



Second Report
of the
Public Accounts
(Enterprises) Committee,
Third Session, 10th Parliament
on
Caribbean Airlines Limited
[Examination of the Audited
Financial Statements for the year
ended December 31, 2008.]

Ordered to be printed in the House of Representatives and Senate

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**MEMBERS OF THE PUBLIC ACCOUNTS
(ENTERPRISES) COMMITTEE –**

TENTH PARLIAMENT,
REPUBLIC OF TRINIDAD AND TOBAGO

➤ Mr. Fitzgerald Hinds	-	Chairman
➤ Mr. Rudranath Indarsingh	-	Member
➤ Mr. Errol McLeod	-	Member
➤ Mr. Herbert Volney	-	Member
➤ Mr. Colm Imbert	-	Member
➤ Mrs. Paula Gopee-Scoon	-	Member
➤ Ms. Marlene Coudray	-	Member
➤ Mr. Fazal Karim	-	Member
➤ Mr. Embau Moheni	-	Member
➤ Dr. Rolph Balgobin	-	Member

EXECUTIVE SUMMARY

The Second Report of the Public Accounts (Enterprises) Committee (P.A.(E).C) of the Tenth Parliament examines the following entity:

The Caribbean Airlines Limited on its audited financial statements for the year ended December 31, 2008;

Chapter 1 presents details of the Public Accounts (Enterprises) Committee established in the Tenth Republican Parliament, the Election of a Chairman and determination of the Committee's Quorum. It also includes the particulars of Meetings held with the entity under report and the Staff of the Committee.

The work undertaken by your Committee, including the main issues, findings and recommendations of your Committee in respect of Caribbean Airlines Limited are contained within Chapter 2 of this Report.

Based on the general work undertaken by the Public Accounts (Enterprises) Committee, Chapter 3 lists the general recommendations presented by your Committee, for the consideration of the House of Representatives and the Senate.

The supporting Minutes of Meetings and other documents are Appended.

CHAPTER 1

THE COMMITTEE

The Public Accounts (Enterprises) Committee [P.A.(E).C] established under Section 119(5) of the Constitution of the Republic of Trinidad and Tobago is mandated to consider and report to the House of Representatives accordingly on:

“the audited accounts, balance sheets and other financial statements of all enterprises that are owned or controlled by or on behalf of the state; and the Auditor General’s Report on any such accounts, balance sheets and other financial statements.”

1.1 Establishment, Election of Chairman and Determination of Quorum

The Public Accounts (Enterprises) Committee of the Tenth Republican Parliament was established by resolutions of the House of Representatives and the Senate at sittings held on Friday September 17, 2010 and Tuesday October 12, 2010 respectively.

Your Committee held its first meeting on Tuesday October 26, 2010. At this meeting your Committee elected Mr. Fitzgerald Hinds as Chairman, in accordance with Section 119(6) of the Constitution of the Republic of Trinidad and Tobago.

At that same meeting, your Committee also resolved that its quorum should comprise of six (6) Members, inclusive of the Chairman and any other Opposition Member.

At your Committee’s second meeting, held on Tuesday November 16, 2010, by agreement, the quorum was reduced to five (5) Members, with no change to the composition.

1.2 Change in Membership

Following the establishment of the Committee, by resolution of the House of Representatives made on April 01, 2011, Mrs. Paula Gopee Scoon was appointed to replace Dr. Keith Rowley as a Member of your Committee.

By a similar resolution of the Senate made on September 09, 2011, Dr. Bhoendradatt Tewarie replaced former Senator Mr. Subhas Panday as a Member of your Committee.

1.3 Meetings

At the Meeting held *in public* on Tuesday March 22, 2011, your Committee met with Officials of the Caribbean Airlines Limited to examine the Company on its Audited Financial Statements for the year ended December 31, 2008. The witnesses attending on behalf of the Caribbean Airlines Limited were:

<i>Mr. Robert Corbie</i>	-	<i>Chief Executive Officer (Ag.)</i>
<i>Mr. Andre Mills</i>	-	<i>Deputy Chief Financial Officer</i>
<i>Mr. Adrian Agarrat</i>	-	<i>Manager, Financial Accounting</i>

1.5 Committee Support Staff

The following members of staff served the Committee through the provision of administrative and research support services:

- Ms. Keiba Jacob - Secretary to the Committee;
- Ms. Khisha Peterkin - Assistant Secretary;
- Mr. Dwayne Haynes- Graduate Research Assistant

1.6 Requirement to Report

In accordance with Standing Order 79(7)(d) of the House of Representatives and 71 (7)(d) of the Senate, **“each Joint Select Committee shall also have the following powers....(d) to report from time to time”**.

As such, your Committee wishes to present its Second Report on the matters considered in the examination of the Caribbean Airlines Limited and based on its findings, your Committee submits for the consideration of the House of Representatives and the Senate the resulting recommendations.

CHAPTER 2

REPORT ON ENTITY EXAMINED

CARIBBEAN AIRLINES LTD.

Company Profile:

Caribbean Airlines Limited is a State Enterprise with a majority ownership (84%) by the Government, within the Transport and Communication Sector of Trinidad and Tobago. The minority shareholder (16%) is the Government of Jamaica.

Caribbean Airlines replaced the now defunct B.W.I.A. Ltd. and has assumed control of the assets of this former company. Caribbean Airlines was incorporated in the Republic of Trinidad & Tobago on 27 September 2006, beginning flight operations on 01 January 2007 with 128 weekly departures to 10 markets operating five Boeing 737-800 aircrafts. Presently Caribbean Airlines serves 16 markets in the Caribbean, South America and North America, operating a core schedule of 530 weekly departures with a fleet of 21 aircrafts. Caribbean Airlines acquired routes operated by Air Jamaica on 26 May 2011, and currently employs 1, 124 employees with the Air Jamaica headcount at 650.

The Committee met with Caribbean Airlines Ltd. on Tuesday March 22, 2011 to examine the Company's audited financials for the year ended December 31, 2008. The auditing firm of KPMG was the appointed auditor for the period examined.

During the course of its deliberations on those accounts, the Committee noted the following:

1. The valuation of inventory undertaken by CAL was not in accordance with International Accounting Standard No. 2 (IAS 2). IAS 2 states that "the cost of inventory should include all cost to bring inventory to its current location and condition" which includes all landing costs for example freight, insurance etc.

The Committee was informed that the RAMCO system which was being used is originally for the inventory management for the engineering department and as a result there were some deficiencies with the use of this system. However a parallel system to the original BWIA system called Bemis was also being used. The Committee was assured that this issue has been addressed.

2. The management letter indicated there was no formal contract documentation to support significant transactions and relationships undertaken by Caribbean Airlines.

The Committee was assured that there were two specific instances where there was no contract. There was no specific contract for the sublease for the Dash 8s

that were previously owned by Tobago Express to Caribbean Airlines and there was no contract for the use of some BWIA assets by Caribbean Airlines. Additionally, the Committee was informed that the use of Dash 8s assigned to Tobago Express was based on CAL officially taking over Tobago Express in October 2007. Although there was some legal paperwork outstanding CAL used their one hundred per cent ownership of the stake holdings in Tobago Express to as the basis for using the aircraft.

3. There was no documented code of ethics to ensure that integrity and ethical guidelines are effectively communicated to all employees.

It was reported that the process had begun under the previous CEO (in 2010) and resumed by the current CEO.

4. The auditor's report noted that bank reconciliations went unsigned.

This was reported by the officials as having been remedied by the appointment of a Balance Sheet Manager and an accountant assigned to review the process.

5. Under the heading "current liabilities", it was observed that there was no reconciliation with respect to the item "unearned transportation revenue".

The Committee was informed that the reconciliation process had been completed in 2009.

6. An issue was raised with respect to the discrepancy between the employment statistics in 2008 and the NIS/Health Surcharge contributions paid.

The CAL officials gave an undertaking to provide the Committee with the appropriate information.

7. The issue of whether in the absence of a disaster recovery plan, the airline was in breach of the operator's agreement was raised.

The Company officials deferred their response in order to present the Committee with an informed response.

Arising out of the discussions held with Caribbean Airlines Limited, the Committee requested specific information and by correspondence dated June 01, 2011 Caribbean Airlines Ltd. provided their response. The substance of the requests and responses are as follows:

- i. **Request:** Clarification on the statement made by the auditors relating to several instances where there was no formal contract documentation;

Response: The observation made by the Auditors relate to a few contracts with long-standing customers that, regrettably, were not renewed during the transition to the Caribbean Airlines entity. As recommended by the Auditors, CAL has remedied the matter and a review of all contractual relationships was effected (to ensure validity) so as to minimize any financial risk.

- ii. **Request:** Documentation to support the claim that CAL has insurance coverage for passengers as required by law, in its capacity as operator on the Tobago route and secondly, that the aircraft are covered by a policy of insurance by the lessor; Tobago Express;

Response: CAL's Insurance Coverage (from JLT Aerospace) does include passenger, aircraft contents and aircraft coverage, inclusive of the Tobago Express operations. The company submitted a copy of the insurance coverage from JLT which detailed the coverage provided.

- iii. **Request:** Details of all consultancy contracts for the transitioning period between 2006 to 2007, including details of the name of consultant/firm, consultancy period, terms of reference and the award price for each consultancy;

Response: CAL provided a detailed breakdown of the consultancy contracts for 2006/2007 which included the cost paid for those services.

- iv. **Request:** Evidence of the controls surrounding authorization of the issue of documents for inventory items, and the proper recording of these items into the system in a timely manner;

Response: CAL's inventory system does possess proper controls with regard to the receipt, recording, dispatching and authorization of aircraft spares and/or any other such item pertaining to repair and service of CAL's aircraft fleets. Additionally, the Company provided an explanation by the Manager – Materials Planning & Control of the processes undertaken with respect to inventory.

- v. **Request:** A determination as to whether a breach of the operating agreement existed as a result of conducting airline operations in the absence of a disaster recovery plan;

Response: The regulations governing an organization's ability to hold an Air Operator Certificate (AOC) requires the existence of a Disaster Recovery Plan. CAL does possess this in the form of two controlled documents, namely the Emergency Response Manual and the Accident Procedures Plan.

- vi. **Request:** Information relating to the disposal of the London/Heathrow slots, including whether the decision was made under BWIA or CAL, who made the decision to dispose, the value of the asset disposal and related information.

Response: an enquiry has been launched into the sale of the London slots by the Government. As such it is felt that this Official Enquiry would provide the relevant evidence regarding the decision made by the then BWIA Board of Directors to dispose of the slots during BWIA operations.

CHAPTER 3

SPECIFIC RECOMMENDATIONS

- 3.1 From the Examination of the Audited Financials as at December 31, 2008, the request for information, the responses provided to your Committee and the resulting deliberations, your Committee makes the following recommendations concerning the Caribbean Airlines Limited:
- a. Implement a system to ensure that contractual documentation for significant transactions is recorded and tracked/monitored;
 - b. Adopt an inventory management system which is IAS2 compliant that can properly account for differences between purchase order value and invoiced amounts.
 - c. Complete the process of formulating and implementing a Code of Ethics for the Company as soon as possible;
 - d. Institute with immediate effect, formal procedures for the notification of departing employees as an internal control in the identification (security) of users and conduct periodic review of contractual employment of permanent and temporary staff as a security measure;
 - e. Establish a proper system for the management of investments and payables (expenses);
 - f. Operationalize an Information Technology disaster recovery programme to prevent the loss of Information Systems (IS) data and to allow for seamless and timely systems restart.

CHAPTER 4

GENERAL RECOMMENDATIONS

- 4.1 Further to the specific recommendations at paragraph 3.1 above, your Committee submits the following for the consideration and action of the House and Senate accordingly:

Non-receipt of up-to-date audited financial statements by State Enterprises:

At present, the non-submission of up-to-date audited financial statements continues to be the most severe impediment to your Committee in being able to effectively execute its Constitutional mandate.

In February 2011, your Committee wrote to the Heads of all State Enterprises by circular letter, asking that their respective audited reports be updated and submitted to the Parliament as a matter of urgency.

Your Committee received responses from less than 10% of the number of State Enterprises on file.

Your Committee is also at this time in communication with the Investments Division of the Ministry of Finance to explore definitive and effective measures to address this difficulty of outstanding financial reports.

Your Committee has agreed to in the first instance, again write to those State Companies whose accounts are in arrears, and forward a copy of such letters of communication to the respective Ministers with responsibility for those State Enterprises.

Notwithstanding this decision, your Committee recommends that the Minister of Finance take affirmative action to implement measures to ensure the timely submission of audited financial statements by all State Enterprises to Parliament.

Sgd.
Mr. Fitzgerald Hinds
Chairman

Sgd.
Mr. Errol McLeod
Member

Sgd.
Mrs. Paula Gopee-Scoon
Member

Sgd.
Mr. Herbert Volney
Member

Sgd.
Mr. Colm Imbert
Member

Sgd.
Mr. Rudranath Indarsingh
Member

Sgd.
Mr. Fazal Karim
Member

Ms. Marlene Coudray
Member

Sgd.
Dr. Rolph Balgobin
Member

Sgd.
Mr. Embau Moheni
Member

February 18, 2013

**THE PUBLIC ACCOUNTS (ENTERPRISES) COMMITTEE –
FIRST SESSION, TENTH PARLIAMENT**

**MINUTES OF THE FOURTH MEETING HELD ON TUESDAY, MARCH 22, 2011 AT
10:42AM IN COMMITTEE ROOM #2, AND 11:12AM IN THE PARLIAMENT CHAMBER,
OFFICE OF THE PARLIAMENT, THE RED HOUSE,
ABERCROMBY STREET, PORT OF SPAIN.**

Present were:

Mr. Fitzgerald Hinds	-	Chairman
Mr. Rudranath Indarsingh	-	Member
Mr. Errol McLeod	-	Member
Mr. Colm Imbert	-	Member
Mr. Subhas Panday	-	Member
Mr. Fazal Karim	-	Member
Mr. Embau Moheni	-	Member
Mr. Ralph Deonarine	-	Secretary
Ms. Keiba Jacob	-	Assistant Secretary
Ms. Indira Binda	-	Graduate Research Officer

Absent were:

Mr. Herbert Volney	-	Member
Dr. Keith Rowley	-	Member
Mr. Basharat Ali	-	Member (excused)

Also present:

CARIBBEAN AIRLINES LIMITED

Mr. Robert Corbie	-	Ag. CEO, Caribbean Airlines Ltd.
Mr. Andre Mills	-	Deputy Chief Financial Officer
Mr. Adrian Agarrat	-	Manager, Financial Accounting

MINISTRY OF FINANCE

Mr. Dennis Cox	-	Senior Investment Analyst, Investments Division
Mrs. Vashti Maharaj	-	Treasury Accountant I, Comptroller of Accounts Department

Mrs. Mala Mohammed

- Treasury Accountant Technician,
Comptroller of Accounts
Department

COMMENCEMENT

- 1.1 The Chairman noting that the Meeting was properly constituted called the Meeting to order at 10:42am.
- 1.2 The Chairman informed Members that Mr. Basharat Ali had asked to be excused from the meeting (ill) and that Mr. Fazal Karim's attendance would be delayed.

EXAMINATION OF MINUTES OF THE THIRD MEETING

- 2.1 The Committee examined the Minutes of the Fourth Meeting held on Tuesday March 22, 2010.
- 2.2 There being no omissions or corrections, the Minutes were confirmed on a Motion moved by Mr. Errol McLeod and seconded by Mr. Colm Imbert.

MATTERS ARISING FROM THE MINUTES

- 3.1 Mr. Imbert requested that in addition to those questions already submitted to CNMG, if the Company could provide information with respect to the plan of action or similar evidence to support the claim of profitability by the CNMG Ltd.
- 3.2 Under item 3.3, the Secretary provided the Committee with an update on the initiative. Members suggested that the Secretary table a list of outstanding reports from State Enterprises and Statutory Bodies according to the Ministry with responsibility for each entity, following which letters may be sent to the respective Ministries for subsequent action.

MEETING WITH CARIBBEAN AIRLINES LIMITED (IN PUBLIC)

- 4.1 The Chairman called the Meeting (in Public) to order at 11:12AM and welcomed the officials from Caribbean Airlines Ltd. (CAL). Introductions were made by the Caribbean Airlines Officials and Committee Members.
- 4.2 The Chairman explained that the purpose of the meeting was to discuss the 2008 Consolidated Financial Statements of Caribbean Airlines Ltd. and invited Members to pose their questions to the CAL representatives.

4.3 The following issues arose from the discussions held:

4.3.1 Legacy issues arising due transaction between BWIA closing and Caribbean Airlines starting up:

The lack of documentation and non-adherence to rules and regulations (identified in the Management letter) was discussed. The CAL officials stated that many of these concerns have been addressed over the past eighteen (18) months.

Issues/problems with respect to the current inventory management system for the engineering department, RAMCO and implementation in relation to the former system – BEMIS were discussed.

Members noted that the valuation of inventory undertaken by CAL was not in accordance with IAS2 inventories, as well as differences between purchase order value and invoiced amounts. The CAL officials responded that upon investigation in 2009, it was realized that this was due to a unavoidable deficiency in the RAMCO system which the company had little control over. The auditors were apprised of the issue and informed that it would have to be treated with as current costs, to be written to expenses.

4.3.2 Contractual arrangement issues with CAL:

The management letter indicated there was no formal contractual documentation to support significant transaction and relationships undertaken by Caribbean Airlines. The CAL officials recalled only two specific instances regarding an absence of contract documentation- the sublease of De Havilland -8 aircraft by Tobago Express to Caribbean Airlines and for the use of some BWIA assets by CAL. Otherwise, the issue was reported by the CAL officials as having been remedied, following a comprehensive review of all contracts and upon subsequent action taken.

Notwithstanding this, Members expressed a concern that the auditor’s report cited “several instances” and asked that the CAL Officials pursue the necessary action to investigate whether other incidents of a lack of contract documentation existed, including seeking clarification from the auditors.

4.3.3 Human Resource and Industrial Relations issues:

Code of Conduct - There was no formal documented code of conduct for employees. It was reported that the previous CEO started the process of compiling a code of ethics in 2010. This process was resumed by the current CEO.

4.3.4 Advance-Passenger/Security issues:

The audit report indicated there was no formal process in place to notify the I.T. Department and Security Administrators of departing users. The CAL officials outlined the various measures employed to address the issue.

4.3.5 Bank Reconciliation issues:

The auditor report noted that bank reconciliations went unsigned. This was reported by the officials as having been remedied by the appointment of a Balance Sheet Manager and an accountant assigned to review the process.

Under the heading “current liabilities”, it was observed that there was no reconciliation with respect to the item “unearned transportation revenue”. The CAL officials advised that the reconciliation process was completed in 2009.

4.3.6 Staff costs:

An issue was raised with respect to the discrepancy between the employment statistics in 2008 and the NIS/Health Surcharge contributions paid. The officials noted this and committed to providing the Committee with the information.

4.3.7 Management of Disaster Recovery

The Committee noted that according to the 2008 management report, there was no disaster recovery plan, should critical data loss occur. The CAL officials responded that this was addressed by the former CEO, with the implementation of a quality department and a communications department ensuring adherence to documented disaster recovery procedures. The question was raised however, whether in the absence of a disaster recovery plan, the airline was in breach of the operator’s agreement. The CAL officials asked that the response to this be provided in due course, after referring to the agreement.

4.4 The Caribbean Airlines executives gave an undertaking to furnish the Committee in writing with the following:

- vii. Clarification on the statement made by the auditors relating to several instances where there was no formal contract documentation;
- viii. Documentation to support the claim that CAL has insurance coverage for passengers as required by law, in its capacity as operator on the Tobago route and secondly, that the aircraft are covered by a policy of insurance by the lessor; Tobago Express;
- ix. Details of all consultancy contracts for the transitioning period between 2006 to 2007, including details of the name of consultant/firm, consultancy period, terms of reference and the award price for each consultancy;

- x. Evidence of the controls surrounding authorization of the issue of documents for inventory items, and the proper recording of these items into the system in a timely manner;
- xi. A determination as to whether a breach of the operating agreement existed as a result of conducting airline operations in the absence of a disaster recovery plan;
- xii. Information relating to the disposal of the London/Heathrow slots, including whether the decision was made under BWIA or CAL, who made the decision to dispose, the value of the asset disposal and related information.

ADJOURNMENT

5.1 The Chairman thanked the Officials from CAL Ltd and noted their competence since their assumption of office , the Ministry of Finance, the Comptroller of Accounts and the Media for their presence and advised that the Secretary to the Committee would correspond with the CAL Officials in writing, outlining those issues for which the Committee required a response.

The Chairman also advised that based on this, the CAL Officials would if necessary, be called to meet again with the Committee.

5.2 The Chairman then adjourned the meeting. The adjournment was taken at 12.35pm.

We certify that these Minutes are true and correct.

CHAIRMAN

SECRETARY

April 12, 2011

**VERBATIM NOTES OF THE PUBLIC ACCOUNTS (ENTERPRISES)
COMMITTEE HELD IN THE CHAMBER, RED HOUSE, ABERCROMBY
STREET, PORT OF SPAIN, ON TUESDAY, MARCH 22, 2011, AT 11.10
A.M.**

PRESENT

Mr. Fitzgerald Hinds	Chairman
Mr. Subhas Panday	Member
Mr. Fazal Karim	Member
Mr. Rudranath Indarsingh	Member
Mr. Colm Imbert	Member
Mr. Errol McLeod	Member
Mr. Embau Moheni	Member
Mr. Ralph Deonarine	Secretary
Ms. Keiba Jacob	Assistant Secretary

ABSENT

Mr. Herbert Volney	Member
Dr. Keith Rowley	Member
Mr. Basharat Ali	Member

CARIBBEAN AIRLINES LIMITED

Mr. Robert Corbie	CEO (Ag.)
Mr. Andre Mills	Deputy Chief Financial Officer
Mr. Adrian Agarrat	Manager, Financial Accounting

COMPTROLLER OF ACCOUNTS

Mrs. Vashti Maharaj	Treasury Accountant I
Mrs. Mala Mohammed	Treasury Accountant Technician

MINISTRY OF FINANCE INVESTMENT DIVISION

Mr. Denis Cox	Senior Investment Analyst
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Mr. Chairman: Good morning one and all, and may I call this meeting of the Public Accounts (Enterprises) Committee to order. Let me, of course, begin by welcoming the officials, who are here with us from the Caribbean Airlines Limited and the officials from the Ministry of Finance, Investments Division and the Comptroller of Accounts Departments.

May I take this opportunity to formally welcome you and thank you for coming. I would like to begin by asking you to introduce yourselves to the Members of our Committee and, of course, we would introduce ourselves following that.

[Officials of Caribbean Airlines introduced themselves]

[Members of the Committee introduced themselves]

Mr. Chairman: I take it, Mr. Corbie and team, you have in your possession, of course, what we had requested earlier. We are in possession of the 2008 accounts of the company, which is the focus of our attention broadly today, and the management letter so-called, which is also going to be our focus in these deliberations.

So without more ado I open the proceedings for examination by Members of the Committee, and you are expected to provide responses as they are sought. Members of the committee?

Mr. Karim: Mr. Corbie, Fazal Karim—I suppose, first of all, I should ask: How long have you been acting CEO of CAL?

Mr. Corbie: With effective from November 26, 2010.

Mr. Karim: Okay, from your experience I am sure you would have read the report from KPMG. In a sense, in a summary, what are your views on this report?

Mr. Corbie: At that point in time I was the Vice-President of customer service and commercial, acting as well. We went through the accounts over the last week. Of course, because of that, the CFO at the time and the CEO were no longer with the company and generally we understood and accepted most of the information here, if not all, and we are fairly comfortable with the financial report of 2008.

Mr. Karim: Now in an airline industry, and certainly in an airline like this national airline, it seems as though that the—one of the things I am picking up regularly, in a number of

these bullet point areas, is that things have not been documented. There seems to be a lack of documentation and adherence to rules and regulations. I know the easiest way to answer the question in your context now is that you would look and see what will happen. But what is your view on this lack of documentation, even from your perspective, on your previous responsibility?

Mr. Corbie: Well, with what was reported in the document of 2008, a lot of the findings have not been totally addressed, but we have started that process over the last year and a half. I think what happened too is that in the transition between BWIA closing down and Caribbean Airlines starting up, there were some issues with some of the processes because at that point in time, of course, the focus was on starting up Caribbean Airlines, bringing over some of the legacy issues and addressing them. By this time, not all were addressed when this was reported in 2008; however, since then, a lot of the issues have been addressed.

For example, we had the Ramco system which is really for inventory management in terms of the engineering department, and that system had some issues. In terms of the learning process, manual entries were being used, although they had that system running parallel to the original BWIA system called Bemis, which is for engineering. They have issues there and those are the issues we have to address going forward.

Mr. Karim: You would have accepted that certainly something like engineering, which is critical, and inventory controls and systems, especially in terms of on-time schedules. If you do not have the inventory accurately and you do not have the ordering of the spares, it can impact. Let alone too, if you do not have the spares appropriately positioned for repair or replacement and you have to have makeshift, which you would normally not want any chances on aircraft—I mean it is a high safety and high risk.

Mr. Corbie: Correct.

Mr. Karim: I am trying to reconcile, for example, why and how something like this would have happened. If you are working a manual system since the days of BWIA—this airline became operational on January, 01. It was formalized in 2006 and in 2007 it became operational. This is 2008 we are looking at; 2007 was submitted just for reference, so you would have had two years, effectively, for a report of this nature to pick up that anomaly again.

Mr. Corbie: Let me just confirm that we do have systems in place and we were using a system parallel to the original BWIA system, which is Bemis. They still have processes in place, even though you had Ramco running parallel to Bemis, and it was not used totally. We still had that main system running that we used before Caribbean Airlines, so it was not too much of an issue because that system worked, but the parallel system was not fully utilized internally.

Mr. Karim: Let me raise one that would more or less bring home the point in terms of the importance of the documentation. For example, Tabex was not fully organized in terms of its contractual arrangement with CAL. I think there were no written contracts that showed where you absorbed Tabex. So far things have gone well, but, God forbid, something had happened to one of Tabex equipment, the aircraft, without any formal contractual agreements and arrangements, one could understand the nightmare for insurance. So I am raising these in the context of—I know you would indicate that, and another colleague on the committee had also indicated that we need to have assurances of commitment to remedy these ills.

But, certainly, one would have expected that the board of directors, and certainly the people who signed off in terms of this management letter, would have known better in situations like these and one, in particular, is a management accountant. So I raise this in the context—my other colleagues will take up from here, but I will raise some of these concerns.

Mr. Indarsingh: Mr. Corbie, you indicated that prior to November 2010 you were at the level of Vice-President of customer service?

Mr. Corbie: And commercial, yes.

Mr. Indarsingh: So that meant you would have been involved in a number of what we would call “management meetings” of the airline?

Mr. Corbie: Correct.

Mr. Indarsingh: If I could guide you to the notes in relation to the 2008 financial statements which have been formalized by the Ministry of Finance, it says that it was observed that in several instances there were no formal contractual documentation to support significant transaction and relationships undertaken by Caribbean Airlines. From where you would have sat previous to November 2010, were these things picked up by the

management of Caribbean Airlines?

Mr. Corbie: I am not sure what were the specific contracts they were referring to here in terms of—if you are asking, in my area we would have had contracts in general. For example, customer service would have handled contracts and those processes were followed in terms of that area. I saw the notes, but I am not sure exactly what contracts in particular they were referring to. I do not know if Andre—

Mr. Chairman: Just for clarity, and this is to some extent ambiguous, is it that there were no contracts or that the contracts cannot now or could not at the time of the accounting be located?

Mr. Agarrat: From what I understand from the management letter, there were two specific instances we were speaking about, there was no specific contract for the sublease for the Dash 8s that were previously owned by Tobago Express to Caribbean Airlines, and there was no specific contract for some of the use of BWIA assets by Caribbean Airlines.

Mr. Chairman: Where in the management letter would you find that clarity?

Mr. Agarrat: I would have known from discussions with the auditors at that time.

Mr. Chairman: Okay, so you are assuring this committee that it is only in relation to those two issues that Mr. Indarsingh's position is relevant?

Mr. Agarrat: All other contracts are verified by the finance team, so for all the operating costs we have copies of the contracts.

Mr. Panday: But these were assignments in relation to the Dash 8, because they had leased it from somebody.

Mr. Agarrat: They had actually leased it through arrangements between BWIA and a subsidiary of BWIA, but there was no specific contract allowing us use of those aircraft.

Mr. Panday: But do you think at that time in 2008, or even 2007, that was the way to do business?

Mr. Agarrat: What happened was that in October 2007 we had officially taken over Tobago Express. Some of the legal paperwork was not completed. Basically, we used our 100 per cent ownership in the stake holdings in Tobago Express as the process for using the aircraft. Because what should have happened—

Mr. Indarsingh: But then in the report when you responded to the auditors you said: "Even though legal title has not been passed to CAL"; that means CAL had no legal title. You

would agree with me that is in contradiction to 5, where CAL owns the 100 per cent Tobago Express and, therefore, “ultimate owner”, is a contradiction in your answer. Would you agree with that?

Mr. Agarrat: Well, from a share issue, from a controlling interest issue, we had controlling interest in the operations of Tobago Express.

Mr. Panday: So then why do you say that you did not have legal title?

Mr. Agarrat: But from a legal—what happened is that because of how the arrangement between the Dash 8s were done in BWIA, through a sublease arrangement, the Dash 8s were really subleased by BWIA and then subleased to Tobago Express, so in actuality the owners of the lease was BWIA. We would have had to go to the divestment committee and actually ask for authorization to either go to a lease arrangement or to use—*[Interruption]*

11.25 a.m.

Mr. Panday: Because BWIA had been dissolved.

Mr. Mills: Yes. Technically, BWIA had stopped operating at that time.

Mr. Indarsingh: I am forced to ask: Where did the authority come from to initiate this?

Mr. Agarrat: That would have come from the board level.

Mr. Indarsingh: From the board of directors?

Mr. Agarrat: Yes.

Mr. Panday: Who was chairman of the board at that time?

Mr. Mills: Arthur Lok Jack.

Mr. McLeod: Are there any outstanding matters, worker related, HR/IR matters that you, CAL, would have inherited and that are still outstanding?

Mr. Corbie: From BWIA? I think they have. There are a few.

Mr. Mills: That would have been in the legal department and I think there are one or two outstanding issues, yes.

Mr. McLeod: You are not sure.

Mr. Corbie: I am not sure exactly how many, but I know there are a couple outstanding issues in terms of HR and so on.

Mr. McLeod: But are there any that you would have attended to and that have been resolved since your assuming responsibility?

Mr. Corbie: No. I know that one came recently, but that has been referred to the BWIA

chairman, Mr. Hospedales.

Mr. Mills: What we would have received is a letter from Divestment Secretariat asking us to provide information in terms of settlement payments for a specific employee. That is what we would have provided to the Divestment Secretariat. I joined CAL in October last year so that is the only issue I am aware of that relates to any HR/IR issues outstanding related to BWIA. We have responded to the Divestment/Secretariat showing that the employee was actually paid, via cheque support, the total amount he was entitled to based on the settlement at that time.

Mr. McLeod: Would you indicate under what contractual arrangements CAL's employees might now be operating?

Mr. Corbie: Everybody has a permanent contract. In terms of all employees presently, there are some on fixed term contracts and only in certain areas are there to a lesser extent one or two temporary contracts. It depends on the area. For example, we have people in our Station Standards Department with a certain level of training that we may keep on every six months on contract.

Mr. McLeod: So you have nobody covered by any management/union negotiated contract?

Mr. Corbie: With the exception of the pilot body.

Mr. Imbert: Mr. Corbie, reading section 2 of the management letter—

Mr. Chairman: What page?

Mr. Imbert: Page 10, same issue that was being discussed. Section 2 is headed "Contract Management". When I read what it is said that KPMG said, you get a bad impression because it says:

We observe that in several instances there was no formal contract documentation to support significant transactions.

When I read the management response, they say:

We have a contract review process; it is signed off by a number of people; reviewed by legal, et cetera.

The two statements are contradictory and when I hear what you gentlemen have just said, you said that there are only two issues and these are inter-company related issues? I am confused. When I read this, it is bad. There is no formal contract documentation. It gives a very bad impression.

Now I hear, it is simply something that occurred in the takeover from BWIA. I do not know if I am using the right words, Mr. McLeod. I think there is a dispute on whether there is a takeover or whatever, but in the transition from BWIA to CAL, there were certain assets that were taken over and used and because Caribbean Airlines has 100 per cent ownership of Tobago Express, it was felt that there was no risk.

Mr. Corbie: Yes.

Mr. Imbert: Then why do we have comments like “the lack of contractual documentation places CAL at significant risk?” Would you tell me, as a layman, what is the risk if Tobago Express is 100 per cent owned by Caribbean Airlines, that Caribbean Airlines faces with the incomplete paper work with respect to this matter?

Mr. Corbie: If we were to have an unfortunate event like damage to the aircraft, CAL would not be able to claim.

Mr. Imbert: Can Tobago Express claim?

Mr. Corbie: Yes.

Mr. Imbert: And since you own Tobago Express could not the shareholder instruct—

Mr. Agarrat: The problem is that we were not operating under Tobago Express operating certificate.

Mr. Imbert: So it is important then.

Mr. Panday: As a matter of fact, under one, you will see that for the Dash-8 to operate to Tobago, it says “the AOC to operate has been assigned”. What is that? The route or permission to operate it?

Mr. Chairman: What page?

Mr. Panday: Same page as Mr. Imbert, page 11.

Mr. Agarrat: We got a AOC from the Civil Aviation Authority to operate the Dash-8, but technically the lesser agreement, if we were to claim insurance, it would come like you took somebody’s car, they told you you could borrow the car, but the person had a third-party insurance arrangement that said not to have a third party driving the car. When you go to the insurers, you would have a problem. They would say that was not the person entitled to use the car.

Mr. Panday: Therefore, in these circumstances, you are not sure if the planes were properly insured. If it is like a third party, passengers could have been on that plane and

when it gets in an accident or something there is no claim to be made.

Mr. Agarrat: Not with the insurance.

Mr. Panday: Caribbean Airlines is a new company. How could they have conducted business like that, where if the aircraft is damaged, you cannot claim from the insurance company? You are running a business. How can that occur?

Mr. Agarrat: There were legal technicalities. One of the things we need to understand is that up until maybe the end of October 2007, nobody was really sure what would have been the arrangement between Caribbean Airlines and CAL.

Mr. Panday: Yet, CAL, in 2008, under the chairmanship of Arthur Lok Jack, operated these aircraft from here to Tobago in that manner?

Mr. Agarrat: We need to understand that part of that operation was an actually a requirement by the government at that time. It was part of the transformation policy.

Mr. Panday: That was part of the requirement of the government to have the airline in that position?

Mr. Agarrat: Not to have the airline in that position, but—

Mr. Panday: How do you mean? If the aircraft gets hit and you cannot claim, who will pay? The taxpayers will have to pay for the repairs. What do you say about that?

Mr. Chairman: From your responses, I am not satisfied that there was no insurance. There was insurance and the appropriate insurance. It is simply that, in the transition, there was no insurance by CAL, but it existed before and subsists in relation to Tobago Express and the insurer.

Mr. Panday: Therefore, what did you mean when you said if the plane gets damaged, the insurer will not honour—

Mr. Chairman: No.

Mr. Panday: That is what he said.

Mr. Chairman: I know he said that, but I understood—if I am wrong, correct me—I understood you to be saying in that that had something occurred, it means that CAL could not have approached the insurer, but Tobago Express would have.

Mr. Mills: The process for actually claiming on the insurance policy would have probably been lengthier as opposed to if CAL had direct coverage as the operator. So you have company which is the operator and another which is the lessor for the assets, but the

operator actually has 100 per cent.

Mr. Panday: That is the problem; a third party could not have complained.

Mr. Agarrat: There would have been an agreement for Caribbean Airlines to operate the Tobago Express routes on behalf of them throughout this transition. You have to remember that these things happen overnight so it takes a while to regularize all the legal—

Mr. Panday: While we use the plane.

Mr. Agarrat: And those are agreements that actually exist and are allowed.

Mr. Corbie: You would have had insurance to operate; the approval to operate.

Mr. Agarrat: The Chairman would be correct in stating that Tobago Express would have been entitled to claim for whatever insurance.

Mr. Panday: But Tobago Express, according to paragraph 4:

Does not operate or conduct operation activities and not entitled as an operator which could be cited as the criteria for ownership. Therefore where are we going?

Mr. Mills: As the operator, Caribbean Airlines would have a responsibility for providing insurance for its passengers. We currently have arrangements where we wet lease aircraft from other institutions. They have the responsibility to ensure the aircraft is operated. They would pass that cost on to us because we are using it, but in reality the owner has the responsibility for ensuring they have that insurance coverage even though we are currently the operators.

Mr. Chairman: Thank you very much. That has clarified the issue tremendously.

Mr. Panday: I agree with you, but in the case where you have a formal agreement and a formal assignment; but you have said in your response that legal title was not passed.

Mr. Mills: Legal title does not have to pass for the aircraft. For example—and I will give you a current example—

Mr. Panday: For example, an assignment, the ownership stays with you and the lease comes with me because I become the assignee.

Mr. Chairman: Mr. Panday, you were about responding—

Mr. Mills: I was about to give a current example. During Christmas time, Caribbean Airlines has a lot of traffic that our current fleet will not be able to satisfy, so we will go to an aircraft owner, a lessor, and say we need an aircraft for two weeks and they would

provide the aircraft for us, either wet lease or dry lease. We can operate it on an agreement.

Mr. Panday: You must have a formal assignment.

Mr. Mills: Yes, a lease agreement. During that period, the aircraft owner —during the life of the aircraft they have to ensure they have insurance coverage. During that period what they say is that you are utilizing the aircraft during this period, therefore your cost is this amount and Caribbean Airlines would put forward that cost. In the case of Tobago Express, it is different because they totally cease to operate. I have not seen the actual agreement between Tobago Express and Caribbean Airlines in terms of the takeover. If that agreement states that Caribbean Airlines has the right to operate the routes that Tobago Express actual operated and provide service to the passengers utilizing the aircraft, then the ownership of the aircraft would have stayed with Tobago Express; they would have had the insurance coverage there, but once Caribbean Airlines would have started utilizing the aircraft and providing service, we had to ensure that our passengers are properly ensured; dual coverage from that respect..

Mr. Panday: You will agree with me that you did not see the agreement and you are merely surmising. You said you did not see the agreement; a best case scenario, which may not necessarily have been the case.

11.40 a.m.

Mr. Imbert: Mr. Chairman, may I come in here?

Mr. Chairman: Yes indeed Mr. Imbert.

Mr. Imbert: I think we are arguing, at cross purposes. As you indicated previously, Mr. Panday has a lot of energy. But what I am seeing in the management letter on page 11, that it is simply the operator certificate that was assigned, not the aircraft itself. So the asset was not assigned, just the right to operate on the route so that I do not see any issue whatsoever.

Mr. Chairman: Neither do I!

Mr. Imbert: I think we are arguing at cross purposes. I want repeat, the aircraft was not assigned, it was the right to operate the route. Is that what I am hearing, unless I misunderstand? The Tobago Express would have continued to insure the aircraft for damage to the aircrafts?

Mr. Corbie: Yes.

Mr. Chairman: Yes.

Mr. Imbert: And the new operator, Caribbean Airlines would ensure the passages and public liability and all that sort of thing. I want to ask a question now. Let us forget all of this technical argument we just had. Did anything onward occur? Was there any damage to any aircraft? Was there a problem? So it is an academic discussion we are having because nothing happened. Nothing bad happened. Okay, fine.

Mr. Mills: No, no, no. Mr. Chairman. [*Crosstalk*]

Mr. Chairman: Just one minute please. And for further clarification, what was absent was the assignment from Tobago Express to CAL, but the insurances and all of that subsisted and still were paid. Thank you very much.

Mr. Karim: Mr. Chairman, this is not to trivialize the conversation. As a matter of fact, the fact that nothing happened, is the goodness of God. But if something had happened, what would have been the situation? As a matter of fact I want to ask—Mr. Imbert said that they had the authority to operate, but legally they were not incorporated with CAL. Now let me just say as well, I am sure if I asked you, you will give the affirmative that CAL continued to service and repair out of their expenditure, the operation of TABEX.

Mr. Corbie: Yes.

Mr. Karim: So that if you had to account to the tax payer for something that you did not incorporate, there is an explanation you will have to give. It is a fair question to ask. So I do not think we should trivialize the debate, I think what we are saying is that the management letter says: that there was an anomaly that has been recognized, it was wrong, it could have been disastrous and therefore we note it and we are saying you are correcting it.

What I wanted to move on to—if we could move from this aspect of it, Mr. Chairman—is the issue of London Heathrow Airport (LHR), with Caribbean Airlines and the slots at London Heathrow. [*Interruption*] no, I am asking, whether that would have been—

Mr. Imbert: Is that on our agenda, Mr. Chairman?

Mr. Karim: No, hold on! I want see, whether it is in the accounts here.

Mr. Chairman: Just a moment. Would you direct us to the aspect of the management letter

or the accounts treating with this matter please?

Mr. Karim: Mr. Chairman, I am asking the executive whether—anywhere in the accounting—*[Interruption]*

Mr. Chairman: Before I permit the executive to respond, would you assist us—and even the executive, direct us to the element of the accounts, the management letter, or indeed the report that you are making reference to?

Mr. Karim: Okay certainly! Let me go to—*[Interruption]*

Mr. Chairman: Because in fairness to all, we had asked the management to be here to respond to predictable issues and we have told them in advance what they need to look at. So if you can direct to that—*[Interruption]*

Mr. Karim: No problem. Mr. Chairman, item 2: “Contract Management”; observation. We observed that in several instances there as no formal contractual documentation to support significant transactions and relationships undertaken by CAL. So I was asking in that context, was there a transaction during the accounting period 2007-2008, where you had the assets that were being traded and if it is so, can you guide us as to some of the information with respect to that?

Mr. Corbie: That would have probably been reported in 2006 and not 2007/2008.

Mr. Chairman: Okay thank you very much. So we will probably have to—*[Interruption]*
[Crosstalk]

Mr. Imbert: Mr. Chairman, may I also ask; was that a BWIA matter or a Caribbean Airlines matter?

Mr. Corbie: BWIA—

Mr. Imbert: And therefore that is a completely different state enterprise. And I just want to tack back. My good friend, Minister Karim had insinuated that there was an attempt to trivialize the question of the operation by Caribbean Airlines of the Tobago route. That is not so, and I want to get final clarity on this. Let me, just for the record, did Caribbean Airlines have insurance coverage for passengers as required by law, as the operator on the Tobago route? Yes or no?

Mr. Agarrat: Yes, both passengers in flight must have that.

Mr. Imbert: Were the aircrafts covered by a policy of insurance by the lessor Tobago Express? Is that a fact?

Mr. Agarrat: Yes.

Mr. Panday: Can you kindly produce those documentations for us?

Mr. Agarrat: We could.

Mr. Panday: Thank you.

Mr. Chairman: Make a note of that.

Mr. Imbert: Okay. So therefore, the aircraft was covered by a policy of insurance by another company, and the passengers were covered by the operator?

Mr. Agarrat: “Yeh”.

Mr. Imbert: And that is what I meant when I said, there was no issue.

Mr. Panday: And the difference is if they got into accident CAL could not claim anything.

Mr. Chairman: Mr. Panday, before you do that I think that it is only proper as Chairman that I compliment Mr. Imbert for the clarity that he has sort and brought to the issue. I will take—*[Interruption]*

Mr. Panday: I thank you for that, typical PNM. *[Laughter]*

Mr. Chairman: Now let me remind you, Mr. Panday, that this according to the Constitution and our parliamentary rules, this is the Joint Select Committee of the Parliament and those considerations ought not to and do not arise. Members? Mr. Indarsingh?

Mr. Indarsingh: Thank you, Mr. Chairman. I could recollect earlier on, Mr. Agarrat pointing us in the direction when I raised the issue of no formal contractual documentation and so on. He indicated that from his knowledge to six instances and so on. What has been done to rectify this whole issue?

Mr. Corbie: I could answer to that. Around this time we had put a procedure in place to ensure that all the contracts were routed via the right departments of course, via insurance, legal and the finance department to get signed off.

There was an exercise that was done by the department responsible for contracts and the manager responsible, to review all the relationships we had with service providers for example, and in all the relevant areas and to ensure that they have contracts approved by the right departments. And that procedure was put in place and we still follow that procedure to date.

Mr. Panday: The issue of code of conduct, the auditors indicated that they observed that there was no documented code of ethics to ensure integrity and ethical guidelines are

effectively communicated to employees. Your answer to that is; although the code was not explicitly set out in a separate document, there were principles. What the auditors were saying is, the possibility exists that there can be unethical conduct by employees of CAL with no recourse. And what they were really saying is, if you did not give them the documentation, you are merely relying on general principles of ethics. Why did CAL not issue that documented code of ethics to the employees? Because you see, what we are saying there is an amorphous sort of answer, an amorphous response. They are saying, why you have employees—if they did anything wrong, you have a document, you can refer to the document and you can say, it said do, X, Y and Z.

You say you do not care what happen, although there is no code of ethics explicitly set out: the principles of ethics et cetera. The question is: why did you not give the employee that opportunity to have a document to guide them?

Mr. Corbie: To be direct that process only started last year by the past CEO—and the CEO at that time I cannot really answer to why it was not done then and the response from the then VP of finance and the CEO at that time. The previous CEO started that process and I am to complete that—*[Interruption]*

Mr. Panday: Casting aspersions in—

Mr. Corbie: Well we just went through the report and I have to now go back to that document, that the previous CEO started and really understand it and then implement it.

Mr. McLeod: Would you agree with me, I know you have only just—and pardon me for interrupting you, Mr. Panday—

Mr. Panday: Sure.

Mr. McLeod: —just assumed the position of Chief Executive Officer (Ag), and a whole lot might be found to be a little onerous. You agree?

Mr. Corbie: Well, not onerous, I would say that they would have things that would be outstanding, that I have to address, but because of the fact that I have that experience as well, it should be pretty straightforward to implement things that are right and especially in terms for the employees and so on.

Mr. McLeod: So you would not suggest that until you assumed that position, CAL's affairs were generally up in the air. No pun intended.

Mr. Corbie: No, we have certain objectives and we follow those objectives, and we are

keeping focus and steady and we are moving ahead as a management team. And we have a very strong management team.

Mr. McLeod: And we are therefore flying a good ship you say?

Mr. Corbie: Oh yes!

Mr. McLeod: You think so?

Mr. Corbie: I think so, yes.

Mr. Panday: You have indicated that you have begun to put a process in place to produce the document. So therefore, this response which you are giving here is not really directed to the year in which we are looking at 2008. You are really giving an answer as of 2010/2011.

Mr. Corbie: Well, yes.

Mr. Panday: So your answer is not really relevant to the period at which we are looking.

Mr. Mills: If I may? Mr. Panday, these responses would have been management responses given by the then management of the organization to this specific set of financial statements which were produced at some point in 2009. So it is not wont to go and amend the management responses at this time, but really to provide updates based on what would have been stated, based on the responses to the management letter.

Mr. Panday: Would you agree with me is a variance with what your acting CEO is saying now. He is now putting it in place, and they are saying, they have something in place.

Mr. Mills: Well the acting CEO now, is responding to what he has seen now, having taken up his role. This would have been written by somebody else and therefore he cannot give credence to what somebody else— *[Interruption]*

Mr. Panday: And that is why I do not want to hold him to it. From your records, has anyone been dealt with under this heading—on the code of ethics where they have breached or there was an incident, any incident of unethical conduct? Do you know of? Do you have any records? Or because of the amorphous nature of the situation, nobody could have been dealt with?

Mr. Corbie: I cannot answer directly, unless the last CEO—that would have probably gone directly to him. I am not saying, I cannot answer based on that.

Mr. Panday: Sure.

Mr. Chairman: I have a concern, you may be aware that this, the Parliament of Trinidad

and Tobago, I think in the year 2006 passed legislation dealing with advance passenger information—and given the impact of the 9/11 event, security in particular around aircrafts is a major issue and concern. I want to bring your attention to the third to last point on the management letter. Have you identified it?

Mr. Mills: Would that be item 15, “User Access Reviews”?

Mr. Chairman: Yes. [*Crosstalk*] Let me identify my concerns. On the issue of information technology, it was highlighted from the audit that no formal process was in place to notify IT, security administrators of departing users. Also there was know periodic user access review done to identify users with inappropriate access rights. Could you explain what was done to address this very, very significant concern?

11.55 a.m.

Mr. Mills: I would agree with you that that is a very serious concern. What we have implemented within the organization is—this process is actually driven from HR—where HR would indicate to the IT department when people are coming on or when people are leaving. For example, if an employee has a contract for three months, HR would then submit a form indicating that an employee is coming in and joining the organization giving the specific period and identifying what levels of access that employee needs based on his role to be performed within the organization.

We have the ability now to set the end date within the system so that when the employee’s contract comes to an end, he is automatically cut off within some of our systems. We have some systems that give us that functionality. There are other systems where we would have to go in and actually cancel their authorization. So those things are some of the internal controls that we have put in place.

Another initiative that we have done is that on an annual basis, for example, within the financial system SAP, we have to renew licences and, at that point, Adrian would sit with the entire list of all the users and review, because there are different levels of users and, of course, there are different costs to those levels of users. What we do is, we review that on an annual basis and on an on-going basis to see exactly whether or not we have adequate authorization for every individual.

A recent exercise that was done is where we upgraded SAP, and we actually looked across all the functional areas to identify whether or not people still need the level of access

that they had, based on changes on business processes. So those are some of the initiatives that take place. It is not something that we have to sit and do all the time, but we do it from time to time to ensure that employees have the level of access to enable them to do their jobs, and nothing more that they need.

Mr. Chairman: Well, I am happy to hear what you have said. I can ask for an assurance that it is being done, but I think that would not be of any great value. I think what would be of greater value is to urge you to ensure that this thing is followed.

Mr. Corbie: Additionally, it is the responsibility of the Department Manager to advise IS once—let us say, an employee is separated or resigned or anything like that—immediately and copy it to HR, and that would act as a sort of contingency as well.

Mr. Chairman: And it is, therefore, hoped that when we see future reports, this is not highlighted as a concern.

Mr. Karim: Can I ask, on the terms of the accounts, you have in section 13, December 31, 2008, “profession fees” which almost doubled from 2007/2008. Could you give us an idea as to what those would have constituted?

Mr. Mills: From my understanding, for the period transitioning 2006 into 2007, there would have been some consultants on board providing services to assist with the restructuring, and those costs within 2007 would have been allocated to what we would consider restructuring cost. Once you start going on within operations, and you continue to have consultants on board, you then had to reclassify those as “professional fees” in accordance with international accounting standard so, therefore, they could not go in as restructuring cost, because there would have been a lot of work in terms of the restructuring but, now it is consultancy fees in terms of settling down and different aspects of the organization. So it is almost like a reclassification from 2007 into 2008.

Mr. Karim: Would you be able to recall any of those consultancies or consultants and the quantum? If you do not have it now, maybe at a—

Mr. Corbie: In particular, one of the consultants was a Prof. Monyeti and, he came on board around the end of 2007/2008.

Mr. Karim: It might be useful for us to get some idea as to the quantum, and whether he alone benefited from this increase—who are they, what period of time and what would have been their engagement.

Mr. Corbie: But there would have been others, so I would have to get that list.

Mr. Moheni: In the statement made earlier, it was stated that only in two instances there were not documented contracts. Is that correct?

Mr. Agarrat: That is correct.

Mr. Moheni: So, am I to believe the statement here, “We observed that in several instances there were no formal contractual documentation ” Are we to believe that this is erroneous?

Mr. Mills: Mr. Moheni, I would want to state that for an external auditor to make such a statement, if I were part of the management at that time, I would have asked them to explicitly list, what they were referring to, because this is a very wide statement, and a statement that can take us down a path which may waste a lot of time. I am not saying that we cannot sit here and say that outside of those two contracts, every other thing was covered by a contract. We cannot say that, because we do not have the facts to support it, and we cannot go and then state that there was nothing. So we are really in catch 22 position where this statement is concerned, and I have trouble accepting this statement myself just like you all.

Mr. Moheni: I do have a difficulty, because it is an internal revenue requirement, and this statement was made in light of an audit that was initiated by the company. It is stated here that there were several instances involving significant transactions and relationships undertaken by Caribbean Airlines Limited.

Mr. Mills: What I would have to do is actually go back to the external auditors and ask them to provide the information that supports this statement, because they would have done some kind of sample testing based on the population size of all the operations. Let us say, out of their sample of 10 things, nine did not have contracts, that would have been based on their sample, but if out of the total population of 100, 70 had contracts and they just happened to chose, we would have to look and see exactly what the external auditors would have examined, and ask them to provide further clarification which supports the statement that they have in their management letter.

Mr. Chairman: This is a very important matter, and I sense your discomfort based on the way you have put it, and I understand the difficulty. Just for my own information, if you reverted to the auditors’ report, should it incur such substantial additional cost?

Mr. Mills: I do not know about substantial, but definitely a cost.

Mr. Chairman: So, Members, we will decide whether we consider it worthwhile for us to pursue finding out what those were. If we want to do that we can, but just bear in mind the implications. Mr. Moheni, was that it?

Mr. Moheni: Yes, but I believe the review—

Mr. Chairman: —is helpful. Okay, we will take a position on that.

Mr. Moheni: Especially, in light of the fact that not only it is given as several instances, but the auditors stated, quite clearly, that that transactions were of a significant—

Mr. Chairman: All right. We will send the appropriate letter to the company, and we will expect a response on that. Let me recognize, Mr. Indarsingh, who has been trying to get the floor for a while now.

Mr. Indarsingh: Thank you, Mr. Chairman. On the issue of bank reconciliation, what is deemed to be timely in the context of the operations of Caribbean Airlines Limited when you pursue bank reconciliation?

Mr. Agarrat: Presently, I have it as bank reconciliation by the sixth working day of the following month.

Mr. Indarsingh: I ask that question in the context of, when I looked at page 13 of the report that was prepared by KPMG, it says that, “We observed that during the year many of the bank reconciliations were not signed by the...” Is that normal in the operations of a state entity such as Caribbean Airlines Limited?

Mr. Agarrat: It should not be a normal instance where bank reconciliations are not signed. I think what was happening is that problem was the reporting structure in finance, and there was not somebody specifically assigned to those functions. I do not know if anyone could recall that in 2008 there were vacancies put out in the public for the positions of Balance Sheet Manager. That was one of management attempts to try to address the situation with the bank reconciliations. We have changed up the structure and those reporting come through me now, and I also have an accountant assigned to review that process.

Mr. Karim: How would you describe the level of the liquidity risk at this time based on what we saw in the 2007/2008 accounts especially in the context of payables?

Mr. Mills: Caribbean Airlines Limited is strong in terms of its liquid and current assets.

We have over time managed the organization where we basically generate enough income to be able to support the operations of the organization without going into the investments that we have. Now, we have had to utilize some of our investments and that happens when you have significant engine repairs which will cost you US \$1 million overnight. When the Government invested in Caribbean Airlines Limited, the focus of the management was always to ensure that the operations supported itself. So, in terms of liquidity risk where that is concerned, it is very strong in terms of managing that risk.

In terms of payables, we do stay on top of payables and try to manage our payables. We have built some credit over time. One of the issues with BWIA is that they were unable to obtain credit from suppliers. One of Caribbean Airlines Limited focus has been to ensure that they can move from a position of cash in advance to one where we can actually obtain credit, and we have gone a long way in terms of being able to obtain credit from significant suppliers like Boeing, and other aircraft manufactures in terms of parts. So, we have been managing that very well.

We have a lot of cash assets and those are invested well within the market. Of course, you understand the challenges now in the economics in terms of interest rates and so on. So we really try to place our investments in areas where there are low risk and high return, and there is a challenge with that. So, we look at a lot of state enterprises in terms of financial institutions that can actually support this kind of thing. We do not take risk in terms of losing our capital at all. We do not take that kind of risk.

Mr. Imbert: After that illuminating discourse, what is your current ratio at this time?

Mr. Mills: Liquidity ratio?

Mr. Imbert: Current asset ratio. Do not give me an exact figure just give me an approximate figure.

Mr. Mills: About 2.5.

Mr. Imbert: As far as I know that is excellent. Now, what is the international standard? My knowledge is that once you are a two and above, you are okay. Is that correct? Is my understanding correct?

Mr. Mills: That is correct because that means that you have enough assets to be able to satisfy all our liabilities at short notice. So that is more than enough assets I should say.

Mr. Imbert: If you drop below two?

Mr. Mills: You are still okay if you drop below two, but that means that you are getting closer and closer to being in a position where the lower you go to one, should your liabilities swing in the other direction, you are going to have to go and source some kind of financing to be able to support it.

Mr. Imbert: If you are down to say 1.1 or 1.2, you would be cutting it close.

Mr. Mills: That is cutting it close and that is risky, especially in the airline industry where you can have significant transactions within a month. Within six months should oil prices change or different economics like what is happening in Japan, all these things could affect an airline, and if you are not generating an income you could, within a short space of time, go into a liquidity position.

Mr. Chairman: On the question of liabilities, I want to direct you to page 3 of the accounts under the rubric "current liabilities". The last entry, "unearned transportation revenue", there was an observation that there was no reconciliation in relation to it, could you tell us a bit about that please?.

Mr. Agarrat: Normally, the process for finalizing your unearned transportation revenue is actually to have a reconciliation process between what is unused coupons in your reservation system and what you have on your books, so there should be a reconciliation of the devaluation. It is basically a two-tier process; one where you need to validate what are your revenue accounting systems and, most likely, there is a separate revenue accounting system that values your revenue and your UTR transactions, so there should be a reconciliation between that revenue accounting system, the CRS system and there should also be a reconciliation between the revenue accounting systems and your financials.

12.10 p.m.

Mr. Agarrat: One of the challenges inside there is to examine, based on looking at historical information, what portion of that UTR is tickets that are never going to be used. So it would be those people who made a trip to the United States or Canada and decided not to come back or their tickets expired. As at the end of 2008, due to challenges we had with doing the reconciliation between the revenue accounting system and the CRS system, we were not able to value that correctly, it was subsequently done in 2009. I think the value was in the vicinity between US\$13,000,000 and US\$20,000,000 as a ride back to the revenue to treat with those differences.

Mr. Chairman: So you have gotten on top of that problem?

Mr. Agarrat: Yes.

Mr. Chairman: All right. Thank you. Mr. Indarsingh.

Mr. Indarsingh: One issue under page 28, (12) Staff Costs. I see that in 2007, the number of employees was 984 and as at the end of December 2008, it was 954 and I look under the heading of National Insurance and Health Surcharge was \$3,199,000 in 2007 and in 2008 it moved to \$6,206,000 what would have accounted for that?

Mr. Corbie: What was the number between 2007 and 2008?

Mr. Indarsingh: Well, it says that the total number of employees at the end of 2008 was 954, in 2007 it was 984, so the number of employees would have been reduced and virtually what I am seeing here is a doubling of national insurance and health surcharge coverage, any particular reason for that?

Mr. Corbie: Let me just confirm those numbers. Mr. Chairman, that is something we have to double check and get back to you.

Mr. Chairman: All right, we will certainly pen that to you and we would hope to get a response.

Mr. Corbie: And in terms of the numbers as well too. In terms of the numbers, I just want to confirm the numbers between 2007 and 2008. Employee numbers.

Mr. Mc Leod: It is stated on page 28.

Mr. Corbie: Right, but what happened is that we had the London service up to a point in 2007 and then we stopped at, I think it was May, and then we had a separation of employees in two folds, in July and then October 2007. But in 2008, we also operated more flights than 2007, so I just want to confirm that because we started a Fort Lauderdale route and Caracas in 2008. So that is something I just want to double check and then I would revert.

Mr. Indarsingh: Are those routes still operational?

Mr. Chairman: One moment please. Let me recognise Mr. Mc Leod and then I will take Mr. Moheni.

Mr. Mc Leod: As you look at the issues raised by Mr. Indarsingh, you might also want to concentrate a little bit on that same item, staff costs, where salaries and wages were \$161,209,000 and other personnel expenses \$62,534,000 that is a big number and it might

be representing incidentals. Could you give us an idea as to the big tickets in that number?

Mr. Corbie: Well that is why I have to, because we also hired a lot of flight attendants in 2008, because of the additional routes and the additional increase in the schedule compared to 2007. It was significantly more in 2008 compared to 2007, in terms of the frequency because when we started off Caribbean Airlines, we used a six plane schedule and it was one flight a day to, let us say North America and so on, Toronto, New York and Miami.

By 2008, that had doubled to some extent and then we started new routes, Caracas and Fort Lauderdale again, as a repeat, so that it why salaries and wages went up to some extent. Now, in terms of the personnel expenses, we also had a bonus payment in 2007 and 2008.

Mr. Agarrat: What happened in 2007, as Mr. Corbie indicated before, there were two tranches of what we had called transitional workers, one period that ended in June 2007 and then subsequently in September 2007. What was done in finalizing 2007 financials and unfortunately because the item is significant, the note should have been included in 2008, but it is not. They had taken those courses and reclassified it as part of the restructuring course, so that variance you see between 2008 and 2007, a portion of it is actually represented in that restructuring course in 2007.

Mr. Indarsingh: Just to clarify for me, when you say you use the term “transitional workers”, was it from BWIA to Caribbean Airlines?

Mr. Agarrat: We had certain people set up to help with the transition process which would include also those employees we had out of London for the five months.

Mr. Chairman: Mr. Moheni.

Mr. Moheni: It has been observed that the controls surrounding authorization of the issue of documents for inventory items were very ineffective, and of the items tested none were authorized; why is this so?

Mr. Agarrat: I will need to get back to you because the person responsible for that area is actually in the maintenance department under material management. The only knowledge I have on that issue concerning how the comment on the management letter was made, is that we knew there were problems with the RAMCO system when it was implemented, and what we had found that especially during the night, when there would be a maintenance

crew doing maintenance—overnight maintenance on the aircraft—and the system was giving trouble, what they were doing, they would have done a manual issue of the item.

A shift would change and instead of the item being recorded automatically into the system to record the issue properly, it would have been done maybe a day or two after, so what you would have is that when the auditors tested and they test for issue for a day and they would realize the system has no authorization for that day for the item, it was done subsequently.

Mr. Moheni: But it was done manually?

Mr. Agarrat: Yes.

Mr. Moheni: Could you provide evidence of this?

Mr. Agarrat: Yes.

Mr. Chairman: Okay. Mr. Panday.

Mr. Panday: Thank you very much, Mr. Chairman. Mr. Chairman, we are dealing here from the records and it shows we are dealing with millions of dollars and I am disturbed about item (2), where they said several instances, no formal documentation to support significant transactions. Also, it spoke about risk. Because you are having contracts without any documentation, it led to risks and the auditors indicate that, where they said that the lack of contractual documentation to support the transaction put CAL at serious risk.

That is a very important thing because you are dealing with millions of dollars. Then he made a recommendation which is: an effective system must be put in place. When one looks at the response, the response is really explaining what they were doing, but they have not answered the question as to the system they put in place, because what had happened was, as you saw, there was a requirement of the Board of Inland Revenue to have a system in place.

The answer which they gave—not you, I am not casting any aspirations to you. The answer they gave does not fit the concerns. Hear what they said: “We have a contract review process...” that is not it, to put a system in place “which ensures that contracts are reviewed by Legal, Financial, Purchasing and Insurance.” And it speaks about: “This is managed by use of a Contract Routing Form with a sign off by each of the functions. In addition, contracts have to be approved in accordance with the Delegation of Authority...” that is not the answer, the concerns, of the auditors. “Large contracts have to be reviewed

by the Executive Team and approved by the CEO...” and it says: “...and significant contracts have to be approached by the Board.”

It has not yet indicated from this response. They had not responded to the query of the auditors, and that is why we are so concerned, and that is why we would really like you to go back and I want to assist you in that you should find out the route it has taken and where these contracts took place, because we are dealing with contracts. BWIA had entered a number of contracts, BWIA went under and we do not want CAL to go under either, and that is why we are concerned about where contracts are being entered and there is no documentation and there are no checks and balances, either, it would appear.

Mr. Chairman: Well, I think I can say based on what the responses we have had, having traversed that issue at great lengths earlier in these proceedings, and we have already indicated that we will seek some further information from the management of the company.

Mr. Panday: Mr. Mills had indicated that he had a problem with the report. He had a problem with the auditors. I am indicating to him, here, that when one looks at the response, the response does not answer the queries and whether you had paid any attention to issue.

Mr. Chairman: Your point was well taken and happily we have traversed that before and we have had a commitment for some responses.

Mr. Mills: Mr. Chairman, may I add one thing?

Mr. Chairman: I want you to keep your eye on the clock because we are determined to bring these proceedings at a close at 12.30 p.m., so keep that in mind.

Mr. Mills: Yes. Just to support Mr. Panday’s point, what we do now in finance—because the issue of an absence of a contract is very, very critical—is that, to ensure that payments are made we must see the contracts in finance. So we have addressed that issue hard on, you must see the contract, there is a purchase requisition, a purchase order, all these financial controls now exists, so this issue—

Mr. Moheni: Let me ask one more question, Mr. Chairman. Is there any reason as to why the contracts on previous occasions were not drawn?

Mr. Chairman: Well, that too, Mr. Moheni, with great humility, we have traversed that and I think we had a response to that. The management has indicated that, as far as there are

aware, there are only two instances, you have asked for further information and they have committed to making further inquiries, even at some further expense and so on, so that matter has been resolved to that extent and I think we can advance from there.

Mr. Moheni: No, this is a different question. This is not with regard to the provision of information, this is with regard to why it was not done and is there any reasonable reason as to why a company such as—

Mr. Corbie: It is difficult to say why because I mean it is the responsibility of the VP or the Manager to have contracts in place for any services that they require.

Mr. Moheni: I think that answers the question because that is how I am thinking, that there has to be a level of irresponsibility.

Mr. Corbie: So when we investigate, then we are going to know—

Mr. Moheni: Thank you very much.

Mr. Chairman: Thank you very much. Mr. Imbert.

Mr. Imbert: I just wanted to be clear. In terms of this comment by the auditors that there was no formal contract or documentation in several instances; are you certain that the auditors provided no examples and no details on this? They just made a broad sweeping statement?

Mr. Mills: No. It would be very irresponsible of auditors to operate in that manner and that is why I, not having been there at time, would want to go back to them as say: “hey provide it” because I am assuming that they would have discussions with the management at that time, before they actually incorporated this point into the management letter. So I will need to go back to them and have that type of discussion.

Mr. Imbert: So personally, you do not know whether the auditors gave a list? You do not know?

Mr. Mills: But they should.

Mr. Imbert: They should have but you do not know if they did.

Mr. Mills: Of the three of us here?

Mr. Imbert: Yes.

Mr. Mills: The entire management has changed now.

12.25 p.m.

Mr. Imbert: And from your knowledge when you went to check, you only found two?

Mr. Corbie: The two that we were—

Mr. Chairman: Let me recognize, as we certainly approach a close, Mr. Karim and then Mr. Mc Cloud, and we will certainly bring these proceedings to an end.

Mr. Karim: Mr. Chairman, I would like to ask the Executive how important they consider the aspect of disaster recovery, particularly in a national airline like this. If you considered it very important—we notice from the management report that there was no disaster recovery plan. Could you advise us as to what has happened since then?

Mr. Corbie: That has been addressed by the previous CEO, where we have a quality department, a communications department, and they have documented procedures now. That was implemented over the last year. I am taking that on as well, very, very seriously. In fact, we still could enhance it, and that is what I am going to make sure and do.

In fact, up to last week, I had a meeting with the head of quality to ask him—because as the expert in that field and in terms of the relationship between us and the Airports Authority—to always be part of the exercises that would be taking place. I think they have one coming up very soon from the Airports Authority that we will be involved in. We will be critically involved in that. In terms of the airline structure and the SOC departments, operations, flight ops, we will all be part of that with our communications officer as well.

Mr. Karim: Would you say that, for example, in the context of an airline like ours, that the AA and the CAA would have had that as a requirement for approval for operation?

Mr. Corbie: To some extent, yes. They would more liaise with the Airports Authority and it would be our responsibility to make sure we have one in place.

Mr. Karim: In other words, there would have been a breach of an agreement for operation by flying an airline without a disaster recovery plan?

Mr. Corbie: I would have to refer to that agreement to see.

Mr. Karim: No problem. While you are referring to that, I want to ask you to go back and if you could supply us with information at another time, with respect to the Heathrow/London spots. I will tell you why.

It is my recollection—because I was on the board of BWIA before and I know those slots were very valuable, we have been using them for very many years. This airline was incorporated in 2006, towards the last quarter of 2006, but became operational, CAL that is, on January 01, 2007. I recall that during the first quarter, or maybe up to April, CAL was

still flying the London/Heathrow route. Therefore, Chairman, I want to revert to the question I had asked, to see whether, in fact, you have information as to if the slots were sold during the accounting period 2007, which we were making reference to in the 2008 report. What was the the nature of the transaction, especially in the context of the KPMG report What saying that what they identified was the absence of legal contracts, and this is really disbursement of an important asset.

My question really is for us to get some information from you as to when these slots were disposed of, who made the decision to dispose of them, what was the value of the disposal of the asset and anything around those circumstances.

Mr. Chairman: We have heard that, Mr. Karim and we take the point. I think we have a couple more.

Mr. Imbert: I would just like to say if that was a BWIA transaction, then it has no place in this discussion.

Mr. Chairman: Yes.

Mr. Imbert: So we need to settle whether that was a BWIA transaction or a CAL transaction. If it was a BWIA transaction, we take it up under separate cover.

Mr. Chairman: Yes.

Mr. Chairman: The other point I would like to make is that this disaster recovery thing appears to be a bit of a misnomer. You are talking about recovery of records, not if there is a plane crash? What does disaster recovery mean in the context of the discussion we just had, is it not records?

Mr. Corbie: The records.

Mr. Imbert: So it is not a disaster, a tsunami or an earthquake, it is simply your files and records. I just want to clear that up. [*Laughter*]

Mr. Mills: Disaster recovery really speaks about the ability of the organization, in the event of some loss of data information systems, that it is able to reinstate those things and start back operations.

Mr. Chairman: In fairness to the mover of that motion, members of the public hearing this, would probably think it had to do with the disaster of the type described by Mr. Imbert, but we are happy to know that it had to do with the recovery of data, records and so on.

Gentlemen as I have promised to take the final question from Hon. Mc Leod—the

floor is to you, Mr. Mc Leod.

Mr. Mc Leod: I must first of all commend the representatives of CAL as being, it appears to me, quite knowledgeable and you have been most cooperative.

It is just this last inquiry on the management's letter. The auditors reported that the valuation of inventory undertaken by CAL is not in accordance with IAS2 inventories which state that the cost of inventory should include all cost to bring inventory to its current location and condition which includes all landing costs, example freight, insurance, et cetera. It was also noted that differences exist between the purchase order value and the invoice amount. However, it was the purchase order value used on the system for valuation purposes.

Could you explain why that—

Mr. Agarrat: Basically, from having seen the comment and when in 2009 we brought back in some of the consultants from **Ramco**, we realized it was a deficiency in the system, that it was not allowing an update of the price of an item from the invoice. So previously we used a different inventory system that did that automatically for us, so even if you had a goods receipt at one price and the subsequent invoice was more, the system would adjust automatically. In this system it does not adjust the price; it does not allow you to adjust for landing cost, as stated.

We told the auditors that we would have to treat with it as current costs and write it to expenses immediately, because basically it is a fault of the system that we have little control over.

Mr. Moheni: Could we be given an indication as to how long, for what period or length of time this deficiency existed?

Mr. Agarrat: From when the system was implemented in November 2007; so quarterly we do subsequent adjustments to adjust for the price differences.

Mr. Chairman: Thank you.

As I approach conclusion on this meeting, I sincerely echo the sentiments expressed by Mr. Mc Loud, insofar as your competence has been displayed here this morning. I was personally taken in by that. I was really impressed. I think it was a sentiment that came from the team and we would like to indicate that we feel very comforted, very pleased to know that an important institution such as the one you manage is in, what we have come to

feel, very capable hands.

We wish you all the very best. We thank you very much for coming. We look forward, notwithstanding, to your responses to the written matters that we would communicate to you. Of course, if we consider it necessary, at any stage in the future, you can be assured that we would want to enjoy the benefit of your company in this very wonderful environment. We thank you very much for your presence and urge you to continue to improve your output and to improve the performance of the organization that you are privileged to lead. .

We thank the representatives of the Comptroller of Accounts and the Ministry of Finance Investment Division. You have been silent partners, but partners notwithstanding, and we appreciate your presence. Of course, formality demands that I thank my colleagues on this committee.

With those behind us, I bring this meeting of the Public Accounts Committee to a conclusion.

I am sorry, I did not look upwards and forward, we thank the media for your presence and, of course, for causing Trinidad and Tobago to learn of the beauties of the existence of CAL.

Thank you.

12.35 p.m.: *Meeting adjourned.*

Appendix C

Members Attendance:

Name of Member	4th Meeting 22.03.11
Mr. Fitzgerald Hinds (Chairman)	Present
Mr. Rudranath Indarsingh	Present
Mr. Herbert Volney	Absent
Mr. Errol McLeod	Present
Mr. Colm Imbert	Present
Mr. Subhas Panday	Present
Mr. Fazal Karim	Present
Dr. Keith Rowley	Absent
Mr. Embau Moheni	Present
Mr. Basharat Ali	Excused