



**PERFORMANCE AUDIT**

**OF**

**THE GOVERNMENT OF MONTSERRAT'S**  
**USE OF CAPITAL ASSETS: VEHICLES AND POLICE BOATS**



**2016 - 2020**

Office of the Auditor General  
September 2020

**THE GOVERNMENT OF  
MONTSERRAT'S USE OF CAPITAL  
ASSETS: VEHICLES AND POLICE  
BOATS**

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.

Florence A. Lee  
Auditor-General  
Office of the Auditor General  
September 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, 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

This audit examined the overall use of vehicles in several Departments and boats (Marine Unit, Royal Montserrat Police Service) in the central government of Montserrat. Overall, the evidence that we gathered shows that there is an adequate framework of oversight and accountability for the initial purchase of assets. Generally, governance, including procurement, has improved during the past several years.

However, we found some areas requiring significant improvement: e.g., major gaps in Departments' records, incomplete asset registers (contrary to law), and very inadequate reporting on the use and the performance of these major types of assets. There was no complete central record for all assets either within each Department or within the Treasury Department. To address this important gap, since early 2019, the Treasury Department has begun a project, with a dedicated officer, to compile a central database for capital assets across the public service.

In line with the International Public Sector Accounting Standards, we have recommended greater effort to make the important transition from cash-based accounting to accrual-based accounting.

We have also provided a number of other 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, 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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Auditor-General  
21 September, 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
IFRS	International Financial Reporting Standards
INTOSAI	International Organisation of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
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
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)
TOR	Terms of Reference

## Table of Contents

PREAMBLE .....	iii
Vision Statement .....	iii
Mission Statement .....	iii
The Goal .....	iii
AUDITOR GENERAL'S OVERVIEW .....	iv
ABBREVIATIONS.....	vi
EXECUTIVE SUMMARY .....	ix
Overview.....	ix
Main Findings .....	ix
Key Recommendations.....	x
Audit Conclusion.....	xii
CHAPTER 1: INTRODUCTION .....	1
Background .....	1
Objectives of the Audit.....	1
Scope of Performance Audit .....	1
Scale of Performance Audit .....	2
What We Excluded from this Audit.....	2
Why We Performed This Audit.....	2
How We Performed This Audit.....	3
CHAPTER 2: GOVERNANCE FOR CAPITAL ASSETS .....	5
Overview.....	5
Findings of the Audit.....	5
Recommendations .....	7
CHAPTER 3: USE OF CAPITAL ASSETS .....	9
Overview.....	9
Findings of the Audit.....	9
Recommendations .....	16
CHAPTER 4: MANAGEMENT RESPONSE.....	20
RECOMMENDATIONS:     MANAGEMENT RESPONSES: .....	20

CHAPTER 5: OVERALL CONCLUSION .....26

APPENDIX 1: OFFICE OF THE AUDITOR GENERAL.....27

APPENDIX 2: KEY REFERENCES.....29

APPENDIX 3: TERMINOLOGY.....31

APPENDIX 4: AUDIT FIELDWORK .....32

APPENDIX 5: GOM’S POLICY AGENDAS.....33

& SUSTAINABLE DEVELOPMENT PLAN GOALS.....33



# EXECUTIVE SUMMARY

## Overview

1. As a result of a declining private sector since 1995, the public sector has become the driving force for the economy. The very large (and growing) 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, the number and the types of public services and goods required have increased even as the population has slowly declined and the complexion of the society has diversified ethnically while gradually aging. The GOM is challenged by the need to increase the number, the range and the quality of capital assets necessary to meet the more complex demands of an upwardly mobile, well educated, and increasingly cosmopolitan 21<sup>st</sup>-century society in a small open economy with globalised communications and diverse movements of goods, services, and people. Meanwhile, constraints on aid, on public budgets, and on hiring in the MPS, are also incompatible with the Cabinet's Policy Agenda (including better governance, economic redevelopment, and growth of the population) and with 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

2. **Good governance overall.** An important finding of our research is that there is adequate oversight of strategic planning, of budgeting processes, and of projects. This includes the procurement of major capital-assets. Actual spending is kept strictly in line with actual revenues. This contributes to the SDP's Goal #1 and Goal #4.

3. **Cash-based accounting and little/no reporting of capital assets.** We found that Departments' asset-registers were incomplete, and their records were inadequate for the purchases and/or the operating costs and outcomes of capital assets. Under the current cash basis of governmental accounting, the GOM's Treasury Department does not prepare accrual-based Balance Sheets (otherwise called Statements of Financial Position) with full disclosure of capital assets. Newly acquired assets are often treated under recurrent spending lines (e.g., Purchase of Assets), rather than as long-term assets. Departments make no provision for the corresponding depreciation and accumulated amortisation of capital assets. Whilst the GOM is compliant with cash-based accounting standards for external reporting, this approach is unsatisfactory for internal reporting and for the effective management of Departments.

**4. GOM has no reserves/insurance for most assets.** The GOM has no external insurance to cover most of its capital assets, including vehicles. There is a huge and rising contingent liability for any damage to public assets or to private assets arising from the use of the GOM's vehicles/boats, and for any related injuries or deaths to the GOM's employees or to members of the public. There are no funds to support the policy of self-insuring.

**5. Poor co-operation by some Departments.** There was failure of the PWD's Plant Hire and Mechanical Workshop (which has central responsibility for repairs and maintenance to vehicles across the public service) to provide anything requested for this audit, including interviews and documentation of the frequency and costs of repairs and maintenance for GOM's capital assets, especially vehicles. Additionally, the Head of the Marine Unit (within the Royal Montserrat Police Service) did not acknowledge or reply to any of our requests or reminders.

**6. Over 90% of vehicles are old and inefficient.** Every Department that has vehicles or boats reported inadequate funding for replacements of assets. There is an urgent need to develop official funds and reserves for timely and proactive repairs, maintenance, and replacement of capital assets. Unlike what obtains in other UK Overseas Territories, the current model with the DFID in Montserrat actually discourages the GOM from having any reserves.

**7. Excellent maintenance schedule for vehicles, but under-funded.** All of the Departments that we surveyed praised the diligence of the PWD's Plant Hire and Mechanical Workshop in collecting public vehicles for regular service and maintenance. However, inadequate funding for maintenance and timely replacement (a) increases the cost of maintenance over time, (b) limits the stores of spare parts on the island, and (c) results in frequent and costly interruptions of departmental operations and public services when capital assets malfunction or become unusable.

## Key Recommendations

**8. Increase the funding for repairs & maintenance.** Given the value of the assets at risk, and the range of other risk factors, the MOFEM and DFID should increase their efforts to secure more funding to eliminate the backlog of repairs and maintenance across the public sector. This also requires including, from the concept and approval stages, adequate planning and budgeting for post-implementation maintenance in all procurement of capital assets as well as for new projects: e.g., airport, seaports, roads, bridges, hospital, and energy, in line with the SDP Goal #1. Increased security, accessibility and mobility, including provision for the poor, for the elderly, and for the disabled, also support SDP Goals #2 & #5. This recommendation also includes having back-up provision and contingency plans for when assets are out of use for repairs or maintenance or unexpectedly damaged, stolen or lost.

**9. Adopt accrual-based accounting and comprehensive reporting of assets.** To provide adequate accountability and transparency for the millions of dollars of capital assets across the public sector, the MOFEM should accelerate the transition from cash-based accounting to accrual-based accounting. This will ensure comprehensive accounting for capital assets, and adequate reporting to support effective policy-formulation, oversight and management of assets, and tracking of useful lives, residual values, accumulated depreciation, assigned drivers and users, and all operating expenses.

**10. Fund self-insurance; develop funds for buying/replacing assets.** To achieve the SDP Goal #1, to shift from post-crisis mode back to economic independence and resilience, the MOFEM, in partnership with the DFID, must start a fund to back the self-insurance of its vehicles and boats, and also support the GOM's strategic planning through the provision of sinking funds for capital assets. Delivery of public goods and services depends on full-time availability and reliable functioning of all required capital assets of the appropriate number and quality.

**11. Strengthen Departments' record-keeping and reporting.** The MOFEM should expand its efforts to oversee and to enforce improved asset-registers, comprehensive operating records, and timely reporting on the costs, the outputs, and the outcomes of the use of all capital assets within the public service. This will improve inputs into, and improve the usefulness of, the Treasury's new asset management software (introduced in 2019).

**12. Steadily transition from fossil fuels to renewable energy.** To achieve the SDP as well as the Montserrat Energy Policy, which targets 100% renewable energy by year 2030, the GOM, having recently bought its first electric car (2019), should continue to lead by example, and should encourage all Departments and statutory corporations to focus their new purchases of capital assets on those that use renewable local energy. As the largest fleet on the island is in the public sector, the GOM can easily accomplish most of the required national transformation of Montserrat's transportation sector, while encouraging the private sector to do the same.

**13. Increase the incentives for renewables.** The MOFEM should encourage the Cabinet to consider (i) expanding the range and duration of incentives for vehicles and other assets that use clean renewable energy, and, in turn, (ii) review the taxes and fees on fossil fuels and on vehicles and other capital assets that use imported fossil fuels. This will incentivise the broad adoption of capital assets that are compatible with the SDP and with the Montserrat Energy Policy. This approach could also maintain, or even increase, the GOM's overall revenues during the transitional years from 100% fossil fuels towards 100% renewable energy by the year 2030, as mandated by the Montserrat Energy Policy. It will also build Montserrat's self-sufficiency in energy and resilience against economic shocks, imported inflation, and disasters.

## Audit Conclusion

**14.** Overall, Departments have shown moderate to low efficiency in their use of capital assets. Of great concern is that their record-keeping is incomplete, monitoring is sporadic, their accountability for use of capital assets is low, and their reporting is often late or not done at all. Repairs and maintenance, as well as timely and adequate procurement/replacement of capital assets, have been under-funded and delayed over the past several years. In several cases, Departments' new acquisitions (e.g., the Marine Unit's boat in 2018) are, in fact, used assets, rather than highly reliable, highly efficient, new ones. Expectably, these are apt to repeated malfunction, more frequent repairs, outright failure, and/or interruption of public services. These trends affect both the total lifecycle costs and effectiveness of the GOM's capital assets and their value for money to all stakeholders.

**15.** More realistic and flexible approaches to funding, planning, and budgeting are clearly necessary to ensure that Departments receive, use, maintain, and replace capital assets of the required number and quality, in a timely manner, to obtain desired efficiency, effectiveness, and value for money. There are no sinking funds and GOM's policy of self-insurance has no reserves; this urgently requires the DFID's support in starting the progressive accumulation of supporting funds. Required, as well, is a continued shift from fossil fuels to renewable energy across the public sector, and, by extension, the entire society and economy, in order to achieve the Montserrat Energy Plan 2016 to 2030 and the Sustainable Development Plan 2008 to 2020.

# CHAPTER 1: INTRODUCTION

## Background

1. This performance audit focused on the governance and processes of the GOM's Departments for acquiring and using capital assets, the GOM's policy framework for strategic planning and budgeting, and the Departments' efficiency, effectiveness, and accountability in their use of capital assets. These connected dimensions have implications (a) for governance, (b) for departmental effectiveness and efficiency, and (c) for the quality of outputs, of outcomes, and of the delivery of services to the public. In turn, the number and the quality of the GOM's capital assets and public services 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 about 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 planning, budgeting, and using capital assets in the public sector of Montserrat. We considered (a) the quality of internal records, monitoring and reporting for capital assets, (b) the related management of human and other resources, (c) interviewees' reported issues, limitations, and challenges and their causes, and (d) their impact on the efficiency and effectiveness of participating Departments. Finally, the study aimed to assess the use of capital assets in relation to the GOM's Policy Agenda, the Montserrat Energy Policy, and the SDP 2008 to 2020. In particular, we sought to identify the major planning challenges, budgeting deficiencies, and operational issues facing the relevant Departments, and, hence, opportunities and recommendations for improving the outcomes of capital assets and their uses for all stakeholders.

## Scope of Performance Audit

3. The scope of this performance audit was to examine the status and the past 5 years' trends of planning, budgeting, and use of capital assets within the public service. We included all Ministries and several GOM departments in our review in order to assess the perspectives and the experiences of stakeholders regarding capital assets vis-à-vis their mandate, structure, efficiency,

quality of outputs, communication, quality of service, and overall performance. Financial and other data-analyses focused on four recent years (i.e., fiscal years 2016/2017 to 2019/2020).

## Scale of Performance Audit

4. The scale of this performance audit included Ministries and Departments within the GOM that have or use capital assets, with an emphasis on vehicles and/or boats.

## What We Excluded from this Audit

5. We excluded data preceding those of the year 2016, except for background knowledge and local context. We excluded comparative 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 and capital budgets 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) in the use of capital assets, 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 for the use of capital assets and other resources, and (iii) to seek to match, if not 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. **Quality of Public Services.** 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. Capital assets are essential parts of the delivery of public services, including inland safety and security, marine and border patrols, delivery of goods and services, and the safe and reliable transportation of employees and, in some cases, the users of public services. 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, capital assets, and infrastructure. In recent years, large amounts of the GOM's budgeted capital spending did not occur when planned, thus delaying purchases of capital assets and slowing national development and economic growth.

**7. Governance & Investment.** Over 60% of the GOM's recurrent spending and up to 90% of its capital spending is funded externally: by aid from the UK Government and by grants from multilateral institutions. Hence, the MPS faces increasing scrutiny and accountability for the management of public funds, the execution of strategic plans, and for the delivery of programmes, of projects, and of outputs. Capital assets represent large investments of public funds. Therefore, they require adequate planning, budgeting, repairs, maintenance, deployment, and replacement to maintain high levels of safety to public servants and high levels of service to the public.

## How We Performed This Audit

**8. Interviews & site visits.** Initially, we engaged in interviews with senior public-sector officials across various GOM departments, including site-visits to see the vehicles that they use. With the guidance provided by these meetings and inspections, we proceeded to devise questionnaires and data gathering techniques suitable for the purpose of assessing (i) the governance of GOM's strategic planning and capital budgeting, (ii) the efficiency and the effectiveness of data gathering, reporting, human resources, and interdepartmental communication and co-operation related to the use of capital assets, and (iii) the recent trends, outputs, and outcomes of the uses of capital assets in the public service.

**9. Reviews of relevant law, regulations and literature.** Before and during our fieldwork, we researched GOM policies, 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 governance, strategic planning and national budgeting, public sector efficiency and effectiveness, monitoring and implementation, including project management and capital assets, and 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, budgeting, procurement, and deployment of capital assets.

**10. Internal & External Evidence.** Various requests for information were made during October, 2018, to March, 2019. Owing to several late responses, the fieldwork extended to August, 2019. Emphasis was placed on factors affecting the Departments' governance, planning, budgets, implementation, asset management, efficiency, and performance. In particular, we sought to know (a) whether there were adequate staffing and skills for the satisfactory use of capital assets during the past few years, (b) issues affecting the Departments' processes, progress,

and outputs from capital assets, (c) the quality of reporting, communication, and co-operation among the stakeholders, and (d) recommendations/opportunities for improvements.

**11. 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 and appropriate evidence to reach a reasonable conclusion about the performance of the entities/areas studied with regard to their governance and 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 FOR CAPITAL ASSETS

### Overview

**12.** 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, including for capital assets, for his/her Ministry/Department and reports these 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. In the final quarter of each fiscal year, the annual Financial Aid Mission includes visits by the DFID's representatives to review each Ministry's plans and to negotiate the final budget with the MOFEM. The capital budget is fully 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, budgets, and projects, including capital assets. The Small Capital Asset Fund (SCAF) provides a means for some capital assets to be procured up to a specified limit.

### Findings of the Audit

**13. Good framework for procurement.** In recent years, bodies such as the MOFEM's Procurement Unit, the Small Capital Asset Fund, and the Public Procurement Board have provided effective oversight for Departments' proposed purchases of capital assets. Cumulative spending has remained below the total budgeted.

**14. No complete central database.** Despite the requirements of International Public Sector Accounting Standards (IPSAS) and the longstanding laws and regulations governing public finance, we found no complete record of capital assets for the public sector. Only very recently (early 2019) did the Treasury Department dedicate an officer to begin to build a central database for long-term assets in the public service.

**15. Risks.** With heavy reliance on imports, on the U.K. 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 generally and especially for capital assets.

Fluctuating external prices [i] for fuel, [ii] for utilities, and [iii] for imported assets, spares, and parts, together create rising costs and prices on the island, contributing to inflation for the public service. This status quo poses multiple risks to the GOM's purchases and uses of capital assets, which are entirely dependent on imported fossil fuels. With the Solar Power Project in progress, and with a recharging station for electric vehicles already in place at the MCWEL, the GOM can begin to solve some of these issues in line with the Montserrat Energy Policy.

**16. No Department with vehicles had a satisfactory register of capital assets.**

Contrary to the laws and regulations relevant to public finance, none of the Departments that we surveyed for documentation of capital assets had a complete record of these assets. Some Departments provided a list of vehicles, for instance, but did not have complete records of all relevant information, including the original purchase cost, current condition, current location, etc.

**17. Inadequate documentation of assigned staff & use of vehicles.**

A major shortcoming among Departments that we surveyed is that there was little or no formal documentation of the policy governing capital assets, including vehicles. We found inadequate documentation of procedures such as the selection of drivers, the assignment of employees to specific capital assets, and/or approvals of officers at inception of a vehicle and, as appropriate, over time.

**18. All public vehicles, except one electric vehicle, use fossil fuels.**

Contrary to the SDP (2008 to 2020) and to the Montserrat Energy Policy (2016 to 2030), 100% of the public service's capital assets that we found in this study still use fossil fuels, apart from the recently purchased electric vehicle maintained by the Ministry of Communications, Works, and Energy. The GOM faces several risks and rising costs from the continued heavy reliance on imported fossil fuels, which have negative impacts on multiple areas: e.g., air pollution, noise pollution, and adverse impacts on the natural environment, chronic diseases, excessive imports, large trade deficits, and high recurring costs to the GOM's budget.

**19. No funded insurance for most of GOM's capital assets.**

Across the public sector, except for the newer boat, risks to capital assets are not independently insured; moreover, the GOM has no reserves to fund its policy of self-insurance. The current financing model with the DFID in Montserrat actually discourages the GOM from having any reserves. Thus, for these assets, the GOM assumes 100% of the risks of any accidents, deaths, loss of assets, or damage to assets, including buildings, vehicles, employees, and equipment. This status quo creates large, growing, and mostly unquantified risks to the GOM, and increases the number of legal, moral, political, social, commercial, technological, and economic exposures to the GOM. Ultimately, no

insurance and unfunded insurance pose unlimited liability for the GOM and, thus, Montserrat (as witnessed in 1989, to the extent of 377% of GDP, and again in and since 1995, for instance).

**20. Risk management is very limited.** We found no risk registers and/or documented policies for managing risks within the Departments that we surveyed across the MPS. Across the public sector, few persons are dedicated to related areas: e.g., project management, risk management, economic analysis, research methods, and statistical analysis (apart from the Statistics Department). Several departments noted their lack of capacity in these areas.

**21. Poor co-operation by some Departments.** Of major concern was the failure of the PWD's Plant Hire and Mechanical Workshop (which has central responsibility for repairs and maintenance to vehicles across the public service) to provide anything requested for this audit, including [a] interviews and [b] documentation of the frequency and costs of repairs and maintenance for GOM's capital assets, especially vehicles. Likewise, the Head of the Marine Unit did not acknowledge or reply to any of our requests or reminders.

## Recommendations

**22. Maintain a central database.** To improve the oversight of, and accounting for, public assets, the Treasury Department must complete its asset management project (started in year 2019), and, thereafter, maintain a current and comprehensive database of all of the GOM's assets, and especially major capital assets such as vehicles and boats. Both individually and collectively, these categories of asset have high values and long lives, with operating costs that affect the GOM's strategic planning, budgeting, and recurrent spending for many years after their purchase. Applicable laws, regulations, and accounting standards [e.g., International Financial Reporting Standards (IFRS) and IPSAS] require satisfactory recording and reporting: of all purchases of assets, all disposals of assets, all transferrals of assets, and of their operating costs.

**23. Ensure that every Department keeps satisfactory records of assets.** To comply with the Public Finance (Management and Accountability) Act, 2008, and the related regulations, the MOFEM must do more to hold all Heads of Department strictly accountable for [1] creating and maintaining complete, accurate, and current registers and [2] supporting documentation of all of their capital assets, including [i] approvals of drivers, [ii] assignments of staff, [iii] training and retraining of staff, and [iv] summaries of operating costs, outputs, and outcomes. Create and enforce a clear plan for each Department, including remediation of deficiencies, improved record keeping, and prompt reporting when requested or required (e.g., annual summaries to Treasury Department for the external audit of the public accounts).

**24. Build reserves to support self-insurance for capital assets.** To manage GOM's large and growing exposures to disasters, legal and other liabilities, the DFID must fully support the MOFEM to implement a plan to start funding and growing suitable reserves for all of the GOM's long-term assets. This will help greatly to reduce both the impact and the cost of repairs and/or replacements of capital assets in normal operations, as well as the much greater risks arising from more frequent hurricanes and from other potential disasters, accidents, injuries, or deaths, both of employees and of members of the public. With capital assets, the risk of any of these contingencies grows with each passing year, not only because these are multi-year assets, but also in aggregate, given the number, the value, and the impact of the assets and operations at stake. Prompt proceeds from self-insurance funds will minimise disruptions to public services.

**25. Switch public assets from fossil fuels to renewable energy.** To achieve the SDP as well as the Montserrat Energy Policy, which targets 100% renewable energy by year 2030, the GOM, having recently bought its first electric car (2019), should continue to lead by example, and encourage all Departments and statutory corporations to focus their new purchases of capital assets on those that use renewable local energy. As the largest fleet on the island is in the public sector, the GOM can accomplish some of the required national transformation of Montserrat's transportation sector, while encouraging the private sector to do the same.

**26. Increase incentives for renewables.** The MOFEM should encourage the Cabinet to consider expanding the range and duration of incentives for vehicles and other assets that use clean renewable energy, and in turn, reviewing the taxes and fees on fossil fuels and on vehicles and other capital assets that use imported fossil fuels. This will incentivise the broad adoption of capital assets that are compatible with the SDP and with the Montserrat Energy Policy. This approach will also maintain, or will even increase, the GOM's overall revenues during the transitional years from 100% fossil fuels towards using more renewable energy. It will also build Montserrat's [a] self-sufficiency in energy and [b] resilience against economic shocks, imported inflation, and disasters.

## CHAPTER 3: USE OF CAPITAL ASSETS

### Overview

**27.** All Departments use some capital assets of various categories: e.g., furniture, buildings, equipment, appliances, computers, vehicles, et cetera. However, only one unit (the Marine Unit of the Royal Montserrat Police Service) has boats, and only a small number of Departments have vehicles or large moveable equipment. Much more common is the use of Travel Allowances for employees designated as Travelling Officers whereby they acquire vehicles personally and then the GOM pays them a monthly allowance for as long as they maintain the vehicle in working order commensurate with the nature of their jobs. In most cases, the GOM's traditional approach has been to buy and to own capital assets outright rather than to rent or to use external contractors, except for temporary uses and for projects. The rationale for this policy is that owning costs less than leasing or renting over the long term. The total value of the GOM's assets, including capital assets, is unknown, but it is estimated to be in the hundreds of millions of dollars, based on the cumulative values of the public sector's purchases of long-term assets and of public infrastructural investments over the past 20 years.

### Findings of the Audit

**28. The Marine Unit's recently arrived boats were not new.** Heliconia Star, the larger of the two recently procured boats for the Marine Unit of the Montserrat Police Service was actually three years old (certified built in year 2015; received in Montserrat in April, 2018), rather than new. Likewise, the Atlantic, which arrived in Montserrat in March, 2018, was 19 years old and came to Montserrat as second-hand assets.

**29. Soon after arrival, the Heliconia Star malfunctioned.** The Heliconia Star was provided through the DFID and the U.K. Government's Foreign and Commonwealth Office, which retains ultimate ownership of the vessel. This ship was a major upgrade from the Royal Montserrat Police Service's previous much smaller, much older boat, which had been out of service for a number of years. However, within only a few months of its commissioning in Montserrat (mid-2018), the newly acquired main vessel had a major malfunctioning of its engine, and the boat could not perform satisfactorily. As the vessel was under warranty at that time, with an insured value of GBP 3 million (roughly EC\$10 million), the repairs were done at no charge to the GOM. However, in practical terms, there was a significant opportunity-cost, as this

development seriously affected the regular joint operations of the Police Service and of the Customs Department for a period of time. This was a very poor first-year outcome for [a] the major investment in procurement of capital assets, as well as [b] the large investments in recruitment and training for the staff of the Marine Unit, as well as [c] significant purchases of supplies, materials, equipment, and furnishings for the boat.

**30. Used equipment.** Over the years, the Fire & Rescue Department has also had challenges with receiving mostly second-hand equipment (mostly procured from British Fire Departments) rather than new items. In the past two years, some new items were provided to the Department. Meanwhile, the Department has been incurring significant maintenance and downtime as all of the vehicles are several years old, with the oldest firefighting truck being over 30 years old. No new vehicles have been allocated to the Department since year 2008 (over 12 years ago). However, our site-visits found that this Department has an excellent schedule of maintenance with daily cleaning and detailed documented inspections of every active vehicle in that Department.

**31. Cash-based accounting and little/no reporting of capital assets.** Under the current cash-basis of governmental accounting, the GOM's Treasury Department does not prepare Balance Sheets with full disclosure of capital assets. Newly acquired assets are often treated under recurrent spending lines (e.g., Purchase of Assets), rather than as long-term assets. Departments make no provision for the corresponding depreciation and amortisation of capital assets. Whilst the GOM is compliant with cash-based accounting standards for external reporting, this approach is unsatisfactory for internal reporting and for the effective management of Departments. For example, no Department in our study provided complete figures either for the historical purchase-costs of each of its capital assets or for the operating costs (e.g., repairs and maintenance, fuels, parts, training) of these assets. This limits accountability as well as the bases for effective budgeting, planning, funding, and decision-making. It should be noted that, for several years, the standard-setting body for public-sector accounting (IPSAS) has been encouraging governments to move to accrual-based accounting with full disclosure of all assets and of all liabilities.

**32. Heavy reliance on the DFID and other external funding.** The GOM remains dependent on the DFID for up to 60% of its recurrent spending and on external aid and grants for up to 90% of its capital spending. Over the past several years, local revenues have increased, but actual collections have often been below expectations and, in any case, even the projected amounts are inadequate to meet all of the GOM's total recurring spending needs.

**33. Most vehicles are aged and becoming less efficient.** Most (75%) of the GOM's vehicles are over 5 years old; in standard accounting practice, these would be deemed to be 100% depreciated and scheduled for replacement. Many vehicles (64%), as well as other capital assets, are over 10 years old: e.g., one of the Marine Unit's two boats is over 20 years old. Risks of malfunction, of major repairs, and/or of disruptions to public services continue to rise with each passing year of these assets' over-extended use. In our review of the most recently available data (July, 2020), we found that there were 58 items classified as vehicles (55 vehicles and 3 vehicle-lifts) across the GOM's Departments. A total of 3 items in the list of vehicles (3 vehicle-lifts) had no indicated age or date of purchase. The tables below presents a summary of the aging of the GOM's fleet of 55 regular licensed vehicles updated as of July, 2020.

**Table 1: Summary of Vehicles in the Montserrat Public Service by Year**

<b>Category of Age Year of Manufacture</b>	<b>Number of Vehicles</b>	<b>Percentage of Vehicles</b>
2019	4	7%
2018	2	4%
2017	6	11%
2016	1	2%
2015	1	2%
2014	3	5%
2013	2	4%
2012	1	2%
2011	0	0%
2010	0	0%
2009	0	0%
2008	5	9%
2007	5	9%
2006	3	5%
2005	4	7%
2004	2	4%
2003	2	4%
2002	1	2%
2001	2	4%
2000	1	2%
1999	3	5%

1998	3	5%
1997	0	0%
1996	3	5%
1995	1	2%
1994	0	0%
1993	0	0%
1992	0	0%
1991	0	0%
1990	0	0%
1989	0	0%
1988	0	0%

**Table 2: Summary of the Aging of Vehicles in the Montserrat Public Service**

<b>Category of Age</b>	<b>Number of Vehicles</b>	<b>Percentage of Vehicles</b>
Under 1 year	0	0%
1 to 5 years	14	25%
6 to 10 years	6	11%
11 to 15 years	17	31%
16 to 20 years	8	15%
21 to 25 years	10	18%



**34. Over 90% of vehicles classified as mobile equipment are aged and inefficient.** Almost all of the automobiles classified as Heavy Equipment among the GOM's vehicles are over 5 years old; in standard accounting practice, these would be deemed to be 100% depreciated and scheduled for replacement. Many vehicles (62%), as well as other capital assets, are over 10 years old: one of the Fire & Rescue Service's four fire-tenders is over 30 years old. Risks of malfunction, of major repairs, and/or of disruptions to public services continue to rise with each passing year of these assets' over-extended use. In our review of the most recently available data (July 2020), we found that there were 45 vehicular items classified as Heavy Equipment across the GOM's Departments; a total of 8 items in the list of heavy equipment vehicles had no indicated age or date of purchase. The tables below present a summary of the aging of the GOM's fleet of heavy equipment vehicles updated as of July, 2020, for the 37 items with known dates/ages.

**Table 3: Summary of Vehicles Classified as Heavy Equipment in the Montserrat Public Service by Year**

Category of Age Year of Manufacture	Number of Vehicles	Percentage of Vehicles
2019	1	3%
2018	0	0%
2017	0	0%
2016	2	5%
2015	1	3%
2014	3	8%
2013	0	0%
2012	3	8%
2011	1	3%
2010	3	8%
2009	0	0%
2008	0	0%
2007	2	5%
2006	1	3%
2005	1	3%
2004	2	5%
2003	4	11%

2002	5	14%
2001	0	0%
2000	0	0%
1999	1	3%
1998	0	0%
1997	2	5%
1996	0	0%
1995	0	0%
1994	0	0%
1993	0	0%
1992	1	3%
1991	0	0%
1990	8	3%
1989	0	0%
1988	1	3%

**Table 4: Aging of Vehicles Classified as Heavy Equipment in the Montserrat Public Service**

<b>Category of Age</b>	<b>Number of Vehicles</b>	<b>Percentage of Vehicles</b>
Under 1 year	0	0%
1 to 5 years	4	11%
6 to 10 years	10	27%
11 to 15 years	4	11%

16 to 20 years	11	30%
21 to 25 years	3	8%
26 to 30 years	4	11%
31 to 35 years	1	3%

**35. Excellent record of safety.** Two of the positive findings of this study are:

[1] Departments' assigned drivers of vehicles and assigned handlers of large equipment are experienced and mature persons, and

[2] Departments surveyed reported [i] no deaths and [ii] that fewer than 5 accidents or injuries, either of the GOM's employees or of members of the public, have occurred in recent years.

**36. The Accident Investigation Board functions, but is inefficient.** In identified instances of vehicular incidents, Departments that we surveyed reported their great dissatisfaction [a] with their experiences with the Accident Investigation Board's very slow processes and [b] with its pattern of having little/no communication with affected Departments. Sampled Departments sent reports of accidents to the AIB but advised that they did not receive reports from the AIB about the outcomes of its investigations.

**37. Replacements are slow and inadequate.** High dependence on external funding, along with significant constraints on spending, limits what the GOM can spend each year, both for operating expenses and for capital assets. This leads to chronic rationing of funds within the annual budgeting and planning cycles. Many items are neglected for replacement until an emergency or a crisis arises. For example, it took several years to replace the Marine Unit's obsolete boat, leaving the Customs Department and the Police Service without Coast Guard capabilities to protect Montserrat's borders against increasingly important threats including:

[a] Smuggling,

- [b] Narcotics trade,
- [c] Undocumented immigration,
- [d] Human trafficking,
- [e] Illegal fishing and sand-mining,
- [f] Damage to reefs and coastal ecosystems,
- [g] Unauthorised entry into, and activities within, the large Exclusion Zones (which include extensive areas both inland and miles offshore), and
- [h] Unlawful dumping or other activities by yachts, by cruise-ships, and by other passing vessels in Montserrat's large offshore territorial regions (which are many times the size of the inhabited 1/3 of the island's land area).

**38. No fund for replacement of capital assets.** The SCAF provides a small amount (about 1%, or less, of the GOM's total budgeted spending) of funding each year for the procurement of smaller new items. However, there is no dedicated fund or official reserve for the replacement of existing capital assets. Contrary to best practice and to what obtains in other Overseas Territories, the current financing model with the DFID in Montserrat actually discourages the GOM from having any reserves. This situation leaves the entire public service at the mercy of vagaries in external funding, resulting in persistent delays in getting approval for funds until subsequent fiscal years. Over the past several years, surveyed Departments reported that they repeatedly experienced an unsatisfactory amount, pace, and timing of approvals and disbursements for purchases of capital assets and for replacements of capital assets.

**39. Infrequent use of Boards of Survey.** Departments that we surveyed reported little or no use of Boards of Survey to value capital assets, apart from ad hoc requests for valuations when an old vehicle was to be auctioned.

## Recommendations

**40. Account fully for all capital assets and related expenses.** In line with best practices, and in accordance with the PFMAA, 2008, and the related Regulations, 2009, the MOFEM must continue to hold all Accounting Officers in the Montserrat Public Service accountable, among other financial responsibilities, for the following deliverables:

[a] Complete information on the total purchase-costs all capital assets used within their Departments;

[b] Indications of the estimated useful lives versus experience to date for each category of

their capital assets;

**[c]** All operating costs related to their capital assets, in total, and by category; and

**[d]** Preparation and demonstrated progress for the overdue shift towards accrual-based accounting, starting with internal reporting and decision-making.

This is necessary to ensure the completeness and the correctness of the data in the Treasury's new consolidated Asset Management Software, while ensuring that the Departments themselves keep adequate records of their capital assets.

**41. Adopt accrual-based accounting and comprehensive reporting of assets.** To provide adequate accountability and transparency for the millions of dollars of capital assets across the public sector, the MOFEM should commence the transition from cash-based accounting to accrual-based accounting for all Departments. This will ensure comprehensive accounting for capital assets, and adequate reporting to support effective policy-formulation, oversight and management of assets, and [c] tracking of useful lives, residual values, accumulated depreciation, assigned drivers and users, and all operating expenses.

**42. Improve planning, budgeting, and reporting.** As these represent major investments, Departments' focusing on proper recording, timely reporting, and efficient and effective deployment of capital assets, will all greatly expedite the GOM's progress towards meeting the targets of the SDP, as well as towards achieving the large benefits of comprehensive accrual accounting and satisfactory reporting both for internal users and for external users. These include international donors and prospective partners/investors, for whom IFRS-compliant financial statements and PEFA-compliant budgeting and planning are important assurances of a country's governance, as well as making it easy to compare figures across investments and between countries.

**43. Implement the asset-management software comprehensively.** Full support should be given to the Treasury Department to maintain comprehensive data for the GOM's assets and to ensure the co-operation of all Departments. Within 1 to 2 years, all existing capital assets, including infrastructural investments, could be properly accounted, including [1] standard estimates of useful lives, [2] suitable provisions for accumulated depreciation, [3] accurate net book value, and [4] useful assessments of net realisable amounts or residual values, if any. In turn, accurate, complete and timely records and accounting will improve [i] Departments' strategic planning and budgeting for adequate maintenance and replacement of assets in use, as

well as [ii] timely procurement of new assets needed in line with the SDP, the GOM's Policy Agenda, and the new Economic Growth Strategy.

**44. Expand the Small Capital Asset Fund.** This currently provides for purchases of capital items under E.C.\$250,000 (e.g., most vehicles, furniture, and I.T. equipment). The MOFEM advocate for the DFID to provide annual increments in the dedicated funding for the SCAF. This will help in several ways, including the following: [a] to relieve the accumulated budgetary pressures, [b] to address operating risks more strategically, and [c] to reduce inefficiencies within Departments.

**45. Create a Capital Asset Maintenance/Replacement Fund.** An essential part of effective procurement is [a] adequate budgetary provision for repairs and maintenance over the complete life-cycle of capital assets and [b] ring-fenced funding for timely renovations, upgrades, and eventual replacements of all capital assets, including major items. This will also avoid the current risks of being unable to do major repairs or to replace assets, in a timely way, when they suddenly malfunction or become inoperable. E.g., it is much more economical, efficient, and effective to replace a major power-generator for \$1 million, with benefits spanning 10 to 20 years (against straight-line depreciation of \$4,000 to \$8,000 per month), than to wait for a crisis, and then having to import one urgently at very high cost and to rent it for U.S.\$55,000 per month, because no provision had been made for its essential and long overdue replacement.

**46. Plan and budget for timely replacement of assets.** We recommend that, in line with IFRS and with IPSAS, as well as best practices in strategic planning and budgeting, the MOFEM negotiate with the DFID for a basic amount of funding each year to be set at a reasonable percentage of the value of GOM's capital assets in use. This could correspond with standard rates of depreciation (e.g., 20% per year for vehicles; 10% per year for furniture and equipment) and/or reasonable estimates of useful life (e.g., much shorter for Police vehicles than for regular cars).

**47. Plan and budget for untimely replacement of assets.** With the support of the DFID, a supplementary provision would be highly advisable for contingencies (e.g., unplanned major damage or loss following an accident, a storm, or a disaster) and for occasional variations from standard useful lives of capital assets (e.g., vehicles with heavy loads and/or high frequency of usage will require much sooner than average replacement). These measures will move the public service from reactive mode to proactive mode in line with the GOM's Policy Agenda: especially items 1.1, 1.4, 1.9 and 4.2.

**48. Use Boards of Survey of Assets annually.** As prescribed in the PFMAA, 2008, and the related Regulations, 2009, the MOFEM should appoint and mandate Boards of Survey [1] to inspect the capital assets of each Department at the end of each financial year, [2] to report their assessment of the condition of each capital asset, and [3] to provide a reasonable estimate of the value of each capital asset. This will provide enhanced accountability for the existence and for the usage of assets. It will also provide added assurance about the usefulness of internal estimates, budgets, and accounting figures related to the GOM's capital assets. The cumulative experiences, observations, and findings of these Boards of Survey will underpin better capital budgeting and strategic planning across the public sector.

## CHAPTER 4: MANAGEMENT RESPONSE

### RECOMMENDATIONS:

### MANAGEMENT RESPONSES:

<p>22. Maintain a central database. To improve the oversight of, and accounting for, public assets, the Treasury Department must complete its asset management project (started in year 2019), and, thereafter, maintain a current and comprehensive database of all of the GOM's assets, and especially major capital assets such as vehicles and boats. Both individually and collectively, these categories of asset have high values and long lives, with operating costs that affect the GOM's strategic planning, budgeting, and recurrent spending for many years after their purchase.</p> <p>Applicable laws, regulations, and accounting standards [e.g., International Financial Reporting Standards (IFRS) and IPSAS)] require satisfactory recording and reporting: [a] of all purchases of assets, [b] of all disposals of assets, [c] of all transferrals of assets, and [d] of their operating costs.</p>	<p>Fully supported and agreed.</p>
<p>23. Ensure that every Department keeps satisfactory records of assets. To comply with the Public Finance (Management and Accountability) Act, 2008, and the related regulations, the MOFEM must do more to hold all Heads of Department strictly accountable for [1] creating and maintaining complete, accurate, and current registers and [2] supporting documentation of all of their capital assets, including [i] approvals of drivers, [ii] assignments of staff, [iii] training and retraining of staff, and [iv] summaries of operating costs,</p>	<p>The Ministry of Finance &amp; Economic Management (MOFEM) does hold Accounting Officers accountable, and it is for those Officers to ensure they fully comply with the regulations and the Acts. The Treasury Department will continue to provide training and support to Accounting Officers and seek improvements in the Asset Management System that has been introduced.</p>



<p>outputs, and outcomes. Create and enforce a clear plan for each Department, including [a] remediation of deficiencies, [b] improved record keeping, and [c] prompt reporting when requested or required (e.g., annual summaries to Treasury Department for the external audit of the public accounts).</p>	
<p>24. Build reserves to support self-insurance for capital assets. To manage GOM's large and growing exposures to disasters, legal and other liabilities, the DFID must fully support the MOFEM to implement a plan to start funding and growing suitable reserves for all of the GOM's long-term assets. This will help greatly to reduce [1] both the impact and the cost of repairs and/or replacements of capital assets in normal operations, as well as [2] the much greater risks arising from more frequent hurricanes and from other potential disasters, accidents, injuries, or deaths, both of employees and of members of the public. With capital assets, the risk of any of these contingencies grows with each passing year, not only because these are multi-year assets, but also in aggregate, given the number, the value, and the impact of the assets and operations at stake. Prompt proceeds from self-insurance funds will minimise disruptions to public services.</p>	<p>As was stated many times during the review, the MOFEM fully supports this approach, and has been trying for several years to set up such reserves in line with best practice. We echo the comments of the Auditor in this matter as we have for some time. As the Auditor is well aware, the DFID will not allow the GOM to hold any significant reserves as we are grant in aid. The issue is with the DFID to allow us to develop and to hold such reserves. This applies to Asset Replacement, to Insurance, and to Contingent Liabilities.</p>
<p>40. Account fully for all capital assets and related expenses. In line with best practices, and in accordance with the PFMAA, 2008, and the related Regulations, 2009, the MOFEM must continue to hold all Accounting Officers in the Montserrat Public Service accountable, among other financial responsibilities, for the following deliverables:</p>	<p>See our response to paragraph 25, which applies to here as well.</p>

<p>[a] Complete information on the total purchase-costs all capital assets used within their Departments;</p> <p>[b] Indications of the estimated useful lives versus experience to date for each category of their capital assets;</p> <p>[c] All operating costs related to their capital assets, in total, and by category; and</p> <p>[d] Preparation and demonstrated progress for the overdue shift towards accrual-based accounting, starting with internal reporting and decision-making.</p> <p>This is necessary to ensure the completeness and the correctness of the data in the Treasury's new consolidated Asset Management Software, while ensuring that the Departments themselves keep adequate records of their capital assets.</p>	
<p>42. Improve planning, budgeting, and reporting. As these represent major investments, Departments' focusing on [a] proper recording, [b] timely reporting, and [c] efficient and effective deployment of capital assets, will all greatly expedite the GOM's progress towards meeting the targets of the SDP, as well as towards achieving the large benefits of comprehensive accrual accounting and satisfactory reporting both for internal users and for external users. These include international donors and prospective partners/investors, for whom IFRS-compliant financial statements and PEFA-compliant budgeting and planning are important assurances of a country's governance, as well as making it easy to compare figures across investments and between countries.</p>	<p>Noted.</p>

<p>43. Implement the asset management software comprehensively. Full support should be given to the Treasury Department to maintain comprehensive data for the GOM's assets and to ensure the co-operation of all Departments. Within 1 to 2 years, all existing capital assets, including infrastructural investments, could be properly accounted, including [1] standard estimates of useful lives, [2] suitable provisions for accumulated depreciation, [3] accurate net book value, and [4] useful assessments of net realisable amounts or residual values, if any. In turn, accurate, complete and timely records and accounting will improve [i] Departments' strategic planning and budgeting for adequate maintenance and replacement of assets in use, as well as [ii] timely procurement of new assets needed in line with the SDP, the GOM's Policy Agenda, and the new Economic Growth Strategy.</p>	<p>See our response to paragraph 25, which applies to here as well.</p>
<p>44. Expand the Small Capital Asset Fund. This currently provides for purchases of capital items under E.C.\$250,000 (e.g., most vehicles, furniture, and I.T. equipment). We recommend that the DFID provide annual increments in the dedicated funding for the SCAF. This will help in several ways, including the following: [a] to relieve the accumulated budgetary pressures, [b] to address operating risks more strategically, and [c] to reduce inefficiencies within Departments.</p>	<p>Fully supported.</p>
<p>45. Create a Capital Asset Maintenance / Replacement Fund. An essential part of effective procurement is [a] adequate budgetary provision for repairs and maintenance and [b] ring-fenced funding</p>	<p>See our response to paragraph 26, which applies to here as well.</p>

<p>for timely renovations, upgrades, and eventual replacements of all capital assets, including major items. This will also avoid the current risks of being unable to do major repairs or to replace assets, in a timely way, when they suddenly malfunction or become inoperable. E.g., it is much more economical, efficient, and effective to replace a major power generator for \$1 million, with benefits spanning 10 to 20 years (against straight-line depreciation of \$4,000 to \$8,000 per month), than to wait for a crisis, and then having to import one urgently at very high cost and to rent it for U.S.\$55,000 per month, because no provision had been made for its essential and long overdue replacement.</p>	
<p>46. Plan and budget for timely replacement of assets. We recommend that, in line with IFRS and with IPSAS, as well as best practices in strategic planning and budgeting, the MOFEM negotiate with the DFID for a basic amount of funding each year to be set at a reasonable percentage of the value of GOM's capital assets in use. This could correspond with standard rates of depreciation (e.g., 20% per year for vehicles; 10% per year for furniture and equipment) and/or reasonable estimates of useful life (e.g., much shorter for Police vehicles than for regular cars).</p>	<p>See our response to paragraph 26, which applies to here as well.</p>
<p>47. Plan and budget for untimely replacement of assets. With the support of the DFID, a supplementary provision would be highly advisable [1] for contingencies (e.g., unplanned major damage or loss following an accident, a storm, or a disaster) and [2] for occasional variations from standard useful lives of capital assets</p>	<p>See our response to paragraph 26, which applies to here as well.</p>

<p>(e.g., vehicles with heavy loads and/or high frequency of usage will require much sooner than average replacement). These measures will move the public service from reactive mode to proactive mode in line with the GOM's Policy Agenda: especially items 1.1, 1.4, 1.9 and 4.2.</p>	
<p>48. Use Boards of Survey of Assets annually. As prescribed in the PFMAA, 2008, and the related Regulations, 2009, the MOFEM should appoint and mandate Boards of Survey [1] to inspect the capital assets of each Department at the end of each financial year, [2] to report their assessment of the condition of each capital asset, and [3] to provide a reasonable estimate of the value of each capital asset. This will provide enhanced accountability for the existence and for the usage of assets. It will also provide added assurance about the usefulness of internal estimates, budgets, and accounting figures related to the GOM's capital assets. The cumulative experiences, observations, and findings of these Boards of Survey will underpin better capital budgeting and strategic planning across the public sector.</p>	<p>This is now carried out by the Accounting Officers and reviewed by the Treasury Department. It is recommended that the role of Boards of Survey be reviewed, as it is very unclear as to what benefits the current antique processes and procedures of the Board have in modern accounting and best practice principles.</p>

The Honourable Financial Secretary,  
Ministry of Finance & Economic Management (MOFEM).  
August 06, 2020.

## CHAPTER 5: OVERALL CONCLUSION

**(a) Urgent need to fund reserves to support self-insurance.** The GOM has a policy of self-insurance. However, unlike what obtains in most other countries, including other British Territories, the DFID has not allowed the GOM to create reserves for contingencies. Self-insurance is meaningless without the gradual building of reserves to cover the assets at risk.

**(b) Need to improve management of data and documents.** A number of units and departments need to improve their record-keeping and file-management. Central databases and effective management of documents will allow all stakeholders to share and to retrieve information easily, and enable Departments to maintain basic services and to respond to requests for information, regardless of various employees' absences, retirements, and resignations.

**(c) Long-term planning.** Complete, accurate, and timely information will improve decision-making, including strategic planning and budgeting. All Ministries/Departments need strategic asset management to ensure business continuity and improvement in the quality of public services.

**(d) 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 in the short term and 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 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 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.** Vitally important 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.



## APPENDIX 2: KEY REFERENCES

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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**

#### **Correspondents & Interviewees**

- (1) Deputy Commissioner of Police
- (2) Inspector, Traffic Department, Police Service
- (3) Chief Fire Officer, Fire & Rescue Department
- (4) Deputy Financial Secretary, MOFEM
- (5) Executive Officer, MOFEM
- (6) Deputy Accountant General, Treasury Department
- (7) Accounting Technician/Asset Database Officer, Treasury Department
- (8) Director of Education, MOEYAS
- (9) Assistant Secretary, MOEYAS
- (10) Executive Officer, MOEYAS
- (11) Director of Agriculture, MATHLE
- (12) Senior Assistant Secretary, MATHLE
- (13) Director of Secondary Care, MOHSS

# APPENDIX 5: GOM'S POLICY AGENDAS & SUSTAINABLE DEVELOPMENT PLAN GOALS

## SAMPLE #1: YEAR 2017

**Government of Montserrat Policy Agenda 2016/17 – 2018/19 and Priority Ranking from Cabinet Workshop on July 7<sup>th</sup>, 2017, and Follow-on Survey, All Responses**

<b>Goal 1: Prudent Economic Management</b>	<b>Cabinet Votes</b>	<b>Priority</b>
1.1 To change the development focus from post-volcano mode to developing and implementing plans focused on sustainable self-sufficiency that capture the spirit of Montserrat's past and preserve Montserrat's culture including enhancing relationships within the region and with key development partners.	2	6
1.2 Priority sectors for generating foreign direct investment identified including those that leverage Montserrat's unique assets and character and implement appropriate sector strategies.	1	7
1.3 Identification of obstacles to doing business and sequenced plans implemented for their removal and mitigation.		8
1.4 Priority infrastructure for generating economic growth identified and plans put in place to deliver.	8	1
1.5 Local resources unlocked to stimulate growth in domestic business.	6	2
1.6 The diaspora and the expatriate community engaged in national development.		8
<b>Goal 2: Enhanced Human Development</b>		
2.1 Increased access to essential medical services through leveraging technology as well as direct service provision.	5	3
2.2 Increased and expanded health promotion services to reduce public health concerns, to reduce the incidence and effect of non-communicable diseases, to improve the care of the elderly and including a focus on vector-borne diseases.		8
2.3 Strengthened community-based treatment programs for vulnerable groups of society.	1	7
2.4 Education provision improved to raise educational outcomes to be regionally and internationally competitive and equip people for sustainable livelihoods.	5	3

2.5 An equitable social protection framework which transitions those able to work back into the labour market while adequately supporting those unable to work.	1	7
2.6 Improved access to affordable housing for low and middle income residents.	4	4
2.7 Increased social housing stock supported by an equitable allocation policy.	5	3
2.8 Enhanced youth development through national programs including sports.	5	3
2.9 Increased protection of our children and vulnerable youth.	2	6
2.10 Montserrat strives to promote gender equality, equity and social justice to improve the quality of life for all its citizens.	3	5
<b>Goal 3: Sustainable Environmental Management and Appropriate Disaster Management Practices</b>		
3.1 Improved legislation, governance framework, capacity, scientific monitoring and outreach to sustainably manage environmental resources (terrestrial and marine) and make the island a centre of excellence in environmental and volcanic research.		8
3.2 Increased focus on mitigating disasters in addition to strengthening preparedness and emergency response.	1	7
3.3 Physical infrastructure, including housing, designed and built for resilience against disasters and climate change conditions.		8
<b>Goal 4: Good Governance</b>		
4.1 Strengthened transparency, accountability and public engagement within the national Governance Framework.	1	7
4.2 Public Service reformed to improve efficiency and effectiveness in the provision of essential public services.	8	1
4.3 Montserrat's reputation preserved as a just, safe and secure place to live and visit.	3	5
<b>Goal 5: Increased Population</b>		
5.1 Rebuilt communities which embrace diversity and enable population growth to develop a sustainable Montserrat.		8
5.2 Essential skills attracted and retained through immigration management and training.		8

# SAMPLE #2: YEAR 2019

## DRAFT Government of Montserrat Policy Agenda 2019/20 – 2021/22

Agenda Item	Rank
1.7 Advance strategic actions for strengthening accessibility to the island (to include infrastructure considerations)	1st
2.1 Increased access to essential and specialised medical services through leveraging technology as well as direct service provision.	1st
2.8 Enhanced youth development through national programs including sports.	2nd
1.1 Advance the development focus from recovery mode to developing and implementing plans focused on sustainable self-sufficiency [that capture the spirit of Montserrat's past and preserve Montserrat's culture]	3rd
1.5 Operationalisation of plans to deliver priority infrastructure for generating economic growth	3rd
2.4 Education provision improved to raise educational outcomes to be regionally and internationally competitive and equip people for sustainable livelihoods.	3rd
3.3 Physical infrastructure, in particular housing and communication technology, designed and built for resilience against disasters and climate change conditions.	3rd
4.2 Public Service reformed through institutional strengthening (processes, tools, legal framework, procedures, policies) to improve efficiency and effectiveness in the provision of ALL public services.	3rd
1.4 Develop strategies for addressing obstacles to doing business and implement sequenced plans for the removal and mitigation of these obstacles.	4th
1.6 Sectoral resources unlocked for business development, investment promotion and trade facilitation aimed at stimulating economic growth.	4th
2.2 Increased and expanded health promotion services to reduce public health concerns, to reduce the incidence and effect of non-communicable diseases, to improve the care of the elderly and including a focus on vector-borne diseases	4th
2.5 An equitable social protection framework which transitions those able to work back into the labour market while adequately supporting those unable to work.	4th
2.6 Improved access to affordable housing for low and middle income residents.	4th
2.10 Promotion of gender equality, equity and social justice to improve the quality of life for all its citizens.	4th
3.1 Improved legislation, governance framework, capacity, scientific monitoring and outreach to sustainably manage environmental resources (terrestrial and marine) and make the island a centre of excellence in environmental and volcanic research.	4th
3.2 Increased focus on mitigating disasters in addition to strengthening preparedness and emergency response.	4th
4.1 Strengthened transparency, accountability and public engagement within the national governance framework.	4th
1.2 Develop stronger strategic relationships within the region and with key development partners.	5th
1.3 Develop and implement appropriate sector strategies for priority sectors aimed at generating foreign direct investment to leverage Montserrat's unique assets and character.	5th
1.8 Incorporation of the 'Innovation for Development' concept into sector development strategies	5th
1.9 Enhance the national capacity building programme and policy to address sectoral needs	5th
1.10 The diaspora and the expatriate community engaged in national development.	5th
2.3 Strengthened community-based treatment programs for vulnerable groups of society.	5th
2.7 Increased social housing stock supported by an equitable allocation policy.	5th
2.9 Increased protection of our children and vulnerable youth.	5th
4.3 Montserrat's reputation preserved as a just, safe and secure place to live and visit.	5th
5.1 Development and implementation of social cohesion initiatives which embrace diversity and enable population growth.	5th
5.2 Skills gaps reduced through attraction and retention of appropriate persons through immigration management and diaspora outreach	5th