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**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 2007**



## **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
BCP	Business Continuity Plan
DFID	Department for International Development
CAROSAI	Caribbean Organisation of Supreme Audit Institutions
CFM	Citizen and Friends of Montserrat
ECCB	Eastern Caribbean Central Bank
ECCU	Eastern Caribbean Currency Union
GDP	Gross Domestic Product
GISU	Government Information System Unit
GOM	Government of Montserrat
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards of Supreme Audit Institutions
IT	Information Technology
MASL	Montserrat Aviation Services Limited
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
PFM	Public Finance Management
SDP	Sustainable Development Plan
UKNAO	United Kingdom National Audit Office
UWI	University of the West Indies
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 YEARS ENDING 31 DECEMBER 2007**

**EXECUTIVE SUMMARY**

**Scope of the Audit Report to the Legislative Council**

Section 19 of the Finance (Administration) Act 2001 requires this Audit Report to be submitted to the Minister responsible for Finance for presentation to the Legislative Council of Montserrat. However, in practice, the Report is tabled by the Financial Secretary. The Report summarizes the major matters arising from the examination and audit of the Public Accounts, Ministries/Departments and Statutory Agencies for the year ended 31 December 2007.

**Financial Administration and Management**

2. Good governance requires that accounts be made available for public scrutiny shortly after the requisite financial year. In keeping with this premise, Section 17(1) of the Finance (Administration) Act 2001 requires the Public Accounts to be submitted for audit at latest 6 months after the year end. I have to report once again that this requirement was not met. Consequently, we could not meet our statutory obligation of tabling the report within 9 months after the end of the fiscal years 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.

4. Yet again there are rising incidences of over-expenditures. This means that the controls to limit expenditure are being overridden. For the year under review, thirty-seven subheads recorded expenditure in excess of authorized expenditure. One Vote, CFS, was overspent.

5. The Audit Certificate has been given a qualified opinion as a result of the unauthorized expenditure on the Consolidated Fund.

**Financial Performance**

6. A comparison of recurrent revenue with recurrent expenditure revealed revenue surplus of \$3.7M. This arose from a combination of increases in revenue and savings from reduced expenditures.

7. Actual Local Recurrent Revenue amounted to \$37,025,244 being ninety-six percent (96%) of projected receipts for the year.

8. For this fiscal year actual Budgetary Aid increased by \$6,513,747 when compared to projections for the year. Part of this increase was in relation to emergency expenditure for the February eruption of the volcano.

9. Recurrent Expenditure amounted to \$91,291,961. A breakdown of this amount revealed that forty-two percent (42%) was spent on Personal Emoluments, eleven percent (11%) on Pensions and Gratuities, twenty percent (20%) on Goods and Services, twelve percent (12%) on Transfers and Subsidies with the balance spent on Social Services, Other Expenditure and Debt. Savings on Recurrent Expenditure amounted to \$2,319,019.

10. Capital Revenues fell short of projections for the year being reviewed. Actual collection amounted to \$28,891,184 being 79% of budgeted allocations for the year. Capital Revenue for local projects is excluded from the calculations since they are not financed by a funding agent. Such expenditures are financed directly from the Consolidated Fund.

11. Actual expenditure on Capital Projects amounted to EC\$27,773,111 being 57.3% of authorized expenditure for the year.

#### **Cash Position of Government**

12. At the end of the financial year the government bank accounts reflected a positive balance of EC\$17,941,953 being broken down as follows:

<b>Description</b>	<b>Balances (EC\$)</b>
Consolidated Fund	16,432,408
Development Capital Fund	1,509,545
<b>TOTAL</b>	<b>17,941,953</b>

#### **Public Debt**

13. At end fiscal year 2007 Total Public Debt stood at EC\$29,656,555. This figure includes an outstanding payment to Social Security. Public Debt per capita which represents what each person is expected to contribute toward the repayment of the debt amounted to \$6,154.09 per person.

14. The external portion of the debt was reduced to EC\$11,253,414 at the end of the year being reviewed. Principal repayments remained at \$501,664 being 1.35% of actual local recurrent revenue recorded for 2007. When compared against GDP (in current prices for the year) it represents 0.50%.

15. Domestic debt (excluding the outstanding amount to Social Security) stood at EC\$1M. The associated Sinking Fund amounted to \$1,064,387.

16. \$217,362.94 was paid as interest on External Debt for the fiscal year. This payment utilized 0.59% of total local recurrent revenue generated for the year. Interest paid on Domestic Debt totaled \$75,000.

### **Key findings relating to Ministries/Departments/Statutory Agencies**

17. Our investigations revealed that Accounting Officers are still in breach of the Finance Regulations as they pertain to overspending line items. Section 10 of the Regulation states that “an Accounting Officer shall maintain control over expenditure of his department to ensure that the amounts provided in the Estimates are not exceeded”. Breach of this regulation continues to be widespread.

18. Again, most Revenue Collectors continue to submit their Arrears of Revenue statements after the 31 March deadline.

19. At the end of 2007 Arrears of Revenue stood at \$25,976,001 and are itemized as follows:-

<b>Executing Agency</b>	<b>Arrears as at 31 December</b>
Ministry of Agriculture, Lands, Housing & the Environment	576,071
Ministry of Communications and Works	79,388
Inland Revenue:-	0
Income Tax	16,845,682
Company Tax	4,912,474
Property Tax	2,782,831
Broadcasting Services (Radio Montserrat)	29,947
Customs	21,490
Treasury	622,859
Ministry of Health and Community Services	41,428
Development Unit	63,831
<b>TOTAL</b>	<b>25,976,001</b>

20. We wish to reiterate that these arrears continue to increase portraying a seeming breakdown in collection controls. We must note however that the listing includes some arrears that are deemed uncollectible. Where these occur management should make every effort to have them purged from the statements as they provide an unrealistic picture of outstanding arrears.

21. Generally, the controls for revenue collection appear to be effective. We have however found instances where monies collected were either under or over deposited in the Consolidated Fund. This suggests that supervisory controls are lacking or inadequate.

22. As regards the statutory agencies, no financial statements for several of them were produced and submitted for tabling within the statutory deadlines.

### **Special Audits**

23. During the year the office expanded the range of services offered by conducting some special studies. These included the Small Business Grant Scheme and the Government Information Systems Unit (GISU) Business Continuity Planning 2006. They were issued as separate reports however their executive summaries are incorporated in this document in Chapter 5. The detailed reviews can be found on our website at <http://www.oag.gov.ms/>. Excerpts from another review – Performance Report of the Labour Department – are also included in Chapter 5.

### **Compliance with Auditing Standards on SAI Independence**

24. ISSAI 10 requires SAIs to have functional and organizational independence for the organisation to be effective in carrying out its mandate. In seeking to be in compliance with the standard an internal review of the operations, in relation to independence, was conducted. There are several issues which need to be addressed some of which include the imbedding of the Audit provisions in the Revised Constitution of Montserrat and the consequent redrafting of the Audit Act.

### **Temporary Office Accommodation**

25. It is also important for the SAI to be seen as independent. Thus, in July 2007, the Office was relocated to temporary accommodations in the Angelo's Complex on the Brades Main Road.



## **CHAPTER 1**

### **1.0 INTRODUCTION**

#### **1.1 Reporting Authority**

1. This Report, for the fiscal year 2007, 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 17 (3) of the Finance (Administration) Act, No. 3 of 2001.

#### **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 2007 was conducted in accordance with the provisions of the Audit Act 2001 and Section 17 (3) of the Finance (Administration) Act 2001. 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 maintaining 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 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.<sup>1</sup> Stakeholders therefore question whether these 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.

12. A critical objective of a good PFM system relates to the provision of Information that would allow dissemination to meet decision-making, control, management and

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<sup>1</sup> Revised Consultative Draft, October 21, 2004: PFM Performance Measurement Framework

reporting purposes. Another objective is that of Accountability and Transparency that facilitates external transparency and scrutiny of public finances. The timely flow of information coupled with good accountability and transparency practices therefore provide the groundwork whereby stakeholders can independently examine the stewardship of public officials and the overall operations of Central Government agencies.

13. 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**

14. Section 26 (1) of the Audit Act 2001, and Section 17 of the Finance (Administration) Act 2001, state that the Government's Annual Accounts shall be submitted, by the Accountant General, to the Auditor General [for audit] within a period of six months [to 30 June] 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.

15. Section 17 (2) of the Finance (Administration) Act 2001 states that the "Accountant General ... shall show fully the financial position of the Consolidated Fund on the last day of each financial year".

16. The first draft of the 2007 Annual Accounts was presented for audit well after the mandated deadline<sup>2</sup>. Consequently, we could not present the audited financial statements for tabling within the legal statutory deadline.

### **1.10 Compliance with Financial Orders**

17. Yet again we have to report increasing over-expended subheads, continuous miscoding of expenditure and lateness of financial reporting. These are significant breaches of Financial Orders. Other exceptions to compliance with relevant regulations will be referred to in subsequent paragraphs, under the respective Ministries/Departments.

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

## CHAPTER 2

### 2.0 FINANCIAL STATEMENTS FOR FISCAL YEAR 2007

#### 2.1 Audit Mandate and Objective

18. In accordance with the provisions of Section 8 of the Audit Act 2001 and Section 17 of the Finance (Administration) Act 2001, an audit was conducted on the Public Accounts of Montserrat for the financial year ended 31 December 2007.

19. 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

20. 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

21. The following is a statement of the assets and liabilities as at 31 December 2007 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**

	2006	2007	Increase/ (Decrease)
<b>Assets</b>			
Cash	17,680,542	16,432,408	(1,248,134)
Development Capital Fund	(396,873)	1,509,545	1,906,418
Fixed Deposits	3,888,463	3,888,463	0
Investments	2,168,400	7,168,400	5,000,000
Advances	5,292,325	(1,825,826)	(7,118,151)
<b>Total</b>	<b>28,632,856</b>	<b>27,172,990</b>	<b>(1,459,866)</b>
<b>Taxpayer's Equity</b>			
Deposits	5,800,915	5,949,906	148,991
Consolidated Fund	22,831,941	21,223,084	(1,608,857)
<b>Total</b>	<b>28,632,856</b>	<b>27,172,990</b>	<b>(1,459,866)</b>

## 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	12,422,900	13,012,888
Supply Services	<u>81,189,600</u>	<u>78,280,593</u>
Sub-Total	93,612,500	91,293,481
Less: <b>Revenue</b>	<u>90,002,500</u>	<u>94,988,991</u>
Surplus/(Deficit*)	<u>( 3,610,000)</u>	<u>3,695,510</u>
<i>Consolidated Fund</i>		
Balance b/f 1 January 2007		22,831,940
Surplus for the year		3,695,510
Funding of Local Projects		(5,332,635)
Suspense		<u>28,270</u>
Balance c/f 31 December 2007		<b><u>21,223,085</u></b>

\* Value of Contingencies Warrants raised during fiscal year.

### 2.4.1 Recurrent Revenue

23. Recurrent revenue was budgeted at \$90,002,500. Actual collections totaled \$94,988,991, an increase of \$4,986,491.

### 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>	<i>Budgeted</i>	<i>Actual</i>	<i>Surplus</i>	<i>Shortfalls</i>
	\$	\$	\$	\$
Taxes on Income, Profits & Gains	11,800,000	14,612,856	2,812,856	0
Taxes on Property	1,280,000	1,401,667	121,667	0
Taxes on Domestic Goods & Service	1,382,000	1,305,129	0	76,871
Licences	1,935,000	2,144,650	209,650	0
Taxes on Int'l Trade & Transactions	14,260,200	12,377,787	0	1,882,413
Fees, Fines and Permits	1,095,900	1,035,172	0	60,728
Rents, Interest & Dividends	1,086,500	961,258	0	125,242
ECCB Profits	200,000	347,208	147,208	0
Reimbursements	89,000	64,653	0	24,347
Budget and Grants	51,450,000	57,963,748	6,513,748	0
Other Revenue	5,423,900	2,774,864	0	2,649,036
<b>TOTAL</b>	<b>90,002,500</b>	<b>94,988,991</b>	<b>9,805,129</b>	<b>4,818,637</b>
Net surplus			<b>4,986,491</b>	

### 2.4.3 Total Recurrent Local Revenue

25. Authorized Recurrent Local Revenue for the fiscal year amounted to \$37,025,244. Actual Revenue amounted to \$35,173,877 resulting in a shortfall of \$1,851,367.

26. Table 3 below provides a comparative summary of actual Recurrent Local Revenue collected during 2007 and 2006. A review of the figures indicates that Recurrent Local Revenue for 2007 increased by \$1,851,367 or 5.26% when compared to collections for 2006.

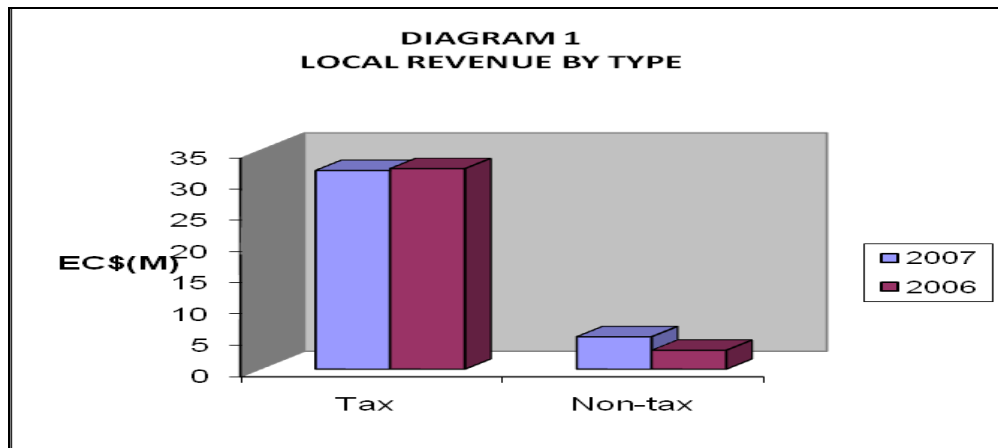
**TABLE 3  
COMPARATIVE LOCAL REVENUE SUMMARY**

SOURCE OF REVENUE	ACTUAL 2007	ACTUAL 2006	INCREASE/ (DECREASE)
Taxes on Income, Profit & Capital Gains	14,612,856	13,471,125	1,141,731
Taxes on Property	1,401,667	1,453,516	-51,849
Taxes on Domestic Goods & Services	1,305,129	1,371,460	-66,331
Licences	2,144,650	2,149,438	-4,788
Taxes on International Trade & Transaction	12,377,787	13,707,593	-1,329,806
Fees, Fines and Permits	1,035,172	1,099,205	-64,033
Rents, Interest and Dividends	961,258	710,781	250,477
ECCB Profits	347,208	0	347,208
Reimbursements	64,653	72,146	-7,493
Other Revenue	2,774,864	1,138,613	1,636,251
<b>TOTAL</b>	<b>37,025,244</b>	<b>35,173,877</b>	<b>1,851,367</b>

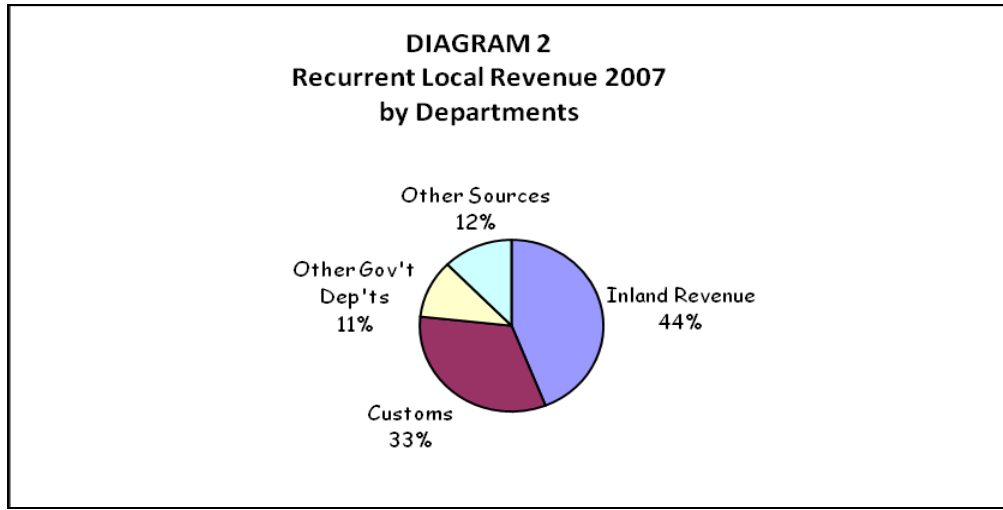
27. Four (4) revenue heads recorded increases of over \$100,000 and two (2) recorded decreases greater than \$100,000 when compared with revenues collected in 2006. Taxes on International Trade showed a significant reduction of over a \$1M.

28. For the fiscal year being reviewed, Tax Revenue collected amounted to \$31,842,089 whilst Non-Tax Revenue amounted to \$5,183,155.

29. The Diagram 1 below compares actual revenue, by type, for the years 2007 and 2006.



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



31. Our main revenue generating departments continue to be The Inland Revenue and the Customs Departments. These departments have together collected 77% of revenue collected in 2007.

#### **2.4.4 Special Budgetary Assistance**

32. Authorised Special Budgetary Assistance for 2007 was stated at \$51,450,000. Actual revenue for this subhead amounted to \$57,963,748 being \$6,513,748 more than budgeted. The additional sum was provided to meet, among others, emergency expenditure for February eruption, increases in the provision of services as a result of fuel price increases.

#### **2.4.5 Recurrent Expenditure**

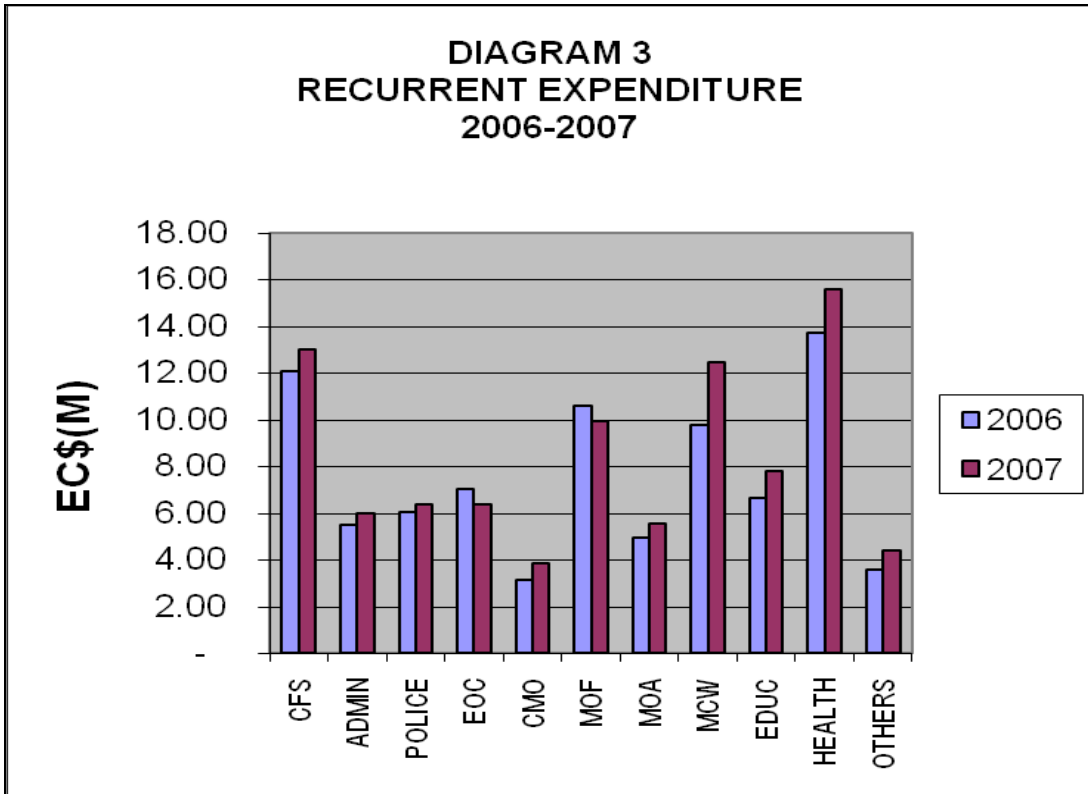
33. The Appropriations Act 2007, Ordinance #1 of 2007, authorized expenditure amounting to \$90,002,500. Two (2) Supplementary Estimates valuing \$4,800,000 were issued to meet cost of unforeseen expenditure. One Reservation Warrant valuing \$1,710,000 was also issued. It is normal practice for the reservation to be lifted during the year. However, on this occasion, the Reservation Warrant remained in place at the end of the fiscal year.

34. Actual expenditure for the year amounted to \$91,292,961 an increase of \$8.2M when compared to expenditure for 2006.

35. When cost is classified by Ministries and Departments, we see that three of them recorded increased expenditure over \$1M when compared with actual expenditure in 2006. Ministry of Communications and Works recorded an increase of \$2.67M. Ministry

of Education recorded an increase of \$1.12M while the Ministry of Health recorded an increase of \$1.84M.

36. Major areas of actual Recurrent Expenditure incurred by the various Ministries and Departments for the year under review as compared with 2006 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.

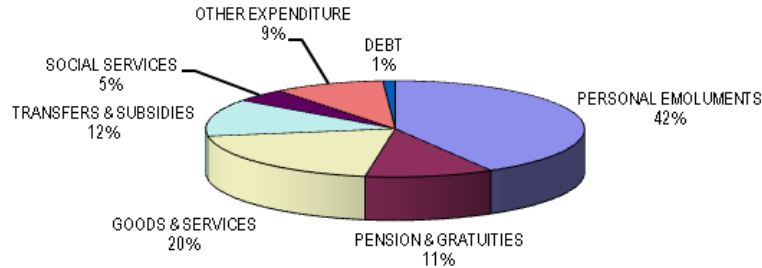


37. Analyzing expenditure by type, it was noted that the major categories were Personal Emoluments, Pension and Gratuities, Goods and Services, Transfers and Subsidies, Social Services, Other Expenditure and Debt. Categories which incurred more than 10% of total expenditure include Personal Emoluments, Pensions and Gratuities, Goods and Services, and Transfers and Subsidies.

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



**DIAGRAM 4**  
**2007 RECURRENT EXPENDITURE**  
**BY COST CATEGORIES**



#### 2.4.6 Expenditure Control

39. **Warrants.** During this fiscal year eight (8) Virement Warrants were approved by the Ministry of Finance to allow ministries and departments to transfer funds from one subhead to another. Two (2) Supplementary Estimates were also issued.

40. **Over-expenditure.** Over spending legislated expenditure limits is yet again an area of major concern. One (1) Vote – Consolidated Fund Services - was overspent. Incidences of line items being overspent continue to increase. This resulted in thirty-seven (37) sub-heads, across fourteen (14) departments being overspent. Seventeen (17) of these overspent subheads related to personal emoluments, wages and allowances.

41. The relevant authorities should institute measures and/or enforce actions to ensure that Accounting Officers are held accountable for consistently over-spending their budgetary allocations.

42. **Miscoded Expenditure.** We continue to encounter miscoded expenditure. Financial, budget information and variance analysis are unreliable where managers seemingly continue to manipulate budget codes. Incorrect allocation of expenditure distorts financial information and could result in Senior Management, the Legislative Council and the public being misled as to proper stewardship of government funds.

#### 2.4.7 Savings

43. The following Ministries and Departments have recorded expenditure under budget by more than \$100,000. These are noted as follows:

<b>Ministry/Department</b>	<b>Amount</b>
Chief Secretary	172,202
Police and Fire	114,521
Legal	268,682
Chief Minister's Office	145,223
Ministry of Finance	405,046
Development Unit	139,343
Treasury	159,125
Customs & Excise	115,475
Ministry of Agriculture	145,839
Ministry of Communication & Works	212,593
Ministry of Health & Community Services	305,389
<b>Total</b>	<b>2,183,438</b>

44. Total gross savings amounted to \$3,175,761. Assessment of these savings revealed that 48.2% of this amount represented savings on Personnel Emoluments while 38.4% was saved on Goods and Services.

45. Net savings for the fiscal year amounted to \$2,319,019 being 3% of total authorized expenditure.

## 2.5 Arrears of Revenue

46. At the end of the fiscal year being reviewed Arrears of Revenue stood at \$25,976,001 and are itemized as follows: -

**TABLE 4  
ARREARS OF REVENUE**

<b>Executing Agency</b>	<b>Arrears at 31 December 2007</b>
Ministry of Agriculture, Lands, Housing & the Environment	576,071
Ministry of Communications and Works	79,388
Inland Revenue:-	0
Income Tax	16,845,682
Company Tax	4,912,474
Property Tax	2,782,831
Broadcasting Services (Radio M/rat)	29,947
Customs	21,490
Treasury:	0
Trade Licence	53,100
Emergency Fuel Supply	569,759
Ministry of Health and Community Service	41,428
Development Unit	63,831
<b>Total</b>	<b>25,976,001</b>

47. We were unable to verify the arrears for the Ministry of Communication and Works and that for Radio Montserrat due to the non-submission of arrears statements. They are therefore included in this statement at the 2006 levels. Notwithstanding the foregoing, we noted a 4% increase in Arrears of Revenue for the year being reviewed.

## 2.6 DEVELOPMENT FUND

### 2.6.1 Statement of Assets and Liabilities

<b>ASSETS</b>		<b>2006</b>		<b>2007</b>
British Development Aid Claims Outstanding		4,075,911		5,757,550
Donor Agencies Expenditure Outstanding		2,473,781		2,443,657
Local Funds		(694,611)		(694,611)
<b>Total Assets</b>		<b>5,855,081</b>		<b>7,506,596</b>
<b>LIABILITIES</b>				
Deposits within Development Fund		329,888		8,432,109
Consolidated Fund Payable		2,389,143		(4,061,565)
Consolidated Capital Fund	10,541,009		(3,314,657)	
Add Revenue over Expenditure	(7,404,959)	3,136,050	6,450,708	3,136,050
<b>Total Liabilities</b>		<b>5,855,081</b>		<b>7,506,596</b>

### 2.6.2 Capital Expenditure

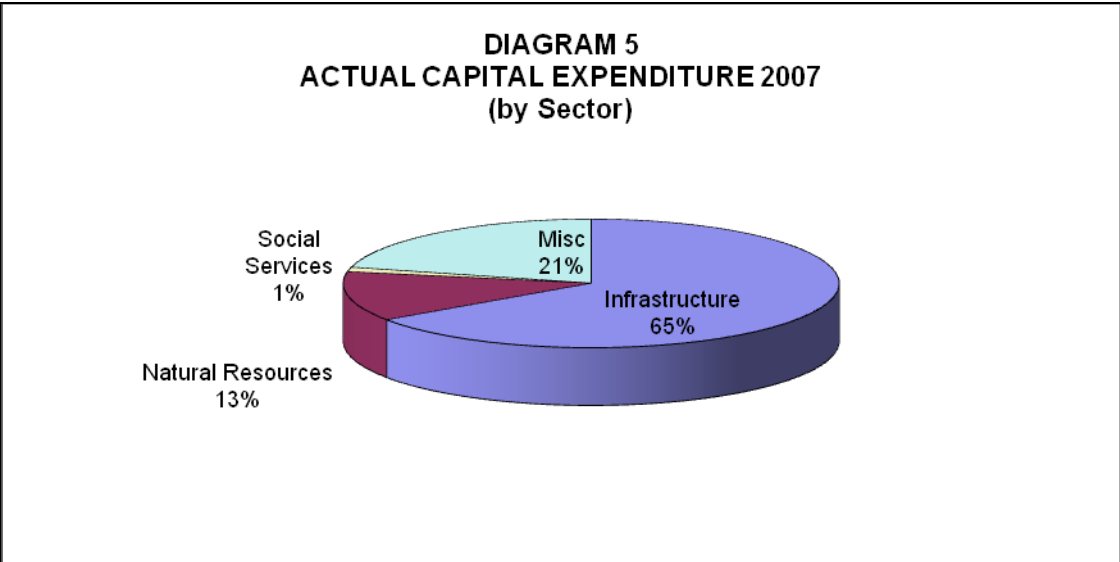
48. Estimates and recorded results for the Development Fund are summarized in the Table 5 below.

**TABLE 5**  
**Comparison of Development Fund Estimates and Record Results 2007**

Development Fund Expenditure	Authorized	Actual	Variance
DFID	28,273,078	15,048,662	13,224,416
LOCAL	6,470,002	5,332,634	1,137,368
CAREC	21,100	0	21,100
UNICEF	35,200	0	35,200
PSF	5,100,000	4,863,333	236,667
EU	8,559,300	2,528,482	6,030,818
<b>TOTAL</b>	<b>48,458,680</b>	<b>27,773,111</b>	<b>20,685,569</b>

49. For fiscal year being reviewed \$48,458,680 was authorised for Development Expenditure. Actual expenditure for the year amounted to \$27,773,112 being 57.3% of authorized expenditure for the year.

50. 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.



**2.7 OTHER STATEMENTS**

**2.7.1 Statement of Contingent Liabilities**

Date	Debtor	Creditor	Liability
December 31, 2007	GSB	SUNDRY	\$34,895,009

**2.7.2 Statement of Special Funds**

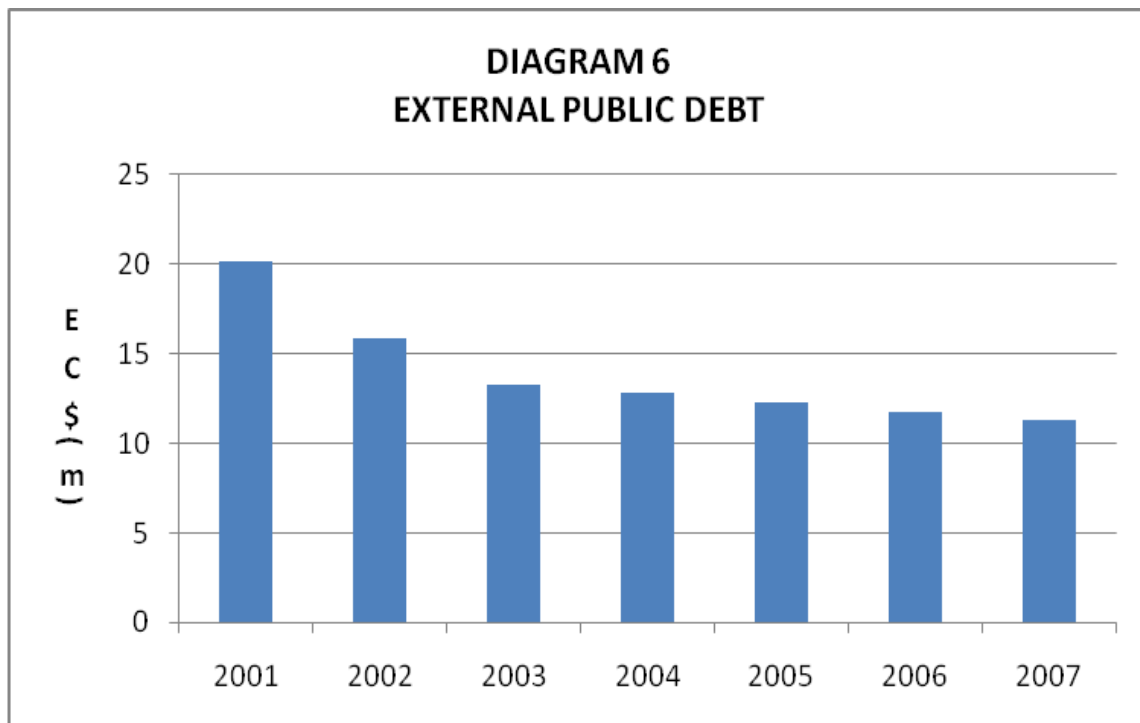
51. There was a minimal movement of \$7,999 on this fund increasing the balance to \$601,511.

**2.7.3 Statement of Public Debt**

52. At end fiscal year 2007 Total Public Debt stood at EC\$29,656,555. This figure includes an outstanding payment to Social Security. Public Debt per capita<sup>3</sup> which represents what each person is expected to contribute toward the repayment of the debt amounted to \$6,154.09 per person.

53. External Public Debt stood at \$11,253,414 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 – 2007.

<sup>3</sup> The Montserrat Statistics Department 2007 mid-year population estimate was 4,819.



54. Principal repayments on external debt remained at \$501,664 being 1.35% of actual local recurrent revenue recorded for 2007. When compared against GDP (in current prices for the year)<sup>4</sup> it represents 0.50%.

55. At the end of this fiscal year, Domestic Debt totaled \$1M. The associated Sinking Fund, held at the Eastern Caribbean Central Bank (ECCB), amounted to \$1,064,387.

56. \$217,362.94 was paid as interest on External Debt for the fiscal year. This payment utilised 0.59% of total local recurrent revenue generated for the year. Interest paid on Domestic Debt totaled \$75,000 being interest on development bonds.

#### **2.7.4 Statement of Loans Outstanding**

57. These loans, valuing \$183,628, remain outstanding for more than twenty (20) years. There has been no movement on this account for several years. The loans appear uncollectable yet nothing is seemingly being done to remove them from the records.

#### **2.8 Losses/Overpayments**

58. It appears that no effort is being made to reduce the gratuity overpayment to a legislator leaving the outstanding balance at \$57,563. Research has revealed that the

<sup>4</sup> GDP 2007 measured \$109.78M. Source: Montserrat Statistics Unit

overpayment occurred in 1996 at which time the legislator had agreed to make repayments. Despite this only a mere \$3,420 has been repaid to date.

## CHAPTER 3

### 3.0 MINISTRIES AND DEPARTMENTS

59. 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.

60. Section 10 of the Finance Regulation states that “an Accounting Officer shall maintain control over expenditure of his department to ensure that the amounts provided in the Estimates are not exceeded”. Breach of this regulation was widespread as detailed in the table below. In some cases the quantum might appear negligible however they are reported here as they are in breach of the regulations and show departures from good fiscal management.

**TABLE 5**  
**OVER EXPENDITURE BY MINISTRY/DEPARTMENT**

Ministry/Department	Vote	Head	Subhead	Description	Amount
CFS	01	001	210	Personal Emoluments	301,986
CFS	01	002	292	Debt Servicing	207080
CFS	01	003	292	Debt Servicing	98,450
CFS	01	005	218	Pension and Gratuities	908,625
Governor’s Office	02	020	275	Sundry Expenses	125
Administration	03	030	212	Wages	13,584
Administration	03	030	216	Allowances	5,207
Administration	03	030	220	Travel Allowance	14,022
Police	05	051	220	Travel Allowance	258
Police	05	050	232	Maintenance Services	1,028
Magistrate’s Court	08	080	210	Personal Emoluments	972
Magistrate’s Court	08	080	220	Travel Allowance	815
Supreme Court	09	090	220	Travel Allowance	2,761
Legislature	10	100	216	Allowances	3,712
Legislature	10	100	220	Travel Allowances	1,481
Chief Minister’s Office	15	150	280	Programme, Prod’n & Prom.	1,688
Chief Minister’s Office	15	151	210	Personal Emoluments	4,013
Chief Minister’s Office	15	151	212	Wages	2,517
Chief Minister’s Office	15	151	220	Travel Allowance	2,042
Ministry of Finance	20	200	220	Travel Allowance	3,604
Treasury	22	220	275	Sundry Expenses	796
Ministry of Agriculture	30	303	212	Wages	1,565
Min. of Comms. & Works	35	350	222	Int’l Travel and Subsistence	948
Min. of Comms. & Works	35	350	226	Communication Expenses	108
Min. of Comms. & Works	35	350	281	Minor Works	6,642
Min. of Comms. & Works	35	351	216	Allowances	350
Min. of Comms. & Works	35	351	278	Operation of Hot Mix Plant	716
Min. of Comms. & Works	35	351	279	Operation of Plant & W’shop	41,471
Min. of Comms. & Works	35	353	212	Wages	141
Ministry of Education	40	400	232	Maintenance Services	3,211

Ministry of Education	40	400	276	Culture	1,247
Ministry of Education	40	401	210	Personal Emoluments	82,159
Ministry of Education	40	403	228	Supplies and Materials	12
Ministry of Education	40	405	228	Supplies and Materials	784
Ministry of Health	45	450	222	Int'l Travel and Subsistence	622
Ministry of Health	45	452	210	Personal Emoluments	11,602
Ministry of Health	45	452	228	Supplies and Materials	187,552

### **3.1 BROADCASTING (RADIO MONTSEERRAT)**

#### **3.1.1 Arrears of Revenue**

61. Despite several requests no arrears of revenue listing for fiscal year 2007 was provided to our offices for auditing. Our offices had requested that the accounts be brought up to date, the listing extracted and submitted for auditing. We did not receive any such listing. Since we could not determine whether the arrears for prior years had been cleared or what new activities occurred for 2007, the amount outstanding has been included in the accounts at the 2006 level.

62. We are yet again requesting that the Arrears List be extracted and submitted for auditing.

### **3.2 CUSTOMS AND EXCISE**

#### **3.2.1 Revenue – Customs Embarkation Tax**

63. Audit revealed a number of instances where the Customs Embarkation Tax was either under or over deposited to the Consolidated Fund. These funds are usually collected at the points of departure and then deposited at the Customs and Excise Headquarters. Careful rechecking of monies being deposited is therefore needed.

### **3.3 INLAND REVENUE DEPARTMENT**

#### **3.3.1 Arrears of Revenue**

64. The bulk of outstanding revenue arrears for fiscal year 2007 arose from the non-payment of tax assessments. These include non-payment of income and property taxes.

65. Income Tax Arrears amounted to EC\$21,080,995 made up as follows:

Personal Income Tax	\$16,850,633
Corporate Tax	\$ 4,912,474

66. Eighty-four percent (84%) or \$4,119,973 of Corporate Tax Arrears was outstanding by twenty (20) companies who had arrears greater than \$50,000. These arrears are broken down as follows:



<b>FILE REFERENCE</b>	<b>AMOUNT</b>
CO-0164	228,009
CO-271	412,172
CO-071	72,000
CO-148	54,465
CO-412	205,951
CO-003	160,827
CO-312	84,000
CO-0182	188,225
CO-0045	504,728
CO-519	172,601
CO-216	60,004
CO-322	339,957
CO-0058	242,259
CO-309	129,921
CO-0047	233,625
CO-002	90,000
CO-236	312,444
CO-128	314,153
CO-98	349,043
CO-0165	193,600
<b>TOTAL</b>	<b>4,347,984</b>

67. Property Tax Arrears amounted to \$2,782,831.

### **3.4 AGRICULTURE, LANDS, HOUSING AND THE ENVIRONMENT**

#### **3.4.1 Arrears of Revenue**

68. At the end of fiscal year 2007 arrears of revenue stood at \$576,071. Provided below is a breakdown of the arrears for Government Housing Stock together with comparative figures for 2006.

<b>Location</b>	<b>Amount Outstanding 2007 EC\$</b>	<b>Amount Outstanding 2006 EC\$</b>
Davy Hill	23,769	42,569
Davy Hill (Governor)	1,400	1,200
Shinland	0	0
Shinland (Governor)	0	100
Timber Family Units	29,212	33,906
Caricom 3 Bed Concrete	51,623	47,028
Caricom Village 1-Bed Apts	10,583	6,840
Drummonds – Self Build	100	0
Look Out 2 – 1 bed concrete	39,167	33,247

Look Out 2 – 1 bed Force 10	187,828	177,723
Look Out 2 – 2 bed concrete	600	1,050
Look Out 2 – 2 bed Force 10	49,600	48,720
Look Out 2 – 3 bed concrete	18,014	17,286
Look Out 2 – 3 bed Force 10	600	0
Look Out Studio Apartments	47,925	40,955
Look Out 2 bed concrete duplex	340	740
Look Out Warden-Support Apartments	115,310	88,775
<b>Total</b>	<b>576,071</b>	<b>540,139</b>

69. Each year the arrears from the rental of government housing stock continue to rise. I am recommending that the housing management and the government relook the rental and housing policies.

### **3.4.2 Capital Expenditure**

70. Authorized capital expenditure amounted to \$5,923,580. Actual expenditure amounted to \$2,253,006 being 38% of total authorized capital expenditure.

## **3.5 COMMUNICATIONS AND WORKS**

### **3.5.1 Verification of expenditure**

71. In auditing the expenditures for this Ministry we noted some seeming anomalies which need to be addressed. Our audit sample revealed two occasions where payments valuing \$26,728 were made in the current year which should have been made in prior years. We did not see where the Financial Secretary gave his permission for such payments. These payments were seemingly made in contravention of Section 84 of the Finance Regulations 2002 which states that “except with the approval of the Financial Secretary no payment in respect of a charge incurred during a financial year shall be made in any subsequent period”.

72. On a number of occasions items of furniture and equipment were purchased but no folio stamp was placed on the invoice to indicate that the items were accounted for in the department’s inventory records.

## **3.6 MINISTRY OF HEALTH**

### **3.6.1 Revenue Collection - Community Services Department**

73. Examination of records revealed that several receipts for the period September 2007 – early January 2008, amounting to \$700 were not entered in the cash book. An amount of \$1,500, entered in the cash book on 29 March 2007, stamped passed for payment and stamped paid at the Treasury. The stamps were crossed out and initialed in the cash book. Although we examined the Treasury records, we could not find any evidence that the total amount of \$2,200 was paid into the Treasury Consolidated Fund.

74. We recommended that there be increased supervision in the revenue recognition area as this could lead to early detection of any abnormalities in recording and paying in government funds. We also recommended that every effort be made to recover the amounts not paid into Treasury.

75. Management responded as follows:

“Greater supervision is the ideal solution, but this has proved impossible over the last few years due to chronic staff shortage, increasing social responsibilities and the need for all staff to fill the gaps.

Effort has been made to clarify the issue of the amounts not paid in to the Treasury, but to no avail as the revenue collector for the receipts in question is now off-island and has not responded to emails”.

### **3.6.2 Capital Expenditure**

76. Authorized capital expenditure amounted to \$4,357,809. Actual amount spent was \$916,109 being 21% of authorized expenditure.

## **CHAPTER 4**

### **4.0 OTHER FINANCIAL AUDITS**

#### **4.1 Montserrat Water Authority (MWA)**

77. I was advised that the audit of the financial statements for years 2005 - 2007 were completed and that the statements were reviewed by the Board. I was further advised that they are awaiting final printing for distribution.

#### **4.2 Montserrat Land Development Authority (MLDA)**

78. The 2007 Financial Statements for MLDA's Corporate and Property Management - Government Housing Stock were laid on the table in the Legislative Council on 29 July 2007.

#### **4.3 Montserrat Social Security Fund (MSSF)**

79. The 2007 Financial Statements were laid before the Legislative Council at its sitting of 1 October 2008.

#### **4.4 Montserrat Philatelic Bureau (MPB)**

80. The audits of the 2005 and 2006 Financial Statements were tabled in Legislative Council on 27 October 2009.

#### **4.5 Montserrat Aviation Services Ltd (MASL)**

81. I mentioned in my last Report that GOM had taken a decision to liquidate this company. At the end of this fiscal year, the liquidation proceedings were still ongoing.

#### **4.6 Montserrat Port Authority (MPA)**

82. The Financial Statements for 2007 were laid in the Legislative Council on 28 April 2009.

#### **4.7 Montserrat Electricity Services Limited (MONLEC)**

83. I was advised that the audit of the financial statements for years 2005 - 2007 were completed and that the statements were reviewed by the Board. I was further advised that they are awaiting final printing for distribution.

#### **4.8 Montserrat Tourist Board (MTB)**

84. The 2006 and 2007 Financial Accounts were laid before the Legislative Council on 27 October 2009.

#### **4.9 Annual Government Accounts**

85. The 2004 Auditor General's Report and Annual Accounts of the Government of Montserrat were tabled in the Legislative Council on 27 October 2009.

#### **4.10 Montserrat Civil Service Association**

86. The 2007 Accounts were tabled in the Legislative Council at its sitting of 26, 30 and 31 March 2009.

#### **4.11 Golden Years Foundation for Care of Elderly**

87. The Financial Statements for fiscal year 2007 were laid before the Legislative Council on its sitting of 24 and 26 June 2008.

#### **4.12 Montserrat Financial Services Commission (MFSC)**

88. The 2007 Financial Statements were tabled in the Legislative Council on 28 April 2009.

#### **4.13 Citizen and Friends of Montserrat (CFM)**

89. No Financial Statements were submitted for audit for the years 2005 – 2007. It appears however that funds submitted to the entity for payment of Social Welfare assistance, rental of office space and staffing were misappropriated.

#### **4.14 St Augustine Primary School**

90. The audits of the financial statements for 2005/06 and 2006/07 were tabled in the Legislative Council on 27 October 2009.

#### **4.15 Montserrat Utilities Limited (MUL)**

91. I was advised that although the company was established in 2001 no operational activity took place before June 2008. I was also advised that Financial Statements for 2008 were being prepared at time of writing this report.

#### **4.16 Montserrat Girls Guides Association**

92. The 2007 Financial Statements were tabled in Legislative Council on 29 July 2008.

## **CHAPTER 5**

### **5.0 PERFORMANCE AUDITS**

#### **5.1 SMALL BUSINESS GRANT SCHEME**

93. It is important that public sector entities administering grant programmes award the grants in keeping with Ministerial directives, and that recipients spend the money as planned.

94. Our performance review of this grant scheme is intended to provide information to Parliament and taxpayers on how the scheme was administered.

95. The development of the small business sector falls under the mandate of the Development Unit. Hence, it operated a Small Business Grant Scheme that provided \$50,000 to small businesses encountering financial distress. Fifteen (15) small grants ranging from \$1,600 - \$5,000 were issued.

#### **Our findings**

96. The Scheme was being advertised and given a short application response time before the full parameters of it was properly thought out.

#### Criteria

97. It was unclear whether all applications were required to meet all criteria or the proportion that must be met for the grant to be issued. Additionally, apart from known applicants with full-time public sector and large private business jobs, very little effort, if any, was used to determine whether applicants had other sources of income. Further, applicants were not required to produce evidence of need, or financial information to allow determination of sustainability/viability.

#### Assessment and approval

98. Establishing an Allocations Committee, designing weighting system, and conducting field visits were all good evidence of controls being built into the system. Strategic fit with the Sustainable Development Plan (SDP) must be accorded higher weighting and general guidelines for use of weights should be developed.

#### Documentation

99. There was no documentation of the Allocation Committee's deliberations hence it was difficult to assess the grounds for acceptance or refusal of a grant. Additionally, persons were allowed to submit applications in letter form which did not provide sufficient information to meet the required criteria.

## Monitoring and Evaluation

100. Follow-up field visits were included in contracts issued to grantees as a means of monitoring grants. However, no consideration was given to the evaluations aspect of the scheme.

### **Our Recommendations**

101. We recommend that:

1. *the Department either amend the criteria “no other source of income and beneficial need” or conduct further checks to ensure that they are met. Additionally, the Department should request the provision of financial data to enable it to determine whether business/projects are viable.*
2. *the Development Unit establish whether the applications must meet all criteria and determine which criterion must be met before the grant can be issued.*
3. *the weighting system be continually used. However, we suggest that the Department review the scores assigned to the criteria with priority areas being accorded higher scores and greater emphasis being placed on the need for strategic fit.*
4. *guidelines be developed to assist the usage of the scoring system. For example, if the capital item requested is of a particular type assign full score, etc.*
5. *all the Committee’s deliberations should be adequately documented to provide transparency, written support of recommendations and to facilitate independent review.*
6. *standardized forms containing requests for required information be prepared for future programmes. This would ensure that all applicants complete the required fields.*
7. *grant recipients be required to complete an evaluation questionnaire as part of their final report for the grant. For larger grant schemes, we recommend that the final portion of the grant be withheld until the questionnaire is completed.*

102. Notwithstanding the findings highlighted above on the required strengthening of the criteria and controls, it is generally felt that given the prevailing economic circumstances and the sector’s inability to cope, further assistance should be given.

### **Management Response**

103. The Permanent Secretary with responsibility for small business development submitted the following response.

104. “This Report presents a fair assessment of the operation of the Small Business Grant Scheme. It is heartening to note the acknowledgement of the controls that were build in to try and make the scheme as open and transparent as possible.

105. The recommendations put forward in this report are welcomed, since this will facilitate the development of a robust and transparent scheme that will be able to withstand any scrutiny. Steps have already been taken to ensure that these recommendations are taken on board in implementing the next phase of the project. Work has started on refining the criteria and development of an application form.

106. The Development Unit is committed to utilizing the lessons learnt from the previous operation of the small enterprise scheme to implement the successive programmes”.

## **5.2 GISU – BUSINESS CONTINUITY PLANNING FOR 2006**

107. The Government Information System Unit (GISU) is responsible for the procurement, implementation, support and maintenance of all information and communication technologies infrastructure, equipment and applications within the Public Sector. Over the years the GISU has been enhancing its operations further to ensure that the entire sector provides quality to the people of Montserrat. The performance of this unit is therefore critical to ensure the efficient and effective delivery of services.

108. In 2005, the Office of the Auditor General decided to expand its audit services to include other audits such as IT audits and value for money/performance audits. We also decided to examine business continuity plans (BCPs) for core IT systems. Business continuity planning is fundamental to the well being of an organization and is intended to ensure continuity in the face of unforeseen or difficult circumstances.

109. This study covered the period January 2006 to December 2006. This study sought to assess and report on the existence of disaster recovery or business continuity procedures within the GISU. The three main objectives of this performance study were to validate the business continuity plan at GISU; scrutinize and verify preventive and facilitating measures for ensuring continuity; and examine evidence about the performance activities that can assure continuity and recovery.

### **Our Findings**

109. The GISU has a disaster plan in place but there are key elements that are not included. These include outlined roles and responsibilities and a documented crisis management process.



## **Our Recommendations**

110. We recommend the appointment of a disaster recovery board with responsibilities for developing a clear policy statement on BCP. Additionally, we recommend that a Business Impact Analysis be conducted and a BCP be developed.

## **Management Response**

111. “The GIS Department welcomes the Office of the Auditor General’s comprehensive look into our preparedness to handle natural disasters and other unforeseen impacts on our services, and interruptions to the Network and Computer systems which we are responsible for maintaining.

112. The findings of the report are accurate in the main and we accept the recommendation that we need to develop a more comprehensive plan in the near future.

113. One of the critical elements for improving our plan lies in the recruitment of the additional staff as outlined in our Business Plan and proposed new organizational structure. We would further welcome the Office of the Auditor General’s assistance in getting this point across to the persons responsible for approving our plans and getting the additional staff on board and functioning within the GIS Department.

114. The GIS Department looks forward to the continued assistance of the Office of the Auditor General as we seek to develop and fine tune a more comprehensive Business Continuity Plan.”

## **5.3 LABOUR DEPARTMENT**

115. At the time of the review the Labour Department was one of the main service delivery arms within the Ministry of Education and Labour. The performance of this Department is critical to the economic development of Montserrat as it manages the legal framework for a significant portion of the labour force, the private sector workers.

116. Our review focused on the Department’s performance in delivering the services detailed in its Corporate Plan 2003-2006. We assessed the performance of the Labour Department against a balanced score card, recognized good practice, against its own standards and well established practices. The elements assessed included the financial perspective, internal business processes, customer service perspective and the learning and growth perspective.

## **Our Findings**

### Financial Perspective

117. Expenditure generally complied with legal authority and was used up within 98 percentum of predictions. There was one occasion where over-expenditure amounting to \$3,676 was incurred.

#### ***Recommendations:***

118. It was therefore recommended that:

- *Vote Reconciliations be conducted on a timely basis.*
- *Authority for expenditure be obtained via relevant warrant before expenditure is incurred.*

119. Revenues regularly exceeded predictions by more than 39%.

### Internal Business Processes

#### *Implementing and Monitoring Labour Standards*

120. At the time of the audit guidelines to facilitate the amending of the Labour Act were submitted to the Attorney General's Chambers. However, policy objective and follow-up instructions were still awaited.

#### ***Recommendation:***

121. *Policy recommendations be developed and forwarded, along with follow-up instructions to Attorney general's chambers to advance work on the proposed Labour Code.*

#### *Industrial Relations/Labour Relations Services*

122. Documented conciliatory/mediation services performed within the Department appeared to be effective. Not all cases were documented hence performance of the services could not be fully assessed.

#### ***Recommendation***

123. *All cases should be documented and an indication given of those that were successfully completed in-house or withdrawn.*

124. Workers and employees accepted the rulings made by the arbitration panel – The Labour Tribunal. However, dissatisfaction was expressed with the pace of concluding some cases.

### *Work Permits Issuance*

125. The Department sets itself a target of 60 days to issue Work Permits. This target was only met 13.2% of the time for 1<sup>st</sup> Applications. This completion rate is unsatisfactory when viewed against the target.

#### ***Recommendation***

126. *A Performance Report detailing whether Work Permit target was met be prepared and submitted to Permanent Secretary semi-annually.*

127. The Labour Department depends on other organizations to participate in the Work Permits Issuance process and this often had a significant negative impact on achieving the target. Although tracking registers were introduced to monitor progress of the process, there was no evidence to indicate that they were being reviewed by senior personnel.

#### ***Recommendations:***

128. *Labour management to periodically review data entered in Tracking Registers. Further management should assess the feasibility of developing and implementing an electronic database to track movements in Work Permits.*

### *Conducting Labour and Safety Inspections*

129. No health and safety inspections were enforced as the Department did not have the necessary legal backing to conduct such an activity. However, the Department conducted some workshops which enabled greater awareness of the need for the adoption of Health and Safety policies and programmes.

#### ***Recommendation***

130. Department to increase its efforts to have Occupational Health and Safety regulations enacted.

### *Labour Market Information System*

131. Implementation was not effected within the review period as desired. However, a project to enable implementation was approved late 2006. The project was to be finalized by mid 2007.

### *Facilitating Employment Services*

132. This was a new service being introduced. The effectiveness of the venture could not be determined since the persons who were employed as a direct result of using the service were not tracked.

133. The service requires employers to notify the Labour Department of vacancies within their establishment. The Department would then advertise the vacancy and pay all associated advertisement costs. Since the Labour Department is merely facilitating the employment process it should not accept responsibility for paying advertisement costs.

#### ***Recommendations:***

134. *Persons who use the one-stop job centre facilities to be documented. Follow-up checks to be conducted with employers to determine how many such persons were employed.*

135. *The cost of placing advertisements for one-stop employment services to be passed on to the requesting employer.*

#### *Provision of training programmes for worker development and productivity*

136. One (1) productivity workshop was conducted by the Department. An inadequate training budget was cited as a constraint to the provision of follow-up workshops.

#### ***Recommendation***

137. *We recommend that business cases be prepared that would allow appropriate budgetary support for training programmes.*

#### Customer Service Perspective

138. Dissatisfaction with processes, particularly Work Permit Issuance, was expressed in the local media. However, the Department does not have a formal process for assessing customer satisfaction.

#### **Recommendation**

139. *Annual customer satisfaction surveys to be conducted.*

### Learning and Growth Perspective

140. Staff at the Labour Department has adequate education, knowledge and skills to efficiently and effectively perform their duties. However, there is no formal mechanism for assessing employee satisfaction and their work alignment with organizational goals.

#### ***Recommendations:***

141. *The Department should develop and link customer satisfaction targets with employee performance. It should also conduct periodic employee satisfaction surveys.*

## **CHAPTER 6**

### **6.0 THE OFFICE OF THE AUDITOR GENERAL**

#### **6.1 Legislative mandate**

142. 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**

143. 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**

144. 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**

145. 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.

146. 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

147. The statement of operations for the Office of the Auditor General for fiscal years 2007 is detailed below.

<b>EXPENDITURE 2007</b>			
<b>Description</b>	<b>Authorized (EC\$)</b>	<b>Actual (EC\$)</b>	<b>Variance</b>
Personal Emoluments	575,900	546,403	29,497
Goods and Services	236,200	187,245	48,955
Transfers and Subsidies	31,300	30,663	637
Other Expenditure	6,000	4,950	1,050
<b>Total</b>	<b>849,400</b>	<b>769,261</b>	<b>80,139</b>
<b>REVENUE</b>			
Audit Fees	<b>25,000</b>	<b>7,000</b>	<b>(18,000)</b>

### Expenditure

148. Our review revealed that actual expenditure for fiscal year 2007 amounted to 90.9% budgeted expenditure. This was however below our targeted expenditure utilization rate of 95% of budgeted allocation. Six (6) subheads recorded savings of over \$5,000. These were Personal Emoluments, Travel Allowance, International Travel and Subsistence, Utilities, Communication Expense, Printing and binding. The savings arose for the following reasons:

- Greater effort at cost containment,
- Vacancies for some parts of the year,
- Some allowances not utilized due to staff being on prolonged leave or not in possession of vehicle for part of the year,
- Planned attendance at INCOSAI held in Mexico had to be cancelled.
- Utilities cost over budgeted. No realistic knowledge of these costs since they were previously included in bulk payment by another department.
- Problems encountered in procuring and installing a telephone network.
- Envisaged completion of report did not materialize thus preventing further use of printing and binding expenditure.

### Revenue

149. Delays encountered in the completion of some reports prevented the issuance of bills and subsequent collections of revenue.

## 6.6 Outputs Report

150. For the financial year ending 31 December 2007, 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**

151. For fiscal year 2007 the Office of the Auditor General retained a staff complement of fifteen persons being thirteen (13) auditors and two (2) support staff.

## **6.8 Training**

152. During the fiscal year the OAG continued its capacity development efforts. This strategy continues to focus on staff participating in a mixture of training efforts through in-house training, overseas training and through distance learning programmes.

### *6.8.1 In-house training*

153. The focused mainly on coaching and mentoring of staff whereby senior managers continued to provide guidance and assistance to junior staff when conducting their duties.

154. Staff also expanded their knowledge of general public sector issues by participating in several in-service training sessions/workshops conducted by the Training Division, Department of Administration.

### *6.8.2 Overseas training*

155. We have targeted several areas for skills development which we think are crucial to improving and expanding our audit services. I am therefore pleased to announce that our technical capacity was enhanced when an Audit Manager completed a Graduate Diploma in Forensic Accounting at Seneca College of Applied Arts and Technology, Canada.

156. Several staff members also improved their knowledge and skills while attending the following overseas training programmes:

- Regional Audit Workshop “Fundamentals of IT Auditing” facilitated jointly by IDI and the CAROSAI Secretariat, Antigua



- Singapore-Commonwealth Third Country Training Programme “Better Governance-Managing Corruption”.
- The International Training Course hosted by United Kingdom, National Audit Office (UKNAO).
- Strategic Planning Focus Group and Master Classes – developed regional strategic plan for CAROSAI, Barbados.

### 6.8.3 *Distance learning*

157. Staff members continue to utilize the University of the West Indies (UWI) distance learning programme to acquire managerial and accounting knowledge and skills.

## 6.9 **Advocacy**

158. Ensuring that stakeholders understand what we do and our role in the financial management process is of paramount importance to us. To that end we continue to provide clarification for financial management issues as they relate to compliance with the Finance and Procurement and Stores Regulations.

159. Regionally, we continue to participate in meetings for Accountants General/Budget Directors/Auditor Generals meetings for the respective officials within the Eastern Caribbean Currency Union (ECCU). These meetings are geared toward sharing of information that allow for addressing issues affecting the Currency Union.

## 6.10 **Compliance with Auditing Standards on SAI Independence**

160. ISSAI 10 requires SAIs to have functional and organizational independence for the organisation to be effective in carrying out its mandate. In seeking to be in compliance with the standard an internal review of the operations, in relation to independence, was conducted. There are several issues which need to be addressed some of which include the imbedding of the Audit provisions in the Revised Constitution of Montserrat and the consequent redrafting of the Audit Act.

## 6.11 **Temporary Office Accommodation**

161. It is also important for the SAI to be seen to be independent. Thus, in July 2007, the Office was relocated to temporary accommodations in the Angelo’s Complex on the Brades Main Road.

## **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 the co-operation and courtesies extended to my staff during the performance of the various audit assignments. We encourage your continued support for our audit activities.

Gratitude, and thanks, is extended to the Performance Management and Development Unit of the Government of Montserrat, DFID, the UKNAO, IDI, CAROSAI and its member organizations, and other private sector auditors for their invaluable assistance toward the Department's institutional strengthening, succession planning and training initiatives.

Finally, I wish to recognize the efforts of my staff that did the bulk of the fieldwork to enable me to form the opinion on the Public Accounts; to make suggestions for strengthening internal controls and improvements to overall fiscal management. Your assistance was invaluable. Thanks.

Brades, Montserrat  
8 October 2010

Florence A Lee, MSc, BSc, CPA  
Auditor General

**GOVERNMENT OF MONTSERRAT  
ANNUAL ACCOUNTS FOR FISCAL YEAR 2007**

**AUDIT CERTIFICATE**

I have examined the Annual Accounts prepared from the Consolidated Fund of the Government of Montserrat as at 31 December 2007, together with relevant subsidiary Statements, as required by Section 17 of the Finance (Administration) Act, #3 of 2001.

**RESPONSIBILITIES**

The Accountant General is responsible under Sections 5(1) and 17(1&2) of the Finance (Administration) Act 2001 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.

**CONTRAVENTION OF THE FINANCE (ADMINISTRATION) ACT**

The accounts report recurrent expenditure in excess of appropriation on thirty-seven subheads of the Consolidated Fund. This is a significant breach of the regulations which requires expenditures to be incurred within the limits set by Parliament. In the absence of supplementary appropriation this excess expenditure is recorded in the Public Accounts without statutory authorization.

**QUALIFIED OPINION**

Except as otherwise stated in my Report dated 8 October 2010, attached hereto, and subject to the observations and comments contained therein, in my opinion, the Annual Accounts for the Fiscal Year 2007 presents fairly the financial operations of the Consolidated Fund of the Government of Montserrat, and the sums expended have been 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  
8 October 2010

## **APPENDICES**

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**APPENDIX 1**  
**GOVERNMENT OF MONTSERRAT**  
**CONSOLIDATED REVENUE FUND**  
**Statement Of Assets And Liabilities As At 31 December 2007**  
**(with comparative figures for December 31, 2006)**

<b>ASSETS</b>	<b>2007</b>	<b>2006</b>
CASH LOCAL	2,226,389	4,416,693
OPERATING ACCOUNT - ECCB	40,453	36,521
DEVELOPMENT CAPITAL FUND	1,509,545	-396,873
CROWN AGENTS # 2 ACCOUNT	10,045,961	9,637,037
FISCAL RESERVE – A/C # 1 TRANCHE ECCB	4,119,604	3,590,290
FIXED DEPOSIT - BARCLAYS BANK	712,514	712,514
FIXED DEPOSIT - ST PATRICKS CREDIT UNION	246,880	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 CMMB	2,500,000	0
INVESTMENT CLICO	2,500,000	0
<b>SUB TOTAL</b>	28,998,815	23,340,532
 <b>ADVANCES</b>		
PERSONAL	573,555	587,845
IMPERSONAL	77,622	77,622
OUTSTANDING IMPREST	651,260	503,708
OTHER GOVERNMENTS & ADMINISTRATIONS	202,034	947,083
CDB STUDENT LOANS	1,015,601	1,029,684
SALARY CLEARING A/C	(766)	(766)
POSTMASTER CLEARANCE	(283,567)	(241,995)
DEVELOPMENT FUND RECEIVABLE	(4,061,565)	2,389,143
<b>SUB TOTAL</b>	(1,825,826)	5,292,324
<b>TOTAL ASSETS</b>	<b>27,172,989</b>	<b>28,632,856</b>

Government of Montserrat Annual Accounts for the year ended December 31, 2007

**GOVERNMENT OF MONTSERRAT  
CONSOLIDATED REVENUE FUND**

**Statements of Assets and Liabilities as at December 31, 2007  
(with comparative figures for December 31, 2006)**

**LIABILITIES AND THE CONSOLIDATED FUND**

	<b>2007</b>	<b>2006</b>
MISCELLANEOUS DEPOSITS	4,585,337	4,444,347
77INSURANCE COMPANY DEPOSITS	712,514	712,514
INDUSTRIAL INVESTMENTS DEPOSITS	50,543	50,543
SPECIAL FUNDS	<u>601,511</u>	<u>593,512</u>
<b>SUB - TOTAL</b>	<u>5,949,905</u>	<u>5,800,916</u>

**CONSOLIDATED FUND**

<b>BALANCE AT START OF YEAR (Recurrent)</b>	22,831,940	22,453,423
REVENUE FOR THE YEAR	94,988,991	88,609,337
EXPENDITURE FOR THE YEAR	<u>91,293,481</u>	<u>83,092,071</u>
SURPLUS	3,695,509	5,517,267
SUSPENSE	28,270	0
TRANSFER OF LOCAL COSTS	<u>(5,332,635)</u>	<u>(5,138,750)</u>
<b>TOTAL CONSOLIDATED FUND</b>	<u>21,223,084</u>	<u>22,831,940</u>
<b>TOTALS</b>	<u>27,172,989</u>	<u>28,632,856</u>

*Accountant General, Montserrat*

**CONSOLIDATED REVENUE FUND – 2007**  
Annual Abstract of Receipts and Payments

	<b>ESTIMATE</b>	<b>TOTAL AUTHORISED</b>	<b>ACTUAL REVENUE</b>	<b>SURPLUS (SHORT FALL)</b>
<b>CONSOLIDATED FUND REVENUE:-</b>				
<b>1A. TAX REVENUE</b>				
Taxes on Income, Profits and Capital Gains	11,800,000	11,800,000	14,612,856	2,812,856
Taxes on Property	1,280,000	1,280,000	1,401,667	121,667
Taxes on Domestic Goods and Services	1,382,000	1,382,000	1,305,129	(76,871)
Licences	1,935,000	1,935,000	2,144,650	209,650
Taxes on International Trade & Transactions	14,260,200	14,260,200	12,377,787	(1,882,413)
<b>TOTAL TAX REVENUE</b>	<b>30,657,200</b>	<b>30,657,200</b>	<b>31,842,088</b>	<b>1,184,888</b>
<b>1B – NON-TAX REVENUE</b>				
Fee, Fines & Permits	1,095,900	1,095,900	1,035,172	(60,728)
Rents, Interest and Dividends	1,086,500	1,086,500	961,258	(125,242)
ECCB Profits	200,000	200,000	347,208	147,208
Reimbursements	89,000	89,000	64,653	(24,347)
Budgets and Grants	51,450,000	51,450,000	57,963,748	6,513,748
Other Revenue	5,423,900	5,423,900	2,774,864	(2,649,036)
<b>TOTAL NON-TAX REVENUE</b>	<b>59,345,300</b>	<b>59,345,300</b>	<b>63,146,903</b>	<b>3,801,603</b>
<b>TOTAL REVENUE</b>	<b>90,002,500</b>	<b>90,002,500</b>	<b>94,988,991</b>	<b>4,986,491</b>

**Ag Accountant General**  
**MONTSERRAT**

Government of Montserrat Annual Accounts for the year ended December 31, 2007

**CONSOLIDATED REVENUE FUND – 2007**  
**Annual Abstract of Receipts and Payments**

<b>CONSOLIDATED FUND EXPENDITURE:-</b>	<b>ESTIMATE</b>	<b>TOTAL AUTHORISED</b>	<b>ACTUAL EXPENDITURE</b>	<b>(EXCESS) SAVINGS</b>
01 CONSOLIDATED FUND SERV'S	11,782,900	12,422,900	13,012,888	(589,988)
02 GOVERNOR'S OFFICE	356,400	356,400	272,739	83,661
021 CHIEF SECRETARY	832,100	832,100	659,898	172,202
03 ADMINISTRATION	5,210,400	6,074,400	6,002,385	72,015
05 POLICE & FIRE	6,721,600	6,471,600	6,357,079	114,521
06 EMERGENCY CENTRE	5,034,300	6,454,300	6,374,299	80,001
07 LEGAL	1,203,400	1,203,400	934,718	268,682
08 MAGISTRATES COURT	163,500	163,500	124,122	39,378
09 SUPREME COURT	824,700	824,700	747,411	77,289
10 LEGISLATURE	972,700	972,700	895,481	77,219
11 AUDIT	849,400	849,400	769,262	80,138
15 OFFICE OF THE CHIEF MINISTER	3,597,000	4,002,000	3,856,777	145,223
20 MINISTRY OF FINANCE	5,280,500	4,680,500	4,275,454	405,046
21 DEVELOPMENT UNIT	2,865,000	2,865,000	2,725,657	139,343
22 TREASURY	981,800	981,800	822,675	159,125
23 CUSTOMS & EXCISE	1,143,800	1,143,800	1,028,325	115,475
24 INLAND REVENUE	744,900	744,900	659,173	85,727
25 GENERAL POST OFFICE	470,500	470,500	417,093	53,407
30 MIN. OF AGRI., LANDS, HSG & ENVIR.	5,837,900	5,707,900	5,562,061	145,839
35 MIN. OF COMMS & WORKS	11,742,000	12,654,000	12,441,407	212,593
40 MIN. OF EDUCATION	8,005,500	7,855,500	7,778,766	76,734
45 MIN. OF HEALTH & COMM. SERVIC	15,381,200	15,881,200	15,575,811	305,389
<b>TOTAL</b>	<b>90,002,500</b>	<b>93,612,500</b>	<b>91,293,481</b>	<b>2,319,019</b>

Government of Montserrat Annual Accounts for year ended December 31, 2007



**CONSOLIDATED REVENUE FUND – 2007**  
**ABSTRACT OF EXPENDITURE BY TYPE**

<b>CONSOLIDATED FUND EXPENDITURE:-</b>	<b>ESTIMATE</b>	<b>TOTAL AUTHORISED</b>	<b>ACTUAL EXPENDITURE</b>	<b>(EXCESS) SAVINGS</b>
2A Personal Emoluments	40,696,200	39,496,900	37,965,240	1,531,660
2B Pension, Gratuities & Other Benefits	9,190,000	9,136,200	9,992,942	(856,742)
2C Goods & Services	17,646,000	19,622,700	18,403,809	1,218,891
2D Transfers & Subsidies	11,614,600	11,420,600	11,260,327	160,273
2E Social Services	3,913,200	4,133,200	4,122,460	10,740
2F Other Expenditure	5,890,000	8,750,400	8,596,510	153,890
2G Debt	1,052,500	1,052,500	952,193	100,307
<b>TOTAL</b>	<b>90,002,500</b>	<b>93,612,500</b>	<b>91,293,481</b>	<b>2,319,019</b>

Government of Montserrat Annual Accounts for year ended December 31, 2007

**GOVERNMENT OF MONTSERRAT**  
**DEVELOPMENT FUND**  
**STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2007**  
**(with comparative figures for December 31, 2006)**

<b><u>ASSETS</u></b>		<b>2007</b>		<b>2006</b>
BRITISH DEVELOPMENT AID				
CLAIMS OUTSTANDING	(1)	(5,757,550)		4,075,911
DONOR AGENCIES				
EXPENDITURE OUTSTANDING	(2)	2,443,657		2,473,781
LOCAL FUNDS	(4)	(694,611)		(694,611)
<b>TOTAL ASSETS</b>		<b>(7,506,596)</b>		<b>5,855,081</b>
<b><u>LIABILITIES</u></b>				
DEPOSITS WITHIN THE				
DEVELOPMENT FUND	(3)	8,432,109		329,888
CONSOLIDATED FUND PAYABLE		(4,061,565)		2,389,143
CONSOLIDATED CAPITAL FUND	(3,314,657)		10,541,009	
ADD: REVENUE OVER				
EXPENDITURE	6,450,708	3,136,050	(7,404,959)	3,136,050
<b>TOTAL LIABILITIES</b>		<b>(7,506,596)</b>		<b>(5,855,081)</b>

**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, 2007

**DEVELOPMENT EXPENDITURE – 2007**  
**Annual Abstract of Receipts and Payments (Cont'd)**

	ESTIMATE	TOTAL AUTHORISED	ACTUAL EXPENDITURE	EXCESS (SAVINGS)
01. COMMS & WORKS	7,566,807	9,620,275	6,227,568	3,392,707
02. COMMS & WORKS - O D'S	1,555,743	3,646,743	3,414,698	232,045
03. FINANCE & ECONOMICS	10,905,200	23,290,273	13,756,188	9,534,085
04. AGRI. , TRADE, LAND & HOUSING	5,423,580	5,923,580	2,253,006	3,670,574
05. HEALTH AND COMM.	3,957,809	4,357,809	916,109	3,441,700
06. MANPOWER & ADMINISTRATION	1,470,000	1,470,000	1,055,588	414,412
07. EDUCATION	150,000	150,000	149,954	46
<b>TOTALS</b>	<b>40,916,612</b>	<b>48,458,680</b>	<b>27,773,112</b>	<b>20,685,568</b>

*Acting Accountant General*  
**MONTERRAT**

Government of Montserrat Annual Accounts for the year ended December 31, 2007



**GOVERNMENT OF MONTSERRAT  
CONSOLIDATED REVENUE FUND  
Notes to the Financial Statements  
December 31, 2007**

**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 surplus<sup>5</sup>, 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

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<sup>5</sup> 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, 2007. 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, 2007. 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 2007 the greater percentage of Development Aid transactions processed by the Treasury Department were funded by the Department for International Development.

**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 12<sup>th</sup> day of October, 2001.

CLERK OF COUNCILS

APPENDIX 3  
OFFICE OF THE AUDITOR GENERAL  
ORGANISATION CHART

