



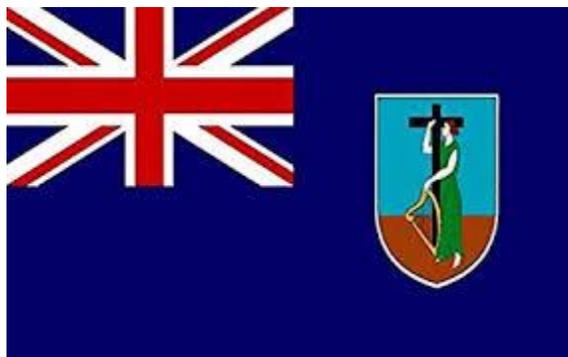
**PERFORMANCE AUDIT**

**ON**

**THE GOVERNMENT OF MONTSERRAT'S**

**STRATEGIC PLANNING & BUDGETARY PROCESSES**

**2016 – 2019**



Office of the Auditor General  
Montserrat

July 2020

**THE GOVERNMENT OF  
MONTserrat'S STRATEGIC  
PLANNING & BUDGETARY  
PROCESSES**

This is a Report of a Performance Audit conducted by the Office of the Auditor General pursuant to Section 103 of the Montserrat Constitution Order 2010.

Marsha V. E. Meade  
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Office of the Auditor-General  
July 2020

# PREAMBLE

## Vision Statement

To be a proactive Supreme Audit Institution that helps the nation to 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 Assembly.

## The Goal

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

## AUDITOR GENERAL'S OVERVIEW

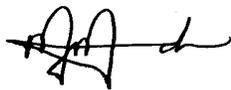
This audit examined the framework for strategic planning and budgeting in the central Government of Montserrat. Overall, the evidence that we gathered shows that there is an adequate framework of oversight and accountability. Reporting and monitoring for the actual revenue and spending versus budgeted amounts have improved both in frequency and in quality during the past five years. However, revenues and economic growth continue to fall short of projections, necessitating cuts to actual expenditure versus the budget. In this way, the MOFEM has sought to steer the Montserrat Public Service towards balanced budgets or small surpluses rather than deficits.

However, we found infrequent and inadequate reporting on cumulative progress against the Sustainable Development Plan 2008 to 2020 and other strategic plans. The implementation of the Public Expenditure and Financial Accountability standards since year 2014 has also made satisfactory progress overall, but some areas, especially arrears of revenue, show urgent need for improvement.

Most respondents indicated that these processes require significant time and effort within each Ministry and each Department. Many expressed discomfort with the frequent changes of formats and reporting requirements of recent years. External consultants and annual training have been helpful, but several officers need more customised and hands-on guidance, from time to time, throughout the yearly cycle of planning and budgeting.

We have also provided a number of recommendations that we feel would benefit the Government and the citizens of Montserrat once they are implemented.

I wish to thank the staff of the Ministry of Finance and Economic Management (MOFEM), other participating Ministries and Departments, and all other persons who provided information, clarifications or extended any courtesy to my staff during this assignment.



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July 20, 2020

# ABBREVIATIONS

CARICOM	Caribbean Community
CAROSAI	Caribbean Organisation of Supreme Audit Institutions
DFID	Department for International Development, UK Government
DITES	Department of Information Technology & E-Government Services
GDP	Gross Domestic Product
GOM	Government of Montserrat
ICT	Information and Communication Technologies
INTOSAI	International Organisation of Supreme Audit Institutions
ISSAI	International Standards for Supreme Audit Institutions
MATHLE	Ministry of Agriculture, Trade, Housing, Lands, & Environment
MCWEL	Ministry of Communications, Works, Energy, & Labour, Montserrat
MFPF	Macroeconomic and Fiscal Policy Framework
MOEYAS	Ministry of Education, Youth Affairs, & Sports, Montserrat
MOFEM	Ministry of Finance & Economic Management, Montserrat
MOHSS	Ministry of Health & Social Services, Montserrat
MPS	Montserrat Public Service
MTEF	Medium Term Expenditure Framework
MTFF	Medium Term Fiscal Framework
OAG	Office of the Auditor General, Montserrat
OECS	Organisation of Eastern Caribbean States
OOP	Office of the Premier, Montserrat
PEFA	Public Expenditure and Financial Accountability
PS	Permanent Secretary
SDP	Sustainable Development Plan: 2008 to 2020, Government of Montserrat
TC	Technical Co-operation (refers to GOM posts directly funded by the DFID)
TYRB	Three-Year Rolling Budget
TOR	Terms of Reference

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# EXECUTIVE SUMMARY

## Overview

**1. External Factors.** The GOM faces several global risks and external constraints in its budgeting and planning. These include:

- (a) Inflation of prices for goods and services over the long term;
- (b) Continued very heavy reliance on imported goods, services, fuels, vehicles, raw materials, and equipment;
- (c) Large fluctuations in the rate of exchange of the local currency for the British Pound, on which most of the GOM's recurrent funding is based;
- (d) Resulting uncertainties about the local value of external aid and, hence, actual cash inflows and feasible spending each quarter/year; and
- (e) Pressure from the DFID to limit total public spending and headcount.

**2. Local factors.** Since the impact of Hurricane Hugo in 1989 and the volcanic crisis of 1995 to 1997, the GOM has also faced multiple local challenges to economic development: e.g.,

- (1) Up to 75% of the population left the island; few have returned except as tourists;
- (2) Income, spending, employment, numbers of tourists, GDP, foreign direct investments, & exports all plummeted; 25 years later, they remain well below pre-1995 levels;
- (3) Many skills and other resources emigrated or retired, greatly reducing both the size and the quality of the local work-force;
- (4) Most of the capital investment and infrastructure on the island was damaged or destroyed: e.g., homes and buildings; airport; seaport; the undersea fibre-optic cable;
- (5) Large amounts of personal savings and corporate investments left the island; and
- (6) Many businesses and industries (e.g., music, banking, international financial services, offshore sector, hospitality, and tourism) stagnated, downsized, closed, or relocated to other countries.

**3. Impacts and issues.** As a result of a declining private sector, the public sector has become the driving force for the economy. The very large relative size of the public sector in Montserrat directly affects the trends of national employment, of consumers' spending, and of economic growth. In the past two decades, (1) long periods without salary-increases, (2) few or no allowances for increases in inflation and cost of living, and (3) limited increases in the nominal value of public spending, have all translated into little growth in real spending and small increases in nominal economic output and real gross domestic product. Constraints (i) on aid, (ii) on public budgets, and (iii) on hiring in the MPS, are also incompatible with the Cabinet's Policy Agenda (including growth of the population) and the Sustainable Development Plan (including growth of tourism; strategic deployment of electronic information, communications, payments, and related technologies; and the redevelopment of the private sector to become the long-term driver of economic growth).

## Main Findings

**4. Good governance overall.** An important finding of our research is that, despite some deficiencies within various bodies/committees, there is adequate oversight of strategic planning, of budgeting processes, and of projects. Actual spending is kept strictly in line with actual revenues. This contributes to the SDP's Goal #3.

**5. Restricted funding.** The DFID's emphasis on containing costs and headcount in the MPS creates rising pressures on planning and budgeting in all Departments. Very low to no growth in nominal terms means either stagnation or a decline in real spending and in real economic output. This trend undermines all of the goals within the Cabinet's Policy Agenda and within the SDP.

**6. Population is declining.** The results of the 2018 national census point to a significant decline in Montserrat's population since year 2011. This is contrary to the GOM's Policy Agenda and the SDP's Goal #5, which requires a doubling of the population from current levels. Falling population directly correlates with (a) shortfalls in local tax revenues from budgeted levels, (b) very low growth or declines in real spending, and (c) little or no growth in real economic output.

**7. Progress made in local economic models, forecasting, and statistical bases.** The MOFEM has developed reliable home-grown econometric models and forecasts for Montserrat's economy. Prior to year 2018, we found that a number of economic and statistical surveys had not been done at all, or for a number of years, resulting in outdated information, inadequate data-sets, and limited inputs for planning and budgeting. Since then, the Montserrat Statistics Department has launched a website, done a national census and labour-survey (in 2018), and published extensive data (in 2019 and in 2020).

**8. Limited budgeting for inflation, contingencies, and currency fluctuations.** Most Departments that we surveyed complained about (a) being under-funded and (b) having been often denied their various requests for new spending. Compounding this is that (a) GOM's budgeting makes little provision for inflation (e.g., realistic increases in the prices of existing goods and services) and (b) long periods elapse without allowances for public servants for the rising cost of living (e.g., through periodic salary increases). Hence, real spending and real wages have been constrained. This also reduces the competitive ability of the GOM to attract and to retain talent.

## Key Recommendations

**9. Increase the funding for infrastructure.** Given the value of the assets at risk, and the range of other risk factors, the MOFEM and the Cabinet should increase their efforts to secure more funding to eliminate the backlog of repairs and maintenance across the public sector. This also requires adequate funding for investments in essential new projects: e.g., airport, seaports, roads, bridges, hospital, and energy. This will support SDP Goal #1. Increased accessibility and mobility, including provision for the poor, for the elderly, and for the disabled, also support SDP Goals #2 & #5.

**10. Increase immigration & repatriation.** To achieve the SDP Goal #5, the Cabinet, in partnership with the OOP, the ODG, the HRMU, and the Immigration Department, must review and improve the GOM's policies and processes (i) for immigration, (ii) for recruitment, (iii) for foreign businesses and investments, and (iv) for returning nationals. Recommendations include: (a) simplify procedures, (b) put all forms, payments, and processes online, and (c) create a more welcoming and supportive environment for investors, for immigrants and for the Diaspora to come to Montserrat and to remain for the long term. Better immigration also supports (1) rebuilding of the depleted work-force, (2) increased diversity of skills, and (3) improved retention of talent. Diversity also enhances innovation, which boosts competitiveness. A larger population will further support SDP Goal #1.

**11. Plan better for inflation, contingencies, & currency fluctuations.** For example, build more flexibility into the GOM's budgets, using the actual experiences of the past 5 years. Use more conservative forecasts for local revenue and collections to increase the likelihood that actual revenues and collections will match or exceed expectations, rather than falling short. Anticipate and budget gradually higher prices, salaries, benefits, and costs: (a) for inflation of prices, and (b) further increases for real growth.

**12. Strategically diversify both funding and the economy.** The Cabinet and the OOP should expand their efforts to mitigate the risks of overreliance on the DFID as the primary source of funds for the GOM. Furthermore, plan and budget for resilience and diversification to address other risks such as (a) natural disasters, (b) global warming (e.g., health risks), (c) rising sea-levels (e.g., risks to infrastructure), and (d) high dependence on imports (e.g., risks to the supply chain).

## Audit Conclusion

**13.** With heavy reliance on the UK Government's aid for the recurrent budget, and on external donors' funding for the capital budget, the Government of Montserrat faces severe constraints in planning and budgeting. Often, the wait for external approval delays decisions and actions, including the final Budget and the Premier's annual Budget Speech. Fluctuating prices for fuel, for utilities, and for imported items create rising costs and prices on the island, contributing to inflation for the public service. Without appropriate budgeted increases for (a) contingencies, (b) inflation of prices, and (c) adequate periodic increases in public servants' nominal salaries, the real spending in the public sector has risen at a low rate and, in several areas (e.g., tourism), declined in nominal terms as well as real terms over the past decade. In turn, the average rate of real economic growth has been very low, and the island's GDP remains below pre-1995 levels.

**14.** Together, these factors require (a) gradually higher spending simply to maintain existing services, programmes and projects, and (b) further budgeted increases to support real growth. However, the effective value of external aid (in local currency) and the real value of local revenues have tended to be below optimal levels and, in some years, either stagnant or falling. Recurring shortfalls in revenues/collections below the budgeted inflows then compel the Ministry of Finance to ask all Ministries and Departments to curtail their budgeted spending, which is already limited, towards the latter part of each fiscal year. In its annual negotiations and Financial Aid Missions to Montserrat, the DFID has tended to put downward pressure on the growth of GOM's recurrent spending, including requesting that the public service's establishment headcount be frozen.

**15.** Overall, this cycle of external shocks and dependence on aid causes inefficiencies, increases unit costs, reduces outputs, and delays outcomes throughout the MPS. Constraints on public spending directly limit the economy, while hindering the development of the private sector, thereby delaying achievement of the Sustainable Development Plan 2008 to 2020. Repairs and maintenance of infrastructure have been under-funded and delayed over the past several years. Prior to the new funding of GBP 30 million agreed between the DFID and the GOM under the 5-year Capital Investment Programme for Resilient Economic Growth (CIPREG) programme (for projects and investments spanning the years 2019 to 2024) for Montserrat, funding for investments in new infrastructure was slow and well below what was needed. Local implementation was often inadequate; a number of projects, therefore, either have not started/finished when expected, or have stalled. A more realistic and flexible approach to planning and to budgeting is clearly necessary. More funding, immigration, and investments are required in the short term to ensure real and sustainable growth in the long term, both for the economy and for the society in line with the SDP's Goals.

# CHAPTER 1: INTRODUCTION

## Background

1. This performance audit focused on (1) the internal organisation, governance, and processes of key departments (e.g., the MOFEM's Budget Unit, the Economic Management Unit, the Policy & Planning Unit, and related stakeholders such as the Monitoring & Evaluation Unit, OOP), (2) the GOM's policy framework for strategic planning and budgeting, and (3) the interaction with the various supporting Ministries and other stakeholders (e.g., consultants and the DFID). These connected dimensions have implications (a) for governance, (b) for departmental effectiveness and efficiency, and (c) for the quality of projected outputs, outcomes, and post-implementation services to the public. In turn, the quality and the timely completion of public projects particularly (and, more generally, the activities of the GOM and throughout the MPS) affect the entire economy and society of Montserrat. This is important since, in the post-1995 era, the central GOM and the wider public sector constitute, directly and indirectly, up to 75% of GDP and roughly 65% of full-time employment in the national economy, and they have numerous multiplier effects.

## Objectives of the Audit

2. The audit sought to examine the level of governance and the quality of the processes of strategic planning and budgeting in the public sector of Montserrat. We considered (a) the quality of templates, internal records, and reporting, (b) the management of human and other resources, (c) interviewees' reported issues, limitations, and challenges and their causes, and (d) their impact on the organisational efficiency and effectiveness of participating Departments. Finally, the study aimed to identify, to measure, and to assess the channels of communication with other agencies and stakeholders. In particular, we sought to identify the major planning challenges and budgeting deficiencies facing the relevant Departments, and, hence, opportunities and recommendations for improving the outcomes for all stakeholders.

## Scope of Performance Audit

3. The scope of this performance audit was to examine the status and the past 2 years' trends of planning and budgeting within the public service. We included all Ministries, several GOM departments, the DFID, and private sector contractors in our review in order to assess the 360-degree perspective of stakeholders regarding their mandate, structure, efficiency, quality of outputs, communication, quality of service, and overall performance. Financial and other data-analyses focused on the past three years (i.e., fiscal years 2016/2017 to 2018/2019).

## Scale of Performance Audit

4. The scale of this performance audit included Ministries and Departments within the GOM that interact in any way with or through the MOFEM in relation to the central system of strategic planning and budgeting.

## What We Excluded from this Audit

5. We excluded data preceding those of the year 2015, except for background knowledge and local context. We excluded comparative compensation analyses and other cross country reviews. We also largely excluded regional and international data sets, except for background information, thus emphasising Montserrat-specific current and very recent historical data-sets. Future performance audits and GOM's own strategic plans will need to address these areas in order (i) to reach optimal human-resources management (e.g., adequate levels of staffing, more effective recruitment, competitive compensation, and long-term retention of talent), including major areas such as projects, energy, governance, environmental safety, and sustainable development, (ii) to embed a culture of effective financial management and public accountability, and (iii) to exceed comparative Caribbean standards and global best practices, as Montserrat competes with other countries for talent, for funding, and for investments.

## Why We Performed This Audit

6. **Economic Development.** In Montserrat, the public sector is much larger as a percentage of the workforce and as a percentage of Gross Domestic Product (GDP) than it is in most other countries in Caribbean and Latin America. Hence, the GOM's policies and programmes, public-sector spending, and public services play pivotal roles in either boosting economic development or limiting national progress (National Tourism Policy, 2016, p. 22). Therefore, public planning, budgeting, and implementation affect both the public sector and the private sector.

7. **Quality of Implementation.** Since most of the island's employment is within the public sector, any deficiencies in public servants' planning, budgeting and/or performance affect the entire country, including the sustained development of businesses and job creation in the private sector. All citizens and residents interact with the public service directly and indirectly, and they depend on the efficient, reliable, and effective provision of public services, utilities, and infrastructure. In recent years, large amounts of the GOM's budgeted capital spending did not occur in the planned periods, thus slowing national development and economic growth.

8. **Governance & Investment.** On average, over 60% of the GOM's recurrent spending and up to 90% of its capital spending are funded by external aid from the UK Government and by grants from multilateral institutions. Hence, the MPS faces increasing scrutiny and accountability [a] for the management of public funds, [b] for the execution of strategic plans, and [c] for the

delivery of projects. To drive the growth of the private sector, current businesses and potential investors require a satisfactory quality of (i) enforcement of laws and regulations, (ii) governance, (iii) public administration, and (iv) infrastructure in the country.

## How We Performed This Audit

**9. Interviews.** Initially, we engaged in interviews with senior public-sector officials across various GOM departments. With the guidance provided by these meetings, we proceeded to devise questionnaires and data gathering techniques suitable for the purpose of assessing (i) the governance of GOM's strategic planning, (ii) the efficiency and the effectiveness of data gathering, reporting, human resources, and interdepartmental communication and co-operation related to public planning and budgeting, and (iii) the recent trends, outputs, and outcomes of plans and budgets in the public service.

**10. Reviews of relevant law, regulations and literature.** Before and during our fieldwork, we researched GOM laws and regulations in order to establish the legislative framework for our performance audit. The programme of research also included literature on such relevant subjects as (a) governance, (b) strategic planning and national budgeting, (c) public sector efficiency and effectiveness, (d) monitoring and implementation, including project management, and (f) performance benchmarks and standards of service. These sources supplemented our reviews of various internal and external documents related to the GOM's policies, structures, and operations affecting the issues of public planning and budgeting.

**11. Internal & External Evidence.** Various information requests were made during October, 2018, to March, 2020. Emphasis was placed on factors affecting the Departments' governance, planning, budgets, implementation, project management, efficiency, and performance. In particular, we sought to know (a) whether there was adequate staffing and skills for planning and budgeting during the past few years, (b) issues affecting the Departments' processes, progress, and outputs, (c) the quality of reporting, communication, and co-operation among the stakeholders, and (d) recommendations/opportunities for improvements.

**12. Standards used.** This audit was conducted according to standards promulgated by the International Organisation of Supreme Audit Institutions (INTOSAI) for performance audits. Those standards require that we plan and perform our audit in order to obtain sufficient appropriate evidence to reach a reasonable conclusion about the performance of the audited entities, programmes, processes, &/or projects with regard to [a] their governance and [b] their management during the period under review. The international standards used to perform this audit-engagement and to assess the findings of this audit include ISSAI 100, ISSAI 3000, and GUID 3910.

# CHAPTER 2: GOVERNANCE

## Overview

**13.** The MOFEM co-ordinates the annual budgetary cycle and the associated rolling, 3-year budgets and strategic plans. Each Permanent Secretary/Accounting Officer has responsibility for producing the budgets and plans for his/her Ministry/Department and reports these to the MOFEM. Several times a year, the Budget Circulars (a) alert all Accounting Officers to the required inputs and reports for the coming year, and (b) remind them of the deadlines for each submission (e.g., Departments report their expected headcounts and personnel costs to the HRMU; financial data are sent to the MOFEM). As the fiscal year extends from April 1<sup>st</sup> of each year to March 31<sup>st</sup> of the following year, the annual planning and budgetary cycles begin in April/May of the current year to conclude the budgets and plans for the following fiscal year before it begins. Over 60% of the GOM's recurring budget is funded by the UK Government through its Department for International Development (DFID). The capital budget is about 90% funded by external donors: primarily [i] the DFID and [ii] the European Union's Development Fund. Under the GOM's oversight, a variety of committees and units provide review, monitoring, inputs, and accountability for the approval, the implementation, and the outcomes of plans, of budgets, and of projects.

## Findings of the Audit

**14. Good Control of Costs per Budget.** In recent years, cumulative spending has remained below the total budgeted. For instance, for the fiscal year ended March 31<sup>st</sup>, 2018, the actual recurrent expenditure was \$123,971,984 against a budget of \$128,380,300, an overall shortfall of \$4.4 million. Over the years that we reviewed, there continued to be significant underspending of capital budgets. We also found evidence that MOFEM effectively coordinates with Departments across the MPS to curtail spending in the fourth quarter of each fiscal year, whenever the actual receipts of aid (after it is converted into local currency) and/or collections of local taxes are below budgeted amounts.

**15. Persistent shortfalls in revenue and collections.** In recent years, the trend is that actual local revenues and collections are growing, but they have been consistently below the projected amounts. Some of the contributing factors are outlined below:

**[a] Optimistic projections:** As recently as fiscal year 2018/2019, for example, overall collections of arrears fell 54% short of budgeted amounts, including [1] an 83% shortfall in receipts of corporate income tax arrears and [2] a 55% shortfall in collecting personal income tax arrears.

**[b] Shortfalls in collections:** E.g., for the fiscal year 2018/2019, actual total collections of local revenues were \$51.31 million versus \$52.68 million budgeted, adding more than \$1.30 million to an already large balance of arrears of revenues, some of which date as far back as the 1980s. However, this was a significant improvement from earlier years.

**[c] Inefficiencies in collections:** Since mid-2018, several departments have made progress in accepting more methods of payment (e.g., debit-cards and credit-cards). However, there continues to be too little use of existing technologies: e.g., (1) to send taxpayers electronic statements, reminders, receipts, (2) to make it easy for taxpayers to make online payments, and (3) to allow taxpayers to submit electronic forms and tax-returns online. These factors are especially important (a) for the large percentage of the population that travels overseas, (b) for non-resident investors and property-owners in the Diaspora, and (c) for expatriate residents who live off the island for some part of each year. Such factors as (a) emphasis on paper-forms, (b) the continued requirement of in-person payments and physical deliveries, (c) most Departments' limited hours of opening to the public, (d) very limited cashier-hours, and (e) having to travel to specific locations to do business with the GOM, also deter compliance and pose difficulties to the growing number of persons with physical challenges, and those with little/no mobility (e.g., short-term: owing to injuries/accidents/illnesses; long-term: diminished mobility among a population that is aging).

**[d] Currency fluctuations:** In particular, the GOM has faced the falling value of the Pound Sterling vis-à-vis the Eastern Caribbean dollar. In 2019, for instance, the British Pound was worth closer to EC\$3 compared with historical highs between EC\$4 to EC\$5. Therefore, part of [b] also reflects shortfalls in local currency from somewhat optimistic projections of the exchange-rate for British aid. This is extremely important because aid represents the majority of the GOM's expected revenues. This poses special risks to the budgets for long-term projects, which do not provide for changes in currency. Furthermore, the MOFEM has advised that the DFID has not allowed the GOM to hedge its risks in such cases, thus creating recurring exposures for the GOM.

**16. GOM has a very low level of debt.** As one of its key strengths, the GOM has very little debt (a) in absolute figures and (b) in relative terms (e.g., as a percentage of Montserrat's national GDP). This compares very favourably with debt ratios exceeding 100% of GDP in several other Caribbean countries, some of which have had large defaults and required IMF programmes.

**17. Mitigation of disasters.** A major improvement in the managing of risks has been the GOM's recent access to the CARICOM Catastrophe Risk Insurance Fund (CARICRIF). This provides rapid disbursement of funds and short-term aid in the event of natural disasters and/or impacts of weather such as flooding, earthquakes, landslides, and hurricanes. Prior to this, the GOM had no catastrophe insurance. However, this coverage is very limited and does not provide for all of the public assets and infrastructure that are at risk.

**18. Little/no insurance of public assets.** Across the public sector, with very few exceptions, risks and assets are not independently insured. The GOM has a stated policy of self-insurance, but there are no funds or reserves to support this. Thus, the GOM assumes 100% of the risks of any accidents, deaths, loss of assets, or damage to self-insured assets, including buildings, vehicles, employees, and equipment. This status quo (a) creates large, growing, and mostly unquantified risks to the GOM, and (b) increases the number of legal, moral, political, social, commercial, technological, and economic exposures to the GOM. Ultimately, these twin factors, [1] having little/no external insurance and [2] unfunded self-insurance, pose potentially unlimited liability for the GOM and, by extension, Montserrat (as witnessed [i] after Hurricane Hugo in 1989 --- to the extent of an estimated 377% of GDP --- and [ii] again in and since 1995).

**19. Risk management is very limited.** We found no risk registers in most Departments across the MPS. The methodology for managing risks is not well documented (or at all, in several cases) and it is very limited in practice. Across the public sector, Departments reported that (a) too few persons are dedicated to, and (b) professional skills are widely lacking in, related areas: e.g., (1) project management, (2) risk management, (3) economic analysis, (4) research methods, and (5) statistical analysis.

**20. Improvement in economic models and statistics.** MOFEM has developed local skills (e.g., budgeting, planning, and economics) and built reliable home-grown econometric models and forecasts for Montserrat's economy. Prior to year 2018, we found that a number of economic and statistical surveys had not been done at all, or for a number of years, resulting in outdated information, inadequate data-sets, and limited inputs for planning and budgeting. E.g., (a) the Tourism Division and related entities did no Exit Surveys for many years and (b) labour-market surveys were infrequent (e.g., once every 5 years, rather than monthly or quarterly, as done in many other countries). Since then, the Statistics Department has launched a website, done a national census and labour-survey, and published some reports. It has continued to develop local skills and done excellent work, but most of its data are not published.

**21. Impact of limited/no data on governance.** In many cases, across the public sector, information is either unavailable or years out of date. In our reviews of websites for the GOM's various Departments, we also found that much of the information was several years out of date, there were significant gaps for some years, and/or little or no recent news, documents, or reports were consistently uploaded. This greatly limits the quality and timeliness of (a) research, (b) public inquiry and debates, (c) feedback loops, (d) information for external investors, visitors, businesses, donors, and consultants, and (e) decision-making at all levels. Contrary to the GOM's Policy Agenda (e.g., items 4.1 and 4.2), and undermining the SDP's Goal #4, these longstanding weaknesses also hinder good governance in several ways: e.g.,

- (1) Accountability of departments for the quality and the quantity of their outputs and of their outcomes;
- (2) Evidence-based formulation of policies and decisions at all levels from the Cabinet to Ministries, to Departments, to Units, and to Committees;
- (3) Timely and objective measurement & assessment of progress towards strategic goals;
- (4) Timely, reliable, and data-driven evaluation of the economy, the efficiency, the impact, the value for money, and the effectiveness of Departments, of policies, of projects, of programmes, and of investments.

**22. Poor co-operation by some Departments.** In this audit, contrary to law, a number of individuals unduly delayed from several weeks to a number of months (a) in scheduling requested interviews and/or (b) in providing requested documents. In some instances, despite repeated requests and reminders, required information/documents was/were not provided at all (e.g., the Ministry of Health and Social Services).

## Recommendations

**23. Project revenues/collections more conservatively.** We advise the MOFEM to continue to review the basis and the assumptions underlying forecasts of local revenues. To limit the downside risks to budgets, encourage Departments to develop more realistic projections based on (a) verifiable criteria, (b) robust assumptions, and (c) actual amounts earned/collected in the past few years. For effective long-term budgeting and strategic planning, it is important to consider the context of at least one full economic cycle (typically 7 to 10 years). For example, the mean annual rate of growth of actual local revenues was only 1.98%: from \$49,587,299 in fiscal

year 2016/2017 to \$51,566,729 in fiscal year 2018/2019. This was also below the long-term average rate of growth, which has been around 2.30% per year.

**24. Illustrative data-driven approach:** A more useful rate for annual budgets and for strategic projections would be in the range of not more than growth of 1.00% to 1.50% per year. Furthermore, the mean annual rate of growth of nominal GDP for the past decade (\*2008 to 2018) was very low: only 0.81% (Montserrat Statistics Department, DR09-03-2019). Given the many variables and the occasional shocks (e.g., hurricanes, recessions, pandemics), it is important to consider the average over \*a full economic cycle. In this context of little or no real economic growth, on average, and having due regard to the several instances of years of actual declines (e.g., 2010, 2012, 2013, 2014, and 2017), a conservative approach is very desirable and practical. By default, a very conservative approach would adopt a no-growth assumption, and simply base the next year's budget upon (a) the current year's or last year's actual collections/receipts and/or (b) the most recent 3-year or 5-year rolling average. This approach would increase the likelihood that actual revenues would be either very close to budgeted revenues, or greater than expectations, rather than frequently below expectations.

**25. Improve the collections of revenues and of arrears.** In line with (i) the Policy Agenda, (ii) the National ICT Strategy, and (iii) the SDP 2008 to 2020, the MOFEM should advance this critically important recommendation, which includes such opportunities as these:

(a) On a phased basis, improving the hours and days of business in all customer-service venues and cashier-stations to make it more convenient for tax-payers to access services and to provide revenues to the GOM; coupled with self-service options, this will greatly enhance compliance and collections; this flexibility is also vital to the national strategy for [1] development of tourism, which involves varied schedules for arrivals and departures both by air and by sea, and [2] development of international business, which functions on a 24/7 basis;

(b) (i) Providing all governmental statements, invoices, notices, and standard forms electronically and (ii) enabling online submissions, and especially the revenue-generating ones (e.g., [1] Income Tax statements and returns; [2] Land Tax statements and returns; [3] the Licencing Department's forms for all applications and renewals; [4] all forms related to immigration, marriage, permanent residence, citizenship, and work-permits; [5] forms for Firearm Permits & renewals; etc.); since the period of our fieldwork, the COVID-19 pandemic has increased the urgency of accelerating the GOM's transitioning to full e-Government;

(c) Increasing the number of channels, methods, and venues for services and for payments, including online payments outside of the currently very limited opening hours of GOM's cashiers;

(d) Increasing the number, the quality, and the training of persons assigned to (i) customer-service, (ii) revenue-centres, and (iii) collections; this requires hiring and (re)training persons for client-focused attitudes and outgoing personality, and not only technical skills and education.

(e) At least annually, we also recommend an objective review of related departmental achievements in collections: e.g., [1] the volume of payments processed; [2] the value & percentage of collections; [3] levels of customers'/users' satisfaction; [4] actuals for the current year versus prior years; [5] current actuals versus related budget. This could include the setting of targets for individual officers' productivity.

**26. Boost the publication of statistics and analyses.** Increase the frequency and the range of published data and analyses. For example, the MOFEM should ensure that the Statistics Department establishes and maintains an annual calendar of published data/short reports relevant to key indicators (e.g., employment, GDP, economic growth, inflation, fiscal indicators) and sectors (e.g., tourism, hospitality, public sector, construction, financial services, and exports). Likewise, the OOP should ensure that its various Departments regularly publish progress-reports and summaries: e.g., monthly/quarterly tourism-related statistics; quarterly updates on actuals versus budgets; more timely annual Monitoring & Evaluation reports. In line with best practice and with the Policy Agenda (items 4.1 and 4.2), these efforts would improve transparency, accountability, and communication by moving from a modus operandi of providing information solely upon request, towards an open and proactive approach to the public.

# CHAPTER 3: DATA & COMMUNICATION

## Overview

**27.** This section of the performance review examined the processes of strategic planning, budgeting, and communication within and between departments. We sought to assess (a) the extent of their use of electronic tools and channels for information and communication, (b) their data security and the handling of information assets, (c) their effectiveness in engaging stakeholders throughout their planning and budgeting processes, and (d) the quality of records and of communication within and between Departments and stakeholders. These elements are essential aspects of the SDP's Goal #4 (good governance), especially the criterion of transparency, and the engagement of stakeholders, including taxpayers, end-users (e.g., residents affected by specific processes, procedures, projects, and programmes), and the general public.

## Findings of the Audit

**28. Widespread use of electronic information and communication.** Whilst our previous studies of the MPS generally found that paper, manual processes, and physical channels remain prevalent in the public sector, this study showed that the GOM's strategic planning and budgeting processes are almost entirely electronic.

**29. Annual publication of Citizen's Guide to the Budget.** The GOM, through the MOFEM, has established a good record of presenting and explaining key aspects of the SDP, other policies, the Policy Agenda, and their links to the national budget presented each year by the Premier. Interested persons can access electronic copies of these important documents online via the MOFEM's section of the GOM's website. In particular, it contributes to transparency by informing taxpayers how their money is being used in the public sector. It also enhances accountability by showing examples of (a) progress versus the strategic plan, (b) successful policies and projects, and (c) areas of shortfall or disappointment.

**30. Late submissions and non-reporting by Departments.** In samples that we reviewed at the Monitoring & Evaluation Unit (MEU) (which was formerly in the Cabinet Secretariat, but is now within the OOP), most Departments in the MPS reported after the stipulated deadlines for quarterly reports (showing their progress re their strategic plans). Several Departments, e.g., the Police Service (which includes the Fire Department and the Immigration Department) and the Ministry of Health & Social Services, did not report at all to the MEU for the fiscal year 2017/2018. This was a serious weakness in accountability as those two entities

represent over 30% of the MPS's headcount. These widespread instances of late reporting and not reporting are contrary to policy and undermine the GOM's mandate of good governance (per the SDP Goal #4 and the Policy Agenda: item 4.1).

**31. Inadequate strategic monitoring & reporting.** The most recent report that we found comprehensively reviewing actual progress across the GOM vis-à-vis the Medium Term Development Strategy (per the SDP 2008 to 2020) was dated July, 2013. This reviewed the initial 5-year period (2008 to 2012). Furthermore, the Monitoring & Evaluation Unit advised us that it had not sent annual reports to the Cabinet for the prior 2 years. Only after our fieldwork did it publish its first annual National Performance Report (for fiscal year 2017-2018) in August, 2019; however, that was 17 months after the end of the reported period. Furthermore, this had limited scope and depth as it reported on only a selection of the indicators, rather than all of them.

**32. Errors, omissions & inconsistencies.** Numerous times in various reports and documents, we noted errors, omissions, faulty sentences, and internal inconsistencies in statements of facts and figures. The number and the types of errors, taken together, as well as their persistence over time, undermine the integrity, the reliability, and the usefulness of records and, hence, can ultimately affect governance itself.

**33. Missing dates.** Several documents that we examined, including strategic plans, quarterly progress reports, and project-proposals, have no precise internal date, leaving the reader to guess exactly when each document was prepared. For strategic plans and budgets, which proceed through several stages and versions, precise dates are vital to (a) the integrity of record-keeping, (b) the effectiveness of communication (e.g., being sure of which draft or version persons have or are discussing at any point in time), and (c) being able to track changes over time.

**34. Internal inconsistencies.** A number of documents that we reviewed have conflicting information. This indicates inadequate internal review within Departments before they submit to the MOFEM, as well as the need for greater scrutiny by the receiving Units within the MOFEM. For example, the ODG's strategic plan dated August, 2018, has a goal of increasing the number of women in the Montserrat Cadet Corp (p. 14) but then shows a plan in which the number of women in the MCC will fall by 40% from year 2019 to year 2020 (p. 15).

**35. Incomplete documents.** For example, several departments had blank sections in their strategic plans, including organisational charts, which are mandatory under Annex 2 of the template.

**36. Public outreach.** An important part of governance is transparency. We found that some Departments have made commendable efforts to communicate with the public. Methods included Facebook, websites, consultations, Open Days, and town-hall meetings to get inputs and feedback from stakeholders.

**37. Some frustrations with processes & changes.** Most respondents indicated that these processes (budgeting and strategic planning) require significant time and effort within each Ministry and each Department. For several officers in each Ministry/Department, this ranges from several weeks to some months of the year. Many also expressed discomfort with the frequent changes of formats and reporting requirements of recent years.

**38. Behavioural impact of changes to inputs/formats/reporting.** Sometimes, changes in required inputs or formats at a higher level require behavioural changes at the front line of operations. For example, in the MOHSS, any change in strategic plans, indicators, or inputs requires changes in procedures and/or record-keeping practices at the front line of nursing. This means that workers' attention, time, and effort must be divided between care for patients and administrative and clerical tasks. These types of behavioural implications are not always sufficiently explored and understood (a) when the MOFEM requests Departments to adopt new templates or processes or (b) when Ministries set new indicators, targets, inputs, or outputs with the DFID.

## Recommendations

**39. Improve accountability.** The MOFEM should continue to encourage all Accounting Officers towards consistent timeliness in producing and submitting required data, budgets, plans, and reports. Identify delinquent departments/officers and implement plans for institutional strengthening and for individual training to remedy weaknesses. Inquire and take prompt follow-up action when required submissions are late or not made at all. More direct communication is needed to supplement the general Budget Circulars, for example.

**40. Improve monitoring and evaluation.** The OOP must ensure that the relevant Unit produces complete and timely annual reports to the MOFEM and to the Legislative Assembly showing (a) a summary of each Ministry's/Department's progress/shortfalls vis-à-vis its strategic plans and (b) the GOM's overall progress/shortfalls vis-a-vis the national SDP. Timely reports will demonstrate the important work of the MEU, and will also highlight those departments that reported to the MEU late or did not report to it at all, rather than unduly delaying the entire

monitoring and evaluation reporting process because some Departments did not contribute. Subsequent to our fieldwork, we noted the new output from the MEU, but each of the two annual reports since then has been more than a year after the fiscal year to which it related.

**41. Improve internal controls and reviews.** The MOFEM should advocate through the Office of the Deputy Governor (ODG), which oversees the public service, to hold all Accounting Officers to a higher standard of internal controls, including

- (a) Strengthening the administrative functions that support planning, budgeting, and reporting, and
- (b) Upskilling supervisory oversight and review of all outgoing documents, reports, and data for accuracy, completeness, and proof-reading quality.
- (c) Many documents that we examined have errors and weaknesses that could easily be avoided with internal review and proofing prior to outward sharing.
- (d) Departments' own efforts at improvement can be further strengthened through reviews by the Internal Audit Department.

**42. Improve internal communication and support.** External consultants and annual training have been helpful, but several officers need more customised and hands-on guidance, from time to time, throughout the yearly cycle of planning and budgeting. Frontline employees need more engagement in any policies, strategic plans, budgeting processes, or other changes affecting them from higher levels. In particular, in some areas, it is important for the MOFEM and PSs to give more attention to the behavioural implications of changes to existing formats, reports, templates, indicators, inputs, outputs, outcomes, impact, and related processes.

**43. Convene focus-groups of users/participants.** Recommended approaches include:

- (a) The MOFEM should liaise with each Ministry/Department to provide any necessary support for their use of focus-groups comprising representative samples of employees across functions involved in, or affected by, the requirements of the strategic planning and budgeting processes.

- (b) A few times per year, a focus-group within each Ministry could convene to discuss issues, changes, opportunities, and progress with regard to its strategic planning and budgeting.
- (c) In turn, the MOFEM could collate the feedback from each Ministry and create a central electronic forum/repository of learnings and successes, which can then be shared across the public service. This could be done via the HRMU's new H.R. Information System's intranet for the GOM's employees and/or via the global shared drive in the GOM's general intranet.
- (d) At least once a year, in addition to liaising with the Core Management Team, the MOFEM could host a meeting of a user-group, with at least one representative from each Ministry/Department to discuss practical experiences, users' perspectives, best practices, opportunities for improvement, and solutions.

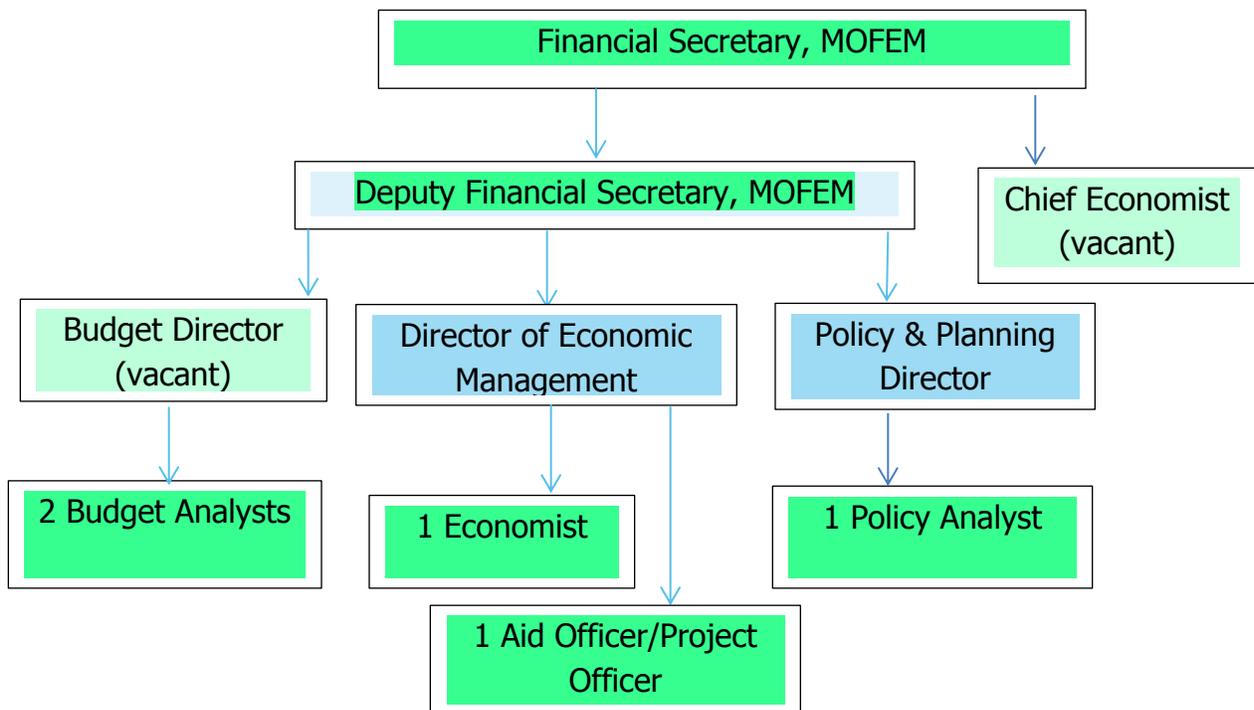
# CHAPTER 4:

## MANAGEMENT OF HUMAN RESOURCES

### Overview

44. Several units contribute in major ways to the GOM's strategic planning, budgeting, and monitoring functions: e.g., Policy & Planning Unit, MOFEM; Monitoring & Evaluation Unit, OOP; Budget Unit, MOFEM; Economic Management Unit, MOFEM. This section of the review focused mostly on the MOFEM's Headquarters, which is the GOM's central body for strategic planning and budgeting activities. It has responsibility for co-ordinating budgets, planning, and the funding of projects across all Ministries and Departments. However, it has a very small staff to execute this ambitious mandate. An outline of the relevant units is below:

### Organisational Chart of MOFEM's Budget & Planning Management



[Status as of 2018-2019]

## Findings of the Audit

**45. Training and consulting.** One of the positive findings of this study is that, in the past 3 years, the GOM has used external consultancy to provide annual sessions with large groups of public servants to enhance their understanding of the requirements of the budgeting and strategic planning processes. This includes compliance with the international standards of the Public Expenditure and Financial Accountability (PEFA) framework.

**46. Number and duration of vacancies.** At the end of the fourth quarter of the last fiscal year that we reviewed (2018-2019), 174 posts were vacant and 8 were unfunded (Financial Secretary's Budget Performance Report, Q. 4, 2018-2019). The significant number and percentage of vacancies (about 17%) across the MPS, coupled with prolonged duration of vacancies, reduces the effective level of staffing of GOM's Ministries and Departments: e.g., 30 vacancies were in the MOEYAS and 34 vacancies were in the MOHSS. This has led the MOFEM's Budget Unit to start including a factor for vacancies in the annual budgeting exercise, whereby the budgeted cost of salaries and benefits becomes significantly less than that indicated by the number of current posts. Within the three years that we reviewed (fiscal years 2016/17 to 2018/19), the MOFEM (headquarters), for instance, had several vacancies: e.g., Budget Director, Budget Analysts, Chief Economist, and Head of Procurement. Subsequent to the period of our fieldwork, we found [a] that a number of posts were filled and [b] that the post of Chief Economist no longer exists.

**47. Number and duration of absences.** The impact of vacancies is also greatly compounded by the rising number of lost work-days and the length of various types of absenteeism in the MPS. These costs have not been explicitly captured in past budgets or reported in any official documents related to the GOM's strategic planning or budgeting. Both vacancies and absences contribute to shortfalls in efficiency, in effectiveness, in budgeted outputs, in planned outcomes, and in the value for money to the GOM, to stakeholders, and to the public.

**48. Limited capacity in procurement.** During 2016 to 2018, the Procurement Unit had only 2 persons, both of whom were recruited from the UK. However, the Head of Procurement resigned as of May, 2018. This affected all projects, either directly or indirectly, since the Procurement Unit reviews and appraises all public procurement, and also advises the Public Procurement Board. The DFID's Annual Review 2016 highlighted GOM's inadequate staffing of the Procurement Unit and the lack of specialists in procurement across the public sector. The newly established Programme Management Office within the MOFEM is expected to strengthen assessment and oversight of all of the GOM's programmes, projects, and strategic activities.

Subsequent to the period of our fieldwork, the vacant post of Head of Procurement was filled by a TC employee and other local persons were added to work with and understudy this senior officer.

**49. Little or no continuity planning for some key skills/posts.** There remain continuing risks to strategic planning and/or budgeting, given the very small number of officers dedicated to these processes within the MOFEM and other Departments (for example, the two-person Monitoring & Evaluation Unit in the Office of the Premier). Short-term risk factors include (1) the impact on the effective supervision of processes and (2) the challenges in the monitoring of outputs, outcomes, and GOM's overall progress, when officers are absent for any reason. Long-term risk factors include (a) the number and duration of vacancies within MOFEM and other Departments, and (b) the absence/inadequacy of succession planning for some officers.

## Recommendations

**50. Improve the planning for succession.** The MOFEM should continue to work with the HRMU to ensure that all of its Departments and Units have (a) documented plans and pathways for the career of each employee, and (b) plans for succession within each post. Encourage Heads of Units/Departments and Accounting Officers to review these annually and to keep these up to date. This will improve the inputs into the annual budgeting and strategic planning both (1) at the departmental level and (2) at the consolidated reporting levels of the HRMU, the ODG, and the MOFEM, respectively.

**51. Improve the implementing of plans for succession.** In the short term, this requires the MOFEM to work with the ODG/HRMU to provide for internships, job-rotations, understudies, secondments, and temporary replacements when officers are taking any form of leave (e.g., sickness leave; vacation leave; overseas duties). In the long term, this requires a clear pathway for career planning and personal development for each officer, as well as the proactive grooming of candidates to fill key management, professional, and supporting positions (e.g., procurement, disbursement, accounting, financial management, and aid/funding) in the event of incumbents' promotions, secondments, resignations, retirements, prolonged illness, or deaths. Given the number of vacancies, the duration of vacancies, and the average time for recruitment, the MOFEM must advocate, through the ODG, to hold the HRMU accountable for the timely implementation of approved succession plans.

# CHAPTER 5: STRATEGIC PLANNING & BUDGETING

## Findings of the Audit

**52. Major shortfalls in achieving the SDP 2008-2020.** Prior to year 2019, the last comprehensive report that we found reviewing GOM's overall progress towards the national strategic plan and vision was dated July, 2013, and assessed the first 5-year period (from 2008 to 2012). Nearly half of the targets had not been achieved.

**53. Heavy reliance on the DFID and other external funding.** Nearly a quarter of a century since the volcanic crisis of 1995, the GOM remains dependent [a] on the DFID for 60% of its recurrent spending and [b] on external financing for nearly 90% of its capital spending. The European Union provided the bulk of the funding for the capital budget in the previous fiscal year (2018/19); this represents a welcome reduction in the GOM's reliance on the UK Government. However, the issues of Brexit pose serious questions (i) about the future relationship of Britain with the European Union, and (ii) about the prospects for Montserrat, as a UK Overseas Territory, to continue to access funding under the European Development Fund in the long term (i.e., after the 11<sup>th</sup> European Development Fund, which the European Union remains committed to funding to its medium-term completion).

**54. Under-developed private sector.** Despite the long-term goals of the GOM's Policy Agenda and the SDP, the public sector continues to dominate both national employment (about 65%) and Gross Domestic Product (about 75%). This contributes to (a) large shortfalls in each category of domestic revenues (vis-à-vis pre-1995 levels) for the GOM, (b) a large corresponding fiscal deficit, requiring British aid amounting to roughly 60% of the GOM's recurrent spending, (c) persistently low levels of economic activity and growth, and (d) a relatively large trade-deficit.

**55. Large trade-deficit.** There is a high deficit on the country's current account as merchandise exports are limited primarily to a few raw materials mined at local quarries. The only other major earner of foreign exchange is tourism (classified as exports of services). By contrast, most goods and services consumed locally are imported (e.g., food, bottled water, beverages, clothing, vehicles, fossil fuels, materials for construction, furniture, and equipment).

**56. Limited diversification of the economy.** Apart from the predominant public sector, the major industries in the private sector are limited to the domestic economy (i.e., the non-

traded sector): (a) wholesale and retail trade; (b) financial services; (c) transportation; (d) hospitality & entertainment; and (e) construction.

**57. Significant progress but shortfalls remain in achieving the PEFA standards.**

The GOM has improved its strategic planning and budgeting considerably since the first external PEFA-based evaluation (year 2014). MOFEM achieves high scores in a number of areas. However, significant gaps remain (and especially in the indicators for the MOEYAS: e.g., the low percentage of students achieving satisfactory grades upon graduation). The DFID uses a Logical Framework to assess each Ministry/Department annually, including cross-references to the PEFA ratings; however, the DFID's ratings and rankings are notably much more lenient than those of the PEFA framework. E.g., the DFID's framework uses 3 categories of A-grade within the top tier of rankings versus only one A-grade within the rankings used for the PEFA-based evaluations.

**58. Several delays of, and/or within, projects.** Significant delays ranged from 6 weeks for the Bunkum Bay bridge project to more than 5 years for the Geothermal Energy Development Project. Overall, in the fiscal year 2017-2018, for example, 53% of the GOM's capital budget was unspent, representing tens of millions of dollars in unachieved direct capital formation, plus the opportunity cost of projects abandoned, not started and/or not completed per the original plans (e.g., [a] Little Bay town; [b] Carr's Bay Port Development; [c] Little Bay Port Development; [d] restoration of the undersea fibre-optic cable for robust, high-speed telecommunications and for post-disaster resilience; [e] after 8 years, the Geothermal Project is not finished, and is producing zero energy for the national power-grid). This has huge implications for budgeting, for strategic planning, and for economic growth. Following our fieldwork, the MOFEM advised us of its newly created Programme Management Office, which is designed to address most of these shortfalls.

**59. Overly rigid constraints.** The overriding message that Ministries and Departments are expressing is that the budget-ceilings are too low to achieve their mandates. Frequently, parts of their strategic plans are curtailed or deferred because approval is denied or funding is inadequate. The MOFEM subsequently clarified that adjustments have been made in several areas where Departments were not spending their full budgeted amounts in those areas. Departments can also seek approval to reallocate funds from one area to another within their budget and, ultimately, the MOFEM can, where it becomes necessary during a fiscal year, reallocate certain funds between Departments within the consolidated GOM budget.

**60. Case-study:** Since the abolition of the Montserrat Tourist Board 5 years ago, the funds allocated to tourism and to related marketing were cut to a small fraction of what they used to be. For example, the GOM's contribution to the St. Patrick's Festival Committee fell to EC\$225,000 in

year 2019 from nearly EC\$400,000 in year 2018. Since tourism is one of the four economic pillars highlighted in the SDP, it is harmful to economic growth to reduce the budget for the marketing of Montserrat and its festivals. Under-investing in tourism, which is one of the island's few earners of foreign currency, does not assist Montserrat (and thus the GOM) in regaining economic self-reliance. This will continue the GOM's budgetary dependence on external funding and aid. It also threatens the island's national competitiveness and erodes its market-share, and especially when other neighbouring countries and brands are steadily increasing their investments in tourism development and expanding their marketing reach regionally and globally.

**61. Unrealistic cost-cutting expectations.** In recent years, the GOM's negotiations with the DFID have revealed some pressure to limit spending and/or to have no increases in headcount. Whilst the GOM's total spending has increased over the last several years, we identified a number of instances that departments or programmes had actual cuts or no rise in spending. These severe limitations directly conflict with the GOM's Policy Agenda and with the SDP, including (a) regrowth of the island's population, (b) regrowth of the economy, and (c) increased investment in infrastructure, tourism, health, social housing, and education. All of these require increased employment, increased funding, and increased investments within the public sector. To create the framework for the private sector to revive in Montserrat, the MPS is the starting point.

**62. Net emigration; falling population.** According to the preliminary findings of the late-2018 Census, Montserrat's population fell nearly 10% from 4,922 persons in year 2011 to roughly 4,450 in year 2018. This trend is the opposite of what the SDP's Goal #5 seeks to achieve. The most recent updated figures, a fall to 4,649 persons, though less alarming, still point to a significant 6% decline of the population, including a major decline in the Montserratian-born percentage of the residents from 61% in year 2011 to 56% by year 2018 and a decline in Montserratian citizens from 72% in year 2011 to 63% by year 2018 (Montserrat Statistics Department). Labour-force participation increased from 85.1% in 2011 to 89.4% in 2018; however, the absolute number of employed persons declined from 2,540 in 2011 to 2,527 in 2018.

**63. Inadequate allowances for inflation.** Departments have reported challenges as they continue to experience the DFID's emphasis (and, hence, MOFEM's focus) on low/lower costs and constrained spending, rather than growth. Compounding this problem is that too little attention and funding support are being given to planning and budgeting for price inflation.

- (a) For example, not making allowances for periodic salary-increases and/or cost-of-living allowances reduces public servants' real wages and purchasing power each year, even when the absolute figures are not cut. For instance, there were no increases of basic salaries in the public service during the 12-year period between year 2005 and the last

increase in year 2017. Within that period, there were several years that increments within salary-scales were also frozen.

- (b) Since they and their households represent the biggest part of the workforce and of the economy, falling real incomes dampen nominal and real spending. This makes real economic growth less likely, and makes emigration more likely, as relative salary-levels elsewhere are higher and/or real wages continue to rise in other islands/countries. All of these outcomes are contrary to the SDP.
- (c) Furthermore, failure to budget adequately for variations in prices of goods and services creates constant challenges for Departments in procurement. In a number of cases in recent years, suppliers' bids far exceeded the GOM's budget and/or the DFID's allowance for specific procurements or projects. Consequently, some phases/projects have been delayed, some procurement has been cancelled or delayed, and/or some items had to be re-tendered. Each of these situations incurs lost opportunities and/or additional time, effort, and cost. All of these outcomes are also in conflict with the GOM's Policy Agenda.

**64. Inadequate allowances for currency-rates.** Too little attention and funding support are being given to planning and budgeting for fluctuations in the rate of exchange of the British Pound against the United States dollar and the Eastern Caribbean dollar. Each year, these fluctuations create major risks to the GOM's budgeted revenues. Each year that the value of the British Pound falls, the effective local value of the DFID's remittances of grants to support the GOM's budget also falls. For example, a 5% decline in the value of the Pound Sterling approximates EC\$4 million less in the effective inflows for the GOM. In turn, shortfalls in the GOM's receipts significantly reduce local spending. Reduced public spending (1) directly reduces overall economic activity, (2) contradicts the Cabinet's Policy Agenda, and (3) undermines the implementing of the SDP. Not making allowances for changes in currency-rates also affects the effective local value of funding received for long-term projects and poses risks to their completion.

**65. Inadequate allowances for contingencies.** Too little attention and funding support are being given to planning and budgeting for contingencies (including timely repairs, preventative maintenance, and adequate asset-replacement) and for emergencies. This is a vital counterpart to the quest for potential savings, which the MOFEM demands that all Departments identify each year in the current budgeting process. Given that Departments and programmes are already under-funded in several areas, the carving of notional savings from already inadequate budgets is often unrealistic, misleading to reportees, and potentially dangerous to decision-making.

**66. Case-study:** For example, failure to provide adequate funding each year for repairs and maintenance of infrastructure leads to rising risks and ultimately to accidents and crises such as the collapse of a 40-year-old retaining wall, which made the road impassable at Barzey's. This is a major road and one of only two routes between the north and the south of the island. Hence, the impact was immediate, and the risk to transportation was significant, in case of any incident or accident affecting the only other route, the main road via Brades and Carr's Bay. Instead of providing the necessary additional funds for this emergency, the DFID instructed the PWD to repair the fallen wall and to clear the road from the existing budget for the Roads & Bridges Project. This significantly reduced the actual amount of work on the road at Barzey's by more than 40% below what had been originally budgeted, which was already only a very small fraction of the total length of road to be repaired or upgraded.

## Recommendations

**67. Accelerate the progress towards the SDP and the PEFA standards.** In areas of shortfall from the SDP, the MOFEM and the OOP should advise the Cabinet to make extra efforts to strengthen the resources and to increase/upgrade the skills allocated to key areas of the national strategic vision and the GOM's long-term plans. For example, the recent recruitments and the large extra funding for tourism via the European Union are worthy of note. The GOM's achievement (i) of the PEFA standards and (ii) of the goals in the SDP, will also contribute to Montserrat's reaching its international commitments, including the United Nations' Sustainable Development Goals 2030.

**68. Evaluate proposals to boost GDP & immigration, and regrow the population.** The MOFEM and the OOP should advise the Cabinet [a] to do a consolidated review of the strategic plans and budgets submitted by Ministries and Departments and [b] to consider analyses and recommendations in support of enhanced proposals to address the key areas of shortfall to date. Key measures for the Cabinet to consider include the following:

**(a)** Reforms of the taxation (i) of personal incomes and (ii) of corporate profits (e.g., to compete better with neighbouring islands and with other UK Overseas Territories that have much lower effective average tax-rates) e.g., lower rates of income-taxes; simpler tax-structures. This will make the GOM a more attractive employer, and will make Montserrat friendlier to businesses, thus improving compliance and collections.

**(b)** Improvements in the social infrastructure, including [1] the coverage and the scope of Social Security (e.g., [i] to add unemployment benefits; [b] annual raising of the ceiling on

insurable earnings), [2] portable and integrated pension-schemes, [3] broader scope of medical services, and [4] improved services and support for childcare, for the disabled, and for elder care. For example, the Income Tax Act is very favourable for pensioners, but they require supporting social, medical, and infrastructural amenities and services in order to be convinced to relocate to Montserrat and/or to remain on the island.

**(c)** Reforms to simplify the processes for immigration, for permanent residency, and for citizenship.

**(d)** Overall improvements in the efficiency of public services and the ease of doing business on the island.

**(e)** Moreover, gradual annual increases in GOM's spending, capital budgets, hiring, retention, compensation, etc., would automatically feed into outcomes such as the following:

**(i) higher population** (e.g., [a] locals with good conditions of employment, experiencing improving social and economic conditions and prospects, and enjoying long-term career pathways will be more likely to stay; [b] foreign recruits retained for the long term will be more likely to relocate existing family-members to Montserrat and/or to start families locally in line with the recently enhanced rights extended to migrant workers across CARICOM, whereby not only the recruited immigrants, but also their spouses and children have full rights of residence, of employment and/or establishment of business),

**(ii) Higher revenues** (including income-taxes, Social Security contributions, and import-taxes) for the GOM, and

**(iii) A bigger economy** (e.g., the natural result of [a] rising real incomes, [b] increased attraction and retention of skilled immigrants, and [c] organic growth of the population).

These points have assumed a much greater urgency since the most recently published findings of the last Census (which was done during October, 2018) pointed to three negative trends: [a] an aging of the population (half of the population is now over 40 years old versus a median age of 37.7 years in year 2011), leading to a gradually shrinking working-age population, [b] a 17.35% fall in the native population, given a high ratio of death-rates to birth-rates, and given a continuing trend of net emigration of locals, and [c] a slow decline in Montserrat's total population, which would have been much worse without net immigration leading to a nearly 25% increase in the non-native population over a period of 7 years (2011 to 2018).

**69. Improve reporting and decision-making to address major shortfalls from strategic goals.**

**[a] Reporting:** The MOFEM should advocate through the OOP to continue to review the format, the content, the timeliness, and the effectiveness of the current reporting to the Cabinet/Legislative Assembly: e.g., to highlight better the major areas of under-achievement or non-implementation of the Policy Agenda and the SDP.

**[b] Legislative review and harmonisation:** In turn, the OOP should do a comprehensive review of current policies, laws and regulations to advise the Cabinet [a] of any instances that are not harmonious across the legislative framework, and [b] of any instances that are not compatible with, or not fully enabling of, the achievement of the Cabinet's Policy Agenda and the SDP.

**[c]** On the positive side, (1) current progress in implementing solar power will soon lower (i) the cost of business, (ii) residents' cost of living, and (iii) GOM's own operating expenses, (2) a recently announced initiative to ban disposable plastics, once it will be implemented comprehensively and widely enforced, will certainly help to improve environmental sustainability and health, and (3) the installation of the subsea fibre optic cable (projected to be complete by August, 2020) will provide a major upgrade to high-speed broadband internet services across the island.

**[d]** However, urgent actions are required to address, for instance, (a) the large and worsening shortfalls in educational outcomes, (b) the epidemic of increasingly expensive, chronic, and preventable diseases largely related to dietary choices and lifestyles, (c) the continued net emigration of Montserratians, and (d) the overall net declining trend in population versus the strategic goal of re-growing the island's population to at least 9,000 persons.

**70. Make better allowances for inflation.** The MOFEM should continue to liaise with the DFID to advocate for appropriate increments in the GOM's budget to accommodate increases in prices of existing goods and services. This is in addition to the need for better provision for appropriate increases in the number of units of goods/services, from year to year, required to achieve Departments' strategic targets. This requires a fundamental shift within the pricing methodology of strategic planning and budgeting from a traditional focus on gross or nominal figures (i.e., quoted prices not adjusted for inflation) to an approach that makes full and explicit adjustments for inflation.

**71. Make better allowances for fluctuating value of currencies.** The MOFEM should continue to liaise with the DFID to advocate for the DFID to consider changing its past stance against the GOM's budgeting for currencies, in order to start making appropriate provisions for the reality of annual fluctuations of currencies in the GOM's budget. In this way, a continued weakening of the Pound Sterling against the EC dollar and the United States dollar will be anticipated and mitigated explicitly. It is highly advisable to use conservative estimates whereby there is much less downside risk to the budget. Among its various benefits, this approach will increase the probability that the local value (i.e., in Eastern Caribbean dollars) of actual receipts by the GOM will be within the tolerable range of variation and not excessively reduce GOM's spendable funds. This is especially important in long-term projects, which have high currency-risk.

**72. Make better allowances for contingencies.** The MOFEM should continue to liaise with the DFID to advocate for the DFID to consider a change to its past stance against the GOM's provision for contingencies. A better approach would allow for appropriate data-driven increments in the GOM's budget to cover a broader range of situations. This includes making ample provisions for repairs, maintenance, emerging opportunities, and unforeseen new risks. A larger fund for contingencies will allow for more operational flexibility and effectiveness across the MPS (e.g., when specific assets need to be acquired or replaced at short notice or ahead of the average life-cycle for each category of item).

**73. Strategically diversify both funding and the economy.** The MOFEM and the OOP should advise the Cabinet to expand the GOM's efforts to mitigate the risks of overreliance on the DFID as the primary source of funds for the GOM. Furthermore, plan and budget for resilience and diversification to address other risks such as:

- (a) Natural disasters and pandemics (e.g., risks to people, to the environment, to the economy and to infrastructure),
- (b) Global warming (e.g., health risks; risks to agriculture; risks to fisheries; risks to ports),
- (c) Rising sea-levels (e.g., risks to infrastructure, to trade, and to tourism), and
- (d) High dependence on imports (e.g., risks to the supply chain).

All Ministries and Departments should (1) explicitly state these and other relevant risks and opportunities within their strategic planning, and (2) define [i] milestones of short-term progress and [ii] long-term measures to address each of them.

## CHAPTER 6: MANAGEMENT RESPONSE

**74.** It is good to see that overall Governance is deemed to be good, which includes strategic planning, budgeting process, project management, and the procurement of capital assets, with spending in line with revenues.

**75.** A number of concerns raised by the Auditors have been raised by the Financial Secretary on many occasions to the DFID and it is pleasing to see the Auditors reflecting those points.

**76.** We fully agree with the need for an asset-replacement reserve. We need to be able to plan asset-replacement and avoid ad-hoc replacement of assets.

**77.** We support the need for an insurance reserve as the GOM self-insures. This is a standard practice, but the accepted practice is to have a fund set aside to cover potential liabilities. The GOM does not have such a fund, and this is a Financial Risk. As the GOM is in Financial Aid, we do not have the authority from the DFID to hold either an asset-replacement fund or an insurance-reserve.

**78.** We agree that improvements are required in Asset Registers and we have taken action to improve the systems.

The Honourable Financial Secretary  
Ministry of Finance and Economic Management  
July 13, 2020

## CHAPTER 7: OVERALL CONCLUSION

**79. Urgent need to regrow the population and the economy.** The experiences of the past decade reveal an urgent need (a) to enhance the GOM's policies, approaches, and systems and (b) to speed and to expand progress in key areas: e.g., (1) immigration, repatriation, and retention of workers/population, (2) improving the efficiency of public services (i) to simplify procedures, and (ii) to reduce the cost and the time of doing filings, applications, approvals, and transactions, and (3) to build a nurturing environment with (i) effective incentives, (ii) adequate support, and (iii) regionally competitive taxes and fees, altogether designed and delivered to encourage growth of existing enterprises as well as to attract new ones. Better planning, monitoring, reporting, and funding are required to deliver the key outputs and outcomes of the GOM's Sustainable Development Plan for the benefit of all residents and other stakeholders.

**80. Need for more flexible and realistic budgeting.** This is especially important with GOM's strategic plans (extending 3 years or more) and long-term projects spanning more than one fiscal year (e.g., 12-year Geothermal Energy Project; 1 megawatt-hour Solar Project; Little Bay Port Development Project; renovations at the airport). Over time, projected costs tend to rise and new costs and issues emerge, making original estimates of limited relevance. Risks and contingencies need better planning: e.g., rates of inflation; fluctuations of currencies; shocks to supply-chains; repairs and maintenance; sudden damage to, or failure of, equipment/vehicles; the actual timing versus the average to replace existing assets or to acquire new assets. Provision for these factors must be included in strategic plans and given adequate coverage in budgets. In the past several years, an overly rigid approach to budgeting and to negotiations with contractors has caused long delays in projects. Overall effectiveness, relevance, and value for money are more important than simply getting the lowest price or input-cost on contracts or on items to be procured.

**81. Long-term H.R. planning.** A number of departments, including the Economics Unit, the Procurement Unit, and the Budget Unit, have been understaffed and/or have had prolonged vacant posts at various times. To be effective, all units require adequate staffing, capacity, and skills to keep abreast both in traditional areas and in emerging topics. All Ministries/Departments need Strategic HR management to ensure business continuity and succession planning.

**82. Improved management of risks.** Much more effort is needed by all Departments (1) to define their risks, (2) to estimate their impact, (3) to estimate their probability of occurrence, (4) to develop measures to address each category of risk both (a) in the short term and (b) in the long term, and (5) to monitor, to assess, and to report on actual progress versus estimates.

# APPENDIX 1: OFFICE OF THE AUDITOR GENERAL

## Functions

By the supreme authority of *The Montserrat Constitution Order 2010*, the O.A.G. is established and upheld in its independence and in its functions within the public sector of Montserrat. The relevant section states as follows below:

### “Functions of Auditor-General

103.—(1) The Auditor General shall audit and report on the public accounts of Montserrat and of all public offices, including the courts, the central and local government administrations, universities and higher education institutions, and any public corporations or other bodies or organisations established by an Act of the Legislature, and may conduct financial and value for money audits in respect of any project involving public funds.

(2) The Auditor General shall submit to the Legislative Assembly annually a report of the accounts audited by him or her under subsection (1) for the immediately preceding financial year.

(3) For the purposes of subsection (1) the Auditor General and any person authorised by him or her shall have a right of access at all reasonable times to all such documents as appear to him or her to be necessary for the purposes of the audit, and shall be entitled to require from any person holding or accountable for any such documents such information and explanation as he or she thinks necessary for those purposes.

(4) In the exercise of his or her functions, the Auditor-General shall not be subject to the direction or control of any other person or authority.”

The independence of both (a) the functioning of the Auditor General and (b) the budgetary allocations from the Government’s national Consolidated Fund to finance the Office of the Auditor General are clearly stated and emphatically declared as follows below:

### “National Audit Office

104.—(1) The Legislature shall by law make provision for the establishment of an independent National Audit Office headed by the Auditor General.

(2) The budget for the National Audit Office shall be charged on and paid out of the Consolidated Fund, and must at all times be adequate to enable the full performance of the functions conferred on the Auditor General by this Constitution or any other law.

(3) The accounts of the National Audit Office shall be audited and reported on by an auditor appointed by the Legislative Assembly.” [Bold and underlined emphases added throughout.]

In line with international standards for public-sector auditors and global best practices for Supreme Audit Authorities, the OAG of Montserrat espouses the following values and priorities:

## Our Values

**Respect.** We seek to build productive professional associations and cordial personal working relationships with colleagues internally as well as with other public servants externally.

**Honesty.** We tell the truth even when it is unpleasant or embarrassing. Accurate self-assessment is vital for every person and for every unit of Government to acknowledge its strengths and its weaknesses, and to begin to address performance-gaps and shortfalls from relevant policies, from applicable standards, and from currently binding laws and regulations.

**Transparency.** Our work is in the service of the Government and the people of Montserrat. Therefore, all of our final reports on engagements undertaken are made available to all stakeholders, to the public and to any other interested parties via publication on our website.

**Confidentiality.** In the course of our duties, we protect the identity of all persons who reveal secret information or private details. Our reports disclose general conclusions and focus on practicable solutions rather than highlighting any person or department directly.

**Accountability.** By definition, the work of the OAG is to hold accountable all public-sector Ministries, Departments, agencies, public-private partnerships, and State-owned enterprises. In turn, we are accountable (a) to colleagues through quality-control procedures and through peer-review, (b) to local, regional and multinational professional accounting and auditing bodies, and (c) to global standards-setting bodies. Finally, the OAG itself is subject to annual audits by an independent external audit-firm of the highest repute.

**Objectivity.** Auditors must remain impartial, devoid of partisan bias, without membership of political parties, and otherwise focused on the truth and the facts, rather than personal opinions, emotions, or self-interest. All of our analyses, conclusions and recommendations are based on facts and verifiable and auditable evidence, supported by retained audit-papers and work-in-progress files throughout each and every audit-engagement. Information is gathered solely for the purposes of the official audit and never to be used for personal advantage of either the auditors themselves or of any other person, party, entity, or enterprise.

**Independence.** Vitally important to the respectability of the OAG is the independence of the Auditor-General and of his/her staff both in appearance and in fact, both in public discourse and in social intercourse. Auditors must avoid any potentially compromising personal relationships or business activities with any public-sector auditee. Where he/she has (i) any material private indirect interest and/or (ii) any direct financial or other interest in an auditee and/or (iii) in or with any of its employees, suppliers, investors, creditors, or other related parties, an auditor must either refrain from any part of an audit of such entity and/or disclose the nature and the extent of such actually or potentially compromising interest whatsoever it be.

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## APPENDIX 3: TERMINOLOGY

**Efficiency.** Efficiency is measured as the ratio of inputs per given or desired unit of output. The performance-goal is to minimise inputs and/or input-costs per unit of output.

**Productivity.** Productivity is measured as the ratio of actual units of output per given unit of each input. The performance-goal is to maximise output per unit of each input.

**Effectiveness.** Effectiveness is measured as the ratio of actual units/costs of all outputs to the desired units/costs of output. The performance-goal is to minimise gaps between desired output(s) and actual output(s), subject to the desired quality of that output.

**Value for money.** This is the *desired surplus and/or value of benefits* derived from actual output(s), deliverable(s), or outcome(s). It is measured as the consumer's utility or economic surplus: i. e., (1) the actual (and/or user-perceived) value of all benefits of each unit of output, minus (2) the actual costs per unit of each input required to produce and to enjoy the benefits of that unit of output. The performance-goal is to maximise the total value of incremental benefits (minus marginal costs) derived from all units of output (e. g., public services or public goods), subject to the desired quality of that output, and to any applicable standards, regulations, contractual obligations, client-service objectives, or legal requirements.

**Performance.** This concept defines observable behaviours in respect of a specified function or activity. In practical terms, performance is measured as the comparison of *ex post* actual outcomes with *a priori* desired or pre-agreed outcomes. This lends itself very well to objective definition, measurement, monitoring, reporting, feedback, and recommendations for improvement, wherever gaps are identified between (a) desired behaviours and outcomes and (b) actual behaviours and outcomes. Learning, for instance, is measured by improved behaviours.

**Performance-audits.** Performance-audits are objective, external, and independent reviews of activities, processes, organisations, financial statements, and/or other objects of interest, having explicit regard to such parameters as (i) applicable laws, (ii) external regulations, (iii) internal policies, (iv) internal rules, (v) international treaties, (vi) bilateral or multilateral agreements, (vii) industrial benchmarks, (viii) contracts, (ix) codes of conduct, (xi) ethics, (xii) morals, and/or (xiii) professional standards. Performance-audits go well beyond (1) *financial audits* and (2) *internal audits*, for instance, to examine the actual, observable, and measurable behaviours, outputs, efficiency, effectiveness, and value for money of an entity, a programme, an agency, a statutory corporation, or an entire public sector, as the case might be. In this regard, performance-auditing is inherently more far-reaching, more strategic, and more consultative than other types of audit. When it is well executed by the auditor(s), and when, thereafter, its findings are wisely attended and its recommendations expeditiously implemented, a performance-audit in the public sector has the potential to offer the greatest value for money to the Government and, ultimately, to the people of Montserrat. In short, it pays for itself many times over.

# APPENDIX 4: AUDIT FIELDWORK

## Questionnaire for Interviewees

### Senior Interviewees & Correspondents

- (1) Permanent Secretary, MCWEL
- (2) Chief Economist, MOFEM
- (3) Financial Secretary, MOFEM
- (4) Policy & Planning Officer, MOFEM
- (5) Director of Education, MOEYAS
- (6) Director of Agriculture, MATHLE
- (7) Senior Assistant Secretary, MATHLE
- (8) Senior Economist and Acting Director of Economic Management, MOFEM
- (9) Monitoring & Evaluation Officer, OOP
- (10) Research & Database Officer, Monitoring & Evaluation Unit, OOP
- (11) Acting Permanent Secretary, MOHSS
- (12) Budget Analysts, MOFEM