

Financial Services Commission

Financial Statements

Year ended 31 March 2019
(Expressed in Barbados Dollars)

FINANCIAL SERVICES COMMISSION

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Year ended 31 March 2019

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INDEPENDENT AUDITOR’S REPORT

TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Financial Services Commission (“the Commission”), which comprise the statement of financial position as at 31 March 2019, and the statement of comprehensive income, statement of changes in general fund and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as at 31 March 2019 and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium Sized Entities (“IFRS for SMEs”).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (“ISAs”). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Commission in accordance with the International Ethics Standards Board for Accountants’ Code of Ethics for Professional Accountants (“IESBA Code”), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and the Board of Commissioners for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS for SMEs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Commission’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Commission or to cease operations, or has no realistic alternative but to do so.

The Board of Commissioners is responsible for overseeing the Commission’s financial reporting process.

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION (CONT'D)

Report on the Audit of the Financial Statements (Cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Commission's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Commission to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

**TO THE BOARD OF COMMISSIONERS OF THE FINANCIAL SERVICES COMMISSION
(CONT'D)**

Report on the Audit of the Financial Statements (Cont'd)

Auditor's Responsibilities for the Audit of the Financial Statements (Cont'd)

We communicate with Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Barbados
12 July 2019

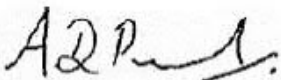
FINANCIAL SERVICES COMMISSION

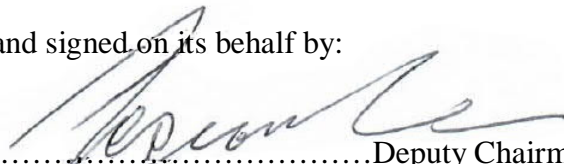
Statement of Financial Position
As at 31 March 2019

	Notes	2019 \$	2018 \$
Assets			
Current assets			
Cash and cash equivalents	3	4,087,878	7,007,378
Deposits with Central Bank	4	11,872,787	11,174,446
Marketable securities	5	3,987,341	-
Accounts receivable	6	357,342	160,615
Due from related parties	8	-	25,546
Prepayments		37,079	33,274
Lease deposits		<u>28,763</u>	<u>28,763</u>
		20,371,190	18,430,022
Property and equipment	7	<u>381,543</u>	<u>470,903</u>
		<u>20,752,733</u>	<u>18,900,925</u>
Liabilities			
Current liabilities			
Accounts payable		141,707	207,857
Due to related parties	8	-	514,297
Deferred income		4,710,888	4,516,941
Escrow deposits		11,872,787	11,174,446
Contingent consideration payable	13	<u>-</u>	<u>130,734</u>
		<u>16,725,382</u>	<u>16,544,275</u>
Represented by:			
Capital contribution	9	699,198	699,198
Accumulated surplus		<u>3,328,153</u>	<u>1,657,452</u>
		<u>4,027,351</u>	<u>2,356,650</u>
Total Liabilities and General Fund		<u>20,752,733</u>	<u>18,900,925</u>

The accompanying notes form part of the financial statements.

Approved by the Commission on July 11, 2019 and signed on its behalf by:


.....Chairman


.....Deputy Chairman

FINANCIAL SERVICES COMMISSION

Statement of Comprehensive Income Year ended 31 March 2019

	Notes	2019 \$	2018 \$
Income			
Fees		7,215,519	6,482,586
Government grants	10	1,400,000	1,105,000
Interest income		85,607	67,879
Other income		<u>8,656</u>	<u>105</u>
		<u>8,709,782</u>	<u>7,655,570</u>
Expenses			
Salaries and benefits		5,327,025	5,083,124
Lease	12	366,600	366,600
Utilities		291,562	289,433
Depreciation	7	260,839	200,747
Professional fees		180,298	281,187
Conferences and meeting expenses		138,262	117,798
Membership and registration fees		120,766	133,263
Commissioner fees and allowances		83,800	93,600
Training		73,375	32,302
Maintenance		69,842	63,478
Security		37,859	37,859
Stationery		30,047	31,686
Subscription		28,690	27,655
Tribunal expenses		22,024	21,779
Insurance		20,921	18,958
Office supplies		18,310	21,783
Computer expenses		17,222	11,917
Corporate expenses		13,718	45,261
Vehicle expenses		9,828	25,757
Interest and penalties		7,788	-
Bank charges		4,570	4,030
Uniforms		3,053	28,339
Refreshments		2,571	5,446
Travel expense		130	-
Contingent consideration expense	13	-	130,734
Miscellaneous		-	313
Foreign exchange loss		-	7
Discount received		(614)	(719)
Bad debts		(24,520)	(30,000)
Advertising		<u>(64,884)</u>	<u>5,610</u>
		<u>7,039,081</u>	<u>7,047,947</u>
Surplus for the year		<u>1,670,701</u>	<u>607,623</u>

The accompanying notes form part of the financial statements.

FINANCIAL SERVICES COMMISSION

Statement of Changes in General Fund
Year ended 31 March 2019

	Capital Contribution \$	Accumulated Surplus \$	Total \$
Balance as at 31 March 2017	699,198	1,049,829	1,749,027
Surplus for the year	<u>-</u>	<u>607,623</u>	<u>607,623</u>
Balance as at 31 March 2018	699,198	1,657,452	2,356,650
Surplus for the year	<u>-</u>	<u>1,670,701</u>	<u>1,670,701</u>
Balance as at 31 March 2019	<u>699,198</u>	<u>3,328,153</u>	<u>4,027,351</u>

The accompanying notes form part of the financial statements.

FINANCIAL SERVICES COMMISSION

Statement of Cash Flows
Year ended 31 March 2019

	2019	2018
	\$	\$
Cash flows from operating activities		
Surplus for the year	1,670,701	607,623
Adjustments for:		
Depreciation	<u>260,839</u>	<u>200,747</u>
	1,931,540	808,370
Operating surplus before working capital changes:		
Increase in deposits with Central Bank	(698,341)	(833,048)
Increase in marketable securities	(3,987,341)	-
Increase in accounts receivable	(196,727)	(76,034)
Decrease/(increase) in due from related parties	25,546	(138)
(Increase)/decrease in prepayments	(3,805)	46,554
(Decrease)/increase in accounts payable	(66,150)	17,045
Decrease in due to related parties	(514,297)	(18,499)
Increase in deferred income	193,947	169,171
Increase in escrow deposits	698,341	833,048
(Decrease)/increase in contingent consideration payable	<u>(130,734)</u>	<u>130,734</u>
Net cash (used in) from operating activities	<u>(2,748,021)</u>	<u>1,077,203</u>
Cash flows from investing activities		
Purchase of property and equipment	<u>(171,479)</u>	<u>(196,649)</u>
Net cash used in investing activities	<u>(171,479)</u>	<u>(196,649)</u>
(Decrease)/increase in cash for the year	(2,919,500)	880,554
Cash – beginning of year	<u>7,007,378</u>	<u>6,126,824</u>
Cash – end of year	<u>4,087,878</u>	<u>7,007,378</u>
Represented by:		
Cash at bank	4,087,478	7,006,978
Cash in hand	<u>400</u>	<u>400</u>
	<u>4,087,878</u>	<u>7,007,378</u>

The accompanying notes form part of the financial statements.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements

Year ended 31 March 2019

1. Establishment, principal activity and registered office

The Financial Services Commission (“the Commission”) is a regulatory entity, established in Barbados on 1 April 2011 under the Financial Services Commission Act, 2010-21. The principal function of the Commission is to supervise and regulate the non-bank financial services sector in Barbados.

The Commission’s principal place of business is situated at Suites 301 and 302, Building 4, Harbour Industrial Park, Bridgetown, Barbados.

2. Significant accounting policies

Basis of preparation

The financial statements are expressed in Barbados dollars on a historical cost basis and are in accordance with the International Financial Reporting Standards for Small and Medium-sized Entities (“IFRS for SMEs”) as promulgated by the International Accounting Standards Board.

Critical accounting judgements and key sources of estimation uncertainty

In the application of the Commission’s accounting policies, management is required to make judgement, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and liabilities are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Other than in the establishment of routine provisions against accounts receivables, there are no key estimates or judgements which are required in applying policies which may have a material impact on the Commission’s reported assets, liabilities, revenues and expenses.

a) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individual or corporate entities.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2019

2. Significant accounting policies (cont'd)

b) Cash and cash equivalent

Cash and cash equivalents includes cash on hand, cash at bank and treasury bills with original maturities of three months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in values.

c) Property and equipment

Property and equipment is stated at cost less depreciation and provision for impairment. Cost includes expenditure that is directly attributable to the expenditure of the items. The charge for depreciation is computed on the straight line basis calculated to write off the cost of the property and equipment over their expected useful lives. The estimated useful lives of the assets are as follows:

Office equipment	5 years
Furniture and fittings	5 years
Motor vehicles	5 years
Computer equipment	3 years
Library books	3 years
Leasehold improvements	5 years

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

d) Revenue recognition

Fees and deferred income

Application fees are recognized as revenue upon receipt. Annual registration and licence fees are due in January of each year and are recognized in income on a calendar year basis. Deferred income represents fees which will be earned in the next financial year.

Government grants

Government grants represent funds received from the Ministry of Finance and Economic Affairs during the financial year in the form of cash and goods or services to assist with operating expenses.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements

Year ended 31 March 2019

2. Significant accounting policies (cont'd)

d) Revenue recognition (cont'd)

Government grants (cont'd)

Government grants are not recognized until there is reasonable assurance that the Commission will comply with the conditions attaching to them and that grants will be received. Government grants that are receivable as compensation for expenses already incurred or for the purpose of giving immediate financial support to the Commission with no future related costs are recognized in the statement of comprehensive income in the period in which they become receivable.

e) Accounts receivable

Accounts receivable are recognized initially at the fair value and subsequently measured at amortized cost using the effective interest rate method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Commission will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor and default and delinquency in payment are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the statement of comprehensive income.

f) Foreign currency translation

Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary economic environment in which the Commission operates ('the functional currency'). The financial statements are presented in Barbados dollars, which is the Commission's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated to the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchanges gains and losses resulting from the settlement of such transactions and the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of comprehensive income.

g) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2019

2. Significant accounting policies (cont'd)

h) Marketable securities

All investments are initially recorded on the trade date, at cost. Investments in government bonds are carried at amortized cost which is generally the amount of principal outstanding, and interest income is recognized when earned.

3. Cash and cash equivalents

Cash and cash equivalents consist of the following:

	2019	2018
	\$	\$
Cash at bank	4,087,478	5,024,978
Treasury bills	-	1,982,000
Cash in hand	<u>400</u>	<u>400</u>
	<u>4,087,878</u>	<u>7,007,378</u>

4. Deposits with Central Bank

The Commission has an escrow account in the amount of \$11,872,787 (2018: \$11,174,446). The funds are deposited at the Central Bank of Barbados. The account comprises:

- a) A statutory deposit of \$6,467,371 (2018: \$6,552,371) representing amounts paid by insurance companies to satisfy their requirement under the Insurance Act CAP 310.
- b) Unclaimed moneys totaling \$5,192,466 (2018: \$4,409,125) which are unclaimed monies paid to the Commission by insurance companies, in accordance with the Insurance Act CAP 310 Section 138. These amounts are held in escrow until such time as they are claimed.
- c) Residual funds from a liquidated credit union totaling \$212,950 (2018: \$212,950) representing funds held with the Commission in accordance with the Co-operative Societies Act CAP378A Section 159(2).

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements

Year ended 31 March 2019

5. Marketable Securities

	2019	2018
	\$	\$
Series B Bond 1 - 3.75% maturing 30 September 2033	<u>3,987,341</u>	<u>-</u>

On 14 September 2018 the Government of Barbados launched an exchange offer for holders of Barbados dollar denominated debt as part of its Comprehensive Debt Restructuring. The Financial Services Commission accepted Government's offer and effective 1 October 2018 received a new Series B Debenture with a face value of \$3,987,341 in exchange for its existing debentures with face value of \$3,964,000 and accrued interest of \$23,341. This debenture comprises 11 amortising strips with maturities ranging from 5 years to 15 years, bearing interest at 1% per annum for the first 3 years, 2.5% per annum for year 4, and 3.75% per annum thereafter to maturity. Interest is paid quarterly, and the principal of each strip will be repaid in four equal quarterly instalments commencing one year prior to the maturity of that strip.

6. Accounts receivable

Accounts receivable consist of the following:

	2019	2018
	\$	\$
Trade receivable	27,249	37,217
Registration fees receivable	<u>544,478</u>	<u>387,783</u>
	571,727	425,000
Less: Provision for doubtful debts	<u>(214,385)</u>	<u>(264,385)</u>
	<u>357,342</u>	<u>160,615</u>

No interest is charged on outstanding receivables. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2019

7. Property and equipment

	Leasehold	Office Equipment	Computer Equipment	Motor Vehicles	Furniture and Fittings	Library Books	Total
	\$	\$	\$	\$	\$	\$	\$
2019							
Cost							
Balance – beginning of year	349,310	24,637	601,838	154,306	469,969	24,532	1,624,592
Additions	-	-	32,745	138,734	-	-	171,479
Disposal	-	-	(10,866)	-	-	-	(10,866)
Balance – end of year	349,310	24,637	623,717	293,040	469,969	24,532	1,785,205
Accumulated depreciation							
Balance – beginning of year	209,743	23,130	471,636	123,735	300,913	24,532	1,153,689
Depreciation	69,862	1,507	66,113	30,464	92,893	-	260,839
Disposal	-	-	(10,866)	-	-	-	(10,866)
Balance – end of year	279,605	24,637	526,883	154,199	393,806	24,532	1,403,662
Net book value							
Beginning of year	139,567	1,507	130,202	30,571	169,056	-	470,903
End of year	69,705	-	96,834	138,841	76,163	-	381,543

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2019

7. Property and equipment (cont'd)

	Leasehold	Office Equipment	Computer Equipment	Motor Vehicles	Furniture and Fittings	Library Books	Total
	\$	\$	\$	\$	\$	\$	\$
2018							
Cost							
Balance – beginning of year	315,179	52,329	540,250	154,306	449,971	24,532	1,536,567
Additions	34,131	-	142,520	-	19,998	-	196,649
Write-off	-	(27,692)	(80,932)	-	-	-	(108,624)
Balance – end of year	349,310	24,637	601,838	154,306	469,969	24,532	1,624,592
Accumulated depreciation							
Balance – beginning of year	145,631	48,505	519,758	114,081	209,059	24,532	1,061,566
Depreciation	64,112	2,317	32,810	9,654	91,854	-	200,747
Write-off	-	(27,692)	(80,932)	-	-	-	(108,624)
Balance – end of year	209,743	23,130	471,636	123,735	300,913	24,532	1,153,689
Net book value							
Beginning of year	169,548	3,824	20,492	40,225	240,912	-	475,001
End of year	139,567	1,507	130,202	30,571	169,056	-	470,903

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2019

8. Related party transactions

The amount due from related parties in 2018 was \$25,547 and the amount due to related parties in 2018 was \$514,297. During the year, related party balances were written off as per instructions from the Ministry of Finance, Economic Affairs and Investment.

Key management compensation

The remuneration of members of key management personnel during the year was as follows:

	2019	2018
	\$	\$
Salaries and other short-term benefits	<u>1,948,979</u>	<u>1,542,258</u>

9. Capital contribution

In accordance with Section 56 of the Financial Services Commission Act, 2010-21

- a) All assets and liabilities of the Securities Commission are deemed to be transferred to the Commission
- b) Any right, privilege, duty or obligation conferred on or imposed upon the Securities Commission and existing immediately before the date referred to, shall be deemed to be conferred on or imposed upon the Commission; and
- c) Any contract entered into by or on behalf of the Securities Commission before the date referred to have been entered into by or on behalf of the Commission.

In accordance with the above the following assets and liabilities were transferred to the Commission as of 1 April 2011:

	\$
Assets	
Current assets	
Cash	838,355
Lease deposits	20,547
Property and equipment	<u>41,841</u>
Total assets	<u>900,743</u>

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements
Year ended 31 March 2019

9. Capital contribution (cont'd)

	\$
Liabilities	
Current liabilities	
Accounts payable	24,090
Deferred income	<u>388,684</u>
	<u>412,774</u>
Capital contribution	<u>487,969</u>

A further amount of \$211,229 was contributed to the Commission in September 2011 which has been added to contributed capital.

10. Government grants

Government grants represent funds totaling \$1,400,000 (2018: \$1,105,000) which were received from the Ministry of Finance and Economic Affairs and Investment during the financial year in the form of cash and goods and services to assist with operating expenses.

11. Taxation

In accordance with Section 46 of the Financial Services Commission Act, 2010-21, the Commission is exempt from the payment of corporation tax, stamp duty and land tax.

12. Operating lease commitments

The future minimum lease payments under the operating lease are as follows:

	2019	2018
	\$	\$
Not later than 1 year	366,600	366,600
Later than 1 year and not longer than 5 years	<u>183,300</u>	<u>549,900</u>
	<u>549,900</u>	<u>916,500</u>

During the year, operating lease payments of \$366,600 (2018: \$366,600) were recognized as an expense.

FINANCIAL SERVICES COMMISSION

Notes to the Financial Statements

Year ended 31 March 2019

13. Contingent liabilities

Through its activities as a regulatory body, the Commission is subject to various legal proceedings.

Upon establishment in 1 April 2011, the Commission, as successor to the Supervisor of Insurance, was named as defendant in the legal proceedings brought by the Barbados Investors and Policyholders Alliance Inc. with respect to the failure of CLICO and BAICO. It is impracticable to estimate the outcome of these proceedings and their financial effect as they do not include a quantified claim against the Commission.

During the year ended 31 March 2018, a wrongful dismissal suit was brought against the Commission. The plaintiff claimed damages for unfair dismissal and/or wrongful dismissal. As it was probable that this obligation would require future settlement and as the settlement amount could be reliably estimated, a provision was established. During the current financial year, the Commission settled the wrongful dismissal suit.

14. Pension plan

The Commission's defined contribution pension plan commenced on 1 July 2016. Contributions to the plan are determined by an independent qualified actuary. The Commission contributes to the plan at the rate of 2.0% per annum of total pensionable salary up to the NIS maximum plus 5% of any salary in excess of this maximum to the pension plan.

The assets of this plan are held separately from those of the Commission and are invested and managed by its Trustees.

During the year, the total amount of \$123,159 (2018: \$128,285) was contributed to the plan by the Commission and this amount is included in salaries and benefits in the statement of comprehensive income.