



REPORT OF THE AUDITOR GENERAL

ON THE

**AUDIT OF THE PUBLIC ACCOUNTS OF
MONTSERRAT, WEST INDIES
and other selected activities**

FOR THE

FISCAL YEAR ENDED 31 DECEMBER 2009



VISION STATEMENT

The Office of the Auditor General (OAG) plays a crucial role in ensuring that public monies are spent wisely. Our vision is therefore “to be a proactive Supreme Audit Institution (SAI) that helps the nation make good use of its resources”.

MISSION STATEMENT

“The OAG is the national authority on public sector auditing issues and is focused on assessing performance and promoting accountability, transparency and improved stewardship in managing public resources by conducting independent and objective reviews of the accounts and operations of central government and statutory agencies; providing advice; and submitting timely Reports to Accounting Officers and the Legislative Council”.

THE GOAL

Our goal is “to promote staff development, enhance productivity, and maintain a high standard of auditing and accounting in the public sector, thereby contributing to the general efficiency and effectiveness of public finance management”.

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ABBREVIATIONS USED

BOM	Bank of Montserrat
DFID	Department for International Development
CAROSAI	Caribbean Organisation of Supreme Audit Institutions
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
GDP	Gross Domestic Product
GOM	Government of Montserrat
GYFCE	Golden Years Foundation for Care of the Elderly
HLAC	Housing and Land Allocation Committee
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
MCC	Montserrat Community College
MCSA	Montserrat Civil Service Association
MDC	Montserrat Development Corporation
MONLEC	Montserrat Electricity Services
MFSC	Montserrat Financial Services Commission
MLDA	Montserrat Land Development Authority
MPA	Montserrat Port Authority
MPB	Montserrat Philatelic Bureau
MSSF	Montserrat Social Security Fund
MTB	Montserrat Tourist Board
MWA	Montserrat Water Authority
MUL	Montserrat Utilities Limited
OAG	Office of the Auditor General
PAC	Public Accounts Committee
SBA	Systems Based Audit
SDP	Sustainable Development Plan
UKNAO	United Kingdom National Audit Office
XCD	Eastern Caribbean Dollars

**REPORT OF THE AUDITOR GENERAL
ON THE PUBLIC ACCOUNTS OF MONTSERRAT AND ON THE
MINISTRIES, DEPARTMENTS AND STATUTORY AGENCIES
FOR THE FISCAL YEAR ENDING 31 DECEMBER 2009**

EXECUTIVE SUMMARY

Scope of the Audit Report to the Legislative Council

Section 42(1) of the Public Finance (Management and Accountability) Act 2008 requires the Auditor General to examine the Public Accounts and to submit a Report on the Legislative Council. This Report outlines significant matters arising from the examination and audit of the Public Accounts, Ministries/Departments and Statutory Agencies for the year ended 31 December 2009.

Financial Administration and Management

2. Availability of public accounts underpins transparent governance arrangements as it allows public scrutiny of financial stewardship of public finances. In keeping with transparent operations, Section 42(1) of the Finance (Administration) Act 2001 requires the Public Accounts to be submitted for audit within a period of 4 months after the year end to which they relate. This requirement was not met and we therefore could not meet our statutory obligation of tabling the report within 6 months - Section 42(2) - after the end of the fiscal year being reviewed.

3. I am required to certify the Statement of Assets and Liabilities and the abstract accounts of Revenue and Expenditure. These Statements are included in this Report as Appendix 1. The Audit Certificate is also attached.

Financial Performance

4. A surplus of \$2,852,373 was realized when comparing recurrent revenue with recurrent expenditure.

5. Estimated Recurrent Revenue was \$42,740,200. Actual Revenue realized was \$40,683,768 being ninety-five percent of projected receipts for the year.

6. \$52,480,000 was authorized for Special Budgetary Aid for the fiscal year. Actual revenue received amounted to \$60,318,270 being \$7,838,270 more than budgeted. The additional sum was provided for payment of contributions to Social Security Fund for retired civil servants, costs associated with detainees, General Elections 2009 expenses, technical assistance to support Treasury's transition to the new financial year, transport subsidy, subventions to Montserrat Community College and preparedness for H1N1 flu virus outbreak.

7. Recurrent Expenditure amounted to \$98,149,665. Of this amount forty-two percent was spent on Personal Emoluments, eighteen percent on Pensions and Gratuities, fifteen percent on Goods and Services, fifteen percent on Transfers and Subsidies with the balance spent on Social Services, Other Expenditure and Debt.

8. Actual capital expenditure amounted to EC\$37,099,702 being 77% of authorized expenditure for the year.

Cash Position of Government

9. At the end of the financial year the government bank accounts reflected a positive balance of EC\$15,638,861, broken down as follows:

Description	Balances (EC\$)
Consolidated Fund	12,912,278
Development Capital Fund	2,726,583
TOTAL	15,638,861

Cash Management Improvement

10. Our review revealed that there are several central government agencies that are operating bank accounts outside the ambit of the Treasury Consolidated Fund. This is contrary to the Public Finance (Management and Accountability) Act 2008 which states that all revenues should be deposited to the Consolidated Fund and all expenditures appropriated by Parliament. Such activities restrict the Treasury's ability to manage government cash flows effectively and more importantly, prevent it from pooling resources in a manner that allows it to get better terms for short-term debts (overdrafts) or higher returns on investments.

11. Further, such arrangements dilute the Treasury's responsibility to monitor all government expenditures and hence pose a fiduciary risk to government. Since transactions processed through these accounts are not reported publicly, they raise transparency issues and undermine the credibility of the public accounts.

12. To mitigate the issues detailed above we recommend that all the said accounts be closed and the balances paid into the Consolidated Fund.

Fixed Deposits and Investments

13. There is a material uncertainty with regard to \$3,569,230 of Fixed Deposits and \$435,632 of Investments and their associated accrued interest. These were invested in Colonial Life Insurance Limited of Barbados and British American Insurance Limited. Both companies have experienced severe financial difficulties during the year. If the

situation persists and the companies are unable to meet their obligations, the future recoverable amount may be significantly less than their current book values.

14. An additional \$60,000 of investments in Montserrat Mills is regarded as irrecoverable as the company went out of business since 1996 during the early years of the volcanic crisis. Earlier efforts to recover this investment have been unsuccessful. Effort should therefore be made to remove it from the accounts.

Public Debt

15. Total Public Debt stood at EC\$22,910,210 at close of fiscal year. This figure includes an outstanding payment to Social Security. Public Debt per capita stood at \$4,546.58 per person. The level of debt equates to approximately 14.3% of GDP (at current prices) and is well within the ECCB's recommended maximum level of debt.

16. External Public Debt amounted to EC\$10,250,060 at the end of the year being reviewed. \$501,664 was used for principal repayments being 1.20% of actual local recurrent revenue for the year. When compared against GDP (in current prices for the year) it represents 0.30%.

17. Interest on External Debt amounted to \$206,188.55. This payment utilized 0.50% of total local recurrent revenue generated for the year.

18. As regards Domestic Debt \$4.628M was paid on the outstanding balance to Social Security. Additionally, actuarial revision reduced the outstanding amount by \$114,592 leaving outstanding domestic debt at \$12.66M.

Key findings relating to Ministries/Departments/Statutory Agencies

19. At the end of 2009 Arrears of Revenue stood at \$24,597,501 and are itemized as follows:-

Executing Agency	Arrears as at 31 December
Ministry of Agriculture, Lands, Housing & the Environment	743,150
Ministry of Communications and Works	9,574
Inland Revenue:-	0
Income Tax	16,278,360
Company Tax	3,942,011
Property Tax	2,813,852
Broadcasting Services (Radio Montserrat)	29,947
Customs	32,881
Treasury	600,309
Ministry of Health and Community Services	83,586
Development Unit	63,831
TOTAL	24,597,501

20. *Accidents involving Government vehicles.* Sections 108 – 113 of the Procurement and Stores Regulations 2002 provides guidance for reporting and investigating the causes of accidents, apportioning blame and instituting surcharges, where necessary. Twenty five accidents were recorded during the reporting period. These involved vehicles from eight Ministries/ Departments.

21. Our investigation revealed that seventy-two percent of these accidents were never referred to the Financial Secretary and to the Accident Investigation Board. This is in contravention of the Procurement and Stores Regulations and the Ministry of Finance’s directive of 22 September 2005 entitled “Liability for Damages to Government Vehicles”. Additionally, it appears that the repairs are paid from the regular maintenance vote making it difficult for the Ministry of Finance to identify related accident costs and imposing surcharges where necessary.

22. *Her Majesty’s Prison.* Our review of controls at Her Majesty’s Prison revealed that some procedures were breached or were inadequate. A few withdrawals from prisoner’s savings account were made without a form, signed by the prisoner, being placed on his/her file. These are breaches of the Prison’s procedures which may have financial implications for the officer personally and the Prison authorities were the inmate to claim that no authority was given for such activity. Additionally, adequate procedures exist for documentation of receipt of prisoners’ property at incarceration. We could not however find any information to show what procedures were followed at the time of the prisoner’s release. Again this poses a financial risk to government as the prisoner can claim that he/she did not receive the items deposited when they entered the institution.

23. *MCW - Ferry Operations.* The Ministry of Communications and Works has overall responsibility for the ferry operations. In seeking to understand the operations, a number of questions regarding internal controls were posed to members of staff. The responses highlighted serious issues with the control environment. A Senior Manager who at times manages the operations had no clear knowledge about it or its controls. The Ministry had no independent means of verifying revenues – no control over ferry tickets neither did we see any documentation of total invoices issued. We could not determine uncollected debts. Ferry service expenditures were being processed but we did not see any local purchase orders being issued to authorize the purchases nor did we see any recorded commitments for transactions entered into but unpaid. Additionally, Section 92(13) of the Public Finance (Management and Accountability) Regulations 2009 requires that bank reconciliations be performed. It also mandates that copies of the reconciliations be signed off by the Accounting Officer and forwarded to the Accountant General. The reconciliations were being performed, however, they were not being forwarded as required. We did not see any sign-off by the Accounting Officer or representative to indicate that this process was being monitored. Moreover, GOM pours significant sums of money into the ferry service. However, there were no visible accounting arrangements or reporting to GOM.

24. Some Statutory Agencies have not completed the audits of their financial statements or the year being reviewed.

Special Audits

25. *Sale of Government Housing Stock.* Allegations were made that LDA were disposing of houses without proper authority; that a particular house was sold to a person who was not an existing tenant at the time of property sale; and that legislation, policies and procedures established to guide sales were not followed.

26. We found that on occasions, the LDA acted outside the scope of its authority. However, there was no evidence to suggest that it disposed of property without authorization to do so. We found no material evidence to support the allegation that sale of properties were in direct contravention of mandate to sell houses only to existing tenants. However, there were three instances where we observed non-compliance with legislation, policies and procedures. There were also three instances where there was a lack of transparency and accountability.

27. *Systems-Based Audit: Little Bay Development Phase 1.* Development of a town in Little Bay was accorded high priority with works to span over four phases. Phase 1 included completion of the basic infrastructure: preparatory earthworks, main drainage, installation of electrical, water and sewerage treatment systems and construction of roads and car parks with a completion date set for 9th March. The estimated cost of Phase 1 was over EC\$20M.

28. J E Galloway Construction Company was awarded the contract to complete Phase 1 of the project. An inability to complete the project within an agreed timeframe led to expulsion of the contract in April 2009. A new partnership, under the Galloway contract, was established between GOM, MHL and DLN to ensure completion of the contract. We were asked to conduct a systems review of the process.

29. We found that most systems and processes were effective during the tender process, contractor's work period and the partnership arrangement. However, we found that a significant aspect of the controls was breached in allowing Galloways to tender as financial information provided was outdated and the company had no international or large construction project experience. Moreover, it appears that the recommendations of the contracts evaluation team were not taken into consideration.

CHAPTER 1

1.0 INTRODUCTION

1.1 Reporting Authority

1. This Report, for the fiscal year 2009, is submitted to the Honourable Minister of Finance, for onward transmission to the Legislative Council. It is pursuant to Section 26 (1) of the Audit Act 2001, No. 7 of 2001 and Section 42(2) of the Public Finance (Management and Accountability) Act, No. 7 of 2008.

1.2 General Comments

2. This Report outlines the work of my office. It should cover the audits of all central government operations, statutory bodies and corporations and entities where the Government of Montserrat (GOM) injects substantial sums into their operations.

1.3 Audit Mandate

3. The audit of the Annual Accounts of the Government of Montserrat for the fiscal year 2009 was conducted in accordance with the provisions of the Audit Act 2001 and Section 42 (1) of the Public Finance (Management and Accountability) Act 2008. These pieces of legislation provide for the preparation and submission of annual statements by the Accountant General, and for examination and audit of those statements.

4. Section (8) of the Audit Act 2001 specifically requires the Auditor General and, by extension, the Office of the Auditor General, to inquire into, audit and report in an impartial manner, on the Public Accounts, and whether expenditure is achieving value-for-money.

1.4 Scope of Audit

5. The audit programme of work aims to provide sufficient, appropriate audit evidence to afford a reasonable basis for an opinion to be given on the general accuracy and regularity of the Government's financial and accounting transactions. The audit exercise is carried out by way of **test checks**, designed to capture material errors in the accounts, determine adequacy and reliability of internal controls and safeguards, and evaluate compliance with relevant enabling legislation and other Ministry of Finance directives.

1.5 Purpose of Audit Office

6. The Audit Office functions as a safeguard to maintain financial integrity of Government's operations. The office is therefore independent of the Executive branch of Government for auditing and reporting purposes.

1.6 Audit Methodology

7. Our main function is to assess whether there is effective stewardship and accountability for public funds. This requires us to conduct a variety of audits to include financial audits, compliance audits, evaluation of internal controls and conducting performance reviews.

8. To benchmark our work we have adopted auditing standards provided by the International Organization of Supreme Audit Institutions (INTOSAI). Senior managers prepare annual audit plans for the work to be undertaken during the year. Field work is undertaken to provide us with relevant and reliable evidence that allows us to provide overall assurance as to the accuracy and propriety of financial transactions and accounts.

1.7 Reporting Process

9. This is a two pronged process. Firstly, audit findings on evaluation of internal controls and the economic, effective and efficient use of resources are communicated to management. An exit interview is conducted at which the findings and recommendations are discussed with management. Officials at the entity concerned are then asked to provide a written response to the issues identified in the management letter/report. Secondly, non-compliance with relevant regulations or issues deemed in the public interest is then incorporated in the Auditor General's Report for submission to Parliament.

10. The Auditor General has discretion as to the form and content of her annual report on the public accounts of Montserrat. It is not the duty or responsibility of the Auditor General to disclose each and every error or irregularity in the accounts. As a general rule, she reports on matters that she considers significant and constitute an actual or potential loss of public resources, a lack of financial control, an impairment of accountability, and a breach of, or non-compliance with, legislative or other requirements.

1.8 Goals of Audit Report

11. The general goal of a Public Finance Management (PFM) system is to support the achievement of aggregate fiscal discipline, strategic allocation of funds, value for money, and probity in the use of public funds.¹ The specific goal of this report is to provide information by which stakeholders can question whether planned budgetary outcomes are achieved and seek to hold the Executive, Central Government agencies and public officials accountable for their actions and for the management of public funds entrusted to their care.

¹ Revised Consultative Draft, October 21, 2004: PFM Performance Measurement Framework

12. Our mandate provides the authority for us to scrutinize the operation of the Executive and its agents. We are also required to report our findings to the Legislative Council, the body that holds the Executive to account for the delivery of public policy. Our Audit Report is therefore intended to provide the Legislative Council and the public in general with an independent and objective assessment of the operations of Central Government.

1.9 Submission of Annual Accounts

13. Section 42(1) of the Public Finance (Management and Accountability) Act 2008, state that the Government's Annual Accounts shall be submitted, by the Accountant General, to the Auditor General [for audit] within a period of four months after the close of each year, unless permission is obtained by a Resolution of the Legislative Council for them to be submitted at a later date.

14. The 2009 Annual Accounts was presented for audit well after the mandated deadline². As a result, we could not present the audited financial statements for tabling within the legal statutory deadline.

1.10 Compliance with Financial Orders

15. We see some improvements in the incidences of miscoded expenditure. The incidences of these are however reducing. Other compliance breaches and internal control weaknesses are highlighted in subsequent paragraphs, under the respective Ministries/Departments.

² The mandated deadline is six (6) months after the end of the fiscal year.

CHAPTER 2

2.0 FINANCIAL STATEMENTS FOR FISCAL YEAR 2009

2.1 Audit Mandate and Objective

16. In accordance with the provisions of Section 8 of the Audit Act 2001 and Section 42(1) of the Public Finance (Management and Accountability) Act 2001, an audit was conducted on the Public Accounts of Montserrat for the financial year ended 31 December 2009.

17. The objective of the audit was to express an opinion as to whether:

- a) The financial statements presented by the Accountant General fairly represent, in all material respects, the financial position of the Government of Montserrat.
- b) Appropriate internal controls systems existed and were adhered to, and
- c) Funds were expended in accordance with Legislative directives.

2.2 Methodology

18. Examination of the public accounts consisted mainly of analytical review of documentary evidence supporting the financial statements, and interviews with the Accountant General and staff, personnel in the Ministry of Finance, and Accounting Officers.

2.3 Statement of Assets and Liabilities of the Consolidated Fund

19. The following is a statement of the assets and liabilities as at 31 December 2009 grouped according to the nature of the item. A detailed statement, as presented by the Accountant General, is attached at Appendix 2. The statement records cash assets and liabilities only.

TABLE 1
CONSOLIDATED FUND
STATEMENT OF ASSETS AND LIABILITIES

	2008	2009	Increase/ (Decrease)
Assets			
Cash	14,733,977	12,912,278	(1,821,699)
Development Capital Fund	(5,067,062)	2,726,583	7,793,645
Fixed Deposits	3,888,463	3,641,583	(246,880)
Investments	4,668,400	2,604,032	(2,064,368)
Advances	7,125,053	3,028,844	(4,096,209)
Total	25,348,831	24,913,320	(435,511)
Taxpayer's Equity			
Deposits	8,443,680	6,679,836	(1,763,844)
Consolidated Fund	16,905,151	18,233,484	1,328,333
Total	25,348,831	24,913,320	(435,511)

20. There is a material uncertainty with regard to \$3,569,230 of Fixed Deposits and \$435,632 of Investments and their associated accrued interest. These were invested in Colonial Life Insurance Limited of Barbados and British American Insurance Limited. Both companies have experienced severe financial difficulties during the year. If the situation persists and the companies are unable to meet their obligations, the future recoverable amount may be significantly less than their current book values.

21. An additional \$60,000 of investments in Montserrat Mills is regarded as irrecoverable as the company went out of business since 1996 during the early years of the volcanic crisis. Earlier efforts to recover this investment have been unsuccessful. Effort should therefore be made to remove it from the accounts.

2.4. Movements on the Consolidated Fund

22. The movements on the Consolidated Fund for the fiscal year under review can be summarized as follows:

<u>Expenditure</u>	<u>Authorized</u>	<u>Actual</u>
Consolidated Fund Services	19,963,409	19,563,976
Supply Services	<u>83,356,100</u>	<u>78,585,689</u>
Sub-Total	103,319,509	98,149,665
Less: Revenue	<u>95,220,200</u>	<u>101,002,038</u>
Surplus/(Deficit*)	<u>(4,315,400)</u>	<u>2,852,373</u>
<i>Consolidated Fund</i>		
Balance b/f 1 January 2009		16,905,152
Surplus for the year		2,852,373
Suspense		979
Funding of Local Projects		<u>(1,525,011)</u>
Balance c/f December 2009		<u>18,233,493</u>

* Value of Contingencies Warrants raised during fiscal year.

2.4.1 Recurrent Revenue

23. Estimated Recurrent Revenue amounted to \$95,220,200. Actual collections totaled \$101,002,038, an increase of \$5,781,838.

2.4.2 Revenue Surpluses and Shortfalls

24. Revenue surpluses and shortfalls are detailed in Table 2 below.

**TABLE 2
REVENUE SURPLUSES AND SHORTFALLS**

<i>Recurrent Revenue Head</i>	<u><i>Budgeted</i></u>	<u><i>Actual</i></u>	<u><i>Surplus</i></u>	<u><i>Shortfalls</i></u>
	\$	\$	\$	\$
Taxes on Income, Profits & Gains	16,000,000	16,859,946	859,946	0
Taxes on Property	950,,000	1,079,693	129,693	0
Taxes on Domestic Goods & Service	1,280,000	1,174,569	0	105,431
Licences	2,033,600	2,525,572	491,972	0
Taxes on Int'l Trade & Transactions	14,260,000	14,337,348	77,348	0
Fees, Fines and Permits	1,206,600	1,160,800	0	45,800
Rents, Interest & Dividends	1,101,500	519,942	0	581,558
ECCB Profits	250,000	326,182	76,182	0
Reimbursements	45,000	38,627	0	6,373
Budget and Grants	52,480,000	60,318,270	7,838,270	0
Other Revenue	5,613,500	2,661,090	0	2,952,410
TOTAL	95,220,200	101,002,039	9,473,411	3,691,572
Net surplus			5,781,839	

2.4.3 Total Recurrent Local Revenue

25. Estimated Recurrent Local Revenue was \$42,740,200. Actual Revenue realized was \$40,683,768, a shortfall of \$2,056,432.

26. Table 3 below provides a comparative summary of actual Recurrent Local Revenue collected during 2009 and 2008. A minimal increase of \$215,167 was realized when compared with collections for 2008.

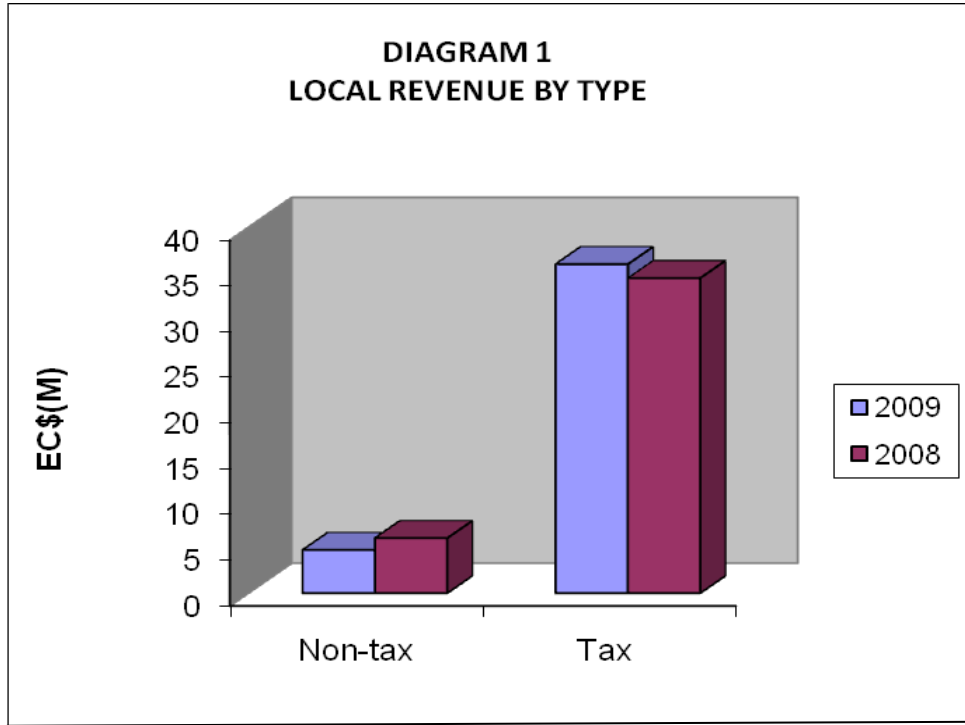
**TABLE 3
COMPARATIVE LOCAL REVENUE SUMMARY**

SOURCE OF REVENUE	ACTUAL 2009	ACTUAL 2008	INCREASE/ (DECREASE)
Taxes on Income, Profit & Capital Gains	16,859,946	14,961,910	1,898,036
Taxes on Property	1,079,693	993,222	86,471
Taxes on Domestic Goods & Services	1,174,569	1,345,522	(170,953)
Licences	2,525,572	2,372,848	152,724
Taxes on International Trade & Transaction	14,337,348	14,784,906	(447,558)
Fees, Fines and Permits	1,160,800	1,149,096	11,704
Rents, Interest and Dividends	519,942	832,708	(312,766)
ECCB Profits	326,182	570,779	(244,597)
Reimbursements	38,627	133,806	(95,179)
Other Revenue	2,661,090	3,323,806	(662,716)
TOTAL	40,683,769	40,468,603	(215,166)

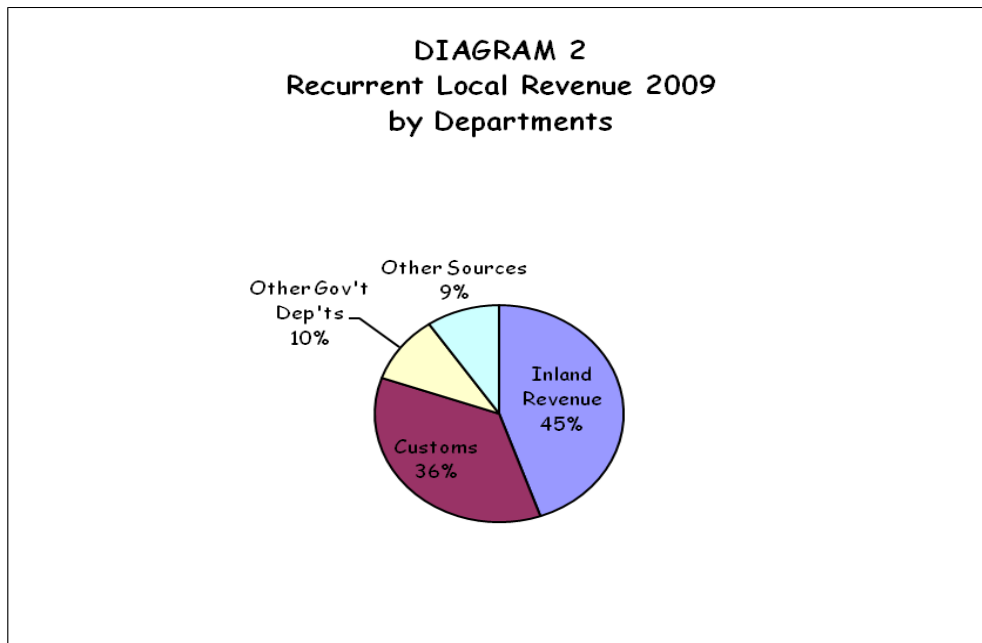
27. Two revenue heads recorded increases of over \$100,000 while six recorded decreases greater than \$100,000 when compared with revenues collected in 2008. Taxes on Income, Profit and Capital Gains show a noteworthy improvement of over \$1.8M.

28. Actual Tax Revenue collected amounted to \$35,977,127 whilst Non-Tax Revenue amounted to \$4,706,641.

29. The Diagram 1 below compares actual revenue, by type, for the years 2008 and 2009.



30. Diagram 2 below illustrates the apportionment (by percentage) of revenue generated by various government departments.



2.4.4 Special Budgetary Assistance

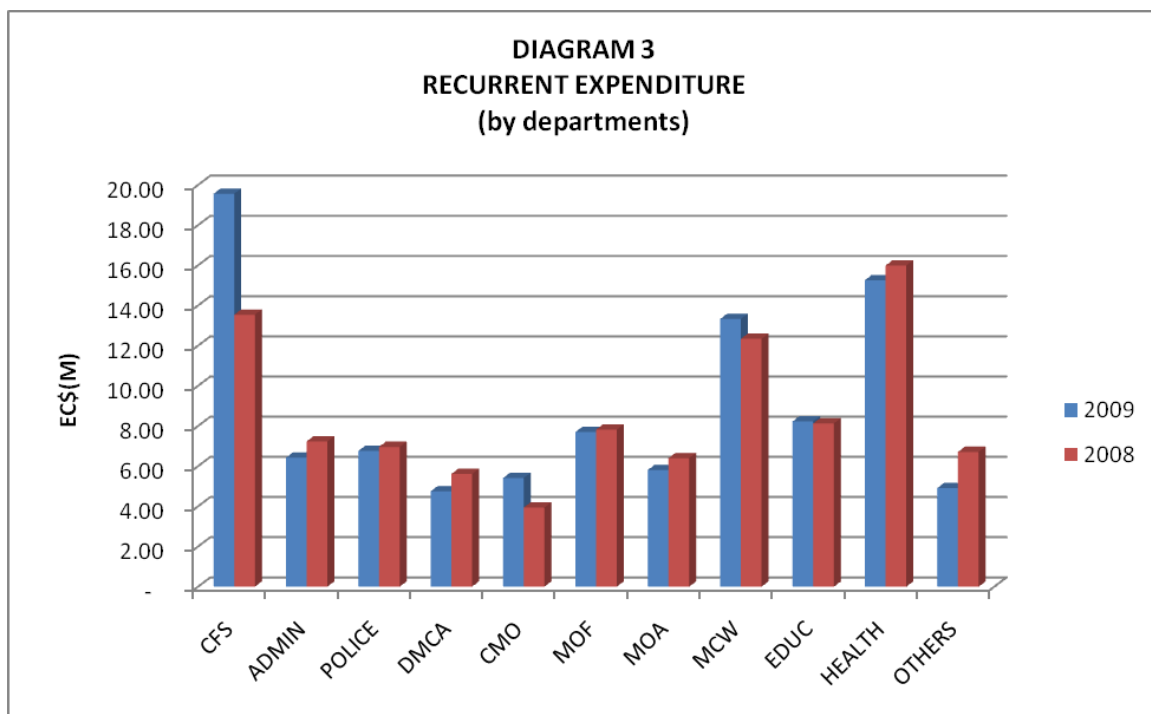
31. \$52,480,000 was authorised for Special Budgetary Assistance for the fiscal year being reviewed. Actual revenue received amounted to \$60,318,270 being \$7,838,270 more than budgeted. The additional sum was provided for payment of contributions to Social Security Fund for retired civil servants, costs associated with detainees, General Elections 2009 expenses, technical assistance to support Treasury's transition to new financial year, transport subsidy, subventions to Montserrat Community College and preparedness for H1N1 flu virus outbreak.

2.4.5 Recurrent Expenditure

32. The Appropriations Act 2009, Ordinance #2 of 2009, authorized expenditure amounting to \$95,220,200. The records indicate that two (2) Supplementary Estimates were issued to meet cost of unforeseen expenditure. These were highlighted in paragraph 31 above. At the end of the fiscal total authorized expenditure amounted to \$103,319,509.

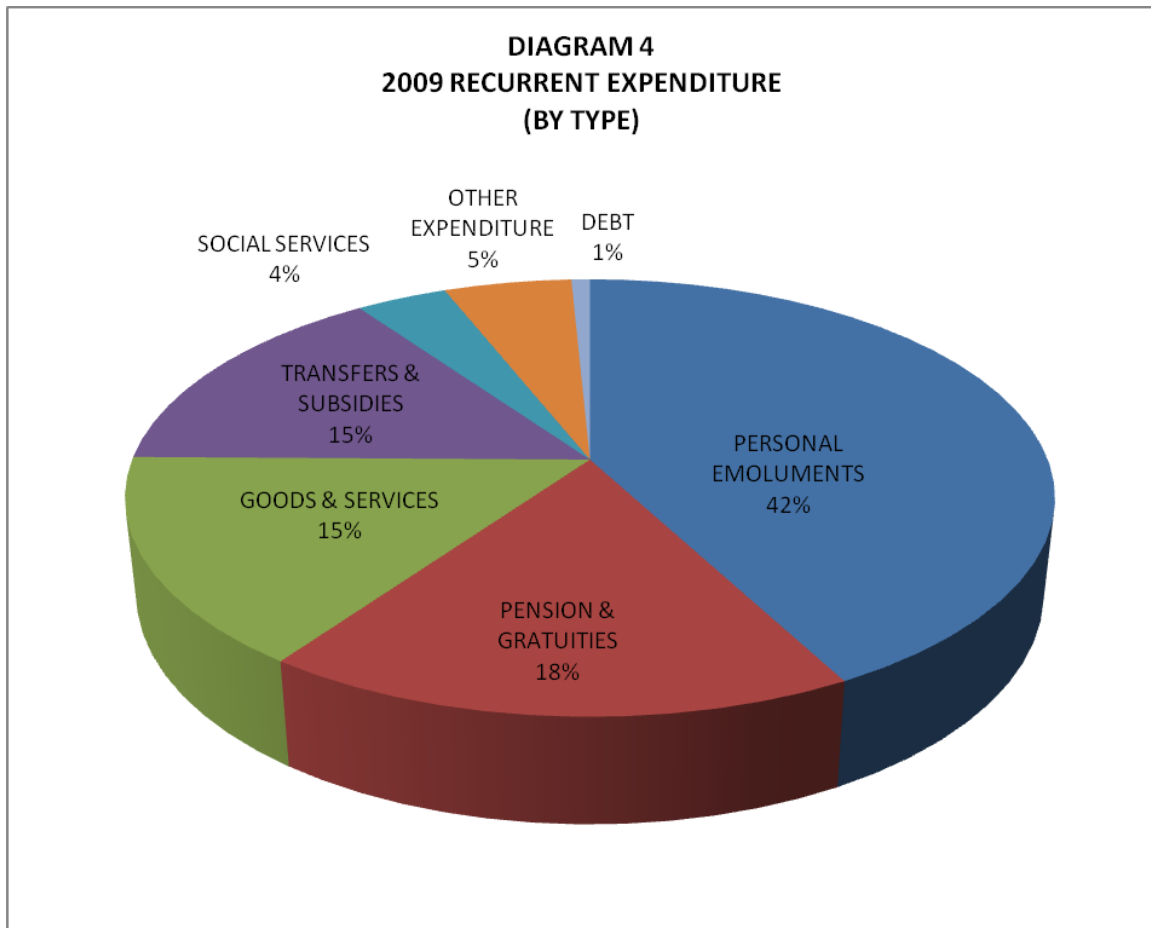
33. Actual expenditure for the year amounted to \$98,149,665 an increase of \$3.38M when compared to expenditure for 2008.

34. Major areas of actual Recurrent Expenditure incurred by the various Ministries and Departments for the year under review as compared with 2009 are highlighted in the chart below. All Departments falling under the purview of the Ministry of Finance are grouped together, while other Departments not specifically listed are grouped under Others.



35. Expenditure categories which incurred more than 10% of total amount spent include Personal Emoluments, Pensions and Gratuities, Goods and Services, and Transfers and Subsidies.

36. The graph below highlights expenditure by cost categories and gives relative percentages used per cost category.



2.4.6 Expenditure Control

37. **Warrants.** For this fiscal year one general warrant and two Supplementary Estimates were issued. Fifteen Virement Warrants were also approved to allow ministries and departments to transfer funds from one subhead to another.

38. **Over-expenditure.** Government accounting policy mandates that expenditure be incurred within the limits set by Parliament. Our review revealed that yet again there was non-compliance with this policy in that five subheads were overspent. It is however commendable to note that this is a significant reduction when compared to over-expended sub-heads of previous years.

39. **Miscoded Expenditure.** We continue to encounter miscoded expenditures. It is however good to note that these incidences are on the decline.

2.5 Arrears of Revenue

40. At the end of the fiscal year being reviewed Arrears of Revenue stood at \$24,597,501 and are itemized as follows: -

**TABLE 4
ARREARS OF REVENUE**

Executing Agency	Arrears at 31 December 2009
Ministry of Agriculture, Lands, Housing & the Environment:	0
Government Housing Stock	703,763
Loans to Peasant Farmers	39,387
Ministry of Communications and Works:	0
Revenue Plant & Workshop	5,000
Aircraft Landing Fees	4,574
Inland Revenue:-	0
Income Tax	16,278,360
Company Tax	3,942,011
Property Tax	2,813,852
Broadcasting Services (Radio M/rat)	29,947
Customs	32,881
Treasury:	0
Trade Licence	51,350
Emergency Fuel Supply	548,959
Ministry of Health and Community Service	83,586
Development Unit	63,831
Total	24,597,501

41. A number of these accounts remain unverified for the following reasons:

- Staff turnover and unfilled vacancies within the OAG affecting work output;
- Some lists were returned to departments for adjustments. These remained uncompleted at time of preparing this report;
- No arrears statement was submitted for the Ministry of Communication and Works and for Radio Montserrat.

2.6 Development Fund

2.6.1 Statement of Assets and Liabilities

ASSETS		2008	2009
British Development Aid Claims Outstanding		3,227,119	1,082,633
Donor Agencies Expenditure Outstanding		7,816,910	5,038,246
Local Funds		(694,611)	(699,952)
Total Assets		10,349,418	5,420,927
LIABILITIES			
Deposits within Development Fund		2,429,742	1,929,692
Consolidated Fund Payable		4,605,018	355,185
Consolidated Capital Fund	(12,159,848)		(1,292,391)
Add Revenue over Expenditure	8,845,190	3,314,658	4,428,440
Total Liabilities		10,349,418	5,420,927

42. In my last report I recommended that the Accountant General review the projects that had been sitting in the accounts without any movement. Although commitments were made to review the listing we have seen no visible signs that this has been done. **I am again recommending that an exercise be undertaken to remove the dead records from the accounts.**

2.6.2 Capital Expenditure

43. Estimates and recorded results for the Development Fund are summarized in the Table 5 below.

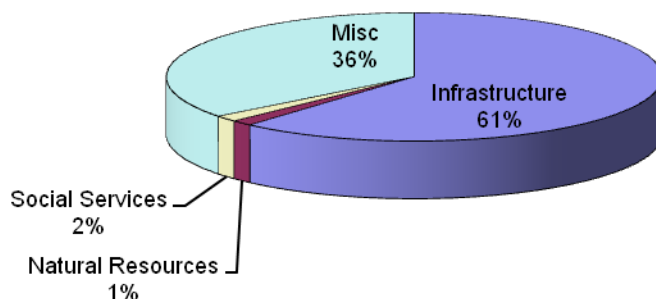
TABLE 5
Comparison of Development Fund Estimates and Record Results 2009

Development Fund Expenditure	Authorized	Actual	Variance
DFID	31,207,453	22,467,582	8,739,871
LOCAL	1,665,700	1,525,011	140,689
DARWIN	70,415	28,462	41,953
CIDA	21,437	19,500	1,937
PSF	1,954,700	563,300	1,391,400
EU	13,063,700	12,467,120	596,580
OPEP	156,571	14,138	142,433
CDB	85,800	14,589	71,211
TOTAL	48,225,776	37,099,702	11,126,074

44. \$48,225,776 was authorized for capital expenditures. Actual expenditure for the year amounted to \$37,099,702 being 77% of authorized expenditure for the year.

45. Diagram 5 below presents a pictorial view of how the capital expenditures were incurred during the year being reviewed. The expenditures have been classified by sectors.

**DIAGRAM 5
ACTUAL CAPITAL EXPENDITURE 2009
(by Sector)**



2.7 Other Statements

2.7.1 Statement of Contingent Liabilities

Date	Debtor	Creditor	Liability
December 31, 2009	GSB	SUNDRY	\$40,185,038

2.7.2 Statement of Special Funds

46. A small deposit of \$695 increased this balance to \$564,092.

2.7.3 Statement of Public Debt

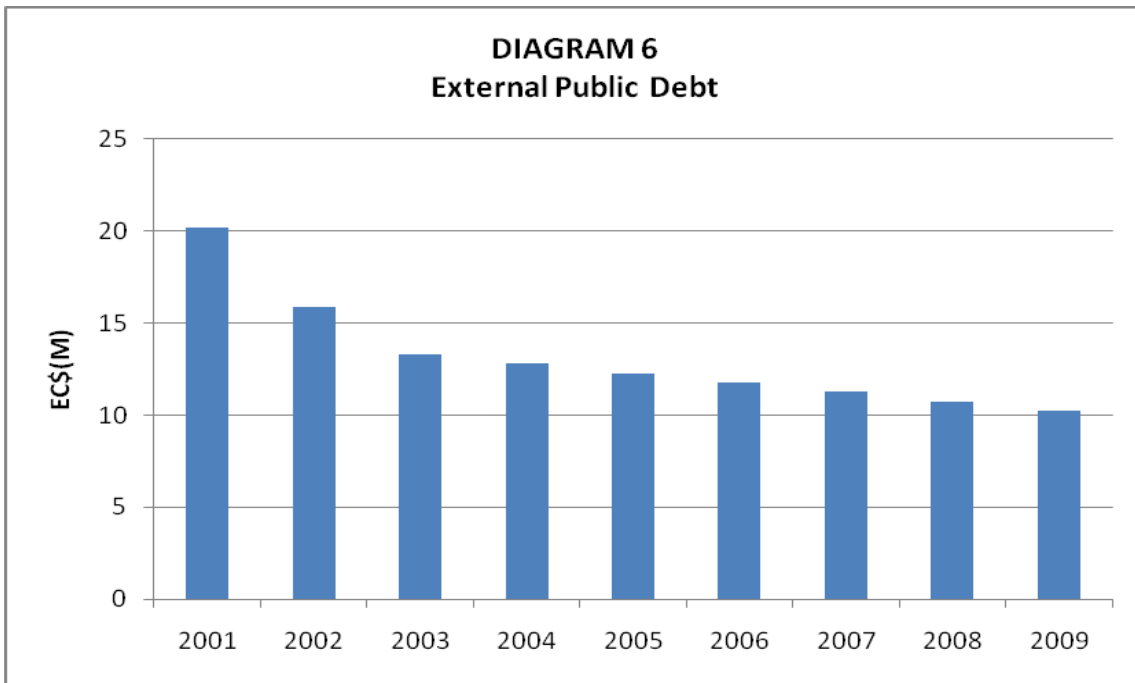
47. Total Public Debt stood at EC\$22,910,210. This figure includes an outstanding payment to Social Security. Public Debt per capita³ stood \$4,546.58 per person. This level of debt equates to approximately 14.3% of GDP (at current prices⁴) and is well within the ECCB's recommended maximum level of debt⁵.

48. External Public Debt stood at \$10,250,060 at the end of the year being reviewed. The graph below compares the movements in the external debt at the end of the years 2001 – 2009.

³ The Montserrat Statistics Department 2009 mid-year population estimate was 5,039.

⁴ GDP 2009 measured \$159.86M. Source: Montserrat Statistics Unit

⁵ Maximum level of debt should not surpass 60% of GDP.



49. \$501,664 was utilized for principal repayments on external debt. This represents 1.20% of actual local recurrent revenue for the year. When compared against GDP (in current prices for the year) it represents 0.30%.

50. As regards Domestic Debt \$4.628M was paid on the outstanding balance to Social Security. Additionally, actuarial revision reduced the outstanding amount by \$114,592 leaving outstanding domestic debt at \$12.66M. This figure is exclusive of interest and penalties on the outstanding debt.

51. Interest on External Debt amounted to \$206,188.55. This payment utilised 0.50% of total local recurrent revenue generated for the year.

2.7.4 Statement of Loans Outstanding

52. There has been no movement on these loans that have been outstanding for more than twenty (20) years. **We are again recommending that the Accountant General seek to have them removed from the accounts.**

2.8 Losses/Overpayments

53. There has been no movement on the outstanding balance on an overpayment of gratuity to a legislator despite that legislator agreeing to make the refunds.

2.9 Cash Management Improvement

54. Our review revealed that there are several central government agencies that are operating bank accounts outside the ambit of the Treasury Consolidated Fund. These agencies are included below:

<u>Central Gov't Agency</u>	<u>Account Name</u>	<u>Financial Institution</u>
Chief Minister's Office	ZJB/GIU CDB Project	BOM
Chief Minister's Office	Radio Antilles Corp	BOM
Chief Minister's Office	Radio Antilles Corp (Investment)	BOM
Development Unit	GOM Project Implementation	BOM
Development Unit	Oriole Investment	BOM
Treasury	CDB Loan Payment A/c	BOM
Treasury	Gov't Dev Bond Self Help Housing Project	BOM
Treasury	Volcano Relief	BOM
Treasury	Industrial Deposits	CMMB
Communication & Works	Ferry Service	RBC
Treasury	Treasury Consolidated A/c – EU Tax on Savings	RBC

55. This is contrary to the Public Finance (Management and Accountability) Act 2008 which states that all revenues should be deposited to the Consolidated Fund and all expenditures appropriated by Parliament. Such activities restrict the Treasury's ability to manage government cash flows effectively and more importantly, prevent it from pooling resources in a manner that allows it to get better terms for short-term debts (overdrafts) or higher returns on investments.

56. Further, such arrangements dilute the Treasury's responsibility to monitor all government expenditures and hence pose a fiduciary risk to government. When there are bank accounts outside the Treasury's control it becomes more difficult to monitor and hence increases risk. Since transactions processed through these accounts are not reported publicly, they raise transparency issues and undermine the credibility of the public accounts as not all central government expenditures would be recorded in the accounts.

57. **To mitigate the issues detailed above we recommend that all accounts be closed and paid into the Consolidated Fund.**

CHAPTER 3

3.0 MINISTRIES AND DEPARTMENTS

58. This chapter highlights the concerns raised during the audit of Ministries/Departments. It focuses mainly on breaches of regulations and/or weaknesses in internal controls. Some of the concerns included arose out of work undertaken by the Internal Audit Unit housed in the Ministry of Finance.

3.1 Cross Cutting Issue

3.1.1 Accidents Involving Government Vehicles

59. Sections 108 – 113 of the Procurement and Stores Regulations 2002 mandate that accidents be reported, by Accounting Officers, to the Financial Secretary who shall appoint an Accidents Investigation Board (here-in-after referred to as “the Board”) to inquire into the causes and cost of any accidents. The Board is mandated to determine negligence, if any, on the part of the government driver and to make its recommendations for surcharges. Accounting Officers are responsible for submitting the Board’s report together with his/her own recommendations for surcharging to the Financial Secretary. The power regarding imposition of surcharges rests with the Financial Secretary.

60. Twenty five accidents were recorded during the reporting period. These involved vehicles from the following Ministries/Departments:

- Police
- Fire and Rescue
- Defence Force
- Disaster Management Coordination Agency
- Ministry of Health
- Ministry of Agriculture
- Ministry of Education

61. Our investigation revealed that seventy-two percent of these accidents were never referred to the Financial Secretary and to the Board. This is in contravention of the Procurement and Stores Regulations and the Ministry of Finance’s directive of 22 September 2005 entitled “Liability for Damages to Government Vehicles”. Additionally, the repairs are paid from the regular maintenance vote making it difficult for the Ministry of Finance to identify related accident costs and imposing surcharges where necessary. **We recommend that Accounting Officers comply with the guidelines and directives identified for managing accidents and reducing costs of repairs.**

62. For the cases referred to the Board we note that only the cost of repairing the private sector vehicle has been reported. This provides a limited view of costs of the accident. We are of the view that all costs – that were incurred to repair the private

sector vehicle and that to repair the government vehicle – should be reported. **We are therefore recommending that the Board take all costs into consideration when making its deliberations and eventual recommendations.**

3.2 Her Majesty's Prison

3.2.1 Operations of Industries Accounts

63. The Prison operates a small craft shop. They also make a small quantity of blocks for sale. Our review of this activity revealed that several persons paid incorrect amounts for items bought. Some persons were overcharged while others were undercharged. The implications would be that customers and the Government would be over/under charged and over/under paid and neither side would get value for money. **We therefore recommend that the revenue collector be more diligent in applying the prices as detailed on the price list.**

3.2.2 Prisoners Valuable Property

64. The Prison's Procedures Manual mandates that withdrawals from the prisoners' savings accounts be substantiated by a form signed by the prisoners and kept on their personal files. The Prisoners' Valuable Property files revealed that a few withdrawals were made from some accounts without a corresponding form being placed on their files. In another instance a form for the withdrawal of a substantial sum was seen on an inmate's file. However, the form was not signed by the inmate to show that he knew of the transaction. These are breaches of the Prison's procedures which may have financial implications for the officer personally and the Prison authorities should the inmate claim that no authority was given for such activity. **We therefore recommend that the procedures for making withdrawals from prisoners' accounts be strictly followed.**

65. Adequate procedures are documented for the receipt of prisoners' property on incarceration in that a **Prisoner's Private Cash and Valuables on Admission** must be completed. We could not however find any information to show what procedures were followed at the time of the prisoner's release. Again this poses a financial risk to government as the prisoner can claim that he/she did not receive the items deposited when they entered the institution. **We therefore recommend that a form equivalent to that used at admission be developed for prisoners to sign at the time of their release. This form should also be placed on their files.**

3.2.3 Prison Amenities Fund

66. No Statements for the Prison Amenities Fund Account were sent to the Auditor General for auditing for the period under review.

3.3 Treasury Department

3.3.1 Reconciliations

67. In my Report on the Public Accounts of 2006 I commented on the marginal improvement in the reconciliation of bank balances and other account statements. I had also recommended that the adjustments be completed in a timely manner. I regret to report that at the end of 2009 the situation still remained the same. The reconciliations appear to be completed long after the financial year ended and, for some accounts, the adjustments, although recorded in the reconciliation statement, have not been effected.

68. Since reconciliations are a vital control mechanism and affect the final balances that are reported in the Public Accounts, **we are recommending that the Accountant General (Ag) either personally perform the review of reconciliations or delegate the responsibility to a senior staff member.** This would ensure that management is aware of outstanding items in the reconciliation and would be in a better position to monitor the completion of the adjustments thus ensuring that they are completed in a timely manner.

3.3.2 Smartstream Accounts

69. On several prior occasions we have recommended the purging/write-off of accounts that we deem uncollectible and that the below-the-line accounts be closed thus ensuring that all expenditures are appropriated. In the Notes to the 2004 Public Accounts the then Acting Accountant General had given the commitment to complete investigation into the accounts. He further stated that “appropriate recommendations will be made to regularize the situation and corrective accounting action will be taken in the 2007 fiscal year”. This was not done.

70. A follow-up audit into Smartstream accounting conducted by the Internal Audit division, Ministry of Finance, and completed early 2009 stated that “cleansing of the general ledger needs to be undertaken as a matter of urgency, writing off all erroneous transactions and unrecoverable debtors together with bring[ing] the currently below the line accounts above it to ensure full transparency”. At the time of writing this Report that exercise was not completed.

3.4 Communications And Works

3.4.1 Ferry Service - General

71. The Ministry of Communications and Works has overall responsibility for the ferry operations. Government resumed a ferry service between Montserrat and Antigua in December 2008. The service was primarily funded by subsidies and the charging of fares to persons who opted to travel by ferry. An agent is contracted to provide and water, obtain port, Customs and Immigration services, and undertake ground handling and shipping agency services. This agent is responsible for ticketing, collection and

deposit of revenues – tickets and cargo. Transactions for the service are processed through a separate bank account, that is, outside of the Treasury Consolidated Accounts.

72. Our review at this time is limited to determining whether robust systems existed for managing the ferry operations. It did not include a performance review of the service. In seeking to understand the operations, a number of questions regarding internal controls were posed to members of staff. The responses highlighted serious issues with the control environment. Firstly, one Senior Manager who had to manage the operations on various occasions had no clear knowledge about it or its controls. Where managers do not know what is supposed to happen then they cannot effectively monitor operations. **We recommend that guidance in the form of a procedures manual be provided.** This would provide valuable information for current and future managers.

73. Ferry tickets are used from an old stock from MAS but the inventory is not recorded at the Ministry. The Ministry has no control over them or their issuance. There is a heavy reliance on the agent to bring all revenues to account. More importantly, the Ministry does not have any independent means of verifying revenues. This poses a risk that not all revenues are reported. Additionally, values on some tickets are crossed out without any indication to say that this was authorized. Again this poses a risk for revenue reporting. **We recommend that MCW put in place controls, including a Ferry Ticket Book Register, that would more readily monitor ticket sales.**

74. As regards ferry service expenditures, these were being processed by the Executive Officer at the Ministry of Communications and Works. We noted that invoices were being processed but we did not see documentation of total invoices issued. Hence, we could not determine uncollected debts. We did not see any local purchase orders being issued to authorize the purchases nor did we see any recorded commitments for transactions entered into but unpaid. It was therefore concluded that management information was limited and could not have readily provided a position where urgent financial decisions could be taken. **Recording of invoices prepared, use of the local purchase order system and the recording of commitments as a means of improving controls in this area are being advocated.**

75. Section 92(13) of the Public Finance (Management and Accountability) Regulations 2009 requires that bank reconciliations be performed. It also mandates that copies of the reconciliations be signed off by the Accounting Officer and forwarded to the Accountant General. The reconciliations were being performed however they were not being forwarded as required. We did not see any sign-off by the Accounting Officer or representative to indicate that this process was being monitored. **We are recommending that management comply with the legislation as it pertains to submission of reconciliations and a senior person signs off on the recommendations.**

76. Moreover, GOM pours significant sums of money into the ferry service. However, there are no visible accounting arrangements or reporting to the Government of Montserrat. Transparency and accountability requires that the receipt and use of funds by the ferry service be reported on periodically. **We suggest that management put in place a system that enables it to report on the operations of the service, to GOM and benefactors, on a systematic basis.**

3.4.2 Twin Islands Ferry Service

77. In 2009 the Government of Montserrat entered into an arrangement with the Government of Antigua and other private sector interests to offer ferry services to Montserrat. From the documentation viewed, a company, Twin Islands Ferry Service Limited, was incorporated in Antigua and Barbuda, on 12 August 2009. It was agreed that the Government of Montserrat would purchase 2,500 ordinary shares at a face value of \$100 bringing total investment to \$250,000 with the Montserrat Development Corporation purchasing a similar amount of shares totaling an additional \$250,000. There are two full Directors and one alternate Director to represent GOM's interest in the company.

78. We could not find any evidence that this investment was brought to account in the Public Accounts for 2009. We were informed that part of the allotted shares, valuing \$250,000 was paid for through the Montserrat Development Corporation. However, we did not find this information in their published accounts for 2009. Moreover, there seems to be issues surrounding who should account for the investment. **We are recommending that a firm determination be made on where this investment should lie and that it be speedily brought to account.**

3.5 Development Unit

3.5.1 Investment in Montserrat Airways Ltd

79. The Development Unit has oversight responsibility for the operations of the MDC and were involved in discussions for the MDC, on behalf of GOM, to purchase 15,000 shares valuing \$150,000 in Montserrat Airways Ltd, a company that restarted operations under the registered Business Name – Fly Montserrat in June 2009. This investment was undertaken to assist GOM in finding solutions to regular air access to Montserrat.

80. We could not find any evidence that this investment was brought to account in the Public Accounts for 2009. Neither did we see it in the published accounts for the MDC. We view this as a breakdown in meeting internationally accepted disclosure requirements. Thus, in the interest of transparency, **we are asking that this investment be promptly brought to account.**

CHAPTER 4

4.0 OTHER FINANCIAL AUDITS

4.1 Montserrat Water Authority (MWA)

81. I noted in my last Report that audit of the financial statements for years 2005 - 2007 were awaiting final approval by the Board before submission for tabling in Council. I could not find any evidence to indicate the Reports were tabled. Further discussions have revealed that the 2008 accounts are currently with the auditors and that the 2009 have been completed but are awaiting submission to the auditors.

4.2 Montserrat Land Development Authority (MLDA)

82. The 2008 - 2010 Financial Statements for MLDA's Corporate accounts were audited and submitted to the Minister of Agriculture, Lands, Housing and the Environment for onward submission to the Legislative Council.

83. The 2008 – 2010 Financial Statements for Property Management - Government Housing Stock were submitted to our offices and are currently being audited.

4.3 Montserrat Social Security Fund (MSSF)

84. The 2009 Financial Statements were laid before the Legislative Council at its sitting of 26 July 2011.

4.4 Montserrat Philatelic Bureau (MPB)

85. Discussions with the Acting Manager have revealed that the Financial Statements for 2009 are completed and are awaiting audit.

4.5 Montserrat Port Authority (MPA)

86. The Financial Statements for year 2009 were laid in the Legislative Council on 5 August 2010.

4.6 Montserrat Electricity Services Limited (MONLEC)

87. I was previously advised that the audits of the financial statements for years 2005 - 2007 were completed and that the statements were awaiting final approval by the Board before submission to Council. I did not find any evidence that indicates tabling of said statements. I was further advised that the 2008 accounts were submitted to the auditors and that the 2009 accounts have been completed and are awaiting submission to the auditors.

4.7 Montserrat Tourist Board (MTB)

88. The Financial Statements for the period 2008 – 2010 were submitted to our offices and are currently being audited.

4.8 Annual Government Accounts

89. The Auditor General's Report and Annual Accounts of the Government of Montserrat for 2008 was submitted to the Ministry of Finance for onward submission to Council.

4.9 Montserrat Civil Service Association (MCSA)

90. The 2008 - 2010 Accounts were submitted to our offices for audit. A response to audit queries is being awaited to enable finalization of this exercise.

4.10 Golden Years Foundation for Care of Elderly (GYFCE)

91. The 2009 Financial Statements were laid before the Legislative Council at its sitting of 29 June 2010.

4.11 Montserrat Financial Services Commission (MFSC)

92. The 2009 Financial Statements were tabled in the Legislative Council on 21 September 2010.

4.12 St Augustine Primary School

93. The accountant has informed that the accounts have been finalized and are awaiting audit.

4.13 Montserrat Utilities Limited (MUL)

94. There was no movement in the state of the accounts for this entity in that the Financial Statements for 1 July – 31 December 2008 are yet to be finalized for submission to the auditors.

4.14 Montserrat Development Corporation (MDC)

95. The Financial Statements for the period ending 31 March 2009 were tabled in the Legislative Council on 22 January 2010.

4.15 Montserrat Community College (MCC)

96. In seeking an update as to the status of the accounts, the Chairman of the Board shared that the organization is seeking expressions of interest from professional accountants. The accountant is expected to review transactions and prepare accounts up to end of the school year 2010.

CHAPTER 5

5.0 PERFORMANCE AUDITS

5.1 Special Audit – Sale of Government Housing Stock

97. The Office of the Auditor General decided to undertake this audit following an allegation which was made regarding the sale of a particular piece of property to a third party who was not an existing tenant of the said property. The allegation intimated that the sale was in contravention of Executive Council Decision 605/03. Council had directed that the houses be offered for sale to existing tenants.

98. We were also asked to perform an in-depth assessment on all government buildings which were offered for sale. This was to identify all houses that were still government owned and to determine whether the legislation, policies and procedures established to guide sales were followed.

99. Another allegation was that MLDA had disposed of government property without the proper authority to do so.

5.1.1 Findings

100. We found no material evidence to support the allegation that the sale of property 14/28/058 was in direct contravention of Executive Council Decision 605/03. However, we were unable to determine clear details of sale as the file was poorly maintained. Examination of receipt counterfoil revealed that purchase of the property was made on 23 June 2009 as per MLDA receipt 11613 in the name of the existing tenant; the transfer documents were issued on 02 July 2009 to the other party to the sale. At the completion of the exercise, we could not ascertain that these forms were duly signed. The only information received by the OAG from the MLDA pertaining to the status of sale was that the forms were being processed. Hence, as a result of these forms not yet signed and returned to the MLDA, the records at the Lands and Survey Department could not be updated to reflect change of ownership.

101. There were nine other cases where we found that the property had been sold but title had not been transferred to the new owner(s); the main reason being that transfer documents were forwarded to the purchaser and had not been returned to the LDA. In other instances, the records at Lands and Survey Department were not updated.

102. As part of the inquiry, we were also asked to perform an in-depth assessment on government buildings that were offered for sale. Particular emphasis was placed on Look Out Phases I and II. In general we found that the files were poorly maintained. This was deemed to be a weakness.

103. There were three instances where we observed non-compliance with legislation, policies and procedures as outlined below.

- Permission was granted by the MLDA Manager to allow the existing tenant of unit M8 (14/27/048) to sublet the unit as per clause 3(k) of the lease agreement which gives him authority to do so. A special lease agreement for a period of three months was drafted between the MLDA and the new tenant. However, the existing tenant wrongfully benefitted from the rents paid by the new tenant. In addition, the purchaser of unit M8 should have been served a 'notice to quit' prior to sale of the premises. However, the document was not served.
- Eleven units became vacant at Look Out I as a result of tenants purchasing homes at Look Out II and, persons making requests to purchase adjacent units in duplex buildings. Five (5) of these units were reallocated by MLDA to persons who were not assessed or approved by the Housing and Land Allocation Committee.
- Tenant of unit G13A (14/29/009) accumulated rent arrears to the sum of \$10,350.00 as a result of not making any payments for 41.4 months. No rents had been paid for the period April 1999 to June 2002, with periodic payments being made after the latter date. This individual was allowed to clear his arrears and purchase the unit simultaneously even though the lease agreement stated that all rents should be fully paid prior to purchase.

104. There were three instances where there was a lack of transparency and accountability.

- Discounts were granted to persons who had expressed an interest in purchasing homes at Look Out Phase II but were unable to meet the full market value of the unit. Those discounts were granted based on assessments done by the lending institution on the individual's financial ability. GoM was exposed to the risk that applicants had the opportunity to misrepresent their true financial status based on the assessment criteria.
- Lot #10 (14/28/110) was purchased by party Y for his father party X. All documents were prepared in the name of party Y due to the fact that the lending institution, from which payment was secured for purchase, required clear title since party X was off island and could not sign the Form of Charge. Party Y also benefitted from a discount. Party Y was asked to submit a written confirmation on 28 August 2008 to the MLDA as proof that the property was indeed purchased for party X. At the end of the audit, this request has not been honoured. In effect, it can be concluded that party Y benefitted from government assistance twice; a direct contravention of Executive Council Decision 593/07.
- Lot #13 (14/28/113) was purchased via an agent here on island by a purchaser who resides overseas. However, the agent is a member of the MLDA Board and

as such created a related party transaction.⁶ The agent was in a position to provide information that was not readily available to all prospective purchasers.

105. As a result of a number of issues addressed in this report, it is concluded that on occasions, the MLDA has acted outside the scope of its authority. However, there is no evidence to suggest that the MLDA disposed of property without authorization to do so.

5.1.2 Recommendations

106. Subsequent to our findings, we have made the following recommendations.

- Customer files need to be properly maintained. All pertinent details of sale should be present on each customer file. It is recommended that a register/database be introduced and maintained by the MLDA to monitor the movement of transfer documents throughout the sales process.
- A reasonable timeframe needs to be established within which sales should be concluded. We are suggesting a maximum timeframe of two months to allow customers to have all necessary documents signed and returned to the MLDA for further processing.
- As outlined in Executive Council Decision 166/06, HLAC is the only committee that is empowered to identify and award housing assistance. This includes the sale of property to beneficiaries. This policy should be honoured unless amended as per instructions given by Executive Council. Housing Unit currently operates without an Act.
- Any precedence set should be created on 'good standing'. That is to say no precedence should be set on a breach of policy.

107. No MLDA Board member should be allowed to act as an agent on behalf of a potential purchaser or become involved in any related party transactions. It is recommended that all Board members be cautioned against any such behaviour and a Code of Ethics be implemented.

5.2 Systems-Based Audit: Little Bay Development Phase 1

108. The development of a town at Little Bay was identified as a high priority and the estimated cost of the first of four phases was over EC\$20m. J E Galloways Construction Company Limited (here-in-after referred to as JEGCCL) was contracted to complete Phase 1 of the project. This included completion of the basic infrastructure: preparatory

⁶ Related Party Transaction is defined as a business deal or arrangement between two parties who are joined by a special relationship prior to the deal.

earthworks, main drainage, installation of electrical, water and sewage treatment systems and construction of roads and car parks with a completion date set for 9th March 2009. There was dissatisfaction with the rate of completion of the work. In April 2009, a request was thus made for the OAG to conduct a financial audit on the Little Bay Development Project Phase I. Due to the expulsion of JEGCCL contract and the absence of specific terms requiring auditing of contractor records we were unable to undertake that audit. We were subsequently asked to pursue a system based audit (SBA) as an alternative.

109. SBA is a methodology designed to check upon adequacy and effectiveness of systems and controls. It focuses on the most strategic and high-risk areas, it is performance oriented, and it is proactive.

5.2.1 Findings

110. In 2007, JEGCCL was awarded the contract and began work in March 2008. An inability to complete the project within the agreed time frame led to the expulsion in April 2009. Subsequently, a new partnership under the JEGCCL contract was established between the Government of Montserrat, MHL and DLN to ensure completion of phase 1.

111. Systems and processes put in place were done in accordance with the relevant documents, rules and legislations. We found that most systems and processes were effective during the tender process, contractor's work period and the partnership arrangement. However, we also found that:

- The contractor's financial information was outdated.
- JEGCCL had no international or large construction project experience.
- A significant aspect of the controls was breached in the decision to allow JEGCCL to tender. It appears as if the decision maker(s) did not seriously take the recommendations issued by the evaluation team into consideration.
- The new partnership arrangement was less risky and benefited the local economy.
- The required checks and balances were in place and the varying levels of approvers reduced the occurrence of irregularities.

5.2.2 Recommendations

112. We recommended the following:

- Projects of this nature and size should ensure that relevant experience is mandatory to prevent recurrence of failure.
- Audited financial statements should not be more than two (2) years old.
- Evaluation team recommendations should be respected and not be overlooked.
- The new partnership be used until completion of the entire project because of the benefits derived.
- A procedures manual be drawn up and approved to be used as a project guide.

CHAPTER 6

6.0 THE OFFICE OF THE AUDITOR GENERAL

6.1 Legislative mandate

113. The Audit's mandate detailed in the Audit Act 2001 makes me responsible for the audit of the Public Accounts, accounts of government Ministries/Departments, statutory agencies (except where their legislation provides for appointment of another auditor), and entities who are receiving or seeking grants from the public purse.

6.2 Mission

114. Our mission is "to promote accountability, transparency and improved stewardship in managing public resources by conducting independent and objective reviews of the accounts and operations of central government and statutory agencies; providing advice; and submitting timely Reports to Accounting Officers and the Legislative Council".

6.3 Auditing Standards

115. The Caribbean Organisation of Supreme Audit Institutions (CAROSAI) has formally adopted the International Organisation of Supreme Audit Institutions (INTOSAI) standards. Montserrat is a member of CAROSAI and hence follows the INTOSAI standards.

6.4 Reporting Criteria, Process and Practice

116. The main reporting criteria are the Audit Act and the Finance (Administration) Act. These mandate the Statements in the Public Accounts that are to be audited. We report on these. Additionally, we use our professional judgment to report on issues that should be made known to the Parliament and the public in the interest of accountability or which serve as useful learning points to the public sector. These include

- material non-compliance issues,
- actual or potential loss of public funds,
- significant breaches of or non-application of internal controls,
- whether value-for-money was obtained for monies spent, and
- whether services are being performed economically, efficiently and effectively.

117. A draft report or management letter is prepared which contains the findings arising from the audit and recommendations for improvement. This is discussed with senior management who is then asked to prepare and submit a written management response. Important matters are then selected from the draft report or management letter for inclusion in the Annual Audit Report.

6.5 Budget Outturn

118. The statement of operations for the Office of the Auditor General for fiscal years 2009 is detailed below.

EXPENDITURE 2009			
Description	Authorized (EC\$)	Actual (EC\$)	Variance
Personal Emoluments	610,500	545,368	65,132
Goods and Services	223,000	172,290	50,710
Transfers and Subsidies	45,000	42,586	2,414
Other Expenditure	6,000	2,070	3,930
Total	884,500	762,314	122,186
REVENUE			
Audit Fees	25,000	9,000	16,000

Expenditure

119. We set a target of utilizing a minimum of 95% of budgeted allocation. This was not achieved in this fiscal year as actual expenditure amounted to 86% of that budgeted. Four subheads recorded savings of over \$5,000. These were Personal Emoluments, International Travel and Subsistence, Maintenance Services, and Printing and Binding. The savings arose for the following reasons:

- Greater effort at cost containment,
- Staff vacancies persisting beyond year end,
- Planned attendance at the 20th International Congress of Supreme Audit Institutions (INCOSAI) held in South Africa had to be cancelled.
- Bills for maintenance services provided by the Computer Unit not submitted although requested, and
- Plans for printing of the Public Accounts had to be shelved as the work was not completed. Accordingly, the funds were not utilized.

Revenue

120. Invoices are raised on the completion of the audit. For some audits, the accounts were returned to the relevant entity for adjustment. These were not completed and re-submitted for auditing by the end of the fiscal year. The late re-submission affected our ability to raise the projected revenue for the year.

6.6 Outputs Report

121. For the financial year ending 31 December 2009, we audited:

- a) An aggregate of over \$142M in government revenues and expenditures.

- b) Twenty-two statements included in the Public Accounts per year. These audits focused on examinations of revenue and expenditure, and verification of assets and liabilities.
- c) Ten Ministries and Departments of Central Government with twenty-two accounting units per year.
- d) Four other financial statements per year.
- e) The pre-audit of pension and gratuity calculations. This activity included the audit of pension and gratuity calculations for mainstream Civil Servants, nurses, teachers, police and members of Parliament.

6.7 Staffing

122. During fiscal year 2009 five vacancies arose by mid-year – two senior auditors, two auditors and one audit assistant. One of these was due to natural attrition, one to promotion while three junior members left on short notice to pursue studies overseas. Two junior positions were filled by temporary replacements while the other three vacancies persisted beyond the year-end despite efforts to have all vacancies filled in a timely manner. This delayed the completion of some audits and impacted our ability to meet targeted goals, deadlines, and benchmarks.

6.8 Training

123. Frequent turnover of staff undermined efforts for succession planning and reduced available knowledgeable audit personnel. This presented both challenges and opportunities for staff to improve their skills. The reshuffling of staff and engagement of new officers forced us to undertake several capacity building activities using various means. This included using the internet to research some topics, coaching and mentoring, in-house training programmes, attendance at overseas workshops and through distance learning programmes.

6.9 Advocacy

124. We continue to support improvements in public finance management by providing clarification for issues raised through direct responses and participating in meetings/workshops where they are discussed.

125. Regionally, we continue to participate in meetings for Accountants General/Budget Directors/Auditor Generals for the respective officials within the Eastern Caribbean Currency Union (ECCU). For the year being reviewed we attended semi-annual meetings of the grouping.

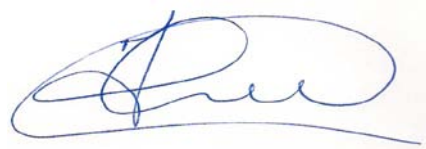
ACKNOWLEDGEMENT AND APPRECIATION

I wish to express my thanks to the Treasury Department, all Accounting Officers and the staff of their Ministries/Departments, the staff of Statutory bodies and other organizations, for any assistance given to my staff during the performance of the various audit assignments. We look forward to your continued support.

I also wish to thank all those persons/entities who provided feedback on our work. This enabled us to make improvements in the audit work and general management of our processes.

To all those organizations that assisted in our capacity development and institutional strengthening initiatives, we say thank you. Our thanks are extended to GOM, its Public Sector Reform Unit and its Training Division, DFID, the UKNAO, IDI, CAROSAI and its member organizations, MIND, Commonwealth Secretariat, Crown Agents and other private sector auditors for their invaluable assistance toward the expansion of our knowledge and skills.

I wish to express my gratitude to my hardworking staff for their continued support. Thanks for continuing to walk this road with me as we seek, by our work and combined efforts, to make a difference to the quality of life for all citizens. This year was particularly challenging as you had to, at short notice, shoulder some of the responsibilities of the colleagues that left at short notice. Thanks for rising to that challenge, for improving your knowledge and skills thus enabling us to improve the services we offer.



Brades, Montserrat
27 September 2011

Florence A Lee, MSc, BSc, CPA
Auditor General

**GOVERNMENT OF MONTSERRAT
ANNUAL ACCOUNTS FOR FISCAL YEAR 2009**

AUDIT CERTIFICATE

I have examined the Annual Accounts prepared from the Consolidated Fund of the Government of Montserrat as at 31 December 2009, together with relevant subsidiary Statements, as required by Section 17 of the Public Finance (Management and Accountability) Act 2008.

RESPONSIBILITIES

The Accountant General is responsible under Sections 5(1) and 17(1&2) of the Public Finance (Management and Accountability) Act 2008 for the preparation and presentation of the Financial Statements and the information contained therein. My responsibility under Section 8 of the Audit Act 2001 is to express an independent opinion on those statements based on my audit and to report my opinion to you.

SCOPE

My audit was conducted in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit also includes examination, on a test basis, of evidence supporting the amounts and other disclosures in the accounts, and the evaluation of accounting policies.

OPINION

Except as otherwise stated in my Report dated 27 September 2011, attached hereto, and subject to the observations and comments contained therein, in my opinion, the Annual Accounts for the Fiscal Year 2009 presents fairly the financial operations of the Consolidated Fund of the Government of Montserrat, and the sums expended have been generally applied for the purposes authorized by the Legislative Council.



FLORENCE A LEE, CPA, BSc, MSc
AUDITOR GENERAL
OFFICE OF THE AUDITOR GENERAL
MONTSERRAT, WEST INDIES
27 September 2011

APPENDICES

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APPENDIX 1
GOVERNMENT OF MONTSERRAT
CONSOLIDATED REVENUE FUND
Statement Of Assets And Liabilities As At 31 December 2009
(with comparative figures for December 31, 2008)

ASSETS	2009	2008
CASH LOCAL	4,299,396	6,430,923
OPERATING ACCOUNT - ECCB	48,808	40,237
DEVELOPMENT CAPITAL FUND	2,726,583	-5,067,062
CROWN AGENTS # 2 ACCOUNT	3,477,245	3,504,735
FISCAL RESERVE – A/C # 1 TRANCHE ECCB	5,086,829	4,758,082
FIXED DEPOSIT - BARCLAYS BANK	712,514	712,514
FIXED DEPOSIT - ST PATRICKS CREDIT UNION	0	246,880
FIXED DEPOSIT – BRITISH AMERICAN	2,856,716	2,856,716
INDUSTRIAL DEPOSIT - BANK OF MONTSERRAT	72,353	72,353
INVESTMENT MONTSERRAT MILLS	60,000	60,000
EQUITY BOM - # 2/SFR-OR-M	2,108,400	2,108,400
INVESTMENT CLICO	435,632	2,500,000
SUB TOTAL	21,884,476	18,223,778
 ADVANCES		
PERSONAL	738,187	545,167
IMPERSONAL	77,622	77,622
OUTSTANDING IMPREST	423,662	471,248
OTHER GOVERNMENTS & ADMINISTRATIONS	857,186	632,631
CDB STUDENT LOANS	1,003,363	1,003,363
SALARY CLEARING A/C	(766)	(766)
POSTMASTER CLEARANCE	(425,595)	(387,836)
DEVELOPMENT FUND RECEIVABLE	355,185	4,783,625
SUB TOTAL	3,028,844	7,125,053
TOTAL ASSETS	24,913,320	25,348,831

Government of Montserrat Annual Accounts for the year ended December 31, 2009

**GOVERNMENT OF MONTSERRAT
CONSOLIDATED REVENUE FUND**

**Statements of Assets and Liabilities as at December 31, 2009
(with comparative figures for December 31, 2008)**

LIABILITIES AND THE CONSOLIDATED FUND

	2009	2008
MISCELLANEOUS DEPOSITS	6,065,202	7,117,225
77INSURANCE COMPANY DEPOSITS	0	712,514
INDUSTRIAL INVESTMENTS DEPOSITS	50,543	50,543
SPECIAL FUNDS	<u>564,092</u>	<u>563,397</u>
SUB – TOTAL	<u>6,679,837</u>	<u>8,443,680</u>

CONSOLIDATED FUND

BALANCE AT START OF YEAR (Recurrent)		16,905,151	21,223,084
REVENUE FOR THE YEAR	101,002,038		95,068,601
EXPENDITURE FOR THE YEAR	<u>98,149,665</u>		<u>94,666,116</u>
SURPLUS		2,852,373	402,485
SUSPENSE		969	0
TRANSFER OF LOCAL COSTS		<u>(1,525,010)</u>	<u>(4,720,418)</u>
TOTAL CONSOLIDATED FUND		<u>18,233,483</u>	<u>16,905,151</u>
TOTALS		<u>24,913,320</u>	<u>25,348,831</u>

Accountant General, Montserrat

CONSOLIDATED REVENUE FUND – 2009
Annual Abstract of Receipts and Payments

	ESTIMATE	TOTAL AUTHORISED	ACTUAL REVENUE	SURPLUS (SHORT FALL)
CONSOLIDATED FUND REVENUE:-				
1A. TAX REVENUE				
Taxes on Income, Profits and Capital Gains	16,000,000	16,000,000	16,859,946	859,946
Taxes on Property	950,000	950,000	1,079,693	129,693
Taxes on Domestic Goods and Services	1,280,000	1,280,000	1,174,569	(105,431)
Licences	2,033,600	2,033,600	2,525,572	491,972
Taxes on International Trade & Transactions	14,260,000	14,260,000	14,337,348	77,348
TOTAL TAX REVENUE	34,523,600	34,523,600	35,977,127	1,453,527
1B – NON-TAX REVENUE				
Fee, Fines & Permits	1,206,600	1,206,600	1,160,800	(45,800)
Rents, Interest and Dividends	1,101,500	1,101,500	519,942	(581,558)
ECCB Profits	250,000	250,000	326,182	76,182
Reimbursements	45,000	45,000	38,627	(6,373)
Budgets and Grants	52,480,000	52,480,000	60,318,270	7,838,270
Other Revenue	5,613,500	5,613,500	2,661,090	(2,952,410)
TOTAL NON-TAX REVENUE	60,696,600	60,696,600	65,024,911	4,328,311
TOTAL REVENUE	95,220,200	95,220,200	101,002,038	5,781,838

Ag Accountant General
MONTSERRAT

Government of Montserrat Annual Accounts for the year ended December 31, 2009

CONSOLIDATED REVENUE FUND – 2009
Annual Abstract of Receipts and Payments

CONSOLIDATED FUND EXPENDITURE:-	ESTIMATE	TOTAL AUTHORISED	ACTUAL EXPENDITURE	(EXCESS) SAVINGS
01 CONSOLIDATED FUND SERV'S	14,887,200	19,963,409	19,563,976	399,433
02 GOVERNOR'S OFFICE	349,300	240,300	196,023	44,277
03 ADMINISTRATION	5,792,600	5,911,800	5,481,050	430,750
04 CHIEF ESTABLISHMENT OFFICER	1,261,600	1,261,600	943,668	317,932
05 POLICE & FIRE	6,752,900	6,892,100	6,761,689	130,411
06 EMERGENCY CENTRE	5,137,500	5,137,500	4,750,639	386,861
07 LEGAL	1,503,000	1,503,000	1,103,925	399,075
08 MAGISTRATES COURT	152,800	192,800	156,509	36,291
09 SUPREME COURT	983,500	983,500	927,838	55,662
10 LEGISLATURE	814,400	1,008,000	888,576	119,424
11 AUDIT	884,500	884,500	762,313	122,187
15 OFFICE OF THE CHIEF MINISTER	2,795,600	2,795,600	2,467,223	328,377
16 MYACTS	3,046,800	3,046,800	2,942,225	104,575
20 MINISTRY OF FINANCE	4,341,700	4,607,200	4,289,569	317,631
21 DEVELOPMENT UNIT	1,250,800	1,272,300	1,194,141	78,159
22 TREASURY	926,400	976,400	878,040	98,360
23 CUSTOMS & EXCISE	1,187,000	1,187,000	1,107,565	79,435
24 INLAND REVENUE	942,300	942,300	719,941	222,359
25 GENERAL POST OFFICE	414,800	414,800	386,937	27,863
30 MIN. OF AGRI., LANDS, HSG & ENVIR.	6,842,800	6,508,800	5,813,015	695,785
35 MIN. OF COMMS & WORKS	11,517,600	13,800,700	13,328,131	472,569
40 MIN. OF EDUCATION	8,047,900	8,341,900	8,225,557	116,343
45 MIN. OF HEALTH & COMM. SERVIC	15,387,200	15,447,200	15,261,114	186,086
TOTAL	95,220,200	103,319,509	98,149,665	5,169,844

Government of Montserrat Annual Accounts for year ended December 31, 2009

CONSOLIDATED REVENUE FUND – 2009
ABSTRACT OF EXPENDITURE BY TYPE

CONSOLIDATED FUND EXPENDITURE:-	ESTIMATE	TOTAL AUTHORISED	ACTUAL EXPENDITURE	(EXCESS) SAVINGS
2A Personal Emoluments	45,361,600	44,213,009	41,437,587	2,775,422
2B Pension, Gratuities & Other Benefits	12,190,000	17,297,196	17,285,173	12,023
2C Goods & Services	15,850,200	16,449,038	15,087,040	1,361,998
2D Transfers & Subsidies	11,940,400	15,224,500	14,742,883	481,617
2E Social Services	3,758,000	3,706,200	3,686,724	19,476
2F Other Expenditure	4,862,500	5,679,690	5,161,699	517,991
2G Debt	1,257,500	749,876	748,559	1,317
TOTAL	95,220,200	103,319,509	98,149,665	5,169,844

Government of Montserrat Annual Accounts for year ended December 31, 2009

GOVERNMENT OF MONTSERRAT
DEVELOPMENT FUND
STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2009
(with comparative figures for December 31, 2008)

<u>ASSETS</u>		2009		2008
BRITISH DEVELOPMENT AID				
CLAIMS OUTSTANDING	(1)	1,082,633		3,227,119
DONOR AGENCIES				
EXPENDITURE OUTSTANDING	(2)	5,038,246		7,816,910
LOCAL FUNDS	(4)	(699,952)		(694,611)
TOTAL ASSETS		<u>5,420,927</u>		<u>10,349,417</u>
<u>LIABILITIES</u>				
DEPOSITS WITHIN THE				
DEVELOPMENT FUND	(3)	1,929,692		2,429,742
CONSOLIDATED FUND PAYABLE		355,185		4,783,625
CONSOLIDATED CAPITAL FUND	(1,292,391)		12,159,848	
ADD: REVENUE OVER				
EXPENDITURE	4,428,440	<u>3,136,049</u>	(8,845,190)	<u>3,136,049</u>
TOTAL LIABILITIES		<u>5,420,927</u>		<u>10,349,417</u>

NOTES TO THE BALANCE SHEET

- (1) SUM OF THE BALANCES FOR BDD AND WISTS (STMENT 16)
(2) SUM OF ALL DEBIT BALANCES EXCEPT BDD AND WISTS.
(3) SUM OF THE CREDIT BALANCES EXCEPT BDD, WISTS & LOCAL PROJECTS.
(4) SEE DETAILS RE: STATEMENT 16.

Ag Accountant General
Montserrat

Government of Montserrat Annual Account for the year ended December 31, 2009

DEVELOPMENT EXPENDITURE – 2009
Annual Abstract of Receipts and Payments (Cont'd)

	ESTIMATE	TOTAL AUTHORISED	ACTUAL EXPENDITURE	EXCESS (SAVINGS)
35/350 COMMS & WORKS	8,584,200	8,684,200	7,797,953	886,247
35/354 COMMS & WORKS - O D'S	2,065,000	2,065,000	490,824	1,574,176
21/210 ECONOMIC DEV'T	19,099,100	23,999,100	21,089,823	2,909,277
30/300 AGRI. ,HOUSING, LAND & ENVIRONMENT	4,016,600	4,113,186	707,124	3,406,062
45/450 HEALTH AND COMM.	7,044,300	7,044,300	5,192,344	1,851,956
03/030 ADMINISTRATION	1,470,000	1,470,000	1,097,138	372,862
40/400 EDUCATION	289,500	586,790	493,319	93,471
05/051 POLICE & FIRE	263,200	263,200	231,175	32,025
TOTALS	42,831,900	48,225,776	37,099,702	11,126,074

Acting Accountant General
MONTERRAT

Government of Montserrat Annual Accounts for the year ended December 31, 2009

**GOVERNMENT OF MONTSERRAT
CONSOLIDATED REVENUE FUND
Notes to the Financial Statements
December 31, 2009**

THE ACCOUNTING POLICIES

The accounting policies are based on the Finance (Administration) Act 2002 and comply with generally accepted accounting practices. As outlined in the Act (2002), the two concepts underlying the Government's accounting system are:-

- (i) The concept of the consolidated Revenue Fund which emanates from the requirement that all revenues received, other than those allocated by law, or received for specific purposes, "shall form one Consolidated Revenue Fund."
- (ii) The concept that the balance of the Fund "shall be appropriated by the Legislative Council."

1. PUBLIC ACCOUNTS

The Public Accounts of Montserrat consists of the accounts of all officers and authorities of the [Central] Government. The presentation is in two parts:

- a. Consolidated Revenue Fund
- b. Development Fund

This is in accordance with the requirements of Section 57 of the Finance (Administration) Act 2002.

2. BASIC CONCEPTS

The basic concepts that guide the Government's Accounting System are embodied in the above mentioned Act.

Budgetary transactions enter into the calculation of the annual surplus⁷, and are disclosed on the Statement of Revenue and Expenditure. All other transactions lead to the acquisition or disposal of financial claims or to the creation of discharge of financial obligations and are disclosed on a net basis in the Statement of Assets and Liabilities.

3. BASIS OF ACCOUNTING

The Government of Montserrat uses the strict cash basis of accounting. Revenue is reported in the year in which it is received and expenditure is recorded when it

⁷ The constitutional status of Montserrat disallows the Government to report an annual deficit.

is actually paid. Commitments by Government departments/ministries are not entered into the accounts.

Revenue is reported after the deduction of refunds but excludes amounts receivable, Savings Bank Deposits, other specified purpose accounts, and other liability accounts.

Expenditure consists of all charges to budgetary appropriations that affect the annual surplus of the Government and payments from accounts established for specific purposes. These include charges for work performed, goods received, services rendered during the year and expenditure internal to Government.

Assets are generally defined as the financial claims acquired by the Government of Montserrat from outside organizations and individuals as a result of events and transactions recorded at December 31, 2009. However, as a direct result of the Government's accounting policies outlined above, certain financial claims are not reported on the Statement of Assets and Liabilities, the most important being the accounts receivables.

Physical Assets of the Government are charged to budgetary expenditure at the time of acquisition or construction. Their existence is not acknowledged on the Statement of Assets and Liabilities since a physical asset disclosure is not a requirement of the current Government Accounting practice. Efforts will be made to establish a record of Government Assets for the purpose of information.

Liabilities are generally defined as the financial obligations of the Government of Montserrat to outside organizations and individuals as a result of events, and transactions recorded as at December 31, 2009. Due to current accounting policies, no provision is made in the Accounts for (a) Terminal Benefit Payments and Pension, (b) Doubtful Debts, and (c) Accrued Interests on Government Liabilities.

4. ADVANCES

a. Personal

This category consists of advances to government employees who are designated travelling officers for the purchase of motor vehicles and insurance premiums for the vehicle, salary advances, and medical and any other approved advances.

b. Impersonal Advances

This represents amounts issued to government departments for executing special projects.

c. Outstanding Imprests

This category jointly represents cash float issued at the beginning of the year to departments with a revenue collection function, and travel advances to officers proceeding overseas on official business. These advances should be retired at the end of each financial year in accordance with the financial regulations.

d. Other Governments and Administrations

These are the net transactions executed on behalf of Caribbean countries and other Organisations. Reimbursement is intended to be made monthly.

e. CDB Student Loans

Total amount outstanding regarding the loans issued as per the line of credit received from the Caribbean Development Bank.

f. Postmaster Clearance

Total receipts cleared through account held with Crown Agents Financial Services Ltd. for stamps and postal money orders.

g. Development Fund Receivable

Gross amount due by Development Aid Agencies for advance payment from the Consolidated Fund to meet the expenditure needs of approved development projects. In 2008 the greater percentage of Development Aid transactions processed by the Treasury Department were funded by the Department for International Development.

h. Transfer to Local Costs

The Government of Montserrat contributed the amount of ECD4,720,418 to local capital projects during the reported period.

APPENDIX 2

NO. 07 OF 2001

AUDIT ACT 2001

MONTSERRAT

(Preamble and Enactment Omitted)

Short title and commencement 1. This Act may be cited as the Audit Act 2001, and shall come into force on such day as the Governor-in-Council may by Order appoint.

PART I

PRELIMINARY

Interpretation 2. In this Act unless the context otherwise requires:-

"Auditor General" means the Auditor General of Montserrat appointed under section 3;

"Accountable Officer" means any officer, including an Accounting Officer, concerned in or responsible for the collection, receipt, custody, issue of payment of public moneys, stores, stamps, investments, securities or negotiable instruments whether the same are the property of the Government or on deposit with or entrusted to the Government or to any public officer in his official capacity either alone or jointly with any other public officer or any other person;

"Accountant General" means the Accountant General of Montserrat;

"Accounting Officer" means any public officer appointed under the provisions of this Act and charged with the duty of accounting for any service in respect of which moneys have been appropriated;

"Appropriation Act" means any Act to apply a sum out of Consolidated Fund to the service of a financial year, and includes a Supplementary Appropriation Act;

"Consolidated Fund" means the Consolidated Fund of Montserrat established by section 7 of The Finance (Administration) Act, 2001;

"Development Programme Account" means the development programme account referred to in section 15 of the Finance (Administration) Act, 2001;

"Financial Secretary" means the officer directly responsible to the Minister for the management of the Department of Finance;

"Financial Year" means the twelve months ending on the thirty-first day of December in any year;

"Government Company" for the purpose of this Act includes -

- (a) Companies under the control and supervision of Government;
- (b) Companies in which Government holds stock, shares or bonds; or
- (c) Companies or institutions in which Government has a financial interest.

"Legislative Council" means the Legislative Council of Montserrat;

"Minister" means the member of Executive Council to whom has been assigned for the time being responsibility for matters relating to finance;

"Officer" means an employee of the Government including a public officer and a police officer;

"Public Accounts Committee" means the Standing Committee for the examination of the Public Accounts of Montserrat appointed by the Speaker of the Legislative Council in accordance with Legislative Council Standing Order No. 65;

"Public Body" for the purposes of this Act includes the Government, Government Ministries, Departments, Offices and Units;

"Public Moneys" includes -

- (a) all revenues or other moneys raised or received for the purpose of the Government; and
- (b) any other moneys or funds held, whether temporarily or otherwise, by any public officer in his official capacity, either alone or jointly with any other person,

whether a public officer or not;

(c) any other public property which come within the scope of this Act and those of Public Bodies, Statutory Bodies and Government Companies;

"Public Stores" means all chattels of whatsoever nature the property of, or in possession of, or under the control of the Government;

"Public Service" means the service of the Crown in a civil capacity in respect of Government;

"Receiver of Revenue" means the Accountant General or any officer designated by him for the purpose of receiving moneys, securities or other financial instruments collected by collectors of revenue;

"Speaker" means the Speaker of the Legislative Council and includes the Deputy Speaker;

"Statutory Body" for the purposes of this Act means any Corporation, Company, Board, Commission, Authority or other Body established by or under an Act to provide goods and services to the public; and which meets one or more of the following criteria -

- (a) all or part of its appropriations for operating purposes are provided from public funds; or
- (b) its operations may under the Act establishing the same, or under any Act relating thereto, impose or create a liability upon such public funds;

"Supplementary Appropriation Act" means any Act the purpose of which is the appropriation of moneys in supplementation of the appropriation already made by an Appropriation Act.

PART II THE AUDITOR GENERAL

Appointment of Auditor General

3. The Governor in his discretion with the prior approval of a Secretary of State shall appoint in writing an officer, to be styled the Auditor General, who shall not be capable while holding the office of Auditor General, of holding any other office of profit under the Crown.

Tenure of office

4. (1) The Auditor General shall be deemed to be an officer in the Public Service of the Crown and, save as is otherwise provided in section 5 and section 6 (1), the provisions of the law and regulations in force relating to the Public Service shall apply to him:

Provided that the terms and conditions of office applicable to the Auditor General upon his appointment shall not be made less favourable to him during the currency of his appointment.

(2) The Auditor General shall hold office during good behaviour, and may be removed only by the Governor with the prior approval of a Secretary of State; and in any such case a full statement of the circumstances shall at the first opportunity be made to the Legislative Council.

Vacancy in office of Auditor General

5. In the event of the office of Auditor General becoming vacant the Governor in his discretion, after consultation with the Public Service Commission, may appoint in writing a public officer to act as Auditor General pending the appointment of an Auditor General in accordance with the provisions of section 3.

Acting Auditor General

6. (1) If, in the opinion of the Governor, the Auditor General is likely to be unable to exercise his powers or perform the duties of his office during any period by reason of absence or inability to act from illness or any other cause, the Governor in his discretion, after consultation with the Public Service Commission, may appoint in writing a public officer to act as Auditor General during such period.

(2) Every person appointed to act as Auditor General pursuant to the provisions of section 5 or subsection (1) of this section shall have and may exercise all the powers and authority and shall perform all the duties by this Act conferred and imposed upon the Auditor General.

(3) Notwithstanding the provisions of section 4 (1), every public officer appointed to act as Auditor General under the provisions of section 5 or of subsection (1) of this section shall, for the period for which such public officer acts as Auditor General, be paid an allowance at an annual rate equal to the difference between the annual salary of his substantive appointment in the Public Service and the annual salary granted to the Auditor General under section 7.

Salary and

7. (1) The annual salary and allowances of the Auditor

Allowance of Auditor General

General shall be at a rate not less than the average rate paid to Departmental Permanent Secretaries.

(2) The Legislative Council may by Resolution increase the salary payable under this section, and the person holding the office of Auditor General at the date on which such Resolution is passed shall as from the date or such other date as may be specified in the Resolution be entitled to the salary at the increased rate as if it had been duly granted to him under this section.

(3) The salary and allowances payable to the Auditor General by virtue of this section shall be charged on and issued out of the Consolidated Fund.

PART III DUTIES AND POWERS OF AUDITOR GENERAL

Duties of Auditor General

8. (1) The Auditor General shall inquire into, audit and report in an impartial manner on the accounts of Public Bodies, Statutory Bodies and Government Companies, and in his audit shall make such examination as he may deem necessary to satisfy himself whether -

- (a) accounts have been faithfully and properly maintained in accordance with generally accepted accounting standards, and that all reasonable precautions have been taken to safeguard the collection and custody of public moneys, and that these have been fully accounted for or paid, where so required by law, into the Consolidated Fund;
- (b) moneys which have been appropriated and disbursed have been applied to the purposes for which they were appropriated, and that expenditure has been made only as authorised;
- (c) moneys other than those which have been appropriated have been dealt with in accordance with proper authority;
- (d) all reasonable precautions have been taken to safeguard the receipt, custody, issue and proper use of cash, stamps, securities and public stores, and that the regulations, directions and instructions relating thereto have been duly observed;

- (e) sufficient relevant and reliable audit evidence is obtained to support the issue of a professional audit opinion on the financial statements of the organisations subject to audit;
- (f) expenditure is achieving value for money;
- (g) adequate regulations, directions or instructions exist for the guidance of Accounting Officers and Accountable Officers, and are complied with;
- (h) proper returns have been submitted by Accounting Officers in accordance with the Finance (Administration) Act 2001;
- (i) the accounts are in agreement with the books of accounts and returns.

(2) In the conduct of his duties the Auditor General shall comply with professional Auditing Standards to deliver a high quality audit service operating to best current practice.

Advisory Role
to Public
Accounts Committee

9. (1) The Auditor General shall act in an advisory capacity to the Public Accounts Committee in the execution of its duties and powers provided for in section 4 of Order No. 65 of the Standing Order of Montserrat Legislative Council (SRO 6 of 1972).

(2) In accordance with the provision of subsection (1) , the Auditor General shall -

- (a) advice the Chairman of the Public Accounts Committee on the matters selected for examination, and if requested to do so, explain the accounting principles involved to the whole Committee;
- (b) brief the Chairman of the Public Accounts Committee, and if requested, the whole Committee, on the items appearing in the Statements of Expenditure in Excess; and
- (c) brief the Committee on the Treasury minute and on progress made in implementing the Committee's previous recommendations.

(3) In performance of his advisory functions the Auditor General shall not be subject to any directions or instructions given by the Committee.

Access to information

10. (1) In the exercise of duties imposed upon him by this Act the Auditor General may upon request -

- (a) have access to all records, registers, books, documents, data, vouchers, cash, stamps, securities, stores or other Government property of any kind whatsoever in the possession of any public officer.
- (b) call upon any officer for any explanations and information which he may require in order to enable him to discharge his duties;
- (c) without the payment of any fee cause search to be made in and extracts taken from any public office;
- (d) authorize any person publicly carrying on the profession of accountant, auditor, or public officer, including members of his staff, to conduct on his behalf any inquiry, examination or audit, including surprise checks of cash and stores, and such person or officer shall report thereon to the Auditor General.

(2) If in the opinion of the Auditor General, a public officer, in response to a request made under subsection (1) denies access or fails to provide any or sufficient information or explanations, he may so advise the Government who shall thereupon direct the officer of the body or company to furnish the Auditor General with such information and explanations, and to give him access to those accounting records and documents which are in the opinion of the Auditor General, necessary for him to fulfill his duties and responsibilities.

Auditor General not to be required to undertake pre-audit or any duties incompatible with his office

11. (1) The Auditor General shall not be required to undertake any examination of accounts partaking of the nature of a pre-audit which involves the acceptance by him of responsibility which would preclude him from full criticism of any accounting transaction after each transaction has been duly recorded.

(2) The Auditor General shall not be required to undertake any duties outside those pertaining to his office if in his opinion such duties are incompatible with the responsibilities and

duties of that office.

Requests by
Government

12. The Auditor General may, if in his opinion such an assignment does not interfere with his primary responsibilities, whenever the Government so request, inquire into and report on any matter relating to the financial affairs of Montserrat or to public property, or to inquire into and report on any organisation that has received aid from the Government of Montserrat, or, in respect of which, aid from the Government of Montserrat is sought.

Advisory powers

13. The Auditor General may, if requested to do so by any entity whose accounts he audits render to that entity any technical advice or assistance that he is competent to render by virtue of his professional qualifications and experience.

Notification of
irregularities to
Financial Secretary and
Attorney General

14. If at any time it appears to the Auditor General that substantial irregularities have occurred in the receipt, custody, issue or expenditure of public moneys or in the receipt, custody, issue, sale, transfer or delivery of any stamps, securities, stores or other Government property, or in the accounting for the same, he shall immediately bring the matter to the notice of the Financial Secretary.

Auditor Officers not to
be appointed to Boards

15. Neither the Auditor General nor any member of his staff may be appointed as Chairman or member of any Board of Survey, Tenders Board or Board of Enquiry, and he shall not be required to take part in any actual or apparent investigation into suspected losses, fraud or irregularities. However, subject to the provisions of section 11(2), he or any member of his staff may provide technical advice and services if requested to do so.

Legal advice

16. In the exercise of his duties imposed upon him in this Act the Auditor General may lay before the Attorney General a case in writing as to any question regarding the interpretation of any Act or regulation concerning the powers of the Auditor General or the discharge of his duties, and the Attorney General shall give a written opinion upon the interpretation required.

Powers of Auditor
General not subject to
direction

17. In the exercise of his powers of audit of and reporting on accounts the Auditor General shall not be subject to the direction or control of any person or authority.

Staff resources

18 (1) The staff required to assist the Auditor General in the performance of his duties shall be composed of such qualified

officers as the Governor may from time to time appoint.

(2) Anything which, under the authority of this Act, is directed to be done by the Auditor General, other than the certifying of and reporting on accounts, may be done by any officer of his staff so authorised by him.

Use of professional services

19. The Auditor General may within the total budget approved for his office in the annual Appropriation Act, contract for professional services at such remuneration and on such terms and conditions as approved by the Minister for Finance.

Accommodation to be made available for outside audits

20. If in order to carry out his duties more effectively, the Auditor General considers it necessary or desirable to station any person employed in or by his office in the premises occupied by any Government Ministry, Department, Office, or Unit, Public Body, Statutory Body, Government Company, or other organisation established by law for public purposes, the auditee shall make every effort to provide the necessary office accommodation for any person so stationed.

Sanctions for improper disclosure

21. Disciplinary action, as provided for in section 106 of General Orders and, in serious cases, legal action, may be instituted against the Auditor General or, any Auditor in his department, or any person engaged by him in accordance with the provisions of section 10 (1)(d), for improperly disclosing information obtained during the course of an audit.

Other Auditor

22. (1) Notwithstanding section 8 (1), the Auditor General is not required to audit the books and accounts of a Statutory Body or Government Company for which another Auditor is appointed in accordance with the provisions of its constituting Act or of the Act that governs its operations, and may, in order to fulfill his auditing responsibilities, rely on the report of the duly appointed Auditor of the Statutory Body or Government Company.

(2) The Auditor of the books and accounts of a Statutory Body or Government Company, must provide to the Auditor General, a copy of -

(a) the annual financial statements;

(b) his report on these statements; and

(c) any other report he makes to the Board of

Directors, the executive or the management of the Statutory Body or Government Company, as the case may be, on his findings and recommendations.

(3) The Auditor mentioned in subsections (1) and (2) shall make available on request to the Auditor General, the working papers, and other documents and reports in respect of his audit as well as any other information and explanation which the Auditor General may require in respect of that audit and its results.

(4) When the Auditor General is of the opinion that the information, explanation, documents and reports provided by the Auditor mentioned in subsections (1) and (2) are insufficient or that additional audit work should be carried out, he may conduct or cause to be conducted such additional audit or investigation as he considers necessary of the books, accounts and operations of the Statutory Body or Government Company.

Funding of the Audit Office

23. (1) The Auditor General shall annually prepare an estimate of the sums that will be required to be provided by the Legislative Council for the payment of the salaries, allowances and expenses of his office during the next ensuing fiscal year.

(2) The Auditor General shall apprise the Governor in writing in the event that the amounts provided in the Annual Estimates to be submitted by the Ministry of Finance to the Legislative Council are, in his opinion, inadequate to enable him to fulfill the duties and responsibilities of his office.

Audit of office of Auditor General

24. The Auditor General shall prepare accounts in respect of work of his office during each financial year, and those accounts shall be audited by such Auditor appointed by the Minister of Finance after consultation with the Public Accounts Committee.

PART IV

THE AUDIT AND EXAMINATION OF PUBLIC ACCOUNTS

Annual Accounts

25. Within a period of six months (or such longer period as the Legislative Council may by Resolution appoint) after the end of each financial year there shall be transmitted to the Auditor General by the Accountant General accounts showing fully the financial position of Montserrat at the end of the year, which shall include the statements listed in section 17 (2), and section 18 of the Finance (Administration) Act 2001. Any delay in submitting these statements to the Auditor General must be authorised by a Resolution of the

Legislative Council.

Report on Annual
Accounts and Special
Reports

26 (1) On receipt of the accounts prescribed by section 25 the Auditor General shall cause them to be examined and audited and shall, within a period of nine months (or such longer period as the Legislative Council by Resolution may appoint) after the end of the financial year to which the accounts relate, certify each account, and shall within the aforesaid period prepare, sign and transmit to the Minister a report on the examination and audit of all such accounts, together with copies of the accounts, certified as aforesaid. In this certification of the accounts the Auditor General shall express his opinion as to whether they present fairly, information, in accordance with accounting policies of the Government together with any reservation he may have.

(2) The Auditor General may at any time if it appears to him desirable transmit to the Minister a special report on any matter incidental to his powers and duties under this Act.

Minister to lay
documents
transmitted to him by
Auditor General

27. (1) The Minister shall cause a copy of every document transmitted to him under the provisions of section 26 to be laid before the Legislative Council at its next meeting following the date on which such documents were received by him.

(2) If the Minister fails to lay any document before the Legislative Council as required by subsection (1) the Auditor General shall forthwith transmit a copy thereof to the Speaker to be by him presented to the Legislative Council.

Documents laid in
accordance with
section 27 to be dealt

28. Every document laid before the Legislative Council in accordance with the provisions of section 27 shall be dealt with in the manner prescribed by Legislative Council Standing Orders.

PART V
EXAMINATION AND AUDIT OF THE ACCOUNTS OF
STATUTORY CORPORATIONS, BOARDS, COMMISSIONS AND
BODIES.

Examination and audit
of accounts of
Statutory Corporations
and similar bodies

29. As provided for in section 8 (1), but subject to the provisions of section 26 (1), the accounts of any Statutory Corporation, Board, Commission or Body shall be examined and audited by the Auditor General.

Duties and
powers

30. In relation to such Statutory Corporation, Board, Body or Commission and its members, officers and employees, the same or

similar duties powers and discretion as are conferred upon the Auditor General in regard to the audit of Government accounts apply.

Preparation of report

31. Subject to the provisions of the provisions of section 25, the Auditor General shall prepare a report on the examination and audit of the quasi-Government accounts for which he is appointed Auditor, and shall transmit such report to the Minister under whose portfolio a particular entity lies for presentation to the Legislative Council.

Minister to obtain observations on report of Auditor General

32. (1) On receipt of any account and the report by the Auditor General, the Minister shall obtain the observations of the Statutory corporation, Board, Body or Commission concerned on any matter to which attention has been drawn by the Auditor General in such report, and such observations shall be presented to the Legislative Council with the said report.

(2) If the Minister fails within a reasonable time to present such account and report to the Legislative Council, the Auditor General shall transmit a copy of the account and report to the Speaker to be by him presented to the Legislative Council.

Audit Fees to be charged

33. Any Statutory Corporation and any Board, Body or Commission the accounts of which are audited by the Auditor General under the provisions of section 31 shall in respect of such audit pay such fee as may be determined by the Auditor General. Any such fee shall be paid into the Government Treasury as public money:

Provided that the Financial Secretary may, in any case in which it shall appear to him to be in the public interest that some lesser fee shall be paid, instruct the Auditor General to levy such lesser fee.

SPEAKER

Passed the Legislative Council this 12th day of October, 2001.

CLERK OF COUNCILS

**APPENDIX 3
OFFICE OF THE AUDITOR GENERAL
ORGANISATION CHART**

