



**PERFORMANCE AUDIT**  
**ON**  
**SELECTED OUTSOURCED ACTIVITIES**  
**IN THE**  
**MONTSERRAT PUBLIC SERVICE**

Office of the Auditor General  
Brades Main Road  
Brades  
Montserrat  
September 2016

## OUR MISSION

“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 Assembly”.

## **AUDITOR GENERAL'S OVERVIEW**

The Government of Montserrat (GoM) is keen to rebuild a vibrant private sector so that the sector can make a more meaningful contribution to the development of the economy. To assist the development of the private sector, GoM chose to outsource some activities that were normally performed by the public sector. These included the outsourcing of Government Cleaning Services, School Lunch Programme, School Bus Service and the Drivers Licence Testing Service.

This performance audit was planned to determine whether the outsourced activities were adequately planned and implemented; the benefits realised; and whether there were adequate arrangements for monitoring service providers.

Our findings revealed that government does not have an approved outsourcing plan; outsourcing policy or procedures manual. Only two of the outsourced activities went through the tender process; there was direct contravention of the procurement regulation with the outsourcing of the cleaning service; and cleaning costs is increasing annually. Additionally, we found limited evidence of a monitoring and assessment programme for the outsourced activities leading us to conclude the activities were not adequately managed.

Notwithstanding these shortcomings in the outsourcing programmes, we found that two activities have provided cost savings to GoM over the three years of operation. This therefore is a significant gain in the Government's quest to have the private sector becoming more involved in the development of the economy.

I wish to express my thanks to all Accounting Officers and staff for any assistance given during the course of this exercise. Special thanks to my staff and all persons who provided information or took time out to share their views. I have made nine (9) recommendations that management should consider for implementation.

Florence A Lee  
Auditor General  
Office of the Auditor General  
Brades  
Montserrat  
September 2016

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## **ABBREVIATIONS**

DFID	Department for International Development
GDP	Growth Domestic Product
GIC	GIC Limited
GoM	Government of Montserrat
ISSAI	International Standards for Supreme Audit Institutions
MCC	Montserrat Cleaning Cooperative
MoE	Ministry of Education
MoF	Ministry of Finance
OAG	Office of the Auditor General
ODG	Office of the Deputy Governor
RMPS	Royal Montserrat Police Service
SDP	Sustainable Development Plan

## EXECUTIVE SUMMARY

This audit reviewed the Government's management framework for outsourced activities to determine if it is good enough to achieve results and ensure good value-for-money. To assess the framework, we reviewed the Government's policies, processes and practices for procuring services from the private sector and used four "activities", the School Transportation Service, School Lunch Programme, Cleaning Services and the Driving Examinations as examples to determine how the entire process was and is working.

In March 2013, according to former Premier Reuben T. Meade, "A key policy outcome is that of encouraging private investment to the island, and to support local entrepreneurs in business development. This is being done by creating the necessary framework within which they can operate. We will, among other things, continue to critically analyse the public sector and identify services which can be more efficiently provided by the private sector."<sup>1</sup> Cabinet (2013) approved the outsourcing of Government's Cleaning Services, School Lunch Programme, and the School Bus Service. The Driver's Licence Testing Services that is, written examination and road test were privatised effective December 1, 2013.

The audit found that GoM does not have an approved outsourcing plan or an outsourcing policy and procedures manual. Two of the outsourced activities are providing cost savings to Government of Montserrat (GoM) showing reduced cost over the three years of operation, however the costs of cleaning government buildings is increasing annually. The Workers' Cooperative is currently operating as a unit of the Office of the Deputy Governor (ODG). There was direct contravention of the procurement regulations with the treatment of the outsourcing of Government's cleaning services.

We found that not all of the outsourced activities were included in their respective Ministry's strategic plans and limited documentation was available for review. Only 2 outsourced activities went through Government's Tendering Process. However, we were unable to determine whether the key stages of the process were adhered to due to non-submission of documents. Also, contracts are being signed long after services have commenced. Such occurrences have been highlighted as the new norm and are deemed unacceptable as this can exposed the GoM to potential liabilities.

We therefore concluded that the re-emergence of outsourcing of government activities was a good decision notwithstanding the non-submission of some documents. More important,

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<sup>1</sup> Budget Statement 2013/14 – Counting our Blessings Amidst the Challenges

however, we concluded that senior government officials is responsible for ensuring that appropriate documentation, policies, procedures and controls are followed or put in place. We have made a number of recommendations to our findings around the management of outsourcing activities. The acceptance and implementation of these and other recommendations will bring about significant improvement.

Recommendation # 1: The introduction of an up-to-date outsourcing plan is advised in order to put forward proposals on which Government services could be further outsourced to the private sector, in the form of a three-year programme, together with supporting information. The introduction of an Outsourcing Policy and Procedures Manual will set out the current policy, provide information on precedents and lessons to be learned; and to suggest procedures for the implementation of outsourcing.

Recommendation #2: The cleaning services must be reviewed and a decision be made on the way forward on whether Workers' Cleaning Cooperative (MCC) will continue to be a unit of ODG or operate as it was intended – an outsourced activity.

Recommendation #3: There is the need to retract the appointment of a government employee as General Manager of the MCC as this is in contravention of the Cabinet Decision 59/2014 dated 30 January 2014.

Recommendation #4: There should be a culture of measuring performance of the service provider to ensure that performance in key result areas are monitored against targets, reported to appropriate management levels, and significant variances addressed.

Recommendation #5: The Procurement Division should ensure all contracts and contract amendments are signed between the GoM and service providers in a timely manner in order to fully protect the interests of the Government.

Recommendation #6: The consideration and implementation of a contract lodgement system will help management to keep abreast of contract expirations and thereby ensuring adequate performance monitoring and assessment.



## CHAPTER 1 Introduction

### Why we undertook the audit

We are committed to conducting a number of annual performance and special audits in order to provide assurance to Legislative Assembly on how effectively and efficiently projects or activities are administered and monitored. To ensure that we focus on areas that are topical and relevant for transparency and accountability purposes, we held several focus group discussions with various stakeholders within the public service and the private sector.<sup>2</sup> Outsourcing activities was one of the areas suggested for review.

### The objectives of the audit

The purpose of this review is to examine:

- the rationale for outsourcing these activities;
- whether the outsourced activities were adequately planned and implemented;
- the benefits, if any, gained from the contracts in comparison with the original arrangement;
- the extent to which there are adequate arrangements for monitoring service providers;
- any other related issues which come to attention in the course of this review.

The overall key controls tested for this review were (a) governance framework (b) regulatory framework and (c) performance monitoring and reporting.

### How we conducted the audit

The audit scope included a sample of four recent outsourced activities. During our review, the auditor performed the following activities:

- Reviewed the strategic context and purpose of outsourcing
- Conducted an examination of cabinet directives, business cases and request for proposals
- Reviewed GoM's procurement regulations
- Reviewed GoM's draft outsourcing plan, policies and procedures
- Interviewed Senior Management within related ministries/departments
- Interviewed all principals of public sector schools (primary and secondary)
- Reviewed contract and service level agreements

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<sup>2</sup> Focus group discussions were held during the period January – April 2013 to assist the OAG in identifying possible performance audit topics.

## Standards Used

We conducted this performance audit in accordance with International Standards for Supreme Audit Institutions (ISSAI) 300, 3000 and 3100. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for its findings and conclusions based on our audit objectives. Some areas were amended to maximize the efficiency of the audit.

## CHAPTER 2 Justification for Selected Outsourced Activities

1. In the public sector, outsourcing is the “contracting out” of functions to the private sector that historically have been provided by Government. Government retains overall control of the service, monitors performance, and pays the contractor for providing the service. The belief that there are functions which are best performed by the private sector is not new. Moving these functions from the public to the private sector requires a fair and open process in the public’s best interest.

### Strategic Framework for Outsourcing

2. A decision to outsource is in reality a strategic decision. The outsourcing process, in conjunction with the risk management, should be initiated at the strategic level. Where outsourcing is undertaken without adequate strategic planning, the number of risks that are not managed appropriately is likely to be considerable.<sup>3</sup> Such risks include hidden and uncertain costs, loss of control over the service, the quality of service rendered and lack of expert knowledge. The following criteria were used to examine the strategic framework of the GoMs’ outsourcing decisions.
  - A decision to outsource should:
    - Contribute to the achievement of the overall objectives of the organisation
    - Be consistent with the strategic direction of a ministry, department or agency
    - Be integrated with other plans, structures, and decision making processes.
  - Outsourcing strategies should be designed to achieve specific improvements, such as service quality or ‘value for money.
  - An organisation needs to maintain those management skills consistent with the ongoing needs of the business. These skills extend to managing contracts for outsourcing.
3. Presently, the economy of Montserrat is dominated by the public sector. A key strategy for the GoM is the rebuilding of a viable private sector on island. This has been articulated by past and current governments. It was included in the Sustainable Development Plan (SDP) as a priority of Government, and DFID is keen to assist GoM in advancing this policy in a variety of ways that will ensure a high degree of transparency, accountability and reflects the regulatory and market conditions that exist on island.<sup>4</sup>

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<sup>3</sup> *Guidelines for Managing Risk in Outsourcing utilizing the AS/NZS 4360 process*; SAA/NZS HB 240:2000, Standards Australia International, 2000, p 5

<sup>4</sup> Information Note by Hon Financial Secretary, November 2007

4. The SDP Strategic Goal 1 – where the private sector is expected to play a key role highlights “privatize traditional government services where appropriate and increase GOM engagement in Public Private Partnerships” as a top strategic action.
5. The Draft Outsourcing Plan by GIC highlighted over 20 services that were suggested for outsourcing as potential pilot projects each of which received a preliminary rating of 0-4. A rating of 4 indicates greater suitability for outsourcing. Three of the current 4 outsourced activities – school meals, bus and cleaning services were listed as good or potential candidates for pilot projects as they were considered to be non-core activities, received a rating of 3 or 4 and had the potential for realizing cost savings for the GoM. **Government does not have an approved Outsourcing Plan or Outsourcing Policy and Procedures Manual:** Draft consultation for these 2 documents was completed in May 2008 by GIC Limited. There is no indication that these documents were approved by GoM and DFID after the Policy and Procedures was issued on 17 April 2008.
6. While there was a central government approach to outsourcing some services, the Office of the Premier/Ministry of Finance (MoF) played the lead role in those activities which were reviewed as part of this audit. The MoF’s Strategic Plan 2011-2014 highlighted that two (2) services were to be outsourced per year for the first 2 years and that their medium term objective for the said period was to complete 3 business cases by September 2011 and 5 services outsourced by March 2014. There was no mention of the actual services that were going to be outsourced.<sup>5</sup>
7. There was limited evidence of involvement or of a co-ordinated effort between the MoF and some related ministries and/or departments. That is, limited documentation was available in the said ministries or departments who previously managed the outsourced activities.

### Business Cases

8. The majority of ministries or departments involved in outsourcing had developed strategic plans or other relevant documents. Consistent with their strategic goals, the Ministry of Education had documentation which clearly identified that the outsourcing of school meals programme was in pursuit of continuous improvement.<sup>6</sup> The ODG’s Strategic Plan 2014-2017 highlighted that the outsourcing of cleaning services was not achieved but that the office will continue to oversee the execution of this service and fulfilment of the terms of

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<sup>5</sup> Ministry of Finance and Economic Management Strategic Plan 2011-2014

<sup>6</sup> Ministry of Education’s Strategic Plan 2011-2014

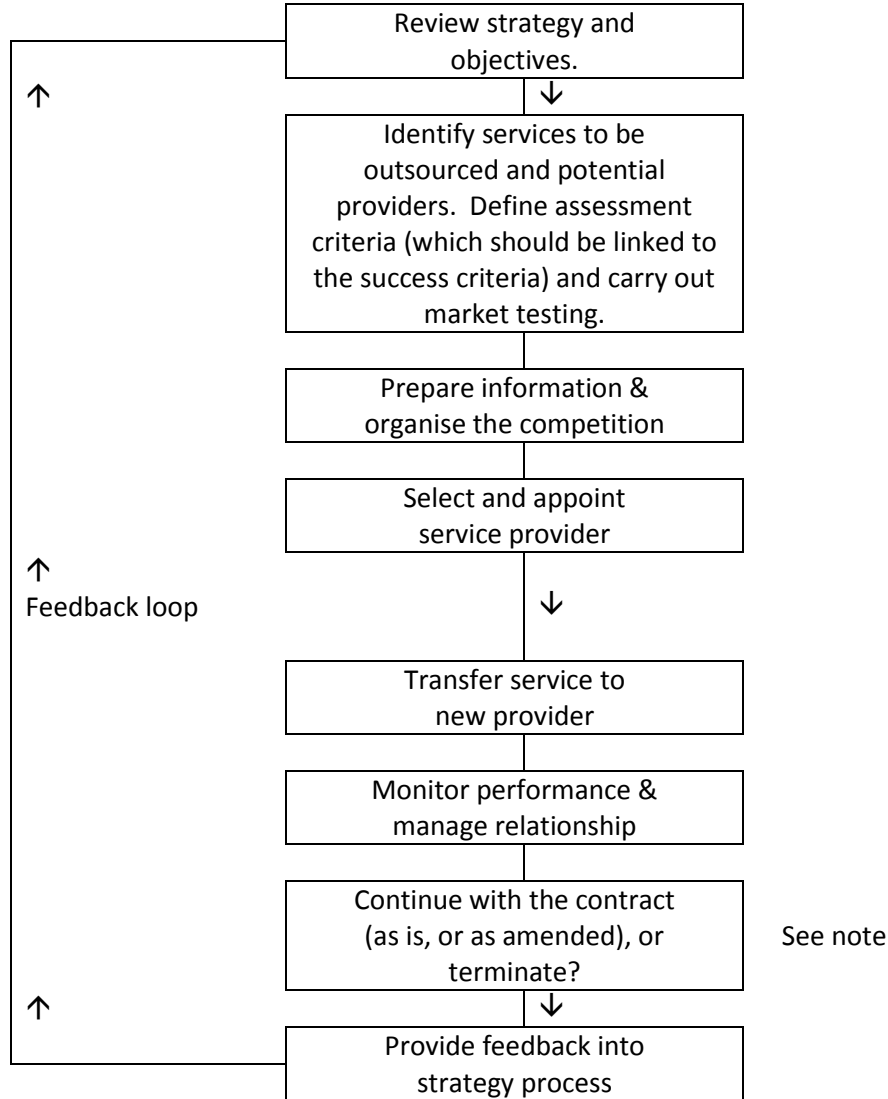
the agreement. There was no mention of outsourcing/privatisation of School Bus Service or the Driving Examinations in any of the strategic planning documents reviewed.

9. Business cases should identify the extent to which outsourcing is expected to deliver a measurable improvement in performance and costs. Where we did not receive a business case we sort to use cabinet memos as it was our conclusion that these two documents contained similar information. Consistent with the procedure of submitting business cases to seek Cabinet's approval we found that there were business cases/cabinet memos for 3 of the outsourced activities. Despite several requests, we did not receive sufficient information to adequately assess the outsourcing/privatisation of driving examinations.

### Tendering Process

10. For 30 years, competitive tendering and outsourcing has been a key method of delivering many public services and governments have increasingly moved to greater involvement with the private sector in delivering these services. This can take the form of privatisations, partnerships with the not-for-profit sector or outsourcing core or support services.
11. The existing regulatory framework relating to outsourcing is included in the Public Finance (Management and Accountability) (Procurement) Regulations 2012. Part 4 of the Regulations deals with the procurement of goods and services. This part covers in particular the procedures relating to tendering and the emphasis of the regulations is on maintaining propriety. The regulations listed the methods or procurement of goods and services as (i) open tendering (ii) restricted tendering (iii) request for quotations and (iv) single-source procurement.
12. We noted that 2 of the recent outsourced activities – school lunch and bus services went through the Government's Tendering Process of inviting parties to submit an expression of interest but other related documentation were not submitted for audit review. Therefore, we were unable to assess whether the key stages of the outsourcing process as highlighted below was followed due to the non-submission of documents (proposals, evaluation of offers and minutes of the Tenders Board) to substantiate claims that they were.

### Key Stages of an Outsourcing Process



Note: contract management procedures will need to distinguish between 'poor performance' and 'non-performance'. Poor performance is performance which is below standard, but which the service provider may be able to rectify. Non-performance is performance which falls so far short of the required standard that it represents a breach of the contract which may be irremediable, and lead to termination of the contract by the client.

*Source: Draft Outsourcing Policy & Procedures v2, 12 May 2008 - GIC*

## CHAPTER 3 Procurement of Selected Outsourced Activities

### Outsourcing Procedures

13. **School Bus Service** – Four proposals were received and evaluated by the Procurement Board and a preferred tender was identified. A contract was awarded for 5 years commencing 3 January, 2013.<sup>7</sup> We were not given sight of these proposals and the relevant evaluation.
14. **School lunch Service** – Seven proposals were received and evaluated and a preferred tender was identified as indicated in the related business case. A contract was awarded for 3 years commencing 3 January 2013.<sup>8</sup> The relevant documentation was not submitted for audit review.
15. **Cleaning Services** – Cabinet approval was sort for outsourcing of cleaning services. Two options were proposed – public tender and cooperative outsourcing. The latter was approved by Cabinet and was a restricted process open only to the existing pool of cleaners.
16. In accordance with the Public Finance (Management and Accountability) (Procurement) Regulations 2012 restricted tendering is an option that can be used by the Government of Montserrat. However, the criteria as laid down under section 21 (1) *A procuring entity may engage in procurement by means of restricted tendering in accordance with this regulation when –*
- (a) *The goods, construction or service by reason of its highly complex or specialized nature, is available only from a limited number of suppliers or contractors*
  - (b) *The estimated cost of the procurement contract is below \$20,000; or*
  - (c) *The time and cost required to examine a large number of tenders would be disproportionate to the value of the goods, construction or service to be procured.*
17. Section 21 (4) *When the restricted tendering procedure is used – (b) the procuring entity shall cause a notice of the restricted tendering to be published.* Cabinet approved the outsourcing of Government’s cleaning services to the prescribed Workers’ Cleaning Cooperative effective 1 January, 2013.<sup>9</sup> This we found was in direct contravention of the named Procurement Regulation above as the requirements of Section 21 (1) was not met. Whilst this transition is continuously referred to as an outsourced activity it has not met the

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<sup>7</sup> Cabinet Memo 2012/233 dated 15<sup>th</sup> November 2012 – Outsourcing of School Bus Service

<sup>8</sup> Cabinet Memo 2012/234 dated 15<sup>th</sup> November 2012 – Outsourcing of School Lunch Service

<sup>9</sup> Cabinet Decision 511/2012 dated 29<sup>th</sup> November 2012 – Outsourcing of Cleaning Services

requirements or processes of outsourcing as outlined in the regulations. Additionally there was no indication that the procuring entity namely ODG published such notice in the Gazette, local newspaper or online.

18. It was highlighted that the majority of cleaners opted for cooperative outsourcing that was presented by the Office of the Deputy Governor (ODG) and representatives of the MoF. The decision was further made for the Montserrat Development Cooperation (MDC) to provide the relevant technical assistance and management training for the first 12 months and the members would manage the business thereafter. This was never initiated and, 3 years on, the Office of the Deputy Governor is still playing a pivotal role in the running of the cleaning service and thus operating as another unit.
19. Cabinet decision 59/2014 dated 30 January 2014, states **“It was reiterated that no Government Officer should be the lead person managing the affairs of the Cooperative.”** A government employee was appointed as General Manager of the MCC and despite subsequent directive made by Cabinet it was never retracted. Additionally, it was observed that ODG does not have a professional distance from the Cooperative as they provide technical assistance to the organisation. At the time of this audit, there was no signed contract between MCC and the GoM that is the ODG.
20. **Driving Examinations** – A call for proposals on how the services could be privatised and administered outside the Royal Montserrat Police Service was circulated and a single proposal was received.<sup>10</sup>
21. The Public Finance (Management and Accountability) (Procurement) Regulations 2012 section 38 (1), states *“A procuring entity shall request proposals for consulting services or where applicable, applications to prequalify by causing a notice to be published, seeking expressions of interest in submitting a proposal.”* Section 41 states, *“A procuring entity may select a consultant based exclusively on the technical quality of the submitted proposal where the consulting services are of an exceptionally complex nature.”* Section 43 states, *“A procuring entity may engage in single-source procurement where the services to be procured require that a particular consultant be selected due to the consultant’s unique qualifications or where it is necessary to continue a project with the same consultant.”*
22. We were unable to review and verify the proposal through to the service being privatised due to the non-submission of related documents, despite several requests.

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<sup>10</sup> Cabinet Memo 45/2014 dated 7<sup>th</sup> February 2014 – Appointment of Examining Officers



## Annual Cost to Government

23. GoM outsourced in the pursuit of specific improvements in costs, service quality, greater efficiencies, and mainly the rebuilding of a sound and viable private sector. The business cases/cabinet memos submitted by MoF included the annual cost of these services to government and it was highlighted that GoM would realize cost savings by outsourcing the services.
24. A starting point for understanding where the GoM stands in terms of the success of outsourcing is capturing the costs incurred after the transition to the service provider. The following table illustrates the cost to government prior to outsourcing and the associated cost covering a 2 to 3 year period since the outsourced activities in 2013.

### Previous Cost & Current Cost of Outsourcing

Description	2013	2014	2015
	\$	\$	\$
Annual <b>Bus</b> Cost Est. (as per cab memo 2012/233)	395,525		
Payment to Service Provider (as per Smartstream)	268,843	228,633	255,700
Annual <b>Lunch</b> Cost Est. (as per cab memo 2012/234)	171,676		
Payment to Service Provider (as per Smartstream)	90,745	117,609	117,858
Annual <b>Cleaning</b> Cost (as per cab memo 2012/236)	404,000		
Payments to MCC (2013 is for 6 months i.e. Jul-Dec as per Smartstream)	210,681	413,947	491,627

25. **School Bus Service** – The figures indicate that this service is providing cost savings to the GoM when comparing previous cost to current cost. Government has saved over \$100,000 each year since this service was outsourced. Despite this, the administrative work on the Ministry has become more burdensome in relation to the ticketing system that has been put in place.
26. **School Lunch Service** – This outsourced service has also resulted in cost savings to the GoM and interviews have highlighted a general satisfaction towards the service provider. Government has saved over \$50,000 in the last 2 years. Additionally, the meals are more nutritious which was a key requirement attached to the agreement. Principals at the various schools have confirmed that the service has improved significantly.
27. **Cleaning Services** – The annual cost of this service to government prior to the set-up of a MCC was \$404,000, which includes supplies, labour and administrative assistance as per

cabinet memo 2012/236 dated 15 November, 2012. Smartstream payments to the Co-operative has indicated that in the last half of 2013 payments for labour stood at 51% of the annual cost to government. In 2014, the payments to MCC were \$9,947 above the estimated cost to government and thereafter increased by \$76,680. Supplies provided by government departments are not included in the calculations above as each department is responsible for purchasing their own cleaning supplies. This activity is not achieving cost savings and all indications are pointing to continuous increases in years ahead based on current projections.

28. **Driving Examinations** – No payments are made to this service provider by government; customers make payments directly to the service provider and there is a charge of \$50 payable to the Licensing Department. Although this service was privatised this service provider was subsidized by GoM by the use of government’s resources such as the facilities to conduct examinations and government employees by way of cleaning and collection of fees at no cost to the service provider at the time of the audit fieldwork.

29. The benefit derived from this privatisation was that it allows the Royal Montserrat Police Service who was previously responsible for driving examinations to concentrate on traffic enforcement rather than the administration aspect. This further created greater independence as it is a non-core policing function.

## CHAPTER 4 Contract Management & Administration

### Managing Cost of Outsourcing

30. The GoM did not routinely collect the costs of managing outsourcing contracts and the relationship with the service provider. Several key persons being interviewed observed that planning, implementing and managing outsourced services demands considerable management time and skill. As a comprehensive monitoring regime was not instituted one cannot with any certainty estimate the financial effect of inadequate management.

### Procurement

31. Discussions with key officials highlighted a lack of adequate communication and involvement with some persons who were previously managing some of the outsourced activities. For the single source/proposal, the audit expected to find sufficient justification is retained for audit trail purposes to demonstrate support that the contracting did not fall under any of the exceptions which allow for bypassing competitive bidding. During the period under audit, management noted that it was a MoF requirement to provide supporting justification for the outsourced services. We are of the view that adequate documentation was not properly maintained in some instances.

32. We found limited evidence of a monitoring and assessment programme for the outsourced activities and thus the outsourcing programme must be strengthened to improve upon future outsourced activities. Another essential component of any outsourcing activity is an effective performance measurement framework that assesses how well the programme is achieving its objectives and intended outcomes as well as achieving value for money.

33. Generally, we found that the outsourcing of the activities was not managed adequately despite cost savings reported and felt the procedures could have been more efficient. There is no one individual with overall responsibility for contract management across government, though our discussions indicated that at the top of the service there is a fairly good understanding of the importance of effective contract management. For example, the Ministry of Education is actively involved in ensuring that the Ministry receives the services paid for or are paying for. However, there was no evidence of documented plans for managing contracts or any evidence of continuous performance monitoring.

34. It was found that there have been instances where contractors provided services to the GoM without a valid contract. Such occurrences have been highlighted as the new norm in the public service and are considered to be an unacceptable practice. The contracts

reviewed were signed after the effective date of the contractual documents. For example MoE - services commenced on 7 January 2013 and the contract was signed by the relevant parties on 14 May 2013 (4 months later). In our opinion, the risk that services were being rendered without a valid contract could have exposed the GoM to potential liabilities.

## CHAPTER 5 CONCLUSION

35. In the past, the private sector was considered to be a major contributor to GDP and at this present time, the economy of Montserrat is dominated by the public sector. The re-emergence of outsourcing some of Government activities will help to rebuild the private sector and as a result contribute to GDP. Two activities are achieving significant cost savings.
36. Government does not have an approved outsourcing plan and an outsourcing policy and procedures manual. Additionally, not all of the outsourced activities were included in their respective Ministry's strategic plans and hence the outsourcing in two cases was dealt with in an ad-hoc manner resulting in a rush to approve and outsource key activities. We concluded that the Government must plan adequately and still needs to develop and implement more practices and procedures. Senior government officials must ensure that these are followed to improve efficiency and for their actions to be effective.
37. Contracts are being signed long after services have commenced. Such occurrences have been highlighted as the new norm and are deemed unacceptable as this can expose the GoM to potential liabilities. There was also limited evidence of monitoring and assessment of the contractual obligations.
38. Stemming from this and our previous work on other reviews we note an increase in non-submission of documents when requested by our office. Only 2 outsourced activities went through the Government's Tendering Process. However, we were unable to assess whether key stages of the process were adhered to due to non-submissions. Despite several requests, we also did not receive sufficient information to adequately assess the outsourcing/privatisation of driving examinations. This reduced our ability to provide more information to the reader on the transparency and effectiveness of government procedures.
39. We concluded that there was a direct contravention of the Procurement Regulations with the outsourcing of Government's office cleaning services. The treatment of this did not meet the requirements as laid down in the Procurement Regulations 2012. The Cooperative is operating as a unit of ODG.
40. We have made a number of recommendations in this report at Appendix B that highlight the need to strengthen the management framework for outsourcing activities.

## CHAPTER 6 MANAGEMENT RESPONSE

41. Our draft report together with a covering memorandum dated 25 July 2016 were submitted to the various entities soliciting their responses by the 15 August 2016. No responses were received within the deadline given and a further email dated 23 August was sent as a reminder. This email gave a further deadline of the 25<sup>th</sup> August for the receipt of responses in an effort to meet our target for submission of the report to the Legislative Assembly. The responses received are detailed below.

### Ministry of Education's Management Response

42. By email dated 24 August 2016, the Acting Permanent Secretary replied "Kindly note that the MoE does not wish to submit any comments".

### Ministry of Finance's Management Response

43. By email dated 31 August 2016, the Financial Secretary replied and his responses are within the Table at Appendix B.

### Office of the Deputy Governor's Management Response

44. By email dated 22 September 2016, the Head of ODG replied -

"The Office of the Deputy Governor (ODG) was instructed by Cabinet to outsource the Cleaning of Government Offices. As a result, GoM made thirty three (33) cleaning jobs redundant on December 31, 2012 and paid the affected employees Severance Pay as prescribed by Section 15 of the Employment Act Cap.15.03. Twenty seven (27) of the terminated cleaners were subsequently formed into the Montserrat Cleaning Cooperative (MCC).

The MCC was registered as a business on 28<sup>th</sup> December 2012 and entered into a Service Level Agreement (SLA) with the Government of Montserrat effective 1<sup>st</sup> January 2013 to carry out its Cleaning Services. An additional number of cleaners who had worked as substitutes for the Government of Montserrat on an adhoc basis also joined the Cooperative. Consequently, the figures quoted in the Audit Report are not correct and does not reflect the impact of this increase in staff on costs. Additionally, cleaners sick and annual leave require additional payment to substitutes. No mention of this is made in the Audit Report as to why there are increases.

The SLA outlines the Services to be provided by the MCC. It was expected that a formal Contract would have been in effect by the beginning of FY 2015/16 but the support promised by the former Minister of Finance from the Montserrat Development Corporation (MDC) to the MCC did not materialise. Consequently, ODG requested a New Spend in its 2015/16 Budget for the MCC to procure the business advice and assistance it needs to develop and implement systems that will allow the Cooperative to negotiate a Contract with GoM that makes business sense. Although the Board/Management Committee of the MCC had several discussions with different persons, they have not been able to decide on a particular consultant. However, ODG has given its commitment to the MCC to pay for the services of a Consultant to help them organise themselves into a more effective and efficient body.

MCC is currently paid a quarterly fee of \$105,000 with scope for adjusting subsequent payments based on actual costs incurred. The quarterly fee paid to MCC is not a negotiated figure but is broadly based on their cost of labour (wages) to GoM and does not include an amount for cleaning materials, consumables and equipment; the procurement of which is still done by government.

In spite of the fact that the MCC is made up of a group of women who are largely unskilled and uneducated, the MCC appears to be doing well in terms of organising and managing their cleaners. They are also very responsive and helpful in emergency situations that present themselves from time to time in the operation of Government. To my mind, the real question, indeed, challenge, for the Government of Montserrat is how do we create an enabling business environment in which this cooperative of women can thrive and grow.

With respect to your finding that the Outsourcing of Cleaning was a direct contravention of the Procurement Regulations, I make the following points:

1. Cooperative Outsourcing provided a safety net for the group of existing cleaners and therefore a case was made to Cabinet for the Cooperative Outsourcing of GoM's Cleaning Services to avoid the sudden, mass-unemployment of over 30 workers and the devastating impact that would have socially and economically;"

## Auditor's Comment

We note the response from the Office of the Deputy Governor and are cognizant of the need to hire women. We however wish to highlight/reiterate the following:

1. **Escalating Costs.** The statement that the MCC is hiring more women merely highlights and supports our assessment that the cost to government is escalating when compared to pre-outsourcing operations. This is in direct opposition to the envisioned benefit of reducing overall costs. Further, as stated the MCC is a registered business. Costs incurred in excess of the outsourcing agreement, should be absorbed by the business.
2. **Contravention of the Procurement Regulations.** We do not dispute that Cooperative Outsourcing 'provided a safety net for the group of cleaners' and that it lessened the impact of 'sudden, mass unemployment'. We do however reiterate that to the extent that it is not one of the four tendering methods laid out in the procurement regulations, there was a breach.



## APPENDIX A – PERFORMANCE AUDITING

### Performance Auditing

What are performance audits?

Performance audits determine whether an auditee is carrying out its activities effectively and doing so economically and efficiently and in compliance with all relevant laws.

Performance audits may review a government program, all or part of a government department or consider particular issues which affect the whole public sector.

Where appropriate, performance audits make recommendations for improvements.

#### Why do we conduct performance audits?

Performance audits provide independent assurance to Legislative Assembly and the public that government funds are being spent efficiently and effectively, and in accordance with the law.

Performance audits seek to improve the efficiency and effectiveness of government departments so that the community receives value for money from government services.

Performance audits also assist the accountability process by holding accounting officers to account for departments performance

#### What are the phases in performance auditing?

Performance audits have three key phases: planning, fieldwork and report writing.

During the planning phase, the audit team will develop audit criteria and define the audit field work.

At the completion of field work we will meet with auditee management to discuss all significant matters arising out of the audit. Following this, we will prepare a draft performance audit report.

We meet with agency management to check that facts presented in the report are accurate and that

recommendations are practical and appropriate.

Following this, a formal draft report is provided to the Head of the Department (HoD) for comment. The final report, which is tabled in Legislative Assembly, includes any comment made by the HoD on the conclusion and the recommendations of the audit.

Depending on the scope, performance audits can take several months to complete.

Copies of our performance audit reports can be made available upon request.

#### How do we measure a department's performance?

During the planning phase, the team develops the audit criteria. These standards of performance against which the department, program or activity is assessed. Criteria may be based on best practice, government targets, benchmarks, or published guidelines.

#### Do we check to see if recommendations have been implemented?

Every year we conduct follow-up audits. The follow-up audits look at the extent to which action has been taken to address issues or recommendations agreed to in an earlier performance audit.

The Public Accounts Committee (PAC) may also conduct reviews or hold inquiries into matters raised in performance audit reports. Departments may also be requested to report actions taken against each recommendation.

#### Who audits the auditors?

Our performance audits are subject to internal and external quality reviews against relevant local and international standards.

The PAC is also responsible for overseeing the activities of the Audit Office and may conduct a review of our operations.

## APPENDIX B – RECOMMENDATIONS

Recommendation	Management Response	Responsibility	Date of Planned Implementation
<p>#1: The introduction of an up-to-date outsourcing plan is advised in order to put forward proposals on which Government services could be further outsourced to the private sector, in the form of a three-year programme, together with supporting information. The introduction of an Outsourcing Policy and Procedures Manual will set out the current policy, provide information on precedents and lessons to be learned; and to suggest procedures for the implementation of outsourcing.<sup>11</sup> Going forward there is the opportunity to strengthen and improve this area and ensure that adequate documentation is put in place.</p>	<p><b>Financial Secretary</b> – Agreed - Following the audit report the issue of further outsourcing requirement will need to be further discussed with the Permanent Secretaries, MoF are currently not aware of any potential outsourcing at this current time. This will be reviewed over the coming months.</p> <p>Agreed - As part of the above mentioned reviewed it will be required to define the Policy of Government on outsourcing.</p> <p>If Required - Dependent on the review above and if required, a procedures manual would need to be developed.</p>	<p>MoF</p>	<p>31 December 2016</p> <p>31 December 2016</p> <p>31 March 2017</p>
<p>#2: The cleaning services must be reviewed and a decision be made on the way forward on whether</p>		<p>ODG</p>	<p>Refer to ODG'S Management Response on page 17 # 44</p>

<sup>11</sup> Montserrat Outsourcing Policy & Procedures Version 2: 12 May 2008 by GIC Limited

Workers Cleaning Cooperative will continue to be a unit of ODG which may require some adjustments to its current operation or operate as it was intended – an outsourced activity.			
#3: There is the need to retract the appointment of a government employee as General Manager of the Worker’s Cooperative as this is in contravention of the Cabinet Decision 59/2014 dated 30 <sup>th</sup> January 2014.		ODG	No response from ODG
#4: There should be a culture of measuring performance of the service provider to ensure that performance in key result areas are monitored against targets, reported to appropriate management levels, and significant variances addressed.	<b>Financial Secretary (MoF)</b> – Agreed - In the future all outsourcing will be required to include performance measures and be monitored. This will be the basis on contract management which will include PIs. This will be included in the new procedures.	MoF, MoE, ODG	31 March 2017  No response from MoE or ODG
#5: For effective contract management, there needs to be a regime of regular communication between the GoM and the service provider and other stakeholders.	<b>Financial Secretary (MoF)</b> – Agreed - this clearly needs to be improved and will be included in the new procedures.	MoF, MoE, ODG	31 March 2017  No response from MoE or ODG

<p>#6: The Procurement Division and other stakeholders should ensure all contracts and contract amendments are signed between the GoM and service providers in a timely manner in order to fully protect the interests of the Government.</p>	<p><b>Financial Secretary (MoF)</b> – Agreed - A complete review of the procurement process has been actioned, this will include a full revision of procedures which will include the signing of contract documents in a timely manner.</p>	<p>MoF, MoE, ODG</p>	<p>31 January 2017</p> <p>No response from MoE</p>
<p>#7: There is a need to improve upon the management of outsourced activities and contract management for the GoM. This may involve proposal requests, establishing budgets for potential outsourced activities and reviewing proposals that are submitted. Consideration for an individual to be hired to assist with contract management and report to Public Procurement Board. This person may also be responsible for approving proposals and monitoring progress and performance of those hired to provide services to Government.</p>	<p><b>Financial Secretary</b> – this clearly needs to be improved and will be included in the new procedures.</p> <p>Fully supported - there is a clear need for this role and this will need to be discussed with a number of other stakeholders to take forward. Would see this role sitting within MoF and reporting to the FS and through to the Procurement Board.</p>	<p>MoF</p>	<p>31 March 2017</p> <p>31 March 2017</p>
<p>#8 The consideration and implementation of a contract lodgement system will help management to keep abreast of</p>	<p><b>Financial Secretary</b> – Agreed - A control process of all contracts needs to be implemented - would suggest that this is a centrally held function and would see this sitting within Procurement. This</p>	<p>MoF</p>	<p>31 January 2017</p>

contract expirations and adequate performance monitoring and assessment etc.	will be considered as part of the review of Procurement.		
#9: There is an opportunity to improve documentation going forward when considering further outsourcing services. Develop a practice to ensure appropriate documentation is retained or exist to justify the need to outsource and ensuring that there is a paper trail for transparency and accountability purposes.	<b>Financial Secretary (MoF)</b> – Agreed - As part of the above mentioned reviewed it will be required to define the Policy of Government on outsourcing.	MoF, MoE, ODG	31 December 2016  No response from MoE