policy intentions were achieved;
2. Fully comply with the rules of the National Accountability Ordinance;
3. Draft the outstanding Financial Statements as soon as possible in accordance with the National Accountability Ordinance, to eliminate the backlogs that have accumulated; and
4. Promptly prepare the draft National Ordinance adopting the Financial Statements;

In respect of the Parliament, we recommend the following:

1. Hold the relevant minister accountable when relevant reporting information is not provided. Information on accountability is also important for establishing the budget for the following fiscal year. It is impossible to approve a proper budget without reliable information.
2. Ensure that the draft national ordinance establishing the financial statements is presented on time, so that discharge may (or not) be granted.

<sup>1</sup> Article 54 of the National Accountability Ordinance.

## 1 OUR AUDIT

### 1.1 Basis and scope of the audit

We are legally required to examine the Government's Financial Statements.<sup>2</sup> Our report of the examination will be presented to the Parliament after which it becomes public.<sup>3</sup> The Parliament is required to take note of our report.<sup>4</sup> The report is an important instrument that is needed by Parliament to grant [discharge](#) to ministers.<sup>5</sup> By granting the discharge, the Parliament approves of the ministers' financial management and their accountability thereof.

For efficiency, we determined that we were able to rely on the work of SOAB.

### 1.2 The audit questions

In this report we answer the following audit questions:

1. Do the 2017 Financial Statements of the Government of St. Maarten provide a true representation of the financial position as of December 31<sup>st</sup>, 2017, as well as of the income and expenses of the [collective sector](#) for the period January 1<sup>st</sup> to December 31<sup>st</sup>, 2017?
2. Are the 2017 Financial Statements prepared in accordance with the relevant regulations?
3. Were the income, expenditures, and balance sheet drafted in accordance with the approved 2017 National Budget and other regulatory requirements?
4. Did the ministers provide an orderly and verifiable financial management in 2017?

### 1.3 Reading guide

- Chapter 2: Reliability and content of the 2017 Financial Statements
- Chapter 3: Are income and expenditures legally compliant?
- Chapter 4: Was there orderly and auditable financial management?
- Chapter 5: What is the state of affairs in June 2021?;
- Chapter 6: Reaction from the Minister of Finance, supplemented with our epilogue.

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<sup>2</sup> Article 23 of the National Ordinance General Audit Chamber and Article 53, third paragraph of the NAO.

<sup>3</sup> Article 100(4) of the Constitution.

<sup>4</sup> Article 54(4) of the NAO.

<sup>5</sup> Article 54 of the NAO.

## 2 THE FINANCIAL STATEMENTS

The financial statements must be accurate, complete, and reliable to allow the ministers' financial management to be assessed.<sup>6</sup> In this chapter, we determine whether the 2017 Financial Statements provide a true representation and prepared in accordance with the law.

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

By the [Kingdom Act Financial Supervision](#), the Minister of Finance must present the financial statements (if necessary in draft) to the [Committee for Financial Supervision](#) (hereafter: Cft) by August 31<sup>st</sup>. According to our [national accountability ordinance](#), the 2017 Financial Statements should have been drafted before September 1<sup>st</sup>, 2018.<sup>7</sup> These were adopted on October 8<sup>th</sup>, 2020, and the SOAB and the Audit Chamber received the 2017 Financial Statements on October 30<sup>th</sup>, 2020.<sup>8</sup> The NAO stipulates that upon formal receipt of SOAB's report, we must issue our report to Parliament within six weeks. We received SOAB's report on June 11<sup>th</sup>, 2021. Without timely and reliable information on budget realization, it is difficult, if not impossible, to prepare or approve a reliable follow-on budget.

### 2.2 What is the result in 2017?

Fiscal year 2017 ended with a deficit of ANG 161.2 million. The initial budget had a surplus of ANG 20.0 million. The lower result of ANG 181.2 million is largely due to the effect of Hurricane Irma that impacted the island in September 2017. The financial consequences have been incorporated into a budget amendment.<sup>9</sup> Spending was to increase by ANG 52.1 million and revenue to fall by ANG 121.1 million. On balance, the budgeted deficit for 2017 was ANG 153.2 million. The negative result is therefore ANG 8 million worse than projected.

### 2.3 Are the 2017 Financial Statements a true representation of the financial position?

The financial statements provide a true representation of the financial situation if the figures are correct and complete. They must be adequately explained. Without this, it is not possible to form an opinion on the implementation of Government's financial policy.<sup>10</sup>

#### *What are the reliability errors?*

An unknown liability as of the balance sheet date, but which can be reasonably estimated, must be accounted for as a provision on the balance sheet as a credit.<sup>11</sup> The liability for the cost-of-living adjustment of ANG 112 million payable at a future date was not recognized as such. We consider this to be a reliability error. In addition, we found the following five reliability errors amounting to ANG 84 million:

**Table 1: other reliability errors**

Budget item	Reason	In ANG x 1 million
Financial fixed assets	Difference in reconciling Financial Statements and General Ledger	9
Short term debt	Difference in reconciling Financial Statements and General Ledger	40
Income	Difference in reconciling Financial Statements and General Ledger	18
Tax income	Difference reconciliation Financial Statements with sub-administration	8
Personnel expenditure	Difference reconciliation Financial Statements with sub-administration	9
	<b>Total</b>	<b>84</b>

Including the cost-of-living, total reliability errors amount to ANG 225 million.

<sup>6</sup> Article 2 of the NAO.

<sup>7</sup> Article 52, paragraph 1 of the NAO.

<sup>8</sup> Letter from the Minister of Finance dated October 30<sup>th</sup>, 2020, DIV#3769.

<sup>9</sup> AB 2018, No. 4 dated January 26<sup>th</sup>, 2018.

<sup>10</sup> Article 2 of the NAO.

<sup>11</sup> Article 28, sub a of the NAO.



*What are the uncertainties?*

The 2017 Financial Statements contain items where it is not certain whether they are accurate and complete. Reasons for this are:

- a. the absence of adequate underlying documentation;
- b. the inadequacy of internal control; and
- c. the impact of automation problems and the natural disaster in 2017.

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. [Annex 1](#) lists all material uncertainties and their financial impact.

## 2.4 Have policy intentions been realized?

Each minister is required to submit annual estimates to the Minister of Finance by no later than May 1<sup>st</sup>.<sup>12</sup> These estimates include explanations of the intended policy for the coming year. In essence, policy should include the three W-questions:

- What do we want to achieve?
- What are we going to do to achieve that? and;
- What will it cost?

Ultimately, when giving account for the policy that was pursued, a report must be prepared and included as a separate memorandum as part of the financial statements. This report explains if, and to what extent, policy intentions were implemented. We note that similar to previous years, both the 2017 Budget and the 2017 Financial Statements, do not include the information required by the NAO. As long as the budget is not prepared in accordance with the NAO, the budget cannot serve as a standard for the financial statements.

## 2.5 Are the 2017 Financial Statements prepared in accordance with the NAO?

The 2017 Financial Statements contain all legally required summary template statements. Of the total number of summary template statements, 56% were correct. Table 2 provides a comparison by the percentage of correctly and incorrectly completed summary template statements for the 2017 and 2016 Financial Statements.

**Table 2: Percentage of correctly and (incorrectly) completed summary template statements**

Summary Template Statements	2017	2016
Correctly completed (in %)	10 (56 %)	11 (61%)
Not properly completed (in %)	8 (44%)	7 (39%)

## 2.6 Opinion

### Our opinion

We believe that the 2017 Financial Statements (and the explanatory notes), do not provide a true representation of the size and composition of the financial position and the year-end result. Moreover, the financial statements were not prepared in accordance with all the provisions of the NAO.

In terms of the content of the Financial Statements, we believe that improvement is still needed. As was the case in previous years, the explanation of the Financial Statements is inadequate in terms of the realization of policy intentions.

<sup>12</sup> Article 34 of the NAO.

### 3 RELIABILITY OF INCOME AND EXPENDITURE

In this chapter, we answer the question of whether the income, expenditures, and changes to the balance sheet were carried out in accordance with the 2017 National Budget and with other relevant regulations. We refer to this as financial legal compliance.

#### 3.1 Compliance errors

In 2017, the Minister of Finance failed to inform us about the implementation of the budget.<sup>13</sup> As a result, our monitoring task was hampered. When income, expenditure, or balance sheet changes do not correspond to the National Budget or any other statutory regulation, [compliance](#) errors result. Table 3 presents the total [budgetary overruns and underruns](#) of Parliament and the ministries.<sup>14</sup>

**Table 3: Budget overruns and underruns of Parliament and ministries in the 2017 Financial Statements**

Parliament and the ministries	Overruns (x ANG 1,000)	Underruns (x ANG 1,000)
Parliament	1,786	5,548
General Affairs	14,571	16,120
Finance	29,121	113,189
Justice	10,375	14,437
Education, Culture, Youth, and Sport	4,849	5,423
Tourism, Economic Affairs, Traffic and Telecommunications	3,913	10,757
Public housing, Spatial Planning, Environment, and Infrastructure	9,074	6,826
Public health, Social Development and Labor	20,684	11,204
<b>Sub-Total</b>	<b>94,373</b>	<b>183,504</b>
<b>Corrections and write-offs</b>	<b>97,127</b>	<b>0</b>
<b>Total</b>	<b>191,500</b>	<b>183,504</b>

Table 3 shows a total of ANG 191.5 million in overruns. Along with overruns, there are also underruns (underutilization). Settling these against one another results in, on balance, a deficit of ANG 8.0 million on the budget in the fiscal year 2017.

Budgetary overspending can be avoided when Parliament is provided with timely reporting (memoranda) about the current fiscal year. This allows for the possibility of adjustments using budgetary amendments.<sup>15</sup> The NAO stipulates that impending overruns in the budget should, as much as possible, be avoided by taking appropriate and timely measures.<sup>16</sup>

#### 3.2 Opinion

##### Our opinion

Income, expenditures, and changes to the balance sheet were not achieved in accordance with the 2017 National Budget and other relevant regulations. We have not established the presence of improvement as compared to previous years.

<sup>13</sup> Articles 44 and 45 of the NAO.

<sup>14</sup> 2017 Financial Statements St. Maarten, Summary Template Statement 18.

<sup>15</sup> Article 44 of the NAO requires that the provisional reports and the possibility of submitting a budget amendment occur three times annually: May 15<sup>th</sup>, August 15<sup>th</sup>, and November 15<sup>th</sup>.

<sup>16</sup> Article 48, first paragraph of the NAO.

## 4 FINANCIAL MANAGEMENT

In chapter 4, we present our findings on financial management. We provide answers to the question of whether there was [orderly and auditable financial management](#).

### 4.1 The shortcomings

We note the following:

- The procedures for the responsible (legally compliant and effective) performance of public tasks are insufficient;
- The government does not sufficiently check whether the rules are followed.

Table 4 shows the top 5 serious (and long-term) [shortcomings](#).

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

No.	Shortcoming/Deficiency (since October 10, 2010)	Description
1	Wages and Salaries	The process-related to personnel costs is inherently flawed. Uncertainty about the lawful and efficient use of financial resources.
2	Goods and services acquired absent procurement	The "procure-to-pay" process from acquisition to payment is flawed in its design. Uncertainty about the lawful and efficient use of financial resources.
3	Tax revenue	The process of levying and collection of tax assessments is inherently flawed. Uncertainty about the comprehensiveness of the revenue.
4	Government Health Insurance Arrangement (OZR)	No Audited Reconciliation for the Government Health Care Expense Settlement were issued by USZV from 2013 through 2017.
5	Subsidies	The process of providing subsidies, monitoring, and settlement is inadequate. Uncertainty about lawful and efficient spending.

As was the case in previous years, the 2017 Financial Statements demonstrate the continued inadequacy of internal control procedures at all ministries, resulting in [material uncertainties that with a significant impact](#) on the financial statements.

### 4.2 Plans for improving financial management

The government's stated goal is to receive an unqualified opinion for the 2021 Financial Statements.<sup>17</sup> In August 2019, we received the plan of action, "Integral improvement of financial management". This plan is designed to achieve structural improvements. The intention: [an unqualified opinion for the 2021 Financial Statements](#).<sup>18</sup>

In the meantime, in 2021, the situation has changed. The negative consequences as a result of COVID-19 are evident. St. Maarten receives financial support in the form of loans from the Netherlands, in exchange for financial reforms, detailed in the so-called Country Packages. We believe that the Integral Improvement Plan (with implementation plans) is still relevant and can serve as a basis for the actual improvement of financial management.

### 4.3 Opinion

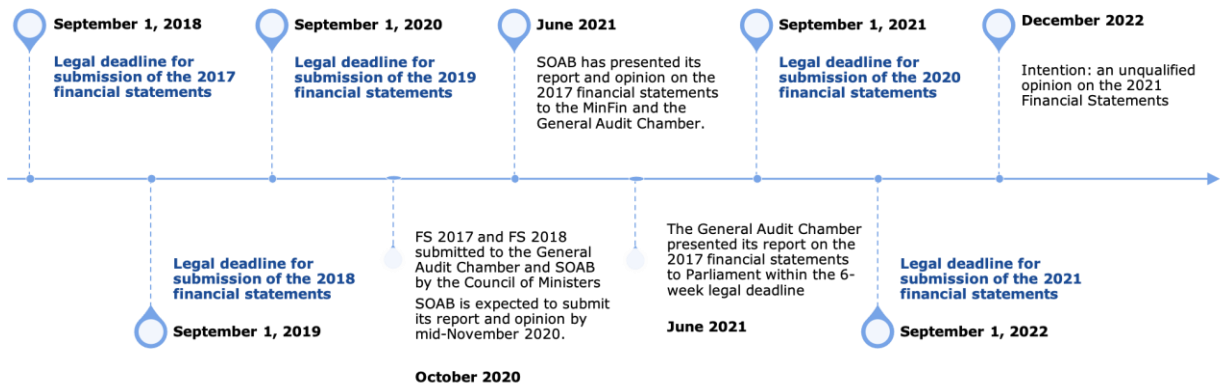
#### Our opinion

We have not identified any improvement since 2016. With the intended reforms, we hope that the first steps are taken to a structurally improvement of financial management.

<sup>17</sup> With reference: DIV#2864/B

<sup>18</sup> See page 7 of the explanatory memorandum of the 2019 National Budget.

**5 STATUS AS OF JUNE 2021**



### 6.1 Reaction of the Minister of Finance

The Minister of Finance, through the Secretary-General of the Ministry of Finance, indicated on June 29<sup>th</sup>, 2021, he had no further comments to the report.

### 6.2 Our Epilogue

The 2017 Financial Statements, which should be drafted on September 1, 2018, were presented to us on June 11, 2021. As a result, these Financial Statements are rendered impractical as an 'accountability tool' for Parliament and therefore also the taxpayer. In addition, there is no evidence of an improvement compared to previous years. In order to get our financial management in order, the necessary steps still need to be taken. Meeting the legal deadlines is, in our opinion, one of the basic principles. This applies to the Minister of Finance with regard to the timely submission of the Financial Statements, the SOAB with regard to the submission of its report, and Government with regard to the drafting of the National Ordinance establishing the Financial Statements, which must be done no later than within a month after the submission of our report. We see no reason to deviate from these legal deadlines.

The Audit Chamber has a legal term of 6 weeks (after receipt of the SOAB report) to send its report to Parliament. We received the SOAB report on June 11, 2021. This report was sent to Parliament on June 30, 2021. Since our inception, we have respected and reported within the legal deadlines. We aim to set an example to the other stakeholders.

We thank SOAB and the Ministry of Finance for their cooperation during the drafting of this report.

## ANNEX 1: IDENTIFIED UNCERTAINTIES IN LINE ITEMS

LINE ITEMS	Scope in ANG x 1 million	Uncertainty in ANG x 1 million	% of magnitude
<b>BALANCE SHEET</b>			
Tangible fixed assets	162	7	4
Financial fixed assets	439	20	5
Current assets	194	211	109
Equity capital	-23	0	0
Provisions	8	0	0
Long-term debt	521	20	4
Short-term debt	289	193	67
<b>Total Balance Sheet</b>	<b>1.590</b>	<b>451</b>	<b>28</b>
<b>INCOME</b>			
Taxes	325	325	100
Licenses	15	0	0
Concessions, fees, and other contributions from institutions	45	12	27
Other income	20	20	100
Extraordinary income	2	0	0
<b>Total Income</b>	<b>407</b>	<b>357</b>	<b>88</b>
<b>EXPENDITURE</b>			
Personnel	210	210	100
Goods and services	105	105	100
Social provisions	27	13	48
Subsidies and transfers	101	101	100
Study financing	3	3	100
Asset write-downs	85	0	0
Depreciation	12	0	0
Extraordinary expenditures	12	9	75
Interest	13	0	0
<b>Total Expenditure</b>	<b>568</b>	<b>441</b>	<b>76</b>
<b>Total Expenditure and Income</b>	<b>975</b>	<b>798</b>	<b>80</b>
<b>Total balance sheet, expenditure, and income</b>	<b>2.565</b>	<b>1.249</b>	<b>49</b>

