

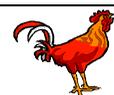
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ACKNOWLEDGEMENT

I acknowledge with gratitude, the invaluable assistance and co-operation extended by the past and interim chairperson and other board members who were interviewed during the conduct of this audit of the Grenada Broilers Inc (GBI).

Sincere appreciation is extended to the Audit Team and to all officers of the Audit Office who contributed to the achievement of the audit results.



BACKGROUND

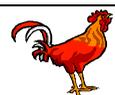
Grenada Broilers Inc. (GBI) provides the institutional framework for the Government to develop, improve and extend local poultry production.

The development of the poultry industry was proposed for the following reasons:

- ❑ Agricultural diversification- by expanding a strategic agricultural and food manufacturing sector in the light of the demise of other agro industries.
- ❑ Rural development- by locating the industry in poorer rural areas of Grenada.
- ❑ Food security- by developing the capability to produce a critical mass of the main source (70%) of animal protein consumed by Grenadians.
- ❑ “Export sales”- by developing value added products and service to the “hard currency” tourist sector of neighbouring CARICOM countries.

The company was incorporated on April 24th, 2003 with the Government as the majority shareholder and a local private company, Sunset Enterprises Limited (SEL) as the other shareholder. The allocation of the shares is 75% to the Government and 25% to Sunset Enterprise. A Board of Directors appointed by Government (5) and SEL (2) manage the Company. It is significant to note that members of the board changed several times and there were three different chairpersons over the relatively short life of the Company. The Company’s mission is ‘to produce, process and efficiently market quality chicken products, that enhance the nutritional health and well being of the nation in a cost efficient manner’.

In an effort to achieve its mission, the company planned to establish the largest poultry farm in Grenada in the town of Victoria, St. Marks on an aggregate of 30 acre of land. However, up to the time of the audit there were no production operations.



1. INTRODUCTION

The Office of the Director of Audit is devoted to upholding public accountability and transparency in all the entities under its jurisdiction/mandate as a means to encourage high productivity, good management, good performance, and achievement of results from the Public entities on behalf of the people of the country.

With this in mind and base on the request of the Permanent Secretary Finance, an audit of the Grenada Broilers Inc. was planned and executed.

This audit provides Government, Parliament, Board members of GBI and the other stakeholders with an assessment on the performance of the activities of Grenada Broilers; with information and observations designed to promote accountability and transparency. In addition, the audit aids in promoting good governance and sustainable development.

2. AUDIT MANDATE AND OBJECTIVES

Mandate

The primary duties and responsibilities of the Director of Audit are outlined in Chapter IV section 82 (1) to (6) of the Grenada Constitution Order 1973 and Section 1, 4 of the Finance and Store Rules.

One of the duties of the Director of Audit is to audit and report on the public accounts of Grenada and the accounts of all officers and authorities of the Government of Grenada. Another is his authority or to authorize anyone to have access to all books, records, returns, reports and other documents, which in his opinion relate to any of the accounts referred to in subsection (2) of section 82.

The effective functioning of the Office of the Director of Audit as an oversight and guardian of the public purse should not be underestimated. Over the years, the office has almost single-handedly carried the torch for accountability, transparency and good governance (Mission of the Office) in the public service and exposed non-compliance with the existing regulations.

In as much as the responsibility of the board is to manage the resources of Grenada Broilers Inc. in an economic, efficient and effective manner, the Auditors' responsibility is to assess, evaluate and report on the extent to which this has been accomplished.

The issues identified in this Report are directed to the attention of the relevant authorities.



Audit Objectives

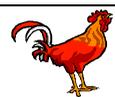
1. To determine whether the company's activities were in keeping with relevant legislations, company's act and by-laws and decisions taken by the Board of Directors.
2. To determine whether all monies received by the company were properly accounted for.
3. To determine whether payments were properly authorized, supported and valid.
4. To determine the company's total assets and whether any creditor(s) have preferential claim on them.
5. To determine if resources were acquired, safeguarded and allocated with regards for cost effectiveness and used economically and efficiently for authorized purposes.
6. To determine the company's total liabilities and the structures in place for repayments.
7. To assess whether value was received for monies spent.
8. To report the results in order to enhance accountability.

3. AUDIT CRITERIA

Audit Criteria are reasonable standards against which existing conditions are assessed. These tend to equate with good or acceptable management practices.

The following are the audit criteria used in planning and executing this audit.

1. There should be proper systems of internal controls to ensure that the company activities are in keeping with relevant legislations, company's act and by-laws and decisions taken by the Board of Directors.
2. There should be proper systems in place to ensure that all monies received by the company are properly accounted for.
3. There should be proper approval procedures for all payments.
4. There should be due regards to economy in the process leading up to payments and these payments should be properly authorized, supported and valid.



5. Planning and budgeting for assets should contribute to their economical acquisition and efficient use.
6. There should be systems in place to adequately monitor all resources of the company. Moreover, assets should be acquired, used and disposed off in accordance with existing plans, budgets, directives and authority.
7. Inventory should be properly documented and safeguarded.
8. There should be proper systems in place to ensure that only legitimate creditors are honoured.

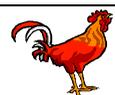
4. SCOPE OF THE AUDIT

The examination covered the activities executed from inception of the company to 31 July 2006. The audit was performed in accordance with the International Standards on Auditing issued by the International Organization of Supreme Audit Institutions (INTOSAI) and Generally Accepted Auditing Standards with modifications necessary to meet the circumstances of Grenada Broilers.

Interviews were conducted with the past and interim chairpersons and board members with respect to the activities and results of the company and to determine areas of potential significance for audit purposes.

The activities and results of the company were examined against a number of suitable criteria for good governance and good management.

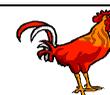
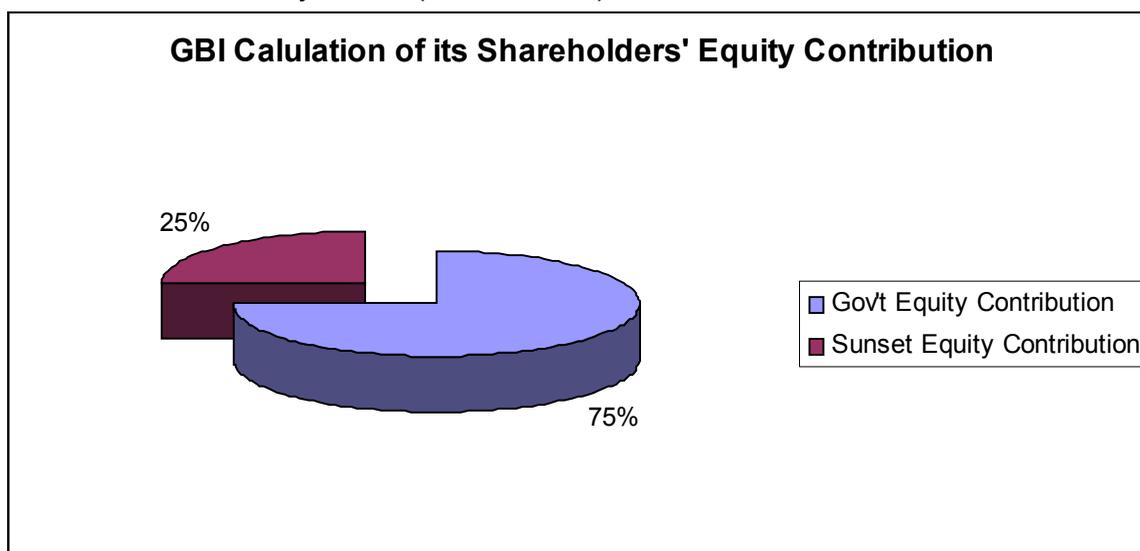
The detailed examination included reviewing the Business plan; Articles of Incorporation and By-Laws; The Company Act; Minutes of board meetings; Correspondents to and from the company; Status reports, Reports of financial activities, and Supporting documentations.



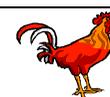
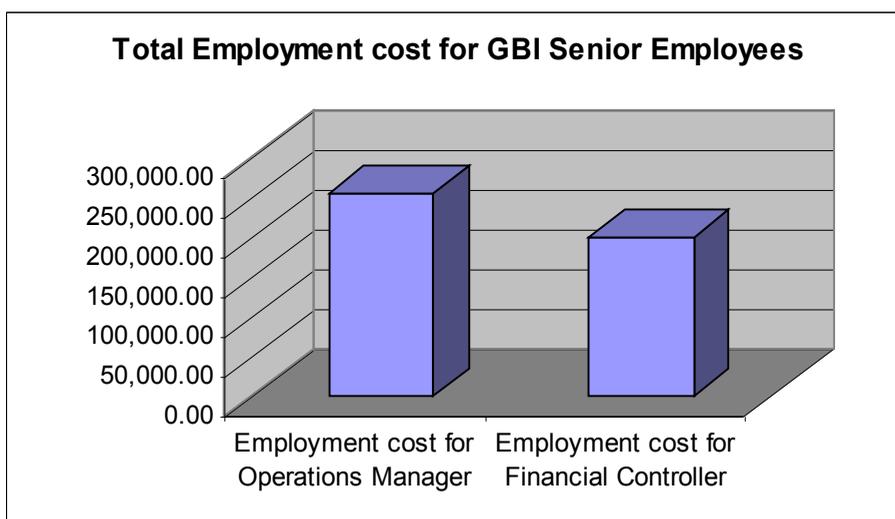
5. OBSERVATIONS

- 5.1.0 The agreement on the 7 November 2003 between The Government of Grenada and Sunset Enterprises Limited states that "Upon the disbursement of the Loan all outstanding accounts of Sunset Enterprises Limited incurred in the development of the project so far shall be settled in full". Although there was an existing loan agreement between the Government of Grenada and GBI, there was no evidence of any disbursement of a loan. However, the founder of Sunset Enterprises Ltd. and a few of the larger creditors' claims were partially or fully settled.
- 5.1.1 I was informed that the payment to the founder of Sunset Enterprises Ltd. of three hundred and fifty eight thousand, four hundred and forty dollars and seventy-one cents (358,440.71) was partially for the settlement of some of the minor debts of Sunset Enterprises. However, this information was not clearly stated on the supporting voucher and documentations.
- 5.1.2 The amount outstanding as per claim raised by Sunset Enterprises at the time of the audit was approximately four hundred and fifty nine thousand, six hundred and seventy three dollars and ninety one cents (\$459,673.91). However, some of the claims raised by the creditors of Sunset were not properly supported.
- 5.2.0 Government equity in GBI was calculated to be \$4,515,000.00 representing 75% of the total shareholders equity of \$6,027,000.00. The breakdown of Government's share holdings is as follows:

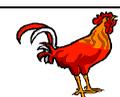
□ Risk Premium on the loan	\$1,863,000.00
□ Land Cost (EC \$20,000.00 per acre x 30 acres)	\$600,000.00
□ Duty & Tax (GCT & CET) Concessions	\$2,052,000.00



- 5.2.1 It is significant to note that the actual contributions was not realised as the loan was not provided; the land was not vested in the company; and the duty and tax concessions were not obtained because the housing and equipment were not purchased.
- 5.2.2 Despite the aforementioned, a sum of two million seven hundred thousand (\$2,700,000.00) was received from the Government of Grenada. However, there was nothing on record to show the specific nature of the amount received whether it was a subvention, grant, loan or equity contribution. Notwithstanding the existing loan agreement between the Government of Grenada and GBI, there was no documentation specifying that the above transaction was a disbursement from the loan.
- 5.3.0 The Company paid a total of four hundred and fifty three thousand eight hundred and eighty one dollars and eighty-one cents (\$453,881.81) as employment cost for a Financial Controller and an Operations manager. However, there were no production operations or place of business up to the time of the audit.
- 5.3.1 Two hundred and fifty four thousand, four hundred and eighty five dollars and thirty one cents (\$254,485.31) was paid over a sixteen-month period (1 July 2004 – 31 October 2005) to the Operations Manager re- emoluments, travelling, relocation and termination of contract. However, I did not see any report detailing the activities of the Operations Manager during this period.
- 5.3.2 One hundred and ninety nine thousand three hundred and ninety six dollars and fifty cents (\$199,396.50) was paid to the Financial Controller over a three-year period. Seventy four thousand (\$74,000.00) of which, was for a retroactive payment for a period when the company had no working capital. However, there were no proper documented financial systems or financial reports. In addition, vouchers were not numbered, a cashbook was not maintained and bank reconciliation statements were not prepared.



- 5.3.3 The contract of the Operations Manager states, “The Employer shall bear the cost of transporting one 40ft. container of personal effects of the Operations Manager, his Wife and two dependant children”. Some of his personal effects were shipped on 19 August 2004 and another consignment airlifted on 2 November 2004, approximately three months after. The company paid for both consignments.
- 5.4.0 The Operations Manager’s contract also states that he “... shall be provided with a suitable cellular phone instrument for the performance of his duties. He will be provided a monthly allowance of \$200.00. Overseas calls made on behalf of the Employer shall be reimbursed at cost. Alternatively, the arrangement could be superseded by a Corporate Account, which the company may put in place in due course”. However, there is evidence that the company paid for some of his personal overseas calls.
- 5.5.0 I am therefore of the view that the Board did not have adequate systems in place to monitor the activities of the Company’s senior employees and that the company did not receive value for money from the employment of these two officers.
- 5.6.0 Based on the Sub – Committee Report on the Finalization of the Bid Process for the Procurement of Equipment for the GBI Project, the selection of Avian Technology International was done using sound predetermined criteria and the process appears to be transparent.
- 5.6.1 Notwithstanding the aforementioned, based on the contact document a non-refundable deposit of eight hundred and fifteen thousand and seventy dollars (\$815,070.00) was paid to Avian Technology International signifying a commitment for procuring the housing and equipment needed to begin operations. I was informed that this payment was effected in an effort to avoid further increases in the contract price due to the rapid escalation of steel prices. However, I did not see any evidence of an analysis of what the contract price would have increased by if that payment were not made. The deposit may result in a loss to Grenada Broilers Inc. due to its inability to secure the additional financing needed to cover the total cost of the housing and equipment.
- 5.6.2 I was informed that the board was very confident that they would have been able to secure the additional funds needed and therefore went ahead with the transaction with Avian Technology since due diligence was exercised and Grenada was found to be in good standing with EXIM Bank.
- 5.6.3 However, the outstanding debt of the country to the EXIM Bank is stated on the Statement of Public Debt and further checks would have revealed the status of the loans. Given the risk involved, in my opinion it would have been more prudent to make a firm commitment with Avian Technology after additional funding was secured.



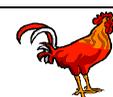
- 5.7.0 A copy of the request for Telegraphic Transfer dated 3 November 2005 was seen with Avian Technology International as the beneficiary customer. However, there was no payment voucher seen from Grenada Broilers Inc. supporting the payment and the documentation acknowledging receipt of the non- refundable deposit, received on the 28 September 2006, did not have Avian Technology's official seal or signature. All payment should be supported by proper documentation.
- 5.7.1 I requested all the board minutes and out of those received there was no indication that the payment mentioned above was approved by a board decision. However, a Cabinet Conclusion authorising the Board to enter into contract with Avian Technology was seen. Some other transactions were also not approved by the Board eg. the trip to Martinique for two board members. This is not in keeping with the By-laws of the company.
- 5.8.0 Proper supporting documentation was not seen for payment of EC \$27,179.10 as evidenced on a debit note dated 9 January 2006 for purchasing a US dollar draft in the name of Michael Filchock. I was informed that the payment was for services provided by Suntrust Bank re negotiations on behalf of GBI to secure a loan from EXIM Bank. Another case is the payment of \$67,922.50 on 29 November 2005 to Glen Harris for services provided by Dominion Capital Ltd. I wish to express my concerns with payments, which are in the name of an individual and not in the company's name.
- 5.9.0 In addition supporting documentation and/or payment vouchers were not seen for the following payments below. In the absence of which makes it impossible to determine the particulars, validity and authorization of the payments:

Date	Cheque No.	Amount \$
18/10/04	256721	2,200.00
17/02/05	256735	8,767.50
03/02/05	256738	10,000.00
06/01/06	256782	777.20
04/02/04	256731	*8,725.00
31/08/05	256766	*8,725.00
01/03/06	256789	**3,240.00
18/03/06	256790	**3,240.00
31/03/06	256791	**1,790.00

*No vouchers seen

** No vouchers and supporting documentation seen

- 5.10.0 There was no signature of the receiver on a few payment vouchers. The following are examples:



Date	Cheque No.	Total Amount \$
29/04/05	256757	3,261.00
27/05/05	256760	7,400.00
05/09/05	256773	1,150.00
24/01/05	256786 &87	6,922.04

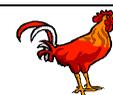
- 5.11.0 There was a calculation error on the payment voucher for cheque # 256775. Three meetings at \$250.00 were incorrectly tallied to \$850.00 instead of \$750.00. The total paid was therefore overstated by \$100.00.
- 5.12.0 Although the company failed mainly due to financial constraints, there is evidence that finances were obtained through loan agreements that were subsequently cancelled potentially at significant cost to the Government. A case in point is the US\$6.9 million Bond issue that was sourced from Caribbean Money Market Brokers Ltd (CMMB) but later cancelled. However, the legal and arrangement fees amounted to five hundred and eighty five thousand and seventy two dollars and nineteen cents (\$585,072.19). I have not ascertained whether this amount was paid; if the amount is outstanding it will be accumulating interest.
- 5.13.0 Section 11.1 of the Articles of Incorporation and By- Laws of GBI states that “The directors shall, as often as may be required, appoint a secretary and, if deemed advisable, may as often as may be required appoint any or all of the following officers: a Chairman, a deputy chairman....”. I did not see the appointment of the Interim Chairperson reflected in the Board minutes. However, there was an approval of the appointment by Cabinet.

6. CONCLUSION

The Board was entrusted with responsibility to establish the company and to oversee its operations. In order to enable them to adequately account for these responsibilities they needed to have systems in place to properly monitor all activities in relation to the establishment. I did not find those systems in place.

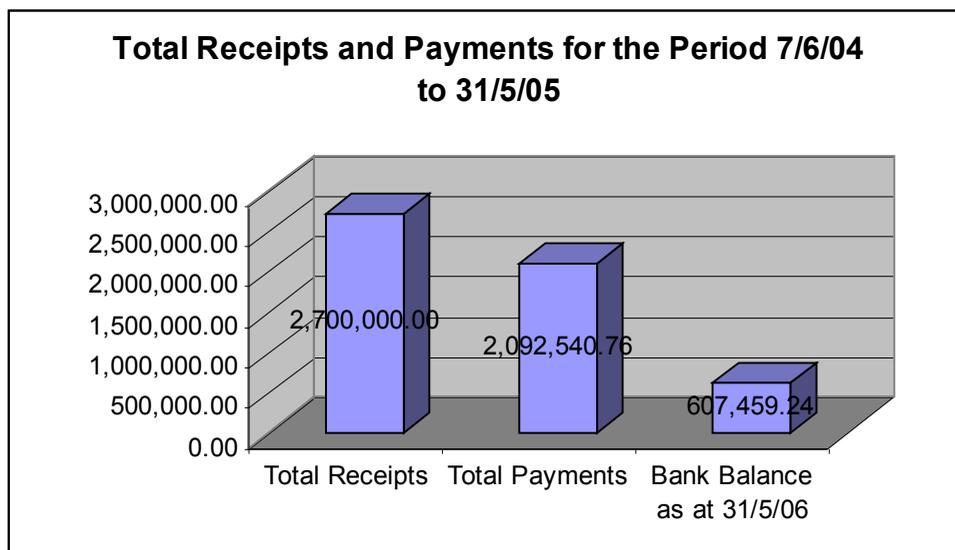
Generally, the company’s activities were in keeping with relevant legislations, company’s act and by-laws. However, the board minutes did not reflect some of the decisions that were taken, signifying that some decisions were taken without the prior approval of the board. In addition, there were indications that swift decisions were not always made by the Board when necessary.

In general, monies received were evident on the bank statement but they were not properly classified in the accounts of the company due to the lack of adequate



accounting and financial reporting systems. In addition, a number of the payments were not properly supported.

GBI expenditure amounts to approximately 2.09 million dollars. However, the company has no fixed assets apart from two computers (a laptop and a desktop) and a printer. It means therefore, that any outstanding claims by creditors can only be settled from the current assets of the company.

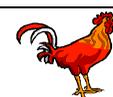


Classification of Payments for the Period 7/6/04 to 12/5/06	
Classes of Expenditure	Amount \$
Creditors of Sunset Enterprises	595,290.71
Employment Cost	453,881.81
Travel & Accommodation	48,167.30
Professional Services	149,251.94
Director Fees	23,750.00
Computer & Accessories	7,000.00
Deposit on Equipment	815,155.00
Miscellaneous	44.00
Total	2,092,540.76

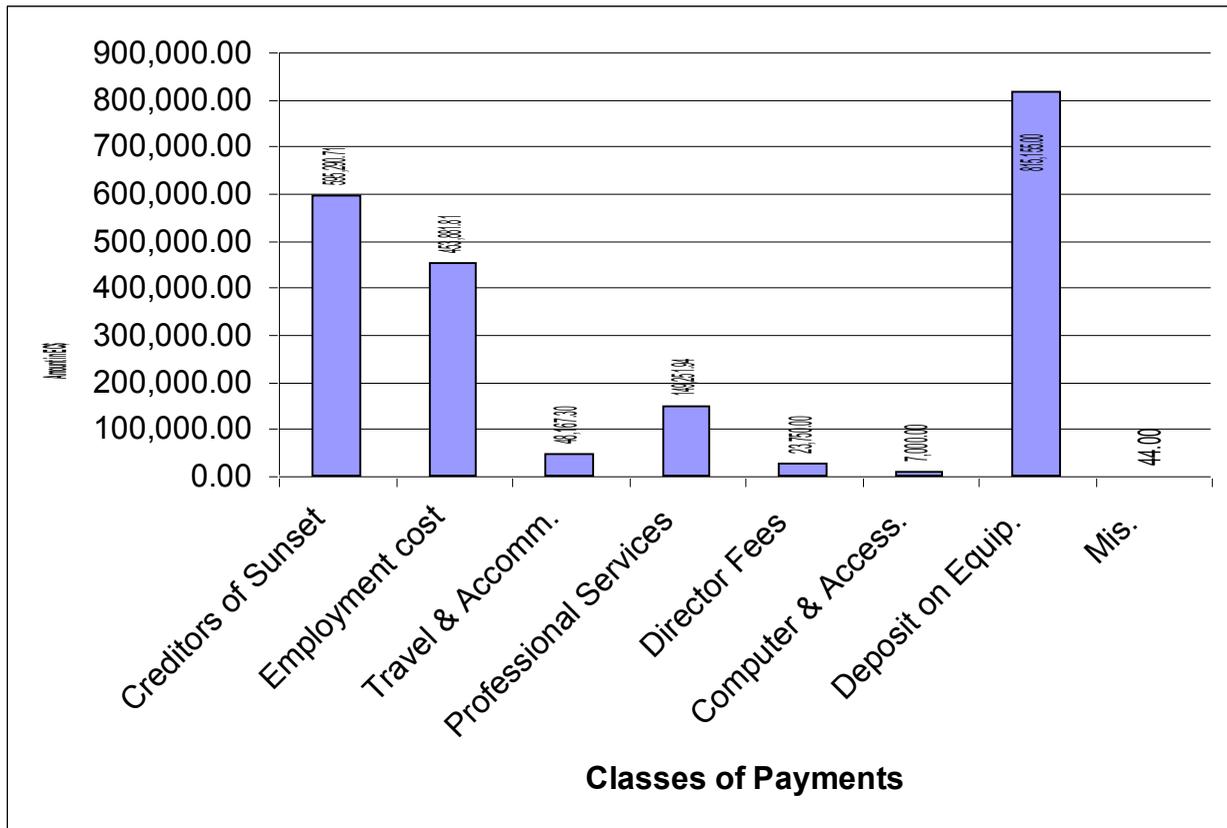
Employment cost includes: Emoluments, relocation cost, Gratuity & compensation on termination of contract

Professional Services includes: Consultant fees & Legal fees.

Miscellaneous includes: payment for copies of statement & bank charge for stamps.



Classification of Payments for the Period 7/6/04 to 12/5/06



In my view, efficiency and prudence was not always exercised in the company's activities. In some instances due regards to cost effectiveness was not applied, resulting in failure to obtain value for money.

The company's total liabilities could not be determined due to the absence of proper company records.

