



SPECIAL FINANCIAL AND COMPLIANCE AUDIT REPORT

ON

THE MONTSERRAT FERRY SERVICE OPERATIONS



Office of the Auditor General
Montserrat

JULY 2020

**THE MONTSERRAT FERRY SERVICE
OPERATIONS**

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

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Auditor-General
Office of the Auditor-General
9 July 2020

PREAMBLE

Vision-Statement

To be a proactive Supreme Audit Institution that helps the nation make good use of its resources.

Mission-Statement

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

The Goal

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



AUDITOR GENERAL'S OVERVIEW

We conducted reviews of the Montserrat Ferry Service firstly from an information technology perspective and then a review of the financial aspects. This Report focuses on the financial aspects.

The objective of the review was to determine whether the accounts supplied were in accordance with the relevant financial reporting framework and whether they provided reasonable assurance whether the financial operations were in compliance with GOM directives and any resulting statements were presented in accordance with the Accountant General's directives.

Our findings revealed that we could not obtain reasonable assurance as the documents presented were not in keeping with applicable financial reporting framework. We also found a number of other issues which prevented us from obtaining reasonable assurance.

We presented our recommendations to management which, if implemented, would serve to improve the overall financial management of the Montserrat Ferry Service.

Subsequent to the date of the financial position June 2018, several developments were brought our attention. The financial transactions of the ferry service will be incorporated into the GoM accounting system and will be reflected in the 2019/20 Public Accounts. Access Division will continue to maintain a separate bank account and all funds collected will be paid into the Treasury Consolidated Fund on a monthly basis. In recent months, a pricing and concessionary policy was implemented which clearly outlines the ferry rates and the criteria for discounts and concessions.

I wish to thank the staff of the Office of the Premier, Access Division, Ferry Agents, and all other persons who provided information, clarifications or extended any courtesy to my staff during this assignment.



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Auditor-General
9 July 2020

ABBREVIATIONS

ASYCUDA	Automated System for Customs Data
DFID	Department for International Development
DITES	Department of Information Technology & e-Services
GoM	Government of Montserrat
IAS	International Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
OAG	Office of the Auditor General
PFMAA	Public Finance Management and Accountability Act
RBC	Royal Bank of Canada

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EXECUTIVE SUMMARY

Overview

1. Access is an essential component of every country's development agenda. Montserrat has been utilising ferry services to transport people and small cargo between Montserrat and Antigua from 1997 following the eruption of the Soufriere Hills Volcano in July 1995. During this period several carriers were utilized to provide the service. However, the focus for this review on the ferry financial operations was between the periods January 2016 to June 2018.

Main Findings

2. **Non-Submission of Essential Documents.** Supporting documents were missing. Access Division did not submit the payment voucher files from May 2016 to December 2016. Most of the payment vouchers and supporting documents for March and April 2016 were also missing. As a result, payments for this period could not be properly verified.

3. The approved budgets for 2016-2017 and 2017-2018 were not submitted for review. The only submission was the budget for April 2018 to March 2019 several months after they were requested. Additionally, the actual figures for first quarter (April 2018 to June 2018) were omitted and these were relevant to the audit scope.

4. **Manual Sales Reports not provided.** There was no evidence of manual sales reports being prepared prior to the establishment of the online ferry system. These were requested but were not presented for review.

5. **Revenues collected not deposited in timely manner.** Revenue Collections by Jenny Tours are not being consistently deposited in a timely manner. The Access Division has allotted a period of seven days for depositing sales revenue collected from Ferry operations, but this was not adhered to consistently. In some instances, deposits were done several weeks after collection.

6. **Differences noted between Online Sales Reports and Agent's Deposits.** Differences were noted between the sales reported on the online ferry system and each agent's deposits.

7. **End of Shift Close-off Routine Cumbersome.** Currently, the ferry system cannot generate separate reports for each journey/shift. This makes it quite cumbersome when reconciling the receipts for each journey to the ferry system and the bank deposits. This is especially an issue for Jemmotte Shipping & Tours since sales receipts are deposited after each journey.

8. **No documented Fraud Detection Policies and Procedures.** The Division does not have documented fraud detection policies and procedures. IAS 240 standard requires the review of the company fraud procedure.

9. **Cumbersome Close-off Procedures.** At the end of each shift, the sales agents on duty are responsible for reconciling their cash and paying over monies collected on behalf of different government departments (security fees, customs charges, departure tax) to ensure they agree, as discrepancies are easy to occur. After the fees have been calculated they are handed over to the various customs and immigration officers. This is a cumbersome process that could leave room for errors to occur.

Key Recommendations

10. **Improve record management.** Management must review its method of hard copy data storage, with a view to improving accessibility, identification and retrieval times. The appropriate steps should be taken to ensure that financial records are stored appropriately, in conformity with generally accepted control procedures.
11. **Improve budget process.** Management makes the necessary arrangements to ensure that budgets are properly prepared and presented for audit in a timely manner.
12. **Ensure daily deposits.** Deposits should be carried out daily and all cash receipts should be deposited in a timely manner. As a result of Management's decision, Jenny Tours was allotted a time frame of 5-7 days for depositing collections. This should be reduced further as this allows a lengthy time lapse between collections and deposits. Daily deposits reduce the risk of theft and loss.
13. **Implement separate reports.** Separate sales reports should be generated for both morning and evening journeys in order to make it easier to reconcile each journey's receipts to the agents' sales as reported on the system.
14. **Strengthen Internal Controls.** The Division should implement as a matter of urgency, policies and procedures, which will facilitate fraud detection. The necessary training controls should be reviewed on an ongoing basis. For instance, participation in International Fraud Awareness Week, should be encouraged to minimize the impact of fraud by promoting anti-fraud awareness and training.
15. **Submission of daily reports.** Both agents should submit daily sales reports with attached deposit slips for consistency and ensure submission of the access reports by the end of the week. Reports should be stamped "Received" and dated by Access Division's accountant. Additionally, accurate reconciliations of sales revenue and deposits should be completed by each agent and forwarded to the Access Division.
16. **Collection of Fees.** All fees related to travelling be included as part of the cost of the ticket – customs charges, security charges and departure tax. All monies owed to GoM should be calculated and paid over at the end of the month rather than being deducted and paid over at the end of each shift. This will significantly reduce costs by eliminating the printing of receipts and will also save time.

Audit Conclusion

17. Our observations and investigations revealed necessary processes that were not in place which impacted the control environment. The audit identified areas for improvement related to the adequacy, efficiency and effectiveness of the management control framework supporting the management of departmental expenditures, revenues and assets and liabilities. These main areas of concern as described in Chapter 2, require further investigation and remedial action by management. As a result, we were unable to provide reasonable assurance that the financial statements were free of material misstatements due to error or fraud.

Subsequent Events

18. Subsequent to the date of financial position June 2018, several developments have been brought to the attention of the Office of the Auditor General. Commencing June 2019 the accounting transactions of the Montserrat Ferry operations were being recorded on the GoM Accounting System - Smartstream. Therefore, the accounts will now be reflected in the 2019/2020 GoM Public Accounts. The Montserrat Ferry Service still maintains a separate bank account for depositing revenue from the ferry operations which are paid over monthly to the Treasury Department.

19. A pricing and concessionary policy was implemented in October 2019, along with an approval form which will require the necessary authorization and approval by the related Ministry/Department and Access Division. This policy clearly outlines the ferry rates for individuals as well as eligibility for discounts and concessions by individuals and groups.

CHAPTER 1 INTRODUCTION

Background

1. The Access Division currently falls under the responsibility of Office of The Premier. On February 1, 2010 an access coordinator was appointed principally to develop an Access Strategy to address the island's Access issues and position it for sustained development in keeping with the sustainable development plan. The objectives of the Division are as follows:
 - a) Supply of adequate and consistent capacity by air and sea which is safe, efficient, reliable and affordable.
 - b) Supply of consistent self-sustaining capacity by air and sea which is optimal, safe, efficient, reliable and affordable.
2. In April 2016, the ferry service was abruptly terminated causing chaos to the traveling public. The move affected the travel of residents, visitors and day trippers. Subsequently, the GoM arranged for charters to facilitate air transportation of passengers that were affected by the ferry termination. After eight months of only air transportation in and out of the island, a contract was signed on Thursday, November 25th, 2016 between the Government of Montserrat (GoM) and the owner and captain of Jaden Sun.
3. Under the new arrangement an online booking system was established in November 2016. Travellers can now make reservations online, undertake advance bookings and pay online, all of which renders the entire booking and check-in process more efficient and customer-friendly.
4. This audit was conducted in two parts. The first part focused on the audit of Information Technology audit and a report entitled, *Information Security Audit of the Montserrat Ferry Online Booking Application* was already submitted to the Legislative Assembly. This Report will focus on the financial aspects.

Management Responsibility

5. Access Division is responsible for maintaining proper accounting records and preparing financial statements which give a true and fair view of the accounts.
6. Access Division is also responsible for the design of, successful implementation and continuous monitoring of internal control systems that you determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

7. We have a statutory responsibility to report to the Government of Montserrat whether in our opinion the financial statements give a true and fair view of the state of the financial position of the Montserrat Ferry Service, and whether they have been properly prepared in accordance with International Accounting Standards. In arriving at our opinion, we are

required to consider the following matters, and to report on any in respect of which we are not satisfied:

- Internal controls exist and are effective
 - Whether proper accounting records have been kept,
 - Whether the Statement of Financial Position and Statement of Comprehensive Income are in agreement with the accounting records and returns,
 - Whether we have obtained all the information, and explanations which we think necessary for the purpose of our audit.
8. We have a professional responsibility to report if the financial statements do not comply in any material respect with relevant Accounting Standards.

Audit Mandate

9. The Office of the Auditor General (OAG) is mandated through the Montserrat Constitution Order to perform the audit. This mandate is supported by ISSAI 100 and strengthened by the Public Finance Management and Accountability Act (PFMAA) 2009 which makes the Auditor General responsible for the audit of the Public Accounts, Accounts of Government Ministries or Departments, Statutory Corporations and entities who are receiving or seeking grants from the public purse. The audit work was conducted in accordance with the Public Finance (Management and Accountability) Regulations 2008.

Audit Standards & Guidelines

10. Our audit was conducted in accordance with the International Auditing Standards issued by the International Organization of Supreme Audit Institutions (INTOSAI).

Audit Objectives

11. The audit was an assessment of the financial records with an aim to provide reasonable assurance whether the financial operations were in compliance with GOM directives and any resulting statements were presented in accordance with the Accountant General's directives.

12. Reasonable assurance is a high level of assurance. It is obtained when the auditor has obtained sufficient appropriate audit evidence to reduce audit risk to an acceptable low level. Reasonable assurance is appropriate since the information required should be readily available and persons involved with the planning and execution of the Montserrat Ferry Services are experienced and qualified.

Audit Scope and Methodology

13. We conducted a financial audit, that is, a study of the financial records of the operation of the Montserrat Ferry Services as outlined in the audit objective. The audit focused on the period January 1, 2016 to June 30, 2018. The following potential risk areas that may lead to the financial statements being materially misstated were highlighted:

- There is the inherent risk of the mishandling of cash when cash is collected from the various ferry handling agents. Proper care must be taken to ensure that reconciliations are done in a timely manner and precautionary measures are in place to prevent fraud since cash is more easily diverted than cheques and credit cards.
- Potential loss of revenue or financial risk.
- Adverse publicity by allowing loose/slack control and management override on complimentary tickets.

14. Therefore, in order to address these risks, our audit was conducted in such a manner as we considered necessary to fulfill our responsibilities and involved:

- a) the testing of assertions relating to transactions and account balances including the testing of occurrence, completeness, accuracy, cut-off, regularity, classification, existence, ownership, valuation and appropriate presentation and disclosure.
- b) obtaining an understanding of the accounting systems in order to assess their adequacy as a basis for preparation of the financial statements and to establish whether proper accounting records have been maintained.
- c) obtaining such relevant and reliable evidence as we considered sufficient to enable us to draw reasonable conclusions therefrom.
- d) risk assessment procedures which assisted us in identifying material misstatements in the financial statements. The nature and extent of our procedures varied according to our assessment of the Division's risk management process, its control system and its accounting system.

Several techniques were used to achieve the audit objectives, including interviews held with stakeholders, observation and analysis of the information collected. The audit covered the period January 2016 to June 2018 and focused on the accounting and all relevant records of the Division.

CHAPTER 2 FINDINGS & RECOMMENDATIONS

Overview

15. Under generally accepted auditing standards, Auditors are encouraged to report various matters concerning an organisation's internal control structure noted during an audit. Matters that are required to be reported are significant deficiencies in the design or the operation of the internal control structure that, in the auditor's judgment, could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of Management in the Financial Statements.

16. As part of our audit of the Financial Statements of Montserrat Ferry Service for the period, January 1, 2016 to June 30, 2018, we considered the Division's internal control structure, but only to the extent we felt necessary for the purpose of providing a basis for reliance thereon in determining the nature, timing and extent of the audit tests to be applied in connection with our audit of the Department's Financial Statements for the years then ended.

17. Our consideration of the internal control structure did not entail a detailed study and evaluation of any of its elements and was not made for the purpose of making detailed recommendations or evaluating the adequacy of the Department's internal control structure to prevent or detect errors and irregularities. In this regard, it should be recognized that, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Furthermore, projection of any evaluation of the internal control structure to future periods is subject to the risk it may become inadequate because of changes in conditions or deterioration in its operating effectiveness.

18. While the purpose of our consideration of the internal control structure was not to provide assurance thereon, certain matters came to our attention, which must be reported. These matters, which were considered during our audit are not prompted by any question as to the capabilities or integrity of any employee and are made with the consideration that they may be helpful to Management. We understand that the Division is presently pursuing some of these comments and suggestions and our comments are not intended to reflect upon the effectiveness of these efforts but merely to reiterate the importance of these points.

Findings & Recommendations of the Financial Review

19. **Non-submission of Essential Documents** - Access Division did not submit a complete set of financial statements nor supporting schedules, but presented extracted QuickBooks reports. IAS 1 requires a complete set of financial statements to include a Statement of Financial Position; a Statement of Profit or Loss and Other Comprehensive Income; a Statement of Changes in Equity; a Statement of Cash Flows; notes to the accounts. In addition, the accounts were not accompanied by supporting schedules.

Recommendation

20. In future, the financial statements should be compiled to contain all required statements and notes in accordance with accepted accounting practice.

21. **Notes to the Accounts** - We also observed that there were no Notes to the accounts presented. According to IAS 1 an acceptable set of accounting statements should consist of:

- A statement of compliance with International Financial Reporting Standards.
- Summary of significant accounting policies used.
- Supporting information for items presented in each financial statement in the order in which each statement and each line item is presented.
- Other disclosures including, contingent liabilities (see IAS 37) and unrecognized contractual commitments.
- Non-financial disclosures, such as the entity's financial risk management objectives and policies (see IFRS 7 *Financial Instruments: Disclosures*).

Recommendation

22. **Disclosure Notes**. The relevant disclosure notes be prepared and submitted for audit, as they form a critical part of the financial statements. Their non-submission could lead to a 'qualified' audit opinion being issued.

23. Notes to the financial statements should be presented in a systematic manner with items on the face of the statements cross-referenced to any related information in the Notes.

24. **Cash on Hand – Security and Insurance** - Jenny Tours – Monies collected were not being stored in a secure place. Best cash handling practices and proper cash procedures dictates that collections should be held in a secure manner until deposited. As it relates to Jemmotte Shipping & Tours, monies collected were kept in a secured cash pan under the check-in counter.

25. During the course of our review of insured assets, we observed that there is no coverage for cash on hand, which includes cash on the premises or cash being transported. The ultimate decision on coverage is the responsibility of management; however, we felt it necessary to report on this issue.

Recommendation

26. We recommend that best cash practices and proper cash procedures be implemented. All cash held on premises should be properly secured in a fireproof safe or cabinet.

27. **Cash Deposits - Jenny Tours** – Revenue Collections by Jenny Tours are not being consistently deposited in a timely manner. The Access Division has allotted a period of seven days for depositing sales revenue collected from Ferry operations, but this was not adhered to consistently. In some instances, deposits were done several weeks after collection.

Jemmotte Shipping - At the end of the morning journey, the agent of the Montserrat operation lodges the receipts at the bank. Revenue collections from the evening journey are deposited either same evening using the night deposit facility or the following day. Monies collected on Friday evenings, Saturdays, Sundays and public holidays are deposited the following work day.

Jemotte Shipping is in compliance with the timely deposit of cash receipts as requested by the Access Division.

Recommendation

28. We recommend that deposits be carried out daily and all cash receipts should be deposited in a timely manner. The time frame of 5-7 days allotted to Jenny Tours needs to be reduced as this will allow for too much of a time lapse between collections and deposits. Daily deposits reduce the risk of theft and loss.

29. **Bank Reconciliations** - Reconciliation statements that were prepared for the months April 2017 to June 2018 were not dated and signed off by the preparer nor the person responsible for their review.

30. Bank reconciliations prepared after July 2017 did not show deposits in transit. Deposits were entered into the Quickbooks accounting software on the date when they cleared the bank and not on the date the deposit was done. This procedure is incorrect as deposits should be entered from the source documents (deposit books) and not from the bank statements. This practice does not reflect the correct cash at bank balances in the General Ledger as the outstanding deposits and cheques in transit will not be accounted for in any given month. Bank reconciliations are prepared to reconcile the bank balance per cash book and bank statement.

Recommendation

31. Reconciliations should be completed in a timely manner. They should be dated and signed by the preparer and the reviewer.

32. **Stale-dated Cheques** - Our bank reconciliation exercise revealed that there were stale dated cheques totaling \$34,825.12 which were included in the unrepresented cheques listing for an unacceptable length of time, over two years.

33. Furthermore, new cheques were issued to replace stale-dated cheques but the previous cheques were not voided in QuickBooks, initially. These cheques were voided in QuickBooks after they had been cancelled in the physical cheque books, resulting in them being reported on the unrepresented cheques list for more than a year.

- For example, cheque #1274 which was written on March 9, 2015 payable to Antigua Comptroller of Customs, remained uncleared for two years and seven months. It was eventually voided on October 1, 2017 and a new cheque was issued.
- Cheque no. 1501 was written October 10, 2016 and remained uncleared for two years and seven months before a new cheque #1731 was written and cleared on June 27, 2018.

34. Instances were noted when cheque payments to vendors/suppliers which were sent to Antigua for distribution were held by Jenny Tours for months. Some cheques sometimes became stale-dated and had to be cancelled and rewritten. They usually show up as unrepresented cheques coming forward for months on the bank reconciliation.

Recommendation

35. Implement a policy to contact the owners of uncollected checks. This will save administrative and accounting time and hassle in the future. To ensure you can implement this policy, contact information for the payee such as phone number, email address and physical address should be collected before disbursing any checks.

36. **Ferry System Sales Vs Actual Deposits Comparison** – All ferry agents are required to submit spreadsheets with daily transaction to the Access Division on a weekly basis. The daily sales reports should also be submitted weekly. The sales reports submitted for audit were not stamped so it was not possible to determine the submission date. However, the Office Administrator stated that sales reports were submitted monthly. We checked daily sales reported on the online ferry system against each agent's reported sales and bank deposits. Differences were noted for both agents.

Recommendation

37. We recommend that the agents be required to submit daily sales reports with attached deposit slips for consistency. The end of week timeframe should be adhered to by both agents. Reports should be stamped "Received" and dated by Access Division's accountant. Accurate reconciliations of sales revenue and deposits should be completed by each agent and forwarded to the Access Division.

38. **Cargo Receipts** - Prior to January 2018 there was no provision made for cargo to be entered into the online system and be displayed on the sales reports. Cargo was originally picked up from Jemmotte's Shipping spreadsheets and entered into the accounting software – QuickBooks, as revenue. As of January 2018, the ferry system was updated. However, at the time of audit, cargo was not entered into the online booking application by the Antigua Agent for cargo dispatched. Cargo is only recorded on the manifest form which is given to the captain for delivery to Jemmotte's Shipping. Upon arrival in Montserrat, it attracts port, freight, and handling charges which are calculated depending on the type and volume of the item/s being cleared. Cargo is then entered into the ASYCUDA system and is shown on the excel spreadsheets for Jemmotte's shipping.

39. There were some instances where items transported from Antigua to Montserrat were not documented on the Manifest form, which is sent to Montserrat. Upon arrival in Montserrat, these had to be entered into the system by the agent. Cargo arriving in Montserrat would have to be entered on the next day's report as once a trip leaves, that trip is closed off in the system.

Recommendation

40. Cargo collected and dispatched from the Ferry Terminal in Antigua needs to be entered into the online ferry system from by the agent there. This will reduce the possibility of cargo being shipped and collected without payment and also eliminates the time that would have to be spent by that agent.

41. **Day Tours** - In April, May, and June of 2017, there were discrepancies between sales reported on the ferry system and sales reported by Jenny Tours on their income spreadsheets. The overstatement of sales occurred on ferry system due to an error in the system which resulted in the information inputted for day tours being automatically recorded at return fare rates rather than day tours rates. A log of day tours for that period was not submitted for audit examination; hence the submitted figures could not be verified. The system was updated with day tour rates on 27th June 2017. Despite this error, there was an overall difference of \$15,973.72 between the sales recorded on the ferry system and the amount deposited by Jenny Tours.

42. The day tours sales reports that were submitted for audit from July 2017 to June 2018 were incorrect as the figures were grossly overstated. Day Tours revenue was recorded as \$567,450, while the agent reported \$152,100. Alternatively, the day tours figures had to be extracted from the agents' accounting spreadsheets.

Recommendation

43. The sales report which is generated from the ferry system should be adjusted to enable day tours information to be shown as a separate line item in the sales breakdown of the overall sales. This will result in users having access to all information related to day tours for any given period.

44. **Manual Tickets** - When the ferry system is inaccessible, the agents resort to manual ticketing. The information is recorded on the agent's spreadsheets. The agents were advised to obtain receipt books and record receipts when the system is down. Access Division confirmed that no manual receipts were submitted to date. Passengers are not given a receipt as proof of payment when the online system is down. The non-issuance of manual receipts result in non-verification of revenue to ensure accuracy and completeness of transactions.

Recommendation

45. Manual receipts should be issued whenever the online system is down. This will ensure that all sales are accounted for and proper payment procedures are followed and ensure the existence of a clear audit trail.

46. **Complimentary Tickets** - There are no arrangements in place for dealing with complimentary tickets. Access Division's office administrator informed that the Division is awaiting a concessionary policy or pricing policy which will provide guidance on addressing such tickets as required by the DFID. However, there were occasions where the Access Coordinator or access stakeholders may utilize the ferry services for Government's official business and these travels were only authorised by the Access Coordinator.

47. The auditors requested the number of complimentary tickets that had been issued during the review period, but the Access Division was unable to provide this information.

48. The risk exists that issuing complimentary tickets without established criteria can lead to conflict as potential recipients refused, may feel justified in their requests.

Recommendation

49. A concessionary policy or pricing policy which will provide guidance on handling complimentary tickets should be established.
50. A separate file should be maintained for documentation relating to complimentary tickets.
51. **Credit Sales** – There were occasions where the agents had extended credit to Government departments and Ministries. We were informed by the office administrator that it is the agents' responsibility to collect the funds in a timely manner or pay with their credit card and recover the funds through company invoicing.
52. Currently, the online ferry system is not capable of reporting credit sales. Therefore, credit sales are not itemized on the ferry system sales report. For example, sales report for April 14, 2018 submitted by Jenny Tours, showed total cash sales of \$1,875. However, upon checking the deposit for that day it was noted that only \$975 was deposited. Our investigation revealed that \$900 of that \$1875 was credit sales. But this was not represented on the sales sheet that was generated from the system. The payment method showed \$1,875 cash was collected. As a result, the audit trail to track credit sales proved difficult as this amount is included in the overall sales figure and not shown as a separate line item within the sales report generated by the online system.
53. **Credit Card Ticket Sales** - During the audit, a log of the credit card transactions was requested but this was not submitted for review. As a result, auditors were unable to verify the ferry system log against the actual deposits on the bank statements.

Recommendation

54. The sales report feature of the online booking system needs to be amended to display credit sales if there are any. The payment method should not just indicate that cash was collected if credit was extended.
55. **Fixed Asset** - A fixed assets register was not maintained by the Division. A fixed asset schedule was not presented for review. Depreciation charges were not calculated. As a result, the accuracy, existence and valuation of fixed assets could not be determined.
56. During a physical examination, we observed that there were fixed assets in use that were not entered in the accounting records.
57. There is financial consequence to not maintaining an accurate asset register. Every business should know at any given time where their assets are and in what condition they are in. The tracking of assets can prevent theft and loss and the maintenance of assets can extend the life of the asset. The main impact of not charging depreciation is overstatement of assets on the balance sheet and overstatement of net income (or understatement of net loss) on the income statement.
58. Our review revealed that some additions made to fixed assets were not capitalized. This resulted in overstatement of expenses and understatement of fixed assets.

Recommendation

59. A full fixed assets inventory at both locations should be undertaken to itemize fixed assets, and the values of the assets recorded in a fixed assets register. A fixed asset register should be maintained, showing at a minimum the asset type, date of acquisition, estimated useful life, serial and registration number and cost of asset.

60. Maintaining a fixed Assets Register allows a company to keep track of details of each fixed asset, ensuring control and preventing misappropriation of assets. This register will keep track of the correct value of assets, which allows for computation of depreciation for tax and insurance purposes.

61. Non-current assets with limited useful lives are referred to as “depreciable” assets and are subjected to depreciation. Depreciation should be calculated monthly so that this is taken into account when preparing the quarterly management accounts.

62. Marking or numbering each asset ensures that individual assets can be quickly identified and determine if any assets are missing.

63. We suggest that a capitalization policy be established, with predetermined limits which will ensure that items which should be included in fixed assets are not expensed instead.

64. **Budgets** - Despite numerous requests the approved budgets for 2016/2017 and 2017/2018 were not submitted for audit. The only submission was the budget for April 2018 to March 2019 several months after they were requested. Additionally, the actual figures for the first quarter (April 2018 to June 2018) were omitted and there were relevant to the audit scope.

65. We obtained an incomplete budget performance schedule for 2015/2016 showing the projected versus actual figures for the year but this was incomplete as there were no actual figures for the last quarter – January 2016 to March 2016, and this was the period which was relevant to the audit scope. The 2015/2016 Budget Performance schedule was incomplete. There were no actual figures for comparison.

Recommendation

66. We recommend that management makes the necessary arrangements to ensure that budgets are properly prepared and presented for audit in a timely manner.

67. **Storage Of Records** - Access Division did not submit the payment voucher files for May 2016 to December 2016. Most of the payment vouchers and supporting documents for March and April 2016 were also missing. As a result, payments for this period could not be properly verified. There was no evidence of manual sales reports being generated prior to the establishment of the online ferry system. These were requested but were not presented for review.

Recommendation

68. We recommend, that management review its method of hard copy data storage, with a view to improving accessibility, identification and retrieval times. The appropriate steps should

be taken to ensure that financial records are stored appropriately, in conformity with generally accepted control procedures.

69. **Fraud Detection Procedures** - The Division does not have documented fraud detection policies and procedures. IAS 240 standard requires the review of the company fraud procedure, which should enable the best possibility of fraud being detected as a result of its internal control procedures.

Recommendation

70. We recommend that the Department implements as a matter of urgency policies and procedures, which will facilitate fraud detection; should it occur. The necessary training controls should be reviewed on an ongoing basis. For instance, participation in **International Fraud Awareness Week**, should be encouraged to minimize the impact of fraud by promoting anti-fraud awareness and training.

71. **Documented Operational Procedures** - The Division does not have a documented procedure manual to provide guidance for members and employees to perform their functions correctly and efficiently. It documents the approved standard procedures for performing operations safely to produce goods and provide services. Some benefits of having documented procedures include: ensuring a smoother process for staff induction, that is training would be easier and more consistent; standardized processes make it easier to find out what policies and procedures are in place to handle repetitive situations/tasks; ensures business continuity in that, when a key staff member is on leave or not in the office, work does not have to stand still, by referring to the Standard Operating Procedures, someone else can take over urgent tasks and do them correctly the first time.

Recommendation

72. A standard operational procedures manual should be developed as every organisation should have a document that clearly states how things should be done.

73. **End Of Each Shift Close-Off Routine** - At the end of the morning shift a sales report is printed and used to reconcile the actual cash collected for the day with the ferry system. At the end of the afternoon shift the sales report printed from the system includes sales receipts from both the morning and evening shifts. Therefore, one total for the daily sales shows on the final report. Currently, the ferry system cannot generate separate reports for each journey/shift. This makes it quite cumbersome when reconciling the receipts for each journey to the ferry system and the bank deposits. This is especially an issue for Jemmotte Shipping since sales receipts are deposited after each journey.

Recommendation

74. Separate reports should be generated for both morning and evening journeys for ease of reconciling each journey's receipts to the agents' sales as reported on the system.

75. **Payments For Various Government Departments** - At the end of each shift, the sales agents on duty are responsible for reconciling their cash and paying over monies collected on

behalf of different government departments (security fees, customs charges, departure tax) to ensure they agree, as discrepancies are easy to occur. After the fees have been calculated they are handed over to the various customs and immigration officers. This is a cumbersome process that could leave room for errors to occur.

Recommendation

76. All fees related to travelling should be included as part of the cost of the ticket – customs charges, security charges and departure tax. All monies owed to GoM could be calculated and paid over at the end of the month rather than being deducted and paid over at the end of each shift. This would reduce costs by eliminating the amount of paper being used to print receipts and will also save time.

77. **Inadequate Staffing** - The Access Division lacks dedicated staff as three staff members who are attached to Tourist Board Division also assist with the administrative duties of Access Division. The accountant and the Access Coordinator are the only staff who are dedicated to the Division. However, the accountant is employed on a part time basis - two days weekly. Thus, this impacted the timely retrieval of information during our audit exercise.

78. Insufficient staffing can cause limited segregation of duties. An individual executing transactions, making accounting entries reviewing their own work increasing the risk of mistakes or fraudulent activities which can go undetected. Additionally, the financial records will be more prone to errors, which will also have a significant impact on the financial statements and the audit at year-end.

Recommendation

79. Understaffing issues need to be addressed as a matter of urgency. A business case should be submitted to ensure adequate staffing. Inadequate staffing could have implications for the quality and quantity of work being produced in an organization.

80. **Agents' Accounting System** - Neither ferry agent currently has a complete accounting system in place. As a result, it was quite challenging for the accountant and administrative staff to review information submitted by each agent in order to compile accurate reports.

Recommendation

81. It is our recommendation that an accounting software like Quickbooks can be installed. This is of utmost importance as it would assist the agents in their record keeping and make it easier for them to submit reports that are accurate and timely. This would provide a better audit trail.

82. **Public Accounts** - The revenue collected from the ferry service operation was approximately XCD 5 million for the period under review. Access Division operates a separate bank account for the Montserrat Ferry Service. Therefore, the revenue and disbursement transactions were not recorded in Smartstream. This information was not accounted for in the consolidated funds and therefore did not form part of the GoM accounts. This affected the completeness and accuracy of the information reported in the public accounts.

Recommendation

83. All the revenue and disbursement transactions should be recorded in Smartstream, in order to ensure that all transactions that were supposed to be recorded have been recognized in the GOM accounts.

CHAPTER 3 CONCLUSION

84. On review, several weaknesses were identified. Some of the key areas are highlighted in the Findings listed in Chapter 2 of this report. Various internal controls need to be strengthened in order for the organization to become more effective in meeting its obligations to the government and people of Montserrat. It is imperative that performance metrics are measured and follow-up done to ensure stakeholders meet these metrics.

CHAPTER 4 MANAGEMENT RESPONSE

Response to (18-19) Non-Submission of Essential Documents

85. Your findings and recommendations have been noted. Discussion will be had in regards to acquiring accounting services.

Response to (20-22) Notes to the Account

86. Your findings and recommendations have been noted. Discussion will be had in regards to acquiring accounting services.

Response to (23-25) Cash on Hand - Security and Insurance

87. Your findings and recommendation have been noted. The Agent is to procure a safe as well as document cash safe procedures for the Access department to review. Follow up will be made with the Agent at the end of June to ascertain the progress made.

Response to (26-27) Cash Deposits

88. Your finding and recommendation are noted. It has been reiterated to both agents the need for daily deposits. There has been some improvement and evidence of daily reconciliation, however it still appears that multiple days are deposited at times.

Response to (28-30) Bank Reconciliation

89. Your findings and recommendation are noted, with an Assistant Secretary in place from July 1, 2020 this process will be more effectively undertaken.

Response to (31-34) Stale-dated Cheques

90. Your findings and recommendation have been noted. Most vendors overseas are now on Smartstream, and payments done by bank transfers. For the vendors that still receive cheques, they are contacted by the Clerical Officer assigned to Access or the Access Coordinator to make them aware that the cheque has been sent.

Response to (35-36) Ferry System Sales Vs Actual Deposit Comparison

91. Your findings and recommendation have been noted. Going forward we will ensure that daily reports are received on a weekly basis. A Checklist or reminder will be put in place in the Access Division to ensure that this measure is adhered to.

Response to (37-39) Cargo Receipts

92. Your findings and recommendation have been noted. It will be discussed what measures should be put in place to ensure that cargo is not sent from Antigua without being accounted for.

Response to (40-42) Day Tours

93. Your findings and recommendation have been noted. A Day Tours report has now been put in place on the Ferry System and is used for the reconciliation.

Response to (43-44) Manual Tickets

94. Your findings and recommendation have been noted. Going forward manual receipts will be provided, and this requirement will be communicated to the Agents along with the other recommendations that need to be put in place along with deadlines.

Response to (45-49) Complimentary Tickets

95. Your findings and recommendation have been noted. A pricing and concessionary policy has been put in place on October 1, 2019, along with an approval form which is authorized and approved by the related Ministry/Department and Access. **(Appendices A & B)**

Response to (50-51) Credit Sales

96. Your findings have been noted. The system that is in place requires payment on purchased, it is supported by the need for daily reconciliation and deposits along with monthly reconciliation.

Response to (52-53) Credit Card Sales

97. Your findings and recommendation have been noted. The Ferry System reporting now includes reporting on credit card sales separately.

Response to (54-62) Fixed Assets

98. Your findings and recommendation have been noted. The changes will be implemented in accordance to your recommendation and also added to our Action Plan.

Response to (63-65) Budgets

99. Your findings and recommendation have been noted. This will be added to our checklist of items that need to be undertaken.

Response to (66-67) Records Storage

100. Your findings and recommendation have been noted. Work has commenced to put in place a file register for Access. This will be added to our checklist of items that need to be undertaken

Response to (68-69) Fraud Detection Procedures

101. Your findings and recommendation have been noted. The procedure will be implemented in accordance to your recommendation and also added to our checklist of items that need to be undertaken.

Response to (70-71) Documented Operational Procedures

102. Your findings and recommendation have been noted. Work has started to create a manual which should be completed by year end. This item will be added to our checklist of items that need to be undertaken.

Response to (72-73) End of Each Shift Close-Off Routine

103. Your findings and recommendation have been noted. The procedure will be implemented in accordance to your recommendation and also added to our checklist of items that need to be undertaken.

Response to (74-75) Payment for Various Government Department

104. Your findings and recommendation have been noted. A decision has been made for all fees to be included into the cost of the ticket and should be in place shortly.

Response to (76-78) Inadequate Staff

105. Your findings and recommendation have been noted. In July 2019, the Access Division was moved to the Office of the Premier headquarters. A Clerical Officer has been assigned to provide data entry services and another to assist with administration as well as the monitoring of the email enquiries. The Assistant Secretary of the Office of Premier currently assist with the reconciliation and monitoring of the finances, however the Access Assistant/ Assistant Secretary will commence duty on July 1, 2020.

Response to (79-80) Agents' Accounting System

106. Your findings and recommendation have been noted. The Agents have been notified and are responsible for putting the necessary measures into place. This will also be added to our checklist of items to be undertaken with a deadline to ensure compliance.

Appendix 1: OFFICE OF THE AUDITOR GENERAL

Functions

By the authority of *The Montserrat Constitution Order 2010*, the OAG 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

107.—(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

108.—(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 O.A.G. 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 O.A.G. 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 O.A.G. 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. Vital to the respectability of the O.A.G. 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.

