



REPORT

ON

AUDIT OF
SMALL BUSINESS GRANT
PROGRAMME

FOR THE PERIOD OCTOBER 2006- APRIL 2007

Prepared by

OFFICE OF THE AUDITOR GENERAL
BRADES, MONTSERRAT
MAY 2007

**Performance of the Small Business Grant
Programme**

This is the report of a performance audit we
conducted under section 8(f) of the Audit Act 2001.

May 2007

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FOREWORD

The Office of the Auditor General has decided to expand the range of services it offers to its clientele. This includes a commitment to undertake value-for-money/performance audits. I have decided to conduct the audit of the Small Business Grant programme as a performance audit. This is to provide assurance to Parliament and other stakeholders that the grant programme is well administered, with monies being allocated as intended.

Helpful systems such as the appointment of an Allocations Committee and development of weighting system were used to manage the scheme. However, my expectations for how the grant programme should be managed were not met.

Suggestions for improvements were recommended for two broad areas: development and assessment of criterion, and monitoring of the scheme. These were discussed with the Permanent Secretary, Development Unit who has agreed to the recommendations.

During the course of the audit, we interviewed several staff within the Development Unit and the Honourable Minister of Finance. We wish to convey our gratitude for the information shared and assistance given.

Florence A Lee
Auditor General

May 2007

SUMMARY

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.

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

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

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

Criteria

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

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 must be accorded higher weighting and general guidelines for use of weights should be developed.

Documentation

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

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

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.*

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.

CHAPTER 1

1.0 INTRODUCTION

In this part we set out:

- why we undertook this performance study;
- the objectives of the study; and
- how we conducted the audit.

1.1 Why we undertook the study

We are committed to conducting a number of annual performance audits and have selected the Small Business Grant Programme to perform this type of audit. The purpose of this audit is to provide assurance to Parliament on how effectively and efficiently this programme is being administered. It is important that grants are given in accordance with the Government's intentions, and that grant recipients spend the money as planned.

We agreed to conduct the audit of the grant programme at this time for the following reasons:

- We were asked by the administering Department to perform the audit;
- It was the first of this type of activity being undertaken by that Department;
- Lessons learnt were to be used to inform development of criteria for management of further grant programmes.

1.2 Objectives of our audit

Our audit sought to assess and report on the effectiveness and efficiency of the Small Business Grant programme.

The broad objectives of the audit were to determine whether

- Policies and procedures were in place to manage disbursement of grants;
- Assessments were conducted in accordance with set criteria;
- grants were issued to recipients based on established criteria.

1.3 How we conducted the study

Fieldwork

We reviewed grant documentation, examined SMARTSTREAM financials to determine expenditure incurred and interviewed staff in the Development Unit. We also sought Ministerial oversight on the implementation and management of the Scheme.

Our audit criteria

We developed a set of audit criteria that we assessed the performance of the Small Business Grant against. We audited whether:

- there were sound and appropriate criterion and guidelines in place to ensure that grants were in keeping with policy objectives;
- these criterion and guidelines were being complied with;
- there was appropriate monitoring of grants as they were paid; and
- there were appropriate frameworks in place to evaluate the grant programme.

We expected:

- the assessment, approval and management of grant applications to be sound and comply with well-defined guidelines and procedures;
- approved grants to be effectively monitored; and
- the scheme to be evaluated to see if expected results were being achieved, and, if not, that programmes would be redesigned accordingly.

We did not examine the performance of the grant recipients to see whether they had acquired the items or used the grant as outlined in their applications. We did however assess whether the Development Unit had systems in place to effectively monitor grant recipients.

CHAPTER 2

2.0 SMALL BUSINESS GRANT SCHEME

In this Part, we:

- ❖ Provide an overview of the Small Business Grant Scheme, including information on our audit sample; and
- ❖ Discuss our findings from the applications and grants we audited.

2.2 OVERVIEW OF SMALL BUSINESS GRANT SCHEME

The Small Business Grant Scheme was administered by the Development Unit within the Ministry of Finance and Economic Development. The Development Unit has many duties and responsibilities. Part of these duties requires the Unit to oversee private sector development on Montserrat. It therefore recognizes small businesses as a critical part of this sector and aims to assist in its development.

The purpose of the scheme was multi-faceted. The developers wanted to alleviate hardship experienced by small businesses that were struggling in the current economic environment; assist owners in improving their businesses; help them to expand and make them more effective. The target audience was businesses employing one (1) to ten (10) persons and with an investment of \$10,000 to \$100,000. Micro businesses with less than \$10,000 in investments were also considered to be part of the scheme.

\$50,000 was placed in the scheme for distribution. The scheme originally advertised grants up to \$10,000. However, it was felt that it was more prudent to spread the funds among more businesses and the ceiling was reduced to \$5,000. It was also agreed that, as a means of showing commitment to the scheme, businesses should meet some of the cost of procuring the good(s) or service outlined in their application.

Our audit sample

Our Small Business Grant audit sample was chosen from applications recommended for funding approval between 23 October and 8 November 2006. There were fifteen (15) approved applications valuing \$50,000. By end February 2007, \$39,536 was expended with an additional \$10,464 awaiting disbursement. At the end of April 88% of the funds were disbursed.

We audited 14 grants involving payments. This represented 93% of the approved grants made with payments, and 100% of the total value of the payments made. Our sample included grants for completed projects and approved but incomplete projects. We also examined all of the applications rejected by the Allocations Committee during the same period.

2.2 MINISTERIAL CRITERIA FOR AWARDING GRANTS

The Development Unit must comply with criteria provided in a Ministerial directive issued by the Minister of Finance and Economic Development. The Ministerial direction for the Small Business Grant scheme sets out:

- ❖ the criteria for characteristics of grant recipients;
- ❖ the criteria the Development Unit should assess applications against when making funding decisions; and
- ❖ how funding should be allocated.

The Ministerial direction was verbally given and required the Development Unit to target small businesses employing 10 or less and encountering hardships. The Ministerial direction also required the Development Unit to accept projects that best meet the following criteria:

- Businesses without any other source of income
- Create employment opportunities
- Clearly demonstrate beneficial need to improve product or service delivery
- Provide goods for export or import substitution

An additional four (4) criteria were added by the Small Business Grant Allocation Committee (hereinafter referred to as the Allocations Committee). These were

- Grant allocated to items of sustainable nature, e.g. capital item acquisition
- Grantee's input [together with grant] must be sufficient to acquire the capital item
- Business/Project must be sustainable/viable
- Grant must show clear impact on the business

2.3 FINDINGS

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

2.3.1 Criterion used

The criteria were routinely applied to assessment of applications with the exception of the criteria that "businesses must not have any other source of income, show clear demonstration of beneficial need and business/project must be sustainable/viable".

It was unclear whether any effort was made to determine whether all applicants had any other source of income. Additionally, it could not be determined whether "need" was fully investigated.

Further, it was unclear whether all applications were required to meet all criteria or how many of these criteria were expected to be met before the grants could be issued.

Moreover, no financial information was collected to enable the assessment of business/project viability. Hence, the assessment only took a peripheral consideration of the length of time the business was operational.

All grants we audited met some criterion but no application met all criteria.

Recommendation 1

We recommend that 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.

Recommendation 2

We recommend that the Development Unit establish whether the applications must meet all criteria and determine which criterion must be met before the grant can be issued.

2.3.2 The Approval Process

Applicants prepare and submit their written applications, often in the form of a letter, detailing their request for the grant. In some cases the Development Unit provided additional information and/or application development assistance, when needed, to enable applicants to prepare applications for the grants.

Assessment criterion was developed by the Department. An Allocations Committee was set up comprising of three members - two from within the private sector and an economist from within the Unit. The Development Unit also provided secretarial support to the Committee. This Committee was given the task of assessing applications against set criteria and awarding grants.

A weighting system which allocated scores to the criterion elements was designed. Capital items acquisition was assigned the highest rating score of 10 while project fit with objectives of Sustainable Development Plan was assigned a low score of 3.

Perusal of the scoring sheet indicated the need for clarity in the assignment of eventual scores. There was no documentation of the guidelines used to determine what conditions must be met for the criterion to be accorded a full score, or a median score.

Recommendation 3

We recommend continued usage of the weighting system. 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.

Recommendation 4

We recommend that 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.

Fifty-one (51) applications valuing \$506,833.52 were reviewed by the Committee. Nineteen (19) applications were rejected. Of the thirty-two (32) applications accepted, twenty-six (26) were short-listed pending further review. No information was appended to individual grant applications as to reason for refusal or acceptance. Neither was there any documentation in minutes of meetings on this aspect of the Committee's deliberation. Perusal of two (2) members of the Committee's personal grant file did not shed any further light as to the reason for refusal or acceptance.

Recommendation 5

All the Committee's deliberations should be adequately documented to provide transparency, written support of recommendations and to facilitate independent review.

The Committee conducted field visits to gain further insight into the grant requested. The Committee also determined the amount of grant to be issued to successful applicants. Recommendations were developed and forwarded to the Permanent Secretary. Figure 1 below presents a summarized pictorial view of the approval process.

Figure 1
Approval Process for Grants for Small Business Scheme

Application phase	Applicants prepare and submit applications. Development Unit staff provide information and assist application preparation when needed.
Assessment phase	Allocations Committee assesses applications against criteria. Some field work is conducted to validate applications the committee deems to have met the criteria.
Approval phase	Weighting system is used to assign scores to criteria. Applications gaining highest scores are accepted. Recommendations are accepted by the Permanent Secretary without any further review.
Contract formation phase	All applicants are notified in writing of outcome of their application. For approved grants, a written contract is prepared.

Assessment, approval, and contract formation phases

All audited grants complied with the requirements of the assessment, approval, and contract formation phases of the approval process. We found several occasions where the Allocations Committee sought further clarification from applicants on aspects of the applications that were unclear.

We reviewed all rejected applications. These were applications that generally did not fit within the criteria since the purpose grant requested was to purchase stocks, were start up businesses hence viability could not be determined or applicants had other sources of income.

Given the funding cap of \$50,000, only fifteen (15) grants could be accommodated. Grant funds ranged from \$1,600 - \$5,000. Two (2) of the grantee's did not meet the primary criterion of "no other source of income". This anomaly arose because all applications were assessed on the basis of 'primary source of income' rather than the authorized criterion of 'no other source of income'. For our suggestions, see Recommendation 1.

2.3.3 Documentation

Paper files were used to document this grant programme. All applications were held on file including copies of the signed contracts. By signing the contracts, grantee's accepted the terms and conditions under which the grant was administered.

Most applications were in the form of letters which did not capture all the criterion elements and necessitated field work to get omitted information. For example, some applications did not state the number of persons employed although this was expressly required.

Recommendation 6

We recommend that standardized forms containing requests for required information be prepared for future programmes. This would ensure that all applicants complete the required fields.

Paper documents were well organized and maintained by the Development Unit. In all cases we could easily locate important documents however we were not always able to follow the processes and decisions made.

2.3.4 Monitoring Of Grants

No progress reports were requested. However, the Development Unit is committed to making field visits to monitor the use of grant funds and progress of projects submitted for grant funding. Allowing field visits were included in the contracts as a condition to accepting the grants. No visits had been completed at time of audit but were scheduled to begin soon.

2.3.5 Evaluation Of The Scheme

It is imperative that grant programmes be evaluated to assess their effectiveness. Management indicated that no consideration was given to the evaluation of this scheme because of the short timeframe from development to implementation.

Recommendation 7

We recommend that 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.

Management committed to using the lessons learnt from operating this small scheme to inform plans and programmes for larger grant scheme.

CHAPTER 3

3.0 MANAGEMENT RESPONSE

In this Part, we

- Discuss the intent of Management Responses
- Provide actual Management Response on Report of Small Business Grant Scheme.

Intent of Management Responses

Auditors gather different types of information during the course of an audit exercise. This information is recorded, analyzed, opinions formed and presented to management, along with recommendations, in the form of Management Letters or Reports. Eliciting a management response provides a last opportunity for clarification of reported information and acceptance or rejection of recommendations.

Actual Management Response

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

“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.

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.

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

CHAPTER 4

4.0 CONCLUSION

The scheme to "assist small business owners" was effected with good intent. It was intended to assist small business owners whose businesses were in distress and required financial assistance to enable it to regain its viability.

A number of good controls were built into the system - Allocations Committee with trained and knowledgeable personnel, conducting of field work, weighting system, and issuing contracts to grantees. However, the grant scheme was hastily developed and implemented hence not sufficient time was spent assessing the various elements of the programme before the project was advertised. For example, more focus was needed to determine relevant criteria for the scheme, and the monitoring and evaluation aspects of it.

The goal of any social programme is to improve the quality of life of beneficiaries of the programme. Such programmes must be planned and organized in a manner that would ensure expected outcomes and value-for-money are achieved.

Taking into consideration the need for transparency and accountability in all programme activities, the suggested improvements in the administration of the programme, the potential for expansion of this sector and its contributions toward the development of Montserrat, it may be desirable for further assistance to be given.