



PERFORMANCE AUDIT

OF

THE INLAND REVENUE DIVISION:

Governance, Efficiency, Effectiveness & Quality

of Service



Office of the Auditor General
September 2023

THE INLAND REVENUE DIVISION

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

Marsha V. E. Meade
Auditor-General (Ag)
Office of the Auditor General
September 2023



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 study examined the governance, the efficiency, the effectiveness and the quality of service of the Inland Revenue Division (hereinafter, the IRD). Overall, the evidence gathered reveals that there are satisfactory aspects of governance and structure. The IRD is a division within the MCRS; the MCRS reports to the MOFEM on its operations and on the results of all matters of taxation.

In terms of effectiveness, efficiency, and accountability, we found a number of areas requiring immediate improvement: e.g., (1) a large backlog of tax assessments & tax-refunds to be completed; (2) low productivity and under-trained employees at the lower and middle levels; (3) inadequate staffing in assessments, collections and compliance (e.g., as a result of vacancies, turnover, and reduced numbers of posts); and (4) lack of enforcement with tax laws. Operations within the IRD are loosely woven and excessively flexible. The Division is lagging digitally. It is struggling in the areas of record-keeping and of being responsive to stakeholders' requests in a timely manner.

The Government of Montserrat's Sustainable Development Plan (SDP) 2008 to 2020 identified economic management as its number one strategic goal. The GOM's Policy Agenda 2021/2024 and the MOFEM's Strategic Plans 2020/2021 and 2022/2023 identified the following areas as pillars for rebuilding and for growing Montserrat's economy: (i) Develop strategies for addressing obstacles to doing business and implement sequenced plans for the removal and mitigation of these obstacles; (ii) Sectoral resources unlocked for business development, investment promotion, and trade-facilitation aimed at stimulating economic growth; and (iii) An environment that fosters prudent economic management, sustained growth, a diversified economy and the generation of employment opportunities. These strategic priorities and national outcomes are directly related to the MCRS and form part of its Operational Plan. As one measure of effectiveness, for the past five financial years (2018 to 2022) the MCRS was mandated to account for over 80% of locally generated revenue via taxes and fees; this goal was met at a steady 84% average. IRD is a large contributor to this result.

We have provided a number of recommendations that we feel would benefit the Government and the citizens of Montserrat once they are implemented. I wish to thank the staff of the IRD, 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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12 September 2023

ABBREVIATIONS

CARICOM	Caribbean Community
CARTAC	The Caribbean Regional Technical Assistance Centre
FATCA	Foreign Account Tax Compliance Act (USA)
FCDO	Foreign, Commonwealth & Development Office, U.K. Government
GDP	Gross Domestic Product
GOM	Government of Montserrat
HRMU	Human Resources Management Unit
INTOSAI	International Organisation of Supreme Audit Institutions
IRD	Inland Revenue Division
ISSAI	International Standards for Supreme Audit Institutions
MCRS	Montserrat Customs & Revenue Division
MOFEM	Ministry of Finance & Economic Management
MPS	Montserrat Public Service
OAG	Office of the Auditor General
OECD	The Organization for Economic Cooperation and Development
SDP	Sustainable Development Plan 2008 to 2020

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EXECUTIVE SUMMARY

Overview

The Inland Revenue Division is a unit within the Montserrat Customs and Revenue Services. Through the Montserrat Customs and Revenue Services (Enabling) Act No. 6 of 2017, the Inland Revenue Division is mandated by law and otherwise to collect assigned revenues by way of direct taxes and fees and to provide such other assigned service on behalf of the Government of Montserrat. Key operational oversight and funding for the IRD are provided by the Ministry of Finance and Economic Management (MOFEM).

Main Findings

- 1. Large and growing backlog of assessments & tax-refunds.** Consistent large return processing backlogs over the past decade highlights how dramatically tax-payers are impacted as this essential process continues to falter. The number of returns filed each year for the past five years has decreased by 23%. (for refund, priority is oldest except in cases of medical).
- 2. The actual tax population remains unknown.** Some of the contributing factors include: outdated client-records, unrecorded deaths, cases of emigration, changes of residential address, changes of employer, new businesses/employees not registered with the IRD, and inadequate communication with tax-payers. Frequently, a lack of timely information-sharing across public entities (e.g., the GOM's Treasury Dept., the IRD, the Montserrat Social Security Fund, and the Financial Services Commission) means that any one Department's information about individuals and about businesses is incomplete, inaccurate, and not consolidated to give a true net picture of Government-wide obligations and refunds per tax-payer.
- 3. Up to year 2022, tax-payers filed tax-returns on paper and in person.** The division is heavily reliant on its staff and other limited resources to process all paper submissions. The large accumulation of decades of paper-forms and physical taxpayer files creates a continuing risk to employees' health and to the quality and security of files. There are also mounting costs and risks to maintain the storage of so many records. It is very inefficient internally to the IRD and inconvenient to the tax-payers to have to use these archaic modes of paper-forms and manual processes. Surveyed taxpayers gave instances that they submitted documents to the IRD and they were misplaced or lost; in other cases, tax-payments were made but either were not applied to the taxpayers' accounts, or were incorrectly applied.

4. Overall, the IRD has a satisfactory governance framework in place and oversight for its operations. The Director General of the Montserrat Customs and Revenue Division has immediate oversight for operations within the Inland Revenue Division. There are clear lines of reporting and accountability as the Deputy Comptroller and other managers report to the Comptroller, who reports to, and is held accountable by, the Director General. Divisional meetings are held quarterly and include all employees. Managers' meetings are held every six months.

5. The Tax Advisory Board and the Montserrat Customs & Revenue Commissioners rarely function. Meetings are very infrequent and there is no evidence that minutes are formally kept. The Board secretaries average 1 to 2 times per year for meetings held. The Tax Advisory Board comprises (a) the Director of MCRS as the ex-officio Chairperson, (b) the Financial Secretary (MOFEM) or his/her designate, (c) The Comptroller of Customs and Excise, (d) The Comptroller of Inland revenue, and (e) Three members appointed on the advice of cabinet. The Board of Commissioners comprises five Commissioners. The two entities are responsible for providing advice to the GOM on tax-matters and for adjudicating cases in which taxpayers appeal assessments from the IRD, respectively. There are clear lines of reporting and accountability as the members report to, and are held accountable by, the MCRS Director General.

Key Recommendations

6. Strengthen the IRD's efficiency and revenue capacity. The IRD and the MCRS should advocate through the Financial Secretary and the Minister of Finance for the soonest equipping of the IRD/MCRS with a Compliance Unit and a Legal Unit. Given the tens of millions of dollars of annual revenues at stake, and the estimated large losses of revenues both from tax-delinquency (including non-reporting and under-reporting of assessable incomes) and from uncollected assessed amounts, consistent and effective enforcement requires dedicated professionals in these functional areas. This will help to minimise new arrears of taxes owed, while reducing the large backlog of uncollected taxes assessed in previous years. The experience of other jurisdictions proves that these investments quickly repay themselves and become more than self-funding. Having more qualified, experienced, and dedicated officers for each of these major functions will allow the existing staff to refocus on their core areas of responsibility and competence, rather than being split across functions.

7. Urgently reduce the backlog of Tax-Assessments and Tax-Refunds. The IRD should design and implement a plan of action with clear milestones to reduce the backlog of tax-

assessments and tax-refunds much faster; this should also be reported to the public to aid in accountability and transparency. The focus should shift from stopgap measures to choosing methods and technologies that will be sustainable and suitable for Montserrat's tax population. This requires the full staffing of the IRD and, in particular, the restoration of adequate resourcing of the Tax Assessment Unit, including accredited training and professional development for all officers. It also requires the MOFEM to seek the Cabinet's approval and the FCDO's full support to do appropriate budgeting for tax-refunds each year, correcting the repeated shortfalls in funds allocated versus the known levels of tax-refunds owed to tax-payers. Prompt disbursement of tax-refunds further encourage early/prompt reporting, filing, and tax-compliance, spurring the potential growth of local revenues.

8. Further enhance the IRD's accountability and transparency at all levels. For example, the IRD should (a) convene a regular forum with businesses, acting on their feedback, (b) use multiple channels of communication with individual tax-payers and the public, improving their knowledge of tax-laws and procedures, while addressing queries, concerns, and complaints, and (c) report to the public each year on its performance and progress. This would extend the IRD's and the MCRS's transparency beyond the annual financial audits that are reported to the Legislative Assembly.

Audit Conclusion

9. Overall, the IRD has a clear legislative framework and governance structure in place for its operation. However, in practice, we have noted several inefficiencies in operations, prolonged vacancies, insufficient training and productivity of the junior employees, and largely dormant boards/committees. There are large and recurring financial gaps between [a] budgeted tax revenues and tax-refunds and, on the other hand, [b] the actual revenues collected and the actual refunds disbursed each year. Cumulatively, many millions of dollars of revenues have not been collected, owing to factors such as non-filing of returns, late filing of returns, and under-reporting of incomes, but also from the very long periods taken by the IRD to process tax-returns that it has received. This does nothing to encourage compliance. Furthermore, the IRD has acknowledged other contributing factors: e.g., [1] its lack of enforcement (partly because the IRD has neither a dedicated Compliance Department nor a Legal Department), [2] few cases of prosecutions, [3] delayed prosecutions (which can ultimately be nullified if they breach the 6-year statutory limit), and [4] years of not forfeiting/auctioning properties for seriously delinquent tax-payers.

10. In practice, the Cabinet/GOM makes most of the key decisions affecting taxation, including determining the types of taxes the IRD oversees, and sets the rates of taxes, fees and interest that the Division administers. Thus, the IRD is unable to make certain decisions for itself that would allow the Division to achieve its full mandate. There are patterns of outdated tax-laws and procedures in the IRD's operations, the MCRS Enabling Act, and the ICT Act that require more regular reviews. After years of research and effort by the IRD and MCRS, with the technical assistance of CARTAC, important enhancements to tax-laws have been drafted, approved by the Cabinet, and reached First Reading in the Legislative Assembly. It is long overdue that the Legislative Assembly conclude these important amendments through Third Reading and into effective law to support the IRD and the MCRS in operational efficiencies and being more effective in assessments and collections. Improvements from paper-based operations, and more use of widely available electronic systems and technologies, are vital for a smoother delivery of service to the public, and enhanced efficiency.

CHAPTER 1: INTRODUCTION

Background

1.1 The Inland Revenue Division's history spans more than 50 years. It is a division within the Ministry of Finance and Economic Management (MOFEM), a key part of the Government of Montserrat's central government structure. The importance of this Ministry and of its Departments is evident in that the Premier is also the Minister of Finance, and that all other Ministries are financially accountable to the MOFEM and to the Financial Secretary. In year 2010, the IRD and the Customs & Excise Department were restructured and subsumed under the new umbrella body called the Montserrat Customs & Revenue Service.

Overview of the I.R.D.

1.2 The Inland Revenue Division was originally established for the administration of most direct taxation on the island of Montserrat. The purpose of the IRD remains to ensure that the correct amount of each tax is paid at the right time by individuals and by incorporated bodies through the administration of a number of direct taxes. Presently, the IRD administers five (5) direct taxes: namely, Income Tax (personal and self-employed), Company Tax, Withholding Tax, Property Tax, and Insurance Company Levy.

Objectives of the Audit

1.3 Objectives. This audit sought to examine the management of the IRD, including the level of governance, the quality of the service to the public, financial sustainability, and overall performance. The overall objective of the audit was to assess whether the IRD is performing efficiently and effectively, and especially in performing tax-assessments, tax-collections, and tax-refunds. To answer this overarching question, we considered 4 issues:

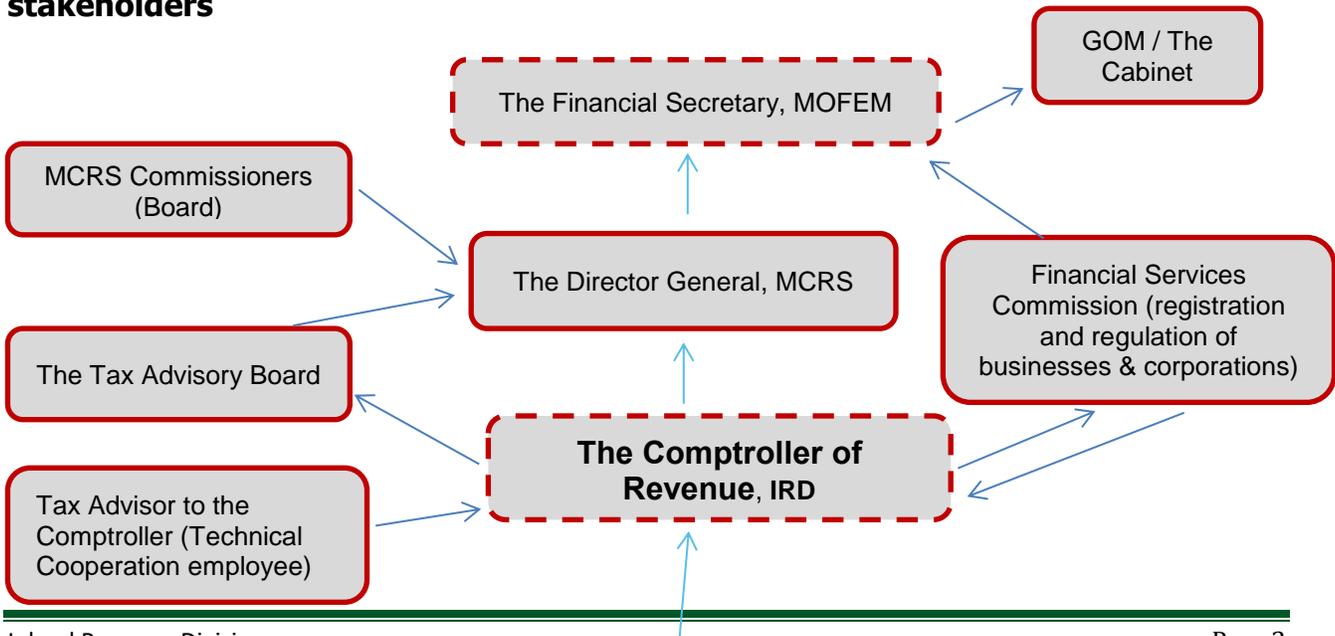
- [a] Governance: Are the legislative framework and governance effective in supporting the IRD to deliver its mandates?
- [b] Efficiency: Is the IRD applying good practices in managing its operations?
- [c] Efficiency: Does the IRD manage its finances efficiently?
- [d] Effectiveness: Is the IRD performing effectively in achieving its goals and targets?

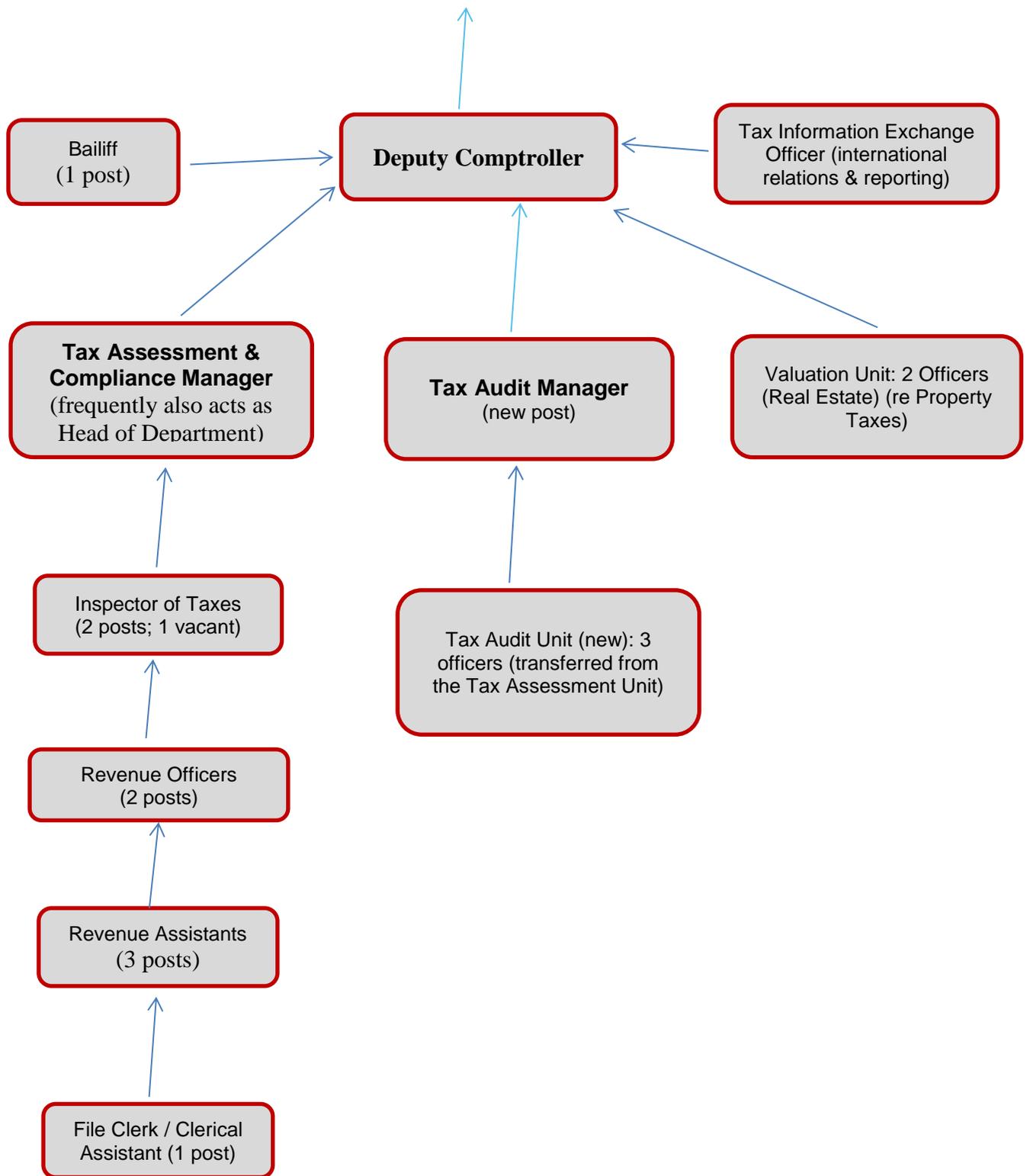
Profile of the IRD

1.4 Structure. The active structure of the IRD has largely remained functionally oriented, but it has changed gradually over the years to encompass tax-assessments, property valuations, administrative roles, and, most recently, tax-audits. (See the organisational chart in Diagram 1.1 below.) Currently, the IRD is led by the Comptroller of Inland Revenue, assisted by a Deputy Comptroller, who oversees the other managers and their staff. Within the overarching framework of the MOFEM, the Director General of the MCRS oversees the Comptroller of IRD and the Comptroller of Customs & Excise, and, in turn, reports to the Financial Secretary and through the Minister of Finance to the GOM’s Cabinet.

1.5 Roles and functions. The IRD’s principal activities now involve (a) the administering of various taxes (e.g., re incomes, profits, withholding, levies, and property) on the behalf of the G.O.M.; (b) the providing of client-services and assistance to tax-payers with queries, procedures, and tax-forms/returns; (c) the processing of tax-returns; (d) the issuing of tax-assessments to those who have filed tax-returns; and provisional tax-assessments to those who have not filed tax-returns; (e) the issuing of property-valuations and property-tax assessments to owners of land/housing; (f) collections of taxes owed by individuals/businesses; and (g) the assessment, processing and disbursement of tax-refunds, where applicable. Since fiscal year 2021/2022, the IRD has added Tax Audits to its portfolio of functions; a new Manager has been recruited to lead this Unit. This provides an assurance function after tax-returns are filed with the IRD and particularly where there are disputes or uncertainties regarding assessments.

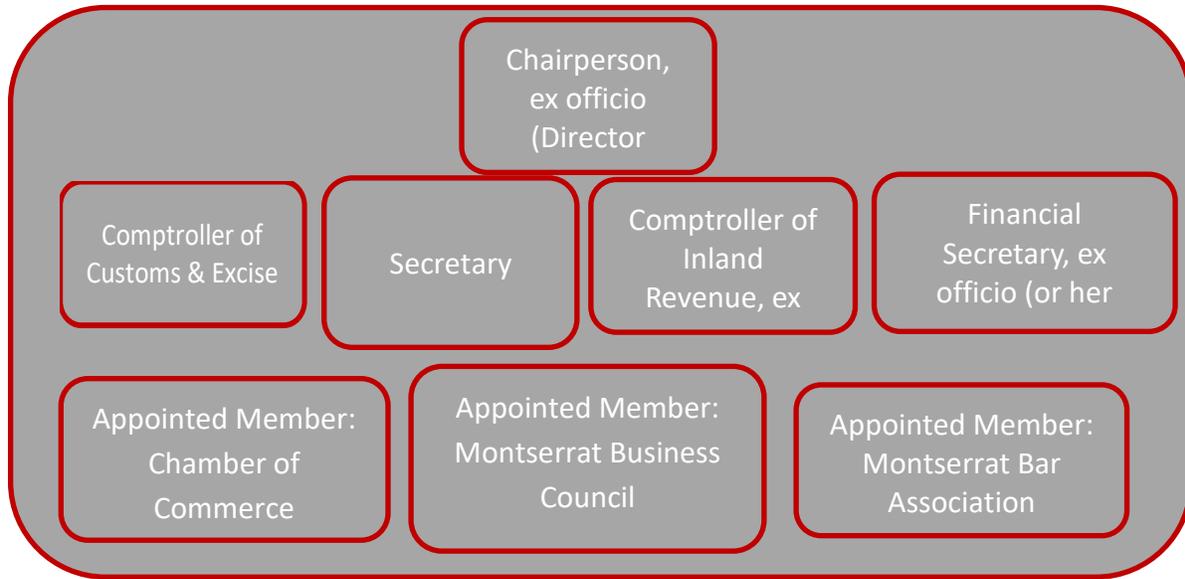
Diagram 1.1: Relationships and reporting structure of the IRD and related stakeholders





Sources: the IRD's official files; interviews with the IRD's Managers.

Diagram 1.2: Organisational chart of the Tax Advisory Board



Sources: The IRD’s files; interviews with the IRD’s Managers and the Board’s Chairperson. Also noted in Cabinet Decision #528-2020 dated August 13th, 2020.

Table 1.3: Overview of the MCRS’s (including the IRD’s) planned spending versus actual spending: Fiscal Years ending March 31, 2018 to 2022

Financial Year	Fiscal Year 2017/2018	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022
Budgeted Spending	\$4,195,700.00	4,372,900.00	4,456,000.00	4,251,300.00	4,190,900.00
Actual Spending	\$4,010,851.01	4,190,627.80	4,110,460.58	4,037,244.55	4,169,271.48
(Over-)/Under-Spent Balance	\$184,848.99	182,272.20	345,539.42	214,055.45	40,628.52

Table 1.4: Overview of the IRD's Income-Tax Allowances and Tax-Rates

Allowance/Tax	Amount of Allowance/Tax	Rate of Tax
Basic Personal Allowance (everyone resident in Montserrat)	Personal non-pension income up to E.C.\$15,000 per year	0%
Pensioners' Allowance (for those residents at least 60 years old)	Pension-income up to E.C.\$60,000 per year	0%
Pensions over \$60,000 per year (i.e., only one income-tax band)	Unlimited	5%
Taxable-Income Band #1: \$15,000.01 to \$20,000.00 p.a.	Up to \$250 per year	5%
Taxable-Income Band #2: \$20,000.01 to \$25,000.00 p.a.	Up to \$750 per year	15%
Taxable-Income Band #3: \$25,000.01 to \$30,000.00 p.a.	Up to \$1,250 per year	25%
Taxable-Income Band #4: \$30,000.01 to \$150,000.00 p.a.	Up to \$36,000 per year	30%
Taxable-Income Band #5: all income over \$150,000 p.a.	Unlimited	40%
Tax on Corporate Profits (net income for the year, if any) (up to 7 prior years' losses can be deducted against any net income)	Unlimited	30%
Allowance for Personal Mortgage-Loan Interest (homeowners only)	Up to \$8,000 per year	
Allowance for Personal Life-Insurance & Health-Insurance (Premia paid on policies in the name of the individual tax-payer)	Up to \$4,000 per year	
Allowance for Incapacitated Dependants (maximum of 2 persons)	Up to \$2,400 per year per dependant	
Personal Social-Security Contributions Paid (self-employed persons & employees can claim what they paid for themselves; employers claim their portion of the contributions for their employees)	Actual payments made on insurable income of up to E.C.\$4,000 per month (e.g., maximum of 4% of \$4,000 monthly x 12 = \$1,920 per year up to year 2021) (individuals' contribution-rate increased to 5% in April, 2022, and to 5.50% in January, 2023)	

CHAPTER 2: GOVERNANCE FOR THE MANAGEMENT OF THE IRD

Overview

2.1 The Montserrat Inland Revenue Division plays a critical role in the economic and social well-being and development of Montserrat. It is responsible for the administration of most direct taxation on the island of Montserrat. This affects every employee, every employer, every public servant, and every business/corporation on the island. Some taxpayers have more than one role: e.g., a full-time employee in one entity can also have a side-business or be an employer in another entity. Some businesses are sole proprietorships whereby there are no employees, only the self-employed owner. Other businesses are fully incorporated and have multiple employees, contractors, sub-contractors, and other suppliers, all of whom have various duties and responsibilities regarding record-keeping, tax-reporting, and tax-payments.

Findings

2.2 A satisfactory governance structure is in place. The Director General of the Montserrat Customs and Revenue Service provides oversight to the IRD's operations. The IRD has one Comptroller who is the head of the Division and holds responsibility for direct taxes. The Comptroller is seconded by one Deputy Comptroller. Each functional area within the IRD has an assigned Manager. A similar structure in parallel obtains in the Customs & Excise Division of the MCRS. The posts of the MCRS' Director General and of the IRD's Comptroller, along with Commissioners for hearing tax-appeals, are specified in the MCRS Enabling Act and in Section 41 the Income & Corporation Tax Act, respectively. If the post of Director General is vacant, the Deputy Governor may appoint either the Comptroller of Inland Revenue or the Comptroller of Customs & Excise to act as Director General (per Section 8 of the MCRS Enabling Act).

2.3 There are clear lines of reporting/accountability. Each manager in the IRD reports to the Deputy Comptroller, who reports to the Comptroller, who reports to the Director General of the MCRS, who reports to the Financial Secretary (MOFEM) (per Section 6 of the MCRS Enabling Act), who is accountable to the Minister of Finance and to the Cabinet; ultimately, all of them are accountable to the Legislative Assembly. Various forms of reporting are done monthly, quarterly and annually. Monthly reports are done for internal operations and management. Quarterly

reports are done for internal purposes and for the MCRS and onward to the MOFEM. The GOM's policies and the Public Finance (Management and Accountability) Act (2008) require annual financial reporting and external audits after the end of each fiscal year. These reports are sent to the MOFEM and all Departments' results are reported through the audits of the Public Accounts, which are published annually to the Legislative Assembly and are also made available to the public.

2.4 The IRD's roles and functions are clearly outlined in the legislative framework.

The Income & Corporation Tax (ICT) Act provides the legal framework for the IRD. The role and functions of the IRD and MCRS are enshrined in this law and supported by other relevant laws and regulations, including the Property Tax Act, and the MCRS (Enabling) Act of 2017. According to the ICT Act, these functions include: (1) the Comptroller's power to require accounts and tax-returns from any person, or from the agent or attorney of any person, or the officers, agent, or attorney of any company (Section 52); (2) the Comptroller's power to request from any bank or business that pays interest to customers, the names and addresses of persons to whom interest was paid and the amount of the interest for the period specified (Section 55); (3) the Comptroller's power to make tax-assessments on tax-returns filed, and to estimate tax-assessment when a taxpayer has not filed a tax-return by the prescribed date (Section 57).

2.5 The tax laws and procedures of Montserrat have some outdated sections.

A number of provisions in the various tax-related Acts reflect the realities of another century and are no longer suitable for achieving efficient and effective tax-administration. For example, the MCRS Enabling Act provides for the establishment of a Tax Advisory Board (Part 3: section 9), and specifies requirements for meeting (Section 14), but does not indicate provisions for the now familiar practices of telecommunications, and of electronic round robins, or for virtual attendance by any of the TAB's members. The same observations apply to all other committees/boards/bodies mentioned in the various laws and regulations. Secondly, the ICT Act, in Section 45, specifies the authority of the Comptroller's signature as "printed or written", but does not indicate that electronic signatures or biometrics or other forms of verification, now in common practice, would be equally valid. Thirdly, the ICT Act, in Part 9: Section 50, has long acknowledged the provisions of Section 5 of the Electronic Transactions Act for online submission of tax-returns. However, the operating policies and procedures of the IRD/MCRS have not enabled this right of taxpayers; they are still being sent printed tax-forms by postal mail, or for collection in person, and are expected to return their completed tax-forms physically to the IRD's offices. **Legislative Update:** Over the past 2 years, the MCRS, with the assistance of the Attorney General's Chambers and CARTAC, has drafted important updates and amendments to the tax laws and regulations, circulated these for public feedback in December 2022, and submitted these to the Cabinet and the Legislative Assembly. However, as of September, 2023 the Tax Administration Bill 2022, for example, had not passed the required Second Reading and Third Reading to become law.

2.6 The IRD has some financial & policy-related constraints. It is outlined in the relevant laws and policies that, ultimately, the Cabinet/GOM makes most of the key decisions affecting taxation. For instance, the IRD does not determine the types of taxes that it oversees, nor does it set the rates of taxes, fees, or interest that it administers. Instead, tax-types and tax-rates, as well as allowances, exemptions, and rebates are all set by the Cabinet. Furthermore, the IRD receives tax-returns and tax-information, but it does not directly collect taxes. For payments of taxes, taxpayers have to go to the Treasury Department, which is a separate entity of the GOM, and which is located in another part of the island. This creates extra record-keeping and steps both for the IRD and for taxpayers to ensure that all payments made are promptly receipted, that all payments are correctly applied by the IRD (e.g., firstly, to the correct taxpayer's account(s); secondly, to the correct year(s) within that taxpayer's account), and that details in each taxpayer's file are kept complete, accurate and up-to-date.

2.7 Good internal controls are in place. Generally, the IRD ensures that there is clear and consistent segregation of duties within its staff. Tasks performed by each employee are reviewed by the relevant functional Manager, and overseen by the Comptroller and the Deputy Comptroller. In our site-visits, we observed that procedures are in place whereby all incoming correspondence and tax-returns are documented, are stamped with the date that they were received, are then scanned, are sorted by year, and are delivered to the relevant officers for processing/response. Sensitive items, in particular, go directly to the Comptroller. Tax-assessments, tax-refunds, procurement, and other key operational decisions are reviewed by at least two officers: one person acts as reviewer; another person acts as approver. E.g., an officer cannot approve a tax-refund for his/her relatives or close associates; another Manager must review and approve each such case.

2.8 No security for the filing room. There is no one assigned to manage the movement of files into and out of the filing room. Everyone working inside the IRD has access to this unlocked room. This situation heightens the risk of files/documents being misplaced, and of inaccuracy with recording of transactions, including the logging of documents into/from the filing room.

2.9 Committees exist and are paid, but rarely meet or function. During the years that we reviewed, we confirmed that both (1) the Tax Advisory Board and (2) the Board of the MCRS Commissioners existed, that members have been appointed to each committee, and that they were paid quarterly. E.g., Our review of the GOM's Smart Stream records confirmed that each member of the Tax Advisory Board received \$900 per Quarter. We also found that Cabinet Decision #528/2020 dated August 13th, 2020, had approved the appointments of 4 ex-officio members (unpaid) and three external members and a Secretary (all paid) for a period of two years. We also found that Cabinet Decision #72/2021 dated February 18th, 2021, had approved the appointments

of 5 members and a Secretary (all paid) to the board of the Customs and Revenue Commissioners for a period of three years; fees ranged from \$1,500 to \$2,000 per person per Quarter. For each committee, we met with the Secretary. The Secretary for the Tax Advisory Board confirmed that it met less than once per year, on average: 3 times in her first 2-year tenure; only once (solely for induction) in her second 2-year tenure. The minimum prescribed by best practice is quarterly meetings; the minimum required by the MCRS Act (2017) is 3 times per year.

Table 2.1: Cost of Committees related to IRD/MCRS:

TAX ADVISORY BOARD [A]			CUSTOMS & REVENUE COMMISSIONERS [B]		
MEMBER CATEGORY	RATE PER QUARTER	ANNUAL COST	MEMBER CATEGORY	RATE PER QUARTER	ANNUAL COST
Ex-Officio (4 persons)	\$ -	\$ -	Chairperson	\$ 2,000	\$ 8,000
Appointed Members (3 persons)	\$ 2,700	\$ 10,800	Deputy Chairperson	\$ 1,800	\$ 7,200
			OTHER MEMBERS (3 persons)	\$ 4,500	\$ 18,000
Secretary (1)	\$ 900	\$ 3,600	Secretary (1)	\$ 1,500	\$ 6,000
GRAND TOTAL [A]	\$ 3,600	\$ 14,400	GRAND TOTAL [B]	\$ 9,800	\$ 39,200

TOTALS COSTS TO GOM [A] + [B]:

EACH YEAR: [A] + [B]	\$ 13,400.00	\$ 53,600.00
PER 2-YEAR TERM (T.A.B.)		\$ 28,800.00
PER 3-YEAR TERM (C.R.C.)		\$ 117,600.00

2.10 No Minutes of these Boards’ Meetings were available or provided to us.

During the fieldwork phase of this audit, we requested Committee/Board Minutes indirectly through the MOFEM and through the IRD, and directly from each of the two external committees: the Tax Advisory Board and the Board of the MCRS Commissioners. However, despite our requests to all four of these entities, none of the parties provided any evidence that Minutes were kept or were available. After much follow-up by the audit-team, we eventually met with the Secretary of each committee, and requested minutes for each of the two Boards, but neither provided us any. We also requested, but received no evidence of any reporting by either Committee, despite the requirements of the Act.

2.11 Lack of reporting by Committees. The secretaries of the respective boards reported that they are unaware of any reporting by either Committee, despite the requirements of the MCRS Enabling Act 2017 for the Tax Advisory Board to report at the beginning of each year to the Minister.

2.12 Records are kept, but rely heavily on paper and are not always up to date. The IRD has a computer system that is networked for all of its employees. The IRD uses the GOM's Smart Stream as the software for its day-to-day accounting and operations. There is extensive internal use of telecommunications, software, Excel spreadsheets and Microsoft Word documents; however, during our site-visits, we observed that printing continues on a large scale, and that stacks of paper and files abound throughout the working environment. The IRD's employees also use filing cabinets and personal drawers to store physical files. We also toured a central store-room that the IRD uses for taxpayers' files. Interviews within the IRD, as well as feedback from taxpayers, confirmed many instances that files were lost, were misplaced, or could not readily be found/retrieved to answer a query or to accurately assess the full picture/status of a taxpayer's files.

2.13 Internal meetings are held regularly, but they are not all adequately documented. All of the senior officers and other employees of the IRD that we interviewed confirmed that Managers' meetings happen ad hoc and staff-meetings happen occasionally. However, satisfactory Minutes have not been kept for all of these meetings. Moreover, we received only a draft of one set of Minutes for the past 5 years. Therefore, we were unable to confirm the precise frequency of such meetings, the level of participation, the quality of the discussions, the nature of decisions (if any), or the accountability for specific tasks, responsibilities, deliverables, outputs, or outcomes. This is reflective of an informal culture with spontaneous communication between co-workers, but without transparency or accountability. Lack of record-keeping, as well as incomplete records/Minutes, also makes it difficult for the participants to remember what was discussed or what was expected to be achieved after each meeting. It also increases the risk of forgetting key details, increases the risks of misunderstandings, and leaves no trail for successors to follow, or even for the current staff to document its experiences, shortcomings, and successes, along with lessons learned in support of preserving institutional memory and reaping long-term benefits from collective wisdom.

2.14 Conclusion re: Governance. The relevant laws and regulations are clear as to structures, roles, and responsibilities regarding taxation. They also provide for specified Boards and Committees with clear guidelines for their composition, operation, and responsibilities, including the frequency of meetings, and reporting requirements. In practice, however, they are

not functioning as intended, they rarely have meetings, and no evidence of Minutes or reporting was received for any year reviewed. Likewise, a culture of informality prevails within the IRD with undocumented internal meetings. Despite the availability of telecommunications and electronic systems and software, the IRD remains in an outdated modus operandi that is paper-intensive, that emphasises taxpayers' having to make in-person visits and tax-filings, and that uses postal mail as the predominant form of outward communication. These findings set the background for the following two Chapters, which highlight numerous instances of inefficient operations and considerable degrees of ineffectiveness vis-à-vis mandates as well as all stakeholders' expectations.

Recommendations

2.15 Review tax-related laws, procedures, and roles for better alignment and outcomes. The IRD and the MCRS, along with the F.S., MOFEM, and the Minister of Finance, should periodically review the tax-related laws, policies, and procedures, and other relevant laws, regulations, and policies, to ensure that they are current with the Policy Agenda and the SDP, still relevant to stakeholders' needs and Montserrat's circumstances, and coherent with each other. E.g., the provisions of the Electronic Transactions Act, explicitly acknowledged in the ICT Act, should be given full and immediate effect, thus improving relations with taxpayers, and saving time, cost, and effort for all stakeholders, including the staff of the IRD/MCRS. This review should take a whole-of-Government approach to include other stakeholders such as the DITES, the ODG, the Montserrat Social Security Fund, the Financial Services Commission, the Director of Public Prosecutions, the Governor's office, the Ministry of Health, the Social Services Department, the Attorney General's Chambers, the Police Service, etc. In particular, where more than one stakeholder/agency has been involved in a given situation, review roles and responsibilities for areas of actual or potential overlap. Seek to improve clarity of roles and responsibilities. Look for opportunities to improve efficiency and effectiveness by consolidating each category of activities within one body/agency.

2.16 Improve & document engagement and oversight within the IRD/MCRS. In line with best practice, the frequency of the Managers' meetings and of the staff-meetings should be not less than monthly, rather than the actual trend of quarterly or less often over the past several years. All such meetings should be planned and documented, including date, time started and ended, place, participants, topics discussed, decisions made, review of progress against prior meetings' action-items, and details of new tasks assigned, to whom, and with deliverables by which dates. There is need for more regular attention and oversight by the MCRS and MOFEM to hold the IRD and the MCRS accountable for budgets, for timely and useful reporting, and for the closing

of gaps in progress towards objectives, targets, and Key Performance Indicators. Strategic plans and budgets should be regularly reviewed and updated before the periods that they cover expire. Review the performance of the IRD and each of its teams, Units, and sub-committees at least annually, including attendance, participation, outputs, outcomes, and lags in decision-making.

2.17 Make full use of telecommunications and virtual meetings. Each Board, Committee, and Department involved in any aspect of taxation and public services should meet a minimum of monthly. Among the lessons of the COVID-19 pandemic have been the great opportunities for remote working, for virtual meetings, and for wider use of telecommunications and electronic channels. In these ways, the vital functions of each entity can continue regardless of absences or temporary restrictions on physical meetings, and in spite of other contingencies arising from time to time. Even after the removal of pandemic-related restrictions on in-person meetings, for instance, the IRD's staff and related entities should make full use of telecommunications, and also enable virtual attendance and participation when persons are overseas or otherwise absent from an in-person event.

2.18 Review and assess each Committee/Board. The IRD, the MCRS, and the MOFEM should individually and collectively review and improve each of the processes whereby candidates are nominated, selected, and inducted into Committees/Boards. It is then essential to good governance to ensure that every Committee/Board, including the MCRS Commissioners and the Tax Advisory Board, has clear mandates, benchmarks, targets, regular meetings, satisfactory attendance, satisfactory records, and documented outputs. It is also important to have regular quarterly reports to the relevant Ministry/Cabinet and annual reports to the public to ensure accountability and transparency at all levels. To achieve value for money, the MOFEM should urgently reassess the existing model of paying members regardless of whether they have meetings, or attend meetings, or meet statutory obligations and best practices, including complete and timely record-keeping, secure document-storage, and all reporting requirements. It should then advise the Cabinet accordingly: e.g., whether to revise the terms of reference; whether and how to improve the existing model of appointments and remuneration; or whether to adopt an alternate 21st-century model focused on rewards for results achieved, quality of outcomes, client-satisfaction indices, and value added.

CHAPTER 3: EFFICIENCY IN THE OPERATIONS OF THE I.R.D.

Overview

3.1 The IRD's operations are managed by 5 senior officers (a Comptroller, a Deputy Comptroller, a Tax Assessment Manager, a Tax Audit Manager, and a Valuation Officer), and supported by an office-staff comprising teams of junior officers and administrative assistants. Each officer/team reports to the relevant Manager (e.g., assessors report to the Tax Assessment Manager) and each Manager then reports to the Comptroller through the Deputy Comptroller. Several years ago, the IRD lost some of its allocated posts and capacity in the restructuring that followed the amalgamation of the IRD and the Customs Department under the MCRS. Since then, it has struggled to deal with a backlog of assessments and refunds. Each year, budgets are prepared for the IRD and presented to the Director of the MCRS for review, and then outward to the MOFEM and the Cabinet for final approval.

The IRD's Objectives & Planning

3.2 Overview. Strategic planning sets the direction for each Department/statutory corporation and how it uses resources. Effective budgeting determines the sources and the uses of funds and holds each Department, Division, Unit, and each employee accountable for its performance. Criteria used for assessing objectives in this audit were: (1) Are there clear, stated objectives that are aligned to the overall strategy?; (2) Are there plans detailing how the objectives will be met?; (3) Are the related Key Performance Indicators (KPIs)/metrics defined and explained?

3.3 The GOM's Policy Agenda. The Cabinet's Policy Agenda is based on the 5 overarching strategic objectives from the national *Sustainable Development Plan (SDP) (2008 to 2020): (1) economic development, (2) social development, (3) environmental management and sustainability, (4) improved governance, and (5) rebuilding of the population. (*See Appendix 5). In turn, the MOFEM's central framework for strategic planning and budgeting requires all Departments to show clear links between their budgets and strategic plans and the *Policy Agenda. These cascade to all levels of each organisation, including individual employees.

3.4 Framework for strategic planning. In line with the GOM's standard framework, the IRD and the MCRS have a rolling three-year Strategic Plan that outlines strategic priorities, policy-based goals, and KPIs. Each Department's budget and strategic plan are reviewed and revised every year. The Departments report regularly to the MOFEM, which a previous audit confirmed has a

PEFA-compliant framework for assessing and for prioritising Departments' requests for new spending. Thus, the IRD's budget is subject to this process each year, including confirming the actual allocation that the GOM will provide to the IRD through the MCRS.

3.5 The IRD/MCRS has not explicitly linked all of its objectives to the Policy Agenda/SDP/SDGs. The plans and other documents that we reviewed did not consistently show clear references to the SDP and to the Cabinet's Policy Agenda. Some of the links and relevance are only implicit in considering the objectives of the MCRS/MOFEM. For instance, the MCRS's Operational Plan for fiscal year 2022/2023 states 5 Aims and Objectives (on page 2), but none of them cites the relevant section of the SDP or any of the SDGs. On page 1, the MCRS does refer to the Policy Agenda for fiscal years 2021 to 2024, but does not specify the relevant item-numbers in the Policy Agenda. We observed a lack of care and self-review in some aspects: e.g., at the very beginning of this important document, it refers to "Ministry of Finance", but there is no such entity.

The IRD's Operations

3.6 The large years-old backlog of tax-assessments needs urgent attention. One of the major issues facing the IRD is the large backlog of tax-assessments from the current year and from prior years. Whilst late submissions by taxpayers inevitably delay the onset of the process of tax-assessments, the IRD has also had a continuing backlog of unprocessed tax-returns that it has received and documented. In its Press Release dated December 5th, 2022, to announce the Tax Administration Bill, 2022, and the Revenue Laws (Consequential Amendments), 2022, the MCRS admitted that "It has long being [sic] recognized that the administration of the main direct taxes on Montserrat is very inefficient, laborious, outdated because of gaps in the legislation which does not always promote the timely filing of returns, formulation of assessments and generation of statistics and data". It proposes to introduce penalties for taxpayers' late filing of tax-returns, but that will not address the issues of the internal inefficiencies of the IRD/MCRS, which are evident in the years-long backlogs of tax-returns already submitted to the IRD.

3.7 The IRD has an electronic system for assessments, but perpetuates paper-based filings. Early in year 2018, the IRD announced the commencement of its use of an electronic Tax Administration System for in-house processing of tax-returns and of tax-assessments. We observed that the system is still in use 5 years later. However, the IRD has done nothing to encourage or to enable taxpayers to submit forms, information or tax-returns electronically. This perpetuates an extremely inefficient paper-based environment for taxation in Montserrat. For example, all inputs into the system are done on paper-based forms, which require the IRD's officers

to waste hundreds of person-hours per year scanning, sorting, routing and storing both physical files and the duplicate digital files.

3.8 The outdated emphasis on in-person visits and physical tax-returns is costly to all stakeholders. This status quo requires in-person delivery to the IRD's sole physical location at Brades. This limits the ease of, and the scope for, compliance: especially [1] for shift-workers, [2] for persons overseas, [3] for most employees (including nearly 1,000 public servants) whose work-hours clash with the IRD's opening hours, and [4] for business-persons whose income depends strongly on hours of working, usually without a set salary or a guaranteed base of income. Any time diverted to non-earning activities such as paperwork and physical delivery, is not only an inconvenience, but it is also a significant direct cost of time, of effort, of lost income, and of travel. This is contrary to the GOM's Montserrat Energy Policy and the goal of reducing carbon-emissions, as well as out of line with the GOM's ICT Policy and the capabilities of the MCRS's in-house I.T. professionals, as well as the capabilities and platforms supported by the e-Government initiatives of the DITES. Incrementally and aggregately across thousands of taxpayers, this situation represents lost productivity and a considerable opportunity-cost, all of which dampens the enthusiasm for compliance. The limited business-hours and business-days of the IRD further limit when taxpayers can access the IRD's services, including assistance with completing returns, getting answers to queries, resolving concerns, addressing disputes and objections, and meeting with officers.

3.9 The IRD uses a reactive/reactive approach instead of proactive client-service. The persistent overhanging historical backlog of tax-assessments and tax-refunds leads to difficulties in handling current-year tax-assessments and tax-refunds in a timely manner. The IRD has had to resort to responsive/corrective actions such as issuing provisional tax-assessments to avoid reaching the statutory limit of 7 years. For as long as the backlog persists from the prior years, however, the IRD is unable to complete all of the most recent tax-year's assessments and refunds within the following calendar-year (e.g. by December, 2022, for tax year 2021). We observed that one of the impacts of this is that the IRD's staff remains in a constant catch-up mode. Those interviewed expressed that this status quo is stressful and sometimes demotivating.

3.10 The IRD's backlog and delays discourage taxpayers' compliance. Long delays (e.g., between receipt of tax-returns and the issuing of tax-assessments and tax-refunds) impair client-relations and do not encourage compliance. For example, those who dutifully submitted their tax-returns on time or early, will see no advantage when their assessments and/or refunds are delayed for years afterward. Surveyed taxpayers expressed their dismay at not hearing from the IRD for years at a time and then suddenly getting assessments for long-ago periods and/or for

several years at once. Even worse for taxpayers is having not had regular tax-assessments year by year and then getting a sudden demand for unpaid taxes stretching over several years. Surveyed taxpayers felt discouraged by the prospect of having to pay large accumulated sums. This was recently worsened by the sharp decline in the economy, in many private-sector workers' incomes (especially in travel, in tourism, and in hospitality), and in many businesses' revenues and net incomes during the COVID-19 pandemic years (2020 to 2022). With belated assessments and long-delayed demands for taxes deemed to be unpaid for prior years, a further challenge for several categories of businesses/workers is that they no longer have the income or the savings/reserves that they had when they earned the taxable incomes of prior assessed years.

3.11 Tax-collection efforts have recently strengthened through legal cases. Tax arrears have been a major issue for the IRD for many years. However, in recent periods, the IRD has improved its efforts at collection by taking legal actions whenever necessary. As parts of the process, statements and notices are sent out and tax-payers are invited to discuss their financial situation. Payment plans are also encouraged. Friendly reminders are sent; then, if tax-payers do not respond cooperatively, the letters become more stringent. After exhausting all amicable approaches and administrative procedures, the IRD only then resorts to legal action as a final measure. The publicity surrounding court-cases and the IRD/MCRS sends a message that uncooperative defaulters will eventually be pursued.

3.12 In prior years, the IRD faced difficulties in progressing legal suits against delinquent taxpayers. The Attorney General's Chambers (AGC) prepares legal services for the public service: e.g., the legal documents for drafting of new laws and regulations, as well as contracts between the Government of Montserrat and other parties. However, the IRD reported that, over the past several years, cases that it referred to the AGC against delinquent taxpayers were not being processed timely or at all. It has had to refer to the Director of Public Prosecutions (DPP) for assistance with a few recent cases. Furthermore, the IRD reported that it was advised by the AGC against pursuing the forfeiture of taxpayers' properties, despite past practices, policies and regulations that provided and exercised this remedy for the GOM (e.g., against those who have long overdue Property Taxes). However, our reading of the Property Tax Act confirmed that the IRD/MCRS retains powers of enforcement, including the sale of properties to recover accumulated tax-arrears in the most egregious cases of continuing non-compliance.

3.13 The IRD has no dedicated Compliance/Legal functions. An important finding of this study was that, contrary to best practice, the IRD has no Compliance Department and no Legal Department. Hence, it must depend on the limited local availability of external legal services (e.g., the AGC, the DPP, and/or private attorneys) if it wishes to pursue legal cases. This is a major

weakness in the structure of the IRD/MCRS and contributes to a lack of enforcement of tax-laws and regulations. Any efforts at enforcement, therefore, require already stretched officers within the IRD to have to do additional work for which they have little/no training or internal support. The lack of effective and consistent enforcement creates complacency among tax-delinquents when it is perceived and demonstrated that no serious consequences will follow prolonged defaults in meeting tax-obligations, or at least negotiating reasonable settlements with the IRD.

3.14 The Tax Audit Unit was created by taking officers from Tax Assessments. The IRD has long recognised that there is a need for compliance and enforcement functions. Commencing 2 years ago, the GOM approved the revision of the IRD's organisational structure to add a Tax Audit Unit. Given the scarcity of the regional pool of talent for this professional specialty, a suitably qualified and experienced Tax Audit Manager was recruited with dedicated funding from the FCDO's Technical Co-operation Fund. However, the staffing of this Unit was achieved without any further hiring of dedicated officers. Instead, some of the existing employees were re-assigned from other functions, including tax-assessments, thus further under-resourcing the Tax Assessment Unit, and thus impairing the most important core function of the IRD.

3.15 Tax Assessments are adversely affected by absences. With the loss of officers to the Tax Audit Unit, fewer officers remain assigned to tax-assessments. This puts pressure on a small number of persons to do the large number of pending current assessments plus the large backlog. The available resourcing of this vital Unit is further compromised each time that persons are absent from the Unit and/or they have to assist with the duties otherwise performed by persons who are, for a period, absent in other parts of the IRD. In particular, during the past 12 months, we identified at least two extended periods that the Tax Assessment Manager was asked to serve additionally as the acting Head of Department in the absence of the Comptroller and the Deputy Comptroller. This not only impeded the progress of our audit, but it also adversely affected the IRD's progress in performing, supervising, and reviewing tax-assessments and tax-refunds. For example, the separation of duties requires that, if one officer does an assessment, another officer must review and approve the assessment. Likewise, the officer/manager who assesses that a tax-refund is owed to a tax-payer must have another manager to review and to approve the tax-refund for disbursement. When both the Comptroller and the Deputy Comptroller are absent for any reason, there are extra delays in reviews and approvals, as one Manager (e.g., the Tax Assessment Manager) cannot perform two or more roles for the same tax-files.

3.16 Arrangements are in place for logging and processing overtime; however, monitoring and control are inadequate. At the IRD, employees who consistently accumulated overtime were reported to be undertaking administrative tasks. In other cases,

overtime working is regularly being undertaken by employees at higher grades (e.g. supervisory and managerial staff) to supervise junior staff as well as to meet immediate operational demands within the Division. We found that overtime was regularly logged, but not all logged entries were signed as approved; it was also not clear what was the nature of the overtime or whether there was any tangible output or deliverable.

3.17 The cost of overtime is the equivalent of hiring at least 2 officers. For the sample of records examined, it was established that overtime working had become part of the employees' 'normal' working pattern. Overtime working was occurring consistently throughout the years 2018 to current and has become a part of the Division's method of operating. In a number of instances, each employee was consistently working in excess of 48 hours per week. Understandably, some officers told us that they were overstretched, stressed, and, at times, burnt out. In November of 2021, for example, the IRD's staff accumulated a total of 302 overtime hours within 23 work-days, an amount equivalent to at least 2 full-time employees. The overtime trends continue unaddressed and unquestioned, leading to missed opportunities to highlight the urgent need for additional and competent employees within the Division. Furthermore, the chronic overtime increases costs to the Division and to the GOM, while it fails to demonstrate value for money in the scheduling, the prioritising, and the allocation of work. In particular, tax-arrears are escalating and backlogs of tax-assessments continue year after year.

3.18 Low public profile; Little/no use of online presence, payments, and social media. The IRD has formal communications with taxpayers by postal mail almost exclusively; sometimes, surveyed taxpayers indicated that they had communication with the IRD by telephone, by email and/or in person. However, up to year 2022, the IRD lacked a dedicated website, has hardly (for several years) been using its allocated web-pages on the GOM's website (apart from a few public notices per year), and has not been active in social media. Online search-results are dominated by items from other entities referring to the IRD rather than items from the IRD itself. The IRD has, from time to time, used the local radio-station to broadcast tax-related information, but this is not reaching all of the population, because [a] many persons are listening to the radio infrequently, if at all, [b] many persons do not hear all of the episodes of the IRD's broadcasts, and [c] most persons surveyed/interviewed reported that they use and prefer several other modes of communication. Only payments for Property Taxes are being facilitated online.

3.19 Update: New website launched c. March, 2023; limitations observed. Subsequent to our primary phase of fieldwork, we received information about the MCRS's new website, apart from its rarely used web-page within the gov.ms platform. This was a welcome improvement over the findings above (for the period 2012 to 2022). However, we noticed a number

of shortcomings with the new website: e.g., some buttons do not work; some links/sections have no information; weaknesses in some parts of the writing; limited information in most sections. It does not provide online accounts/log-in for clients, nor does it enable electronic submission of tax-returns. Moreover, while it does provide copies of tax-forms for download, the forms are all scans of the written/paper format, rather than fully electronic versions, and are thus not editable or fillable online. This also means that taxpayers must print the electronic versions of all forms and then fill them in physical form, thus negating the stakeholders' expectations, and the technological potential and advantages of electronic media and a fully functional website or online client-portal.

Recommendations

3.20 Fully Integrate the IRD's/MCRS's objectives with the Policy Agenda/SDP/SDGS. Ensure that the objectives for the IRD and for the MCRS are clearly defined, measured, and assessed each year, and that each of them is more explicitly linked to the Cabinet's Policy Agenda. Further links to the national SDP and to the relevant global SDGs should be made also, along with specific actions to achieve both sets of goals/targets. This will contribute to the three intertwined objectives of [a] policy-coherence between Departments/Ministries, [b] vertical integration across all levels of the GOM, and [c] a whole-of-Government approach to the national objectives and outcomes, including measurable progress towards the 2030 Agenda.

3.21 Clarify objectives and KPIs. Review each objective for greater clarity and in practical terms. Ensure that every objective for the IRD and for the MCRS has KPIs and that all KPIs clearly support objectives. The MCRS and the related Departments/stakeholders should align and coordinate their strategic plans, objectives, KPIs, and targets.

3.22 Review and improve the KPIs over time. At least annually, the IRD, the MCRS, and the MOFEM should review and assess their KPIs to make them clearer, more measurable, more relevant to objectives, and focused more on strategic outcomes. Add new KPIs where the environment fundamentally changes (e.g., new technologies; COVID-19 or other pandemics; new public-health regulations; emerging social/economic/business trends and niches; changing demographics; climatic changes and local impacts). Include measures that are client-centric including standards of service for such key areas as (1) average timeframes for tax-assessments, (2) average timeframes for tax-refunds, (3) number of employers/businesses visited each Quarter/year, (4) number of public-education initiatives and, more importantly, their participation, impact, and outcomes, (5) measures of client-satisfaction, and (6) numbers of disputes/complaints/objections (both new and brought forward), as well as average timeframes for resolution, and indicators of

satisfactory outcomes (e.g., cases litigated versus cases resolved without litigation; successful cases versus those not completed versus those awarded in favour of the taxpayer).

3.23 Improve the reporting of performance. The IRD, along with the MCRS and GOM's other revenue Departments, should regularly measure, monitor, assess, and report their actual performance and progress against all of their objectives and KPIs, including public Annual Reports. The Quarterly Reports, for instance, should be complete and timely. Go beyond mandatory/statutory reporting (e.g., to the Legislative Assembly) to include broader accountability and transparency to the public. Encourage and enable active participation of stakeholders in understanding, reviewing, and assessing performance. This would help to build trust in public institutions and more confidence about the governance of taxpayers' dollars. It will also contribute to effective and timely Voluntary National Reviews and better interfaces with partners within the O.E.C.S., within the CARICOM, and within the U.K. and British Overseas Territories, as well as regional and international tax-bodies, multilateral agencies, donors, authorities, and regulators.

3.24 Broaden the scope for feedback from the public/stakeholders and communicate through multiple channels. The IRD/MCRS should periodically seek, document, and report on feedback on its services and encourage inputs from employees, from taxpayers, and from other stakeholders e.g., through annual surveys. Beyond the option of a regular radio programme both for public education and outreach, the IRD/MCRS and other key stakeholders should collaborate in reaching and engaging individual clients, current and potential commercial taxpayers, patrons, promoters, sponsors, hospitality providers, accommodation providers, and other categories of business stakeholders, using a range of available channels: e.g., websites, social media, telephone, mobile marketing, email, radio, news-broadcasts, audio, video, and other media. It is important to have targeted communication for each category of stakeholder, and to address the specific needs, concerns, and issues related to different types of taxpayer, such as those who are affected by different types of taxes (e.g., not all payers of Income Taxes are property-owners; only specific businesses are affected by Insurance Levy, Bank Levy, Interest Levy, withholding taxes).

3.25 Reduce the waiting times for processing returns, assessments, and issues. The IRD, the MCRS, the MOFEM, and partners such as the DITES should urgently collaborate to review each part of the process for receiving, processing, reviewing, and assessing tax-returns, tax-assessments, and taxpayers' inquiries, requests for assistance, and issues/disputes. Establish standards for service and measure performance at each stage of each process. Major improvement is needed in shortening the time from receiving forms/requests to giving responses to taxpayers/clients. Improve the communication with taxpayers/clients: e.g., provide frequent updates and timely feedback throughout each stage of the process and not only at the end.

3.26 Implement a clear policy for overtime, while seeking to reduce it significantly.

The IRD, the MCRS, and the MOFEM should urgently review and assess the chronic overtime pattern and consider the evident need for additional posts in its structure. Management should identify the opportunities for change and revised patterns of working. Management should also ensure that appropriate mechanisms are in place to demonstrate that the Division's duty of care is being met in line with health and safety legislation. There is the opportunity for the implementation of a comprehensive Management of Overtime Policy, which will set out clearly the Department's approach to approved overtime working, and provide guidance to both Managers and employees as well as make provision for overtime working, where it is either unavoidable or required to deal with an emergency. Every effort should be made to ensure the soonest adequate staffing of the I.R.D. in line with its mandate, and reflecting the growing workload commensurate with the actual trends and the Cabinet's goal of continually rising local revenues to return the GOM to financial self-sufficiency.

3.27 Enable full electronic reporting, payments, and online filing.

In line with the capabilities of e-Government, the goals of the Montserrat ICT Policy, and the rights of taxpayers in the Income and Corporation Tax Act, as well as the Electronic Transactions Act, the IRD/MCRS should complete the journey towards full online functionality of its website and systems, as soon as possible. Enable clients to submit tax-returns online and via email, including online/electronic submission of all documents and forms. This would greatly reduce the time and effort consumed by the IRD's staff in receiving, handling, sorting, storing, and scanning of clients' physical documents. It will also give clients much more convenience and ease in timely filings, both on the island and from wherever in the world they happen to be, as many clients travel overseas, reside overseas full-time, or split their periods of residence across more than one country. Convert all forms to fully editable and configurable electronic/online formats, eliminating the need for printing, for manual filling, and for in-person delivery/submissions. Enable online payments, payment by credit-cards, and payment by debit-cards, thus widening the range of options available to clients, thus boosting collections, and improving compliance. Such diversity of payment-options and convenience could also improve collections of arrears, and better serve clients who are overseas.

CHAPTER 4: EFFECTIVENESS OF THE I.R.D.'s OPERATIONS

Overview

4.1 The IRD has a large portfolio of taxes to administer, the main ones being income taxes, taxes on profits, and property taxes. The authority for local taxation ultimately belongs to the GOM and most of it (by dollar-amounts) is delegated to the MCRS in two categories: those assigned to the IRD; those assigned to the Customs & Excise Division to manage on the GOM's behalf. As of May, 2021, the human resources within the IRD's organisational chart were limited to posts for employees; some of these are/were vacant. I.T. support is provided through DITES and through I.T. officers that serve all of the MCRS. All other required labour, equipment and materials are procured and outsourced through contractors, consultants, and suppliers. Major legal assistance is through the Attorney General's Chambers (especially for new laws and revisions of existing ones) as well as through the Office of the Director of Public Prosecutions (especially for pursuit of legal cases against seriously delinquent tax-payers). Financial management is discussed in Part 1 of this chapter. Other aspects of management are presented in Part 2 of this chapter.

Part 1: Financial Management

Findings of the Audit

4.2 There are clear guidelines for financial management. The IRD is governed by the GOM's policies and procedures for managing its finances and its risks, and is subject to relevant laws and regulations such as the Public Finance (Management & Accountability) Act of 2008, and the related regulations of 2009. The MOFEM, through the MCRS, oversees the IRD's budgets and spending, and sets targets for tax-collections/revenues for each Division of the MCRS. The IRD is accountable to the MCRS Director General, to MOFEM, and to the Cabinet through Quarterly Reports.

4.3 Long-term trend of increasing local revenues. Our review of the GOM's budgets and financial statements showed that local revenues have gradually risen during the past decade. For 3 of the most recent 5 financial years for which we received evidence, the budgets anticipated large increases each year from 2017 to 2019. (See Table 6.1.) However, there was a dramatic cut in the budgeted revenues for the next two years. This reflects that the entities involved (IRD, MCRS, and MOFEM) recognised that sharp shortfalls were likely amidst the COVID-19 pandemic, owing to

prolonged closures of several businesses and restrictions on both consumers and businesses during years 2020 to 2022.

Table 4.1: 5-Year Summary of the GOM’s Budgeted Revenues

The GOM’s Budgeted Revenues for the Years Ended March 31st, 2018 to 2022					
REVENUE (E.C.\$)	2017-2018	2018-2019	2019-2020	2020-2021	2021-2022
LOCAL REVENUE	50,380,300	52,689,300	58,172,200	36,998,200	48,202,000
BUDGETARY AID	78,000,000	78,462,000	79,600,000	81,650,000	86,140,000
TOTAL RECURRENT REVENUE	128,380,300	131,151,300	137,772,200	118,648,200	134,342,000

4.4 Long-term trend of increasing local tax-revenues and collections. The biggest component of the GOM’s local revenues is revenue from taxes. (See Table 4.4.) Our review of the GOM’s budgets and financial statements showed that local tax revenues, primarily income-taxes (IRD) and import-taxes (Customs Division), have gradually risen during the past decade. For 3 of the most recent 5 financial years for which we received evidence, the actual revenues showed large increases each year from 2017 to 2019. However, there was a dramatic cut in the realised revenues for the next two years. This reflected the adverse economic impacts experienced amidst the COVID-19 pandemic, owing to prolonged closures of several businesses and restrictions on both consumers and businesses during years 2020 to 2022, including delayed projects and dampened construction activities, both of which are key drivers of G.D.P., employment, and tax-revenues.

Table 4.2: 5-Year Summary of the GOM’s Actual Revenues

The GOM’s Actual Revenues for the Years Ended March 31st, 2018 to 2022					
REVENUE E.C.\$	2018	2019	2020	2021	2022
LOCAL REVENUE	47,267,900	51,566,729	55,657,658	48,977,018	52,175,946
BUDGETARY AID	79,224,900	\$77,999,826	78,441,501	93,607,582	84,534,872
TOTAL RECURRENT REVENUE	126,492,800	129,566,555	134,099,159	142,584,600	136,710,818

4.5 Mixed trend of actual tax-revenues and collections versus budgets. The consistent trend over the past decade up to year 2019/2020 was that budgeted local revenues were significantly greater than actual local revenues. In the years 2018 to 2020, for instance, the shortfalls from expected revenues were over \$1 million per year, peaking at more than \$3 million under-collection for 2018. However, we found that actual collections well exceeded budgeted local revenues for each of the next two years (2020/2021 and 2021/2022). This was strong evidence that the Montserratian economy and public sector were more resilient than anticipated. One contributing factor was the GOM’s commendable commitment to protecting lives and livelihoods, including maintaining public-sector jobs and incomes throughout the COVID-19 pandemic, thus cushioning the global shocks to the private sector. The GOM also provided counter-balancing support to vulnerable households, to displaced private-sector workers, and to businesses that were negatively affected by public-health measures and the effects of global closures/slowdowns of tourism, of travel, and of the cruise-industry. However, the actual collections of those two latter years remained well below the pre-pandemic peak of \$55.7 million earned in fiscal year 2019/2020.

Table 4.3: Summary of the MCRS’s (including the IRD’s) Spending: Budgeted versus Actual for Years 2017 to 2022 (E.C.\$)

Financial Year	Fiscal Year 2017/2018	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/21	Fiscal Year 2021/22
Budgeted Spending	\$4,195,700.00	4,372,900.00	4,456,000.00	4,251,300.00	4,190,900.00
Actual Spending	\$4,010,851.01	4,190,627.80	4,110,460.58	4,037,244.55	4,169,271.48
(Over-spent)/ Under-spent Balance	\$184,848.99	182,272.20	345,539.42	214,055.45	40,628.52

4.6 The MCRS has well managed its spending within its budgeted limits. The IRD is included in, and is a large contributor to, the MCRS’s budgets and strategic plans, which are reviewed and revised every year with the MOFEM. The Budget Director, MOFEM, oversees the revenue projections based on expected projects, related employment, and economic activities. For the several years that we reviewed, the MCRS consistently kept its total spending below the

Approved Estimates and the Revised Estimates for each year. For example, the MCRS’s approved budgets in the five fiscal years 2017/2018 to 2021/2022 provided for total expenditures in the range of \$4.19 million to \$4.46 million, but reflecting significant reductions since 2019/2020. As Table 4.5 shows, the actual spending was close to but below the budgeted ceiling for every year reviewed.

4.7 Stand-alone performance is difficult to assess against a consolidated budget.

Historically, separate accounts and financial statements were kept for the then Inland Revenue Department and the then Customs & Excise Department. However, with their merger under the MCRS, consolidated budgets and financial statements are prepared, combining revenues and expenses for both entities. For analysis of each Department (now called a Division), this makes it difficult to analyse and to assess all aspects of budgets versus actual revenues and expenses. For most users of financial reports, it also makes it difficult to see the true net revenues and expenses of the IRD as an economic entity viewed as a separate functional whole [a] versus what pertains to other parts of MCRS and [b] versus the MCRS consolidated. (See Table 4.3 above; Table 4.4 below.)

Table 4.4: Summary of the M.C.R.S.’s (including the IRD’s) Contributions to the GoM’s Revenues collected.

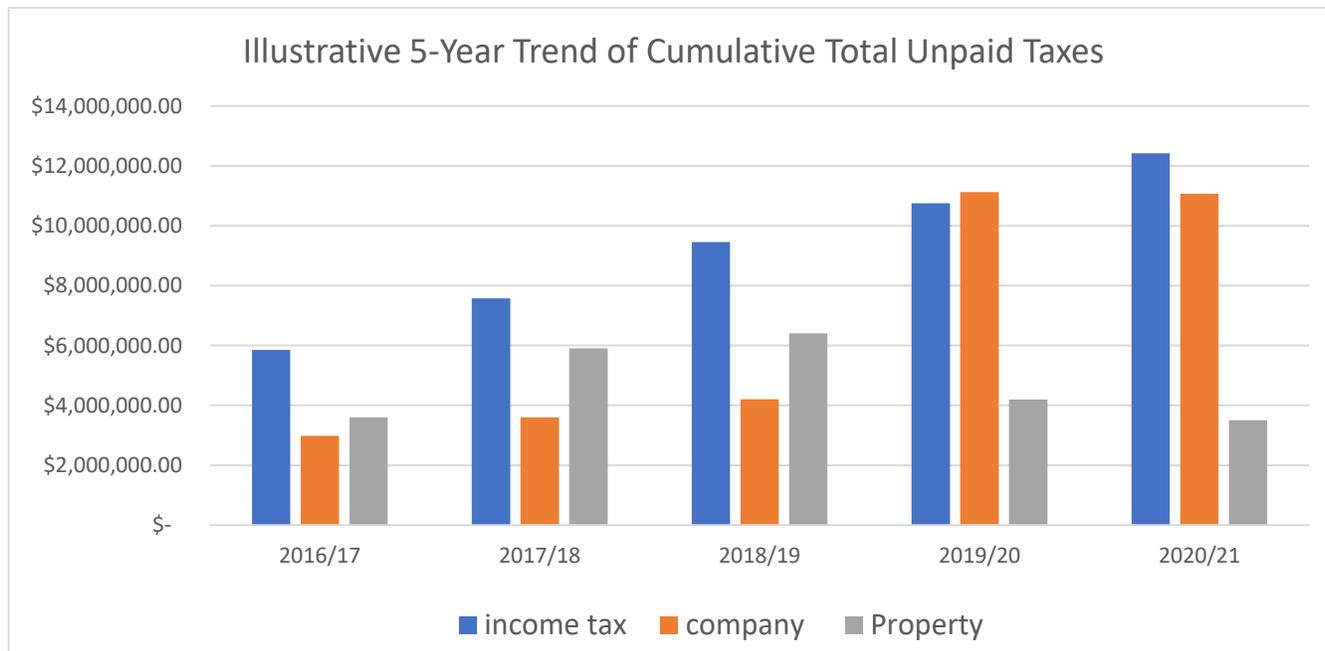
Financial Year	Tax Revenue Amt	Financial Year 2	Non-tax Revenue Amt	% of Tax Revenue in the Overall Local Revenue	% Tax Contribution to the total Recurrent Revenue
2018	\$ 38,286,999.00	2018	\$ 8,980,901.00	81.00	30.27
2019	\$ 45,599,468.00	2019	\$ 5,967,261.00	88.43	35.19
2020	\$ 44,707,608.00	2020	\$ 10,950,050.00	80.33	33.34
2021	\$ 42,474,299.00	2021	\$ 6,502,719.00	86.72	29.78
2022	\$ 44,615,595.00	2022	\$ 7,560,351.00	81.41	32.64

4.8 Outdated arrears, plus current unpaid amounts, are large and rising yearly.

Year after year, the annual audit of the Public Accounts shows that unpaid taxes reflected large balances. The failure to keep accurate and up-to-date records, the lack of capacity to achieve timely assessments and enforcement, and the delays in communication, are some of the factors leading to uncontactable taxpayers and uncollectible taxes. Consequently, from time to time, over the years, the Cabinet has approved the writing off of significant amounts of old tax receivables. However, while they improve the fair presentation of the GOM’s accounts, write-offs do not address the

underlying causes of unpaid taxes and uncollected taxes receivable. Their continued upward trend reflects this. In particular, we found that Tax Arrears for Income Tax more than doubled in just four years (2016 to 2020), whilst Tax Arrears for Company Tax nearly quadrupled in the same period. [See Chart 4.1 below.] By contrast, unpaid Property Tax rose in years 2017 and 2018, but showed considerable improvement since then, falling to pre-2016 levels. The total accumulated arrears of these three tax-types alone soared from \$12.44 million in 2016/2017 to \$27 million in 2020/2021.

Chart 4.1: Accumulated Unpaid Taxes; Select Tax-types (under the IRD).



Source: Reports on the Annual Public Accounts for Fiscal Years 2016/2017 to 2020/2021: Arrears of Revenue.

4.9 Budgeted amounts for Taxes Revenues showed large swings from year to year.

In reviewing the budgets for the past several years, we noticed an erratic pattern in the forecast revenues from local taxes. For example, the budget for Income Tax exceeded \$15 million per year for 2018/2019 and 2019/2020, but then was cut by nearly \$2 million in 2020/2021, before jumping to more than \$14 million each of the next two fiscal years, even though the fundamentals of the economy and, in particular, the tax-base (especially employment in the public sector) had not changed greatly overall. For Withholding Tax, budgeted amounts nearly tripled from \$800,000 in 2018/2019 to \$2.1 million in 2019/2020, before falling over 50% to \$1 million in 2020/2021, and again sharply to \$350,000 in 2021/2022. Throughout this 5-year period, the budgeted amounts showed no clear relationship with the prior years’ actual pattern/trends of revenues from Withholding Tax.

4.10 Large variances of actual Tax Revenues from budgeted Tax Revenues. For example, actual Income Tax revenues varied from budgeted amounts by an average of more than \$1 million per year for the three years 2018/2019 to 2020/21. Company Tax revenues showed variances above budget ranging from 4% in 2018/2019 to as high as 68% in 2022/2023, and shortfalls below budget ranging from (7)% in 2020/2021 to almost (30)% the following year. As another example, actual Withholding Tax revenues were in the range of \$1.4 million in fiscal year 2018/2019 to \$3.24 million in fiscal year 2022/2023. However, the budgeted amounts fluctuated widely from \$800,000 in fiscal year 2018/2019 to \$2.1 million the next year, and then were drastically cut to less than \$400,000 for fiscal year 2021/2022 and for fiscal year 2022/2023. Likewise, the revenues from Bank Interest Levy were budgeted at \$1.50 million for fiscal years 2018/2019 and 2019/2020, even though the actuals were consistently closer to \$1 million per year. In each of the next three years, the budgeted amount was cut to an average of less than \$900,000 (more than a 40% cut); meanwhile, the actual revenues remained consistent with the long-term trend of over \$1 million per year, dipping below that threshold only once in these 5 years.

Table 4.5: Income Tax revenues: Actuals versus Budgets

Financial Year	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	5-Year Totals
Budgeted Income Tax	15,091,900	15,342,200	13,500,000	14,350,000	14,325,000	72,609,100
Actual Income Tax	14,146,400	14,163,361	14,561,226	14,542,053	14,880,431	72,293,470
\$ Variance Over/ (Under) budgeted revenues	(945,500)	(1,178,839)	1,061,226	192,053	555,431	(315,630) net variance; \$3,933,048 total of absolute variances
% Variance Over/ (Under) Budget	(6.26%)	(7.68%)	7.86%	1.34%	3.88%	(0.43)% net variance; 5.42% absolute variance

Source: MCRS data; Quarterly Reports; Auditors' analysis.

Table 4.6: Company Tax revenues: Actuals versus Budgets

Financial Year	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	5-Year Totals
Budgeted Tax revenue	3,338,200	3,459,400	2,500,000	2,200,000	2,044,900	13,542,500
Actual Tax revenues	3,459,555	2,768,098	2,326,161	1,554,689	3,443,063	13,551,566
\$ Variance Over/ (Under) budgeted revenues	121,355	(691,302)	(173,839)	(645,311)	1,398,163	\$9,066 net variance; \$3,029,970 total of absolute variances
% Variance Over/ (Under) Budget	3.6%	(20%)	(7%)	(29%)	68%	0.07% net variance; 22.37% absolute variance

Source: MCRS data; Quarterly Reports; Auditors' analysis.

Table 4.7: Property Tax revenues: Actuals versus Budgets

Financial Year	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	5-Year Totals
Budgeted Tax revenue	725,000	735,000	535,600	745,000	745,000	3,485,600
Actual Tax revenues	657,496	669,841	638,020	777,441	722,407	3,465,205
\$ Variance Over/ (Under) budgeted revenues	(67,504)	(65,159)	102,420	32,441	(22,593)	(20,395) net variance; \$290,117 total of absolute variances
% Variance Over/ (Under) Budget	(9%)	(9%)	19%	4.35%	(3%)	(0.59%) net variance; 8.32% absolute variance

Source: MCRS data; Quarterly Reports; Auditors' analysis.

Table 4.8: Withholding Tax revenues: Actuals versus Budgets

Financial Year	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	5-Year Totals
Budgeted Tax revenue	800,000	2,095,400	1,000,000	350,000	390,000	4,635,400
Actual Tax revenues	1,360,787	2,772,030	2,492,736	2,765,986	3,241,477	12,633,016
\$ Variance Over/ (Under) budgeted revenues	560,787	676,630	1,492,736	2,415,986	2,851,477	7,997,619 net variances; \$7,997,619 total of absolute variances
% Variance Over/ (Under) Budget	70%	32%	149%	690%	731%	173% net variance; 173% absolute variance

Source: MCRS data; Quarterly Reports; Auditors' analysis.

Table 4.9: 5-Year Trend: Bank Interest Levy tax revenues: Actuals vs. Budgets

Financial Year	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	5-Year Totals
Budgeted Tax revenue	1,500,000	1,500,000	800,000	925,000	925,000	5,650,000
Actual Tax revenues	1,077,037	1,021,368	1,053,680	938,189	1,009,552	5,099,826

\$ Variance Over/ (Under) budgeted revenues	(422,963)	(478,632)	253,680	13,189	84,552	(550,174) net variance; \$1,253,016 total of absolute variances
% Variance Over/ (Under) Budget	(28%)	(32%)	32%	1.43%	9%	(9.74)% net variance; 22% absolute variance

Source: MCRS data; Quarterly Reports; Auditors' analysis.

Table 4.10: Hotel Occupancy Tax revenues: Actuals vs. Budgets

Financial Year	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	5-Year Totals
Budgeted Tax revenue	75,000	100,000	35,000	15,000	25,000	250,000
Actual Tax revenues	27,070	24,066	39,005	64,707	48,876	203,724
\$ Variance Over/ (Under) budgeted revenues	(47,930)	(75,934)	4,005	49,707	23,876	(46,276) net variance; \$201,451 total of absolute variances
% Variance Over/ (Under) Budget	(64%)	(76%)	11%	331%	96%	(19)% net variance; 81% absolute variance

Source: MCRS data; Quarterly Reports; Auditors' analysis.

Table 4.11: Total Variances of Tax revenues: Actuals vs Budgets (Sum of 6 tax-types: Income, Company, Withholding, Interest, Hotel, & Property)

Financial Year	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022	Fiscal Year 2022/2023	5-Year Totals
Budgeted Tax revenue	21,530,100	23,232,000	18,370,600	18,585,000	18,454,900	100,172,600
Actual Tax revenues	20,728,345	21,418,764	21,110,828	20,643,064	23,345,805	107,246,807
\$ Variance Over/ (Under) budgeted revenues	(801,755)	(1,813,236)	2,740,228	2,058,064	4,890,905	7,074,207 net total of variances; \$8,939,157 total of absolute variances
% Variance Over/ (Under) Budget	(4%)	(8%)	15%	11%	27%	7% net variance; 9% absolute variance

Source: MCRS data; Quarterly Reports; Auditors' analysis.

Recommendations

4.11 Review and improve planning and budgeting. The IRD, with the support of the MCRS and the MOFEM, should review its approach to planning and budgeting to minimise the large variances and shortfalls of past years: e.g., underspending versus budget; budgeted collections versus actual revenue. Realistic figures should be used for estimating revenues and collections and adequate amounts should be budgeted for agreed activities for the IRD/MCRS to deliver on its mandate. In turn, the IRD should enhance its management of spending to deliver within its budget, while minimising underspent amounts. Therefore, the budgeted costs and revenues should be revised in line with the actual trend, and regularly updated for any available more recent information affecting forecasts.

4.12 Complement consolidated reporting with entity-level reporting. For greater clarity for policy-makers, for the MOFEM, and for the public, the IRD/MCRS should present separate statements for each Division to complement the consolidated statements of its operations. This would make clear the true net performance of the IRD versus that of the Customs & Excise Division within the MCRS. When all the figures are combined as one entity (MRCs) in current practice, each Division's accounting, performance, and reporting are not clear for external stakeholders to understand and to assess. Given their different mandates, and given their separate portfolios of taxes to administer, the including of unconsolidated financial reports and budgets will make comparisons with each Division's budgets and targets much easier to achieve, and will improve communication with all stakeholders. Enhanced calculation and analysis of variances, more accurate budgeting, more complete disclosure, and better monitoring and evaluation will be among the benefits from an integrated approach to budgeting, accounting and reporting.

Part 2: Performance Management

Overview

4.13 Becoming self-reliant and self-sufficient again are two of the complementary key national outcomes highlighted in the SDP, as well as subsequent capital-works programmes such as the Capital Investment Programme for Resilient Economic Growth (CIPREG) programmes #1 and #2, funded by the FCDO, as part of Montserrat’s national strategy for economic redevelopment following the volcanic crisis that began in July, 1995. The generation and collection of local revenues, sustained through economic growth and a thriving private sector, are essential to achieving the National Vision, the SDP, and the global Sustainable Development Goals by year 2030. Creating, delivering, and maintaining housing, education, utilities, and infrastructure are some of the primary public services needed both for retention of the remaining population as well as for the repatriation of persons from the Diaspora, supplemented by a successful strategy for regional and global immigration of persons with needed capital and skills. Thus, the IRD’s and the MCRS’s effective management of the GOM’s policies and initiatives for tax-administration, and the impact of the IRD’s operations in developing the country’s local tax-revenues, also directly contribute to the economy, to the business-environment, and to the society, helping to achieve various objectives stated in the Cabinet’s Policy Agenda and in the SDP.

Findings of the Audit

4.14 The IRD/MCRS has stated objectives, but does not consistently achieve or report on them. The strategic objectives for the MCRS (including the IRD, by extension) have been outlined in its Strategic Vision. (See Table 4.7 in 4.24 below.) These objectives are also listed within the annual budgets and plans, but the objectives are not specifically and consistently measured, discussed, or reported. We have assessed that only one of these five objectives is being consistently achieved. Of the other four of these objectives, we found that three are not fully being achieved, and one is not being achieved. The evidence points to considerable gaps between actual outputs, results, and impact, on the one hand, and the Policy Agenda’s goals and stakeholders’ expectations, on the other hand.

Table 4.12: The MCRS’s AIMS AND OBJECTIVES

Stated Objectives	Auditors’ Assessment
<ul style="list-style-type: none"> Be accountable to the Government and people through the established reporting and oversight agencies. 	<p>Being achieved. E.g., annual Budgets, 3-year strategic plans, and Quarterly Reports from MCRS to MOFEM. E.g., Framework and dedicated officer in place for international tax-information exchange agreements.</p>
<ul style="list-style-type: none"> Be a Department that promotes professionalism in our staff and fosters a platform that will develop and empower such attributes. 	<p>Not fully achieved. <i>Most employees have not achieved professional levels of training and credentials.</i></p>
<ul style="list-style-type: none"> Promote a collaborative approach among stakeholder agencies and taxpayers to foster mutual respect and compliance 	<p>Not fully achieved. <i>E.g., Memorandum of Understanding not formally in place and active with the Financial Services Commission or with the Montserrat Social Security Fund. Lack of timely and comprehensive data-sharing and reporting (e.g., new registrations of businesses and corporations).</i></p>
<ul style="list-style-type: none"> Be efficient and reliable government entity that will seek to employ the necessary resources to carry out its mandate in a timely and lawful manner. 	<p>Not fully achieved. <i>Excessive use of paper and manual processes impairs both efficiency and effectiveness. Long lags in completion of tax-assessments and tax-refunds. Continuing vacancies, including some that have lasted for one or more years.</i></p>
<ul style="list-style-type: none"> Create a user-friendly environment for the tax paying public while preserving the integrity of our mandate by reducing fraud, tax evasion and other forms of non-compliance 	<p>Not achieved. <i>The lack of online accounts and the non-facilitation of electronic filing and payments are a great inconvenience to many taxpayers. Non-compliance and tax-arrears have remained high for many years.</i></p>

Source: Objectives were extracted from the MCRS’s Operational Plan for Fiscal Year 2022/2023.

4.15 The performance of the IRD's staff is assessed, but there are gaps in documentation. In prior years, there was no formal system in place for measuring the staff's performance. This has improved as the IRD has now adopted the Government of Montserrat's system for Performance Development & Assessment Review (PDAR) to evaluate each of its employees' performance. Nevertheless, the IRD admitted that the implementation has been slow, as the Comptroller was not satisfied with the quality of assessments and reviews during the first few years of implementation. In turn, submissions to the Chief Human Resources Officer were delayed. However, we requested from the IRD, but never received, copies of recent performance-appraisals. Our previous review of files at the Human Resources Management Unit had revealed gaps in the records, indicating that not all employees have had consistent mid-year reviews and annual reviews, including senior officers.

4.16 Extremely long waiting times for tax-assessments. Data from the IRD and feedback from tax-payers indicate that the waiting times for processing of tax-assessments ranged from several months (at best) to several years (most common case). With a statutory limit of 7 years, there is a high risk that significant numbers of tax-returns will not be assessed and/or will not be communicated with taxpayers within an actionable time-period. In contrast, taxpayers are expected to submit their annual tax-returns within 2 months of the end of each tax-year. This creates a gross inequity when the IRD's assessments are not done within a few weeks or months of its receipt of the corresponding tax-returns or tax-information.

4.17 Extremely long waiting times for tax-refunds. Data from the IRD and feedback from tax-payers indicate that the waiting times for the disbursement of tax-refunds range up to several years. Owing to the backlogs from prior years, the IRD gives priority to the oldest outstanding tax-refunds. This disadvantages tax-payers that have filed early or on time and have a legitimate expectation of a prompt return of overpaid amounts of PAYE or provisional tax-payments.

4.18 The Tax Act makes provisions for taxpayers to be penalised for unpaid taxes, but not compensated for unpaid refunds. There is a stark contrast in how the IRD treats taxpayers with taxes payable versus how it treats taxpayers whom the IRD owes refunds. In many cases, the same taxpayer can have both periods of taxes owing and periods for which the IRD owes the taxpayer a refund. For instance, individual taxpayers are expected to submit their annual tax-returns within 2 months of the end of each tax-year, and face penalties for late/non-filing, including monthly interest on unpaid assessed amounts of taxes owed. Furthermore, the IRD does not accrue any interest to taxpayers on their delayed/unpaid tax-refunds. Moreover, delays in tax-assessments also create delays in the calculation of tax-refunds, which are then not available for prompt offset against any amounts deemed to be owing by the taxpayer for other periods. Altogether, this

creates a gross inequity against tax-payers, when the IRD's assessments and refunds are not done within a few weeks or months of its receipt of the corresponding tax-returns or tax-information.

4.19 Lack of interim communication with taxpayers re assessments & refunds. The IRD does not give taxpayers notices or feedback on the status of pending tax-assessments or tax-refunds. This is particularly unsatisfactory to stakeholders where matters are pending for a number of years. For taxpayers, this creates resentment and disillusionment about the quality of governance as it affects them directly. In turn, surveyed taxpayers confessed that not knowing, for up to several years, what was happening with returns that they had already submitted, left them less inclined to keep current with their tax-filings for subsequent years. They felt ignored and disrespected with this lack of communication.

4.20 Adverse economic impacts of delays in refunds. Contrary to the objectives of the SDP and the Cabinet's Policy Agenda, delays in disbursements to taxpayers have a dampening effect on potential spending by consumers, and on the economic multiplier effect of incremental spending for both households and businesses. This was especially noticeable during the past three years of the COVID-19 pandemic, when economic activity in the private sector was depressed. In this context, the backlog of tax-refunds represented a missed opportunity to provide direct stimulus to local residents and to local businesses, helping to cushion the reductions of income that many of them reported during recent years. Businesses that were forced by public-health policies to curtail their operations or to close altogether, and private-sector employees who had reduced work-hours or lost their jobs were at the greatest disadvantage. They would have benefited most from prompt disbursements by the Government, including multiple years of arrears of tax-refunds.

4.21 Delayed assessments and enforcement lead to uncollectible taxes. The annual audits of the Public Accounts have pointed to unacceptably high levels of tax-arrears, including aged amounts that reflect no activity or progress year after year. In the end, large amounts of these old receivables have proven to be uncollectible, a further loss to the GOM's local revenues and the national quest for self-sufficiency. For example, as of April, 2023, the IRD confirmed that amounts owed prior to year 2016 were recently approved by the Cabinet for write-off as the bar of statutory limitations was reached.

Recommendations

4.22 Regular, documented performance & development reviews for all officers. The IRD and the MCRS, together with the MOFEM and the Human Resources Management Unit,

should review, document, and monitor procedures for, and the status of, all the employee-assessments within their portfolios to keep them in line with the GOM's standards and best practices. Each year, compile a prioritised list of items needing to be actioned: e.g., completion of all years' assessments where they have not been done timely, or at all, for some officers, including senior officers; e.g., coaching/mentoring/training and development-planning and support to enhance each officer's performance; e.g., individual career-plans and succession-plans.

4.23 Measure and address issues related to employees'/stakeholders' satisfaction, engagement, and feedback. The IRD and the MCRS, together with the MOFEM and the Human Resources Management Unit, should regularly measure both employees' and stakeholders' satisfaction, identify areas of dissatisfaction or low engagement, and take appropriate actions to achieve documented improvements. E.g., [a] Survey employees and customers (e.g., annually) to measure their engagement, satisfaction, and other key variables for performance and retention; also include stakeholders' feedback on specific service-experiences and client-employee encounters. [b] Prioritise cases and causes of dissatisfaction (both clients' and employees'), weakness, and underperformance, both individually and organisationally, and implement plans of action to address these areas, and to respond effectively to feedback from employees and other stakeholders. [c] Develop a system to track actions, complaints, and issues from receipt, to planning of responses/interventions, all the way to completion. This should include a monitoring dashboard of progress, actions taken and status of each case/issue. [d] Report to employees and other stakeholders the actions taken to address their concerns and the progress achieved to date.

4.24 Regular visits of all businesses/employers. The IRD should take a proactive approach to client-relations management versus the current reactive problem-solving that prevails. Whilst the IRD generally responds promptly to tax-payers' calls and in-person reports of queries and issues, our survey revealed that most tax-payers are not regularly reaching out to the IRD. They also reported not being regularly reached by the IRD. To ensure that queries and concerns are addressed promptly, helping to prevent/reduce late filing and non-filing, the IRD should institute a regular schedule of visiting every employer/business at least once every year.

4.25 Enhance public outreach and education for taxpayers. The IRD/MCRS should develop and implement a strategic approach to public education about tax-forms, filing procedures, and tax-processes. Surveyed taxpayers indicated that online tutorials (e.g., YouTube videos) would be helpful. This also enhances the IRD's efficiency and effectiveness by allowing in-person training and events to be both live-streamed to a much wider audience than the small numbers of in-person attendees, and then recorded for repeated uses long afterward. Regular updates via mobile phones

and email would also keep them informed about changes to tax-laws and regulations, deadlines for various filings, and tips on how to make compliance simpler, easier, and faster.

4.26 Enhance support-services for self-employed persons and small businesses.

Given the tens of millions of tax-dollars at stake each year, the IRD, along with the MCRS and other revenue-agencies of the GOM, should pool their efforts to provide a central hub of information and support for taxpayers. Give special attention to micro-enterprises, to unincorporated businesses, and to new entities, as these contribute to the SDP's economic objectives and the Policy Agenda's thrust to empower local entrepreneurs and to develop a thriving private sector. This would allow for economies of scale that would reduce both the cost of implementation, and also the cost to benefitting taxpayers. This, in turn, would address surveyed businesses' complaints about the difficulties they face individually in finding reliable book-keepers and accountants, in affording their services, in keeping reliable service-providers, and in getting timely accounting and audits. In the first instance, targeted support could be provided on a test/pilot basis to evaluate results and to improve the delivery of services before broadening the scope and the scale of these much-needed services, which contribute to timely, complete and accurate tax-compliance. Furthermore, they could be limited to the first 1 to 3 years of the client-relationship. With effective initial support, taxpayers would more likely be able to sustain good practices in record-keeping, basic accounting, and timely tax-reporting and remittances to the IRD (and, in turn, other agencies of the GOM).

4.27 Improve the quality and the frequency of communication.

The IRD and the MCRS should develop and implement a strategic Communication Plan along with supporting policies, documented procedures, and appropriate training/re-training of all of their employees. Set standards for the use and the timeliness of each mode of communication: e.g., [a] how incoming postal mail, external e-mails, and telephone-messages should be handled, documented, and answered; [b] how customers' complaints, queries, and disputes should be documented and resolved; [c] interim communication to advise taxpayers of the in-process status of their tax-returns, tax-assessments, and pending tax-refunds.

4.28 Implement the full range of telecommunications and electronic channels.

Surveyed stakeholders were unanimous in their requests for the IRD, along with other public-service entities across the GOM, to use modern alternatives to [i] manual processes, [ii] in-person visits to the IRD during limited opening hours, [iii] excessive use of paper-based correspondence, and [iv] over-reliance on the postal service. Examples include electronic mail, WhatsApp, text-messages to mobile phones, virtual calls/meetings, online forms, online payments, and online accounts. These methods would allow much faster communication, better measurement of the effectiveness of each channel of communication/operation, and improved client-service. For example, e-mail can

confirm the accuracy of clients' addresses, and generate prompt item-received and item-read confirmations, whilst postal mail often achieves neither.

4.29 Reap the large cost-savings and benefits of minimising paper and postal mail.

Whilst the full development of an e-Government platform, including online accounts/website, would require separate planning and resources, we have assessed that many of the widely available electronic channels could be used immediately and with little or no net extra time, costs or effort. (E.g., for communication with taxpayers, for issuing information to the public, for internal document-handling, for taxpayers e-submission of forms, and for online banking for tax-payments.) Indeed, they would provide major opportunities for cost-savings to the IRD, the MCRS, and, in turn, to the whole of GOM. A WhatsApp telephone call, a Zoom meeting, and e-mail cost zero, for example, but allow for immediate and convenient communication with customers, including those who are overseas, or who are not available during the IRD's limited work-hours. The IRD and other public entities could greatly reduce the time, the cost, and the effort required for paper, stationery, postage, printing, energy, and physical storage.

CHAPTER 5: AUDIT CONCLUSION

5.1 Overall, the IRD has a clear legislative framework and governance structure in place for its operation. However, in practice, we have noted several inefficiencies in operations, prolonged vacancies, insufficient training and productivity of the junior employees, and largely dormant boards/committees. There are large and recurring financial gaps between [a] budgeted tax revenues and tax-refunds and, on the other hand, [b] the actual revenues collected and the actual refunds disbursed each year. Cumulatively, many millions of dollars of revenues have not been collected, owing to factors such as non-filing of returns, late filing of returns, and under-reporting of incomes, but also from the very long periods taken by the IRD to process tax-returns that it has received. This does nothing to encourage compliance. Furthermore, the IRD has acknowledged other contributing factors: e.g., [1] its lack of enforcement (partly because the IRD has neither a dedicated Compliance Department nor a Legal Department), [2] few cases of prosecutions, [3] delayed prosecutions (which can ultimately be nullified if they breach the 6-year statutory limit), and [4] years of not forfeiting/auctioning properties for seriously delinquent tax-payers.

5.2 In practice, the Cabinet/GOM makes most of the key decisions affecting taxation, including determining the types of taxes the IRD oversees, and sets the rates of taxes, fees and interest that the Division administers. Thus, the IRD is unable to make certain decisions for itself that would allow the Division to achieve its full mandate. There are patterns of outdated tax-laws and procedures in the IRD's operations, the MCRS Enabling Act, and the ICT Act that require more regular reviews. Improvements from paper-based operations and more technological systems are vital for a smoother delivery and enhanced efficiency.

CHAPTER 6: MANAGEMENT RESPONSE

Audit Recommendations & Follow-up Actions Re: Performance Review of the Inland Revenue Division July, 2023

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<i>Chapter 2: Governance</i>			
<p>2.5 The tax-laws and procedures of Montserrat have some outdated sections</p> <p>2.6 The IRD has some financial & Policy-related constraints</p>	<p>2.15 Review tax-related laws, procedures, and roles for better alignment and outcomes. The IRD and the MCRS, along with the F.S., MOFEM, and the Minister of Finance, should periodically review the tax-related laws, policies, and procedures, and other relevant laws, regulations, and policies, to ensure that they are current with the Policy Agenda and the SDP, still relevant to stakeholders’ needs and Montserrat’s circumstances, and coherent with each other. E.g., the provisions of the Electronic Transactions Act, explicitly acknowledged in</p>	<p>Awaiting Legislative Assembly to pass the Tax Administration Bill which will enable some new and modern initiatives and procedures for more effective tax operations and management.</p> <p>The systems are not in place to enable the electronic filing of returns.</p>	<p>Bill went before the legislative Assembly in November, 2022, and had only its First Reading.</p> <p>This would require legislative authority</p>	<p>The Bill is expected to return to the legislative Assembly in the upcoming legislative year.</p>

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>the ICT Act, should be given full and immediate effect, thus improving relations with taxpayers, and saving time, cost, and effort for all stakeholders, including the staff of the IRD/MCRS. This review should take a whole-of-Government approach to include other stakeholders such as the DITES, the ODG, the Montserrat Social Security Fund, the Financial Services Commission, the Director of Public Prosecutions, the Governor’s office, the Ministry of Health, the Social Services Department, the Attorney General’s Chambers, the Police Service, etc. In particular, where more than one stakeholder/agency has been involved in a given situation, review roles and responsibilities for areas of actual or potential overlap. Seek to improve clarity of roles and responsibilities. Look for opportunities to improve efficiency and effectiveness by consolidating each category of activities within one body/agency.</p>	<p>It is paramount that efforts be made to meet with the legal team to review current legislation and make appropriate legislative changes.</p> <p>Management will review and explore the possibility of having a cashier assigned to the department.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
<p>2.8 No security for the filing room.</p> <p>2.12 Records are kept, but rely heavily on paper and are not always up-to-date.</p> <p>2.13 Internal meetings are held regularly, but they are not all adequately documented.</p>	<p>2.16 Improve & Document engagement and oversight within the IRD/MCRS: In line with best practice, the frequency of the Managers’ meetings and of the staff-meetings should be not less than monthly, rather than the actual trend of quarterly or less often over the past several years. All such meetings should be planned and documented, including date, time started and ended, place, participants, topics discussed, decisions made, review of progress against prior meetings’ action-items, and details of new tasks assigned, to whom, and with deliverables by which dates. There is need for more regular attention and oversight by the MCRS and MOFEM to hold the IRD and the MCRS accountable for budgets, for timely and useful reporting, and for the closing of gaps in progress towards objectives, targets, and Key Performance Indicators. Strategic plans and budgets</p>	<p>Management have recognised this challenge and we are working to resolve the issue.</p> <p>2.12 This is another challenge and in the short term it will need additional records officer to assist with maintaining the manual records.</p> <p>This will enable the requisitioning and refiling of files in a timely manner to improve efficiency.</p> <p>The recommendation to start having monthly meetings will be accepted.</p>	<p>Paper files are being digitised currently to allow for electronic storage.</p> <p>Reliance on actual paper files will be phased out.</p>	

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>should be regularly reviewed and updated before the periods that they cover expire. Review the performance of the IRD and each of its teams, Units, and sub-committees at least annually, including attendance, participation, outputs, outcomes, and lags in decision-making.</p>	<p>Secondly, improve systems will also aid in this challenge.</p> <p>We accept the recommendation and as a management team we will meet to see how strategically we can improve.</p>		
<p>2.9 Committees exist and are paid, but rarely meet or function</p>	<p>2.17 Make full use of telecommunications and virtual meetings. Each Board, Committee, and Department involved in any aspect of taxation and public services should meet a minimum of monthly. Among the lessons of the COVID-19 pandemic have been the great opportunities for remote working, for virtual meetings, and for wider use of telecommunications and electronic channels. In these ways, the vital functions of each entity can continue regardless of absences or temporary restrictions on physical meetings, and in spite of other contingencies arising</p>	<p>Review role of committees to ensure that each committee is kept up to date on all matters relating to their functions and provide legal guidance for addressing these cases. Once meetings are kept, the committees will be reminded of the need to keep minutes of their meetings.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>from time to time. Even after the removal of pandemic-related restrictions on in-person meetings, for instance, the IRD’s staff and related entities should make full use of telecommunications, and also enable virtual attendance and participation when persons are overseas or otherwise absent from an in-person event.</p>	<p>It should be noted that the Tax Commissioners for the most part is a semi Judicial entity. Therefore, any communication or dialogue with the Commissioner should really be confined to appearing before them as a party to a dispute and not to be giving instruction on their operations.</p>		
<p>2.9 Committees (Tax Advisory Board & Montserrat Customs & Revenue Commissioners) exist and are paid, but rarely meet or function</p>	<p>2.18 Review and assess each Committee/Board: The IRD, the MCRS, and the MOFEM should individually and collectively review and improve each of the processes whereby candidates are nominated, selected, and inducted into Committees/Boards. It is then essential to good governance to ensure that every</p>	<p>The recommendation is accepted and more in-depth analysis and discussion needs to be had to see the feasibility of this intervention.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
<p>2.10 No minutes of board meetings were available or provided to us.</p> <p>2.11 Lack of reporting by the committees.</p>	<p>Committee/Board, including the MCRS Commissioners and the Tax Advisory Board, has clear mandates, benchmarks, targets, regular meetings, satisfactory attendance, satisfactory records, and documented outputs. It is also important to have regular quarterly reports to the relevant Ministry/Cabinet and annual reports to the public to ensure accountability and transparency at all levels. To achieve value for money, the MOFEM should urgently reassess the existing model of paying members regardless of whether they have meetings, or attend meetings, or meet statutory obligations and best practices, including complete and timely record-keeping, secure document-storage, and all reporting requirements. It should then advise the Cabinet accordingly: e.g., whether to revise the terms of reference; whether and how to improve the existing model of appointments and remuneration; or whether</p>			

Findings	Recommendations	Management Response	Actions Undertaken To Date & Responsibility	Date of Planned Implementation
	to adopt an alternate 21 st -century model focused on rewards for results achieved, quality of outcomes, client-satisfaction indices, and value added.			
	Chapter 3: Efficiency			
<p>3.5 IRD/MCRS has not explicitly linked its objectives to the Policy Agenda SDP/SDGs.</p>	<p>3.20 Fully integrate the IRD/MCRS objectives with the Policy Agenda/SDP/SDGs. Ensure that the objectives for the IRD and for the MCRS are clearly defined, measured, and assessed each year, and that each of them is more explicitly linked to the Cabinet’s Policy Agenda. Further links to the national SDP and to the relevant global SDGs should be made also, along with specific actions to achieve both sets of goals/targets. This will contribute to the three intertwined objectives of [a] policy-coherence between Departments/Ministries, [b] vertical integration across all levels of the GOM, and [c] a whole-of-Government approach to the national objectives and</p>	<p>Management will meet and ensure that there is proper alignment of IRD’s objectives and KPI’s with the Policy Agenda/SDP/SDGs. Having aligned the objectives and KPI’s the necessary reporting mechanism will be put in place to provide for-the required feedback.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
<p>3.9 The IRD uses a reactive/responsive approach instead of proactive client-service</p>	<p>outcomes, including measurable progress towards the 2030 Agenda.</p> <p>3.21 Clarify objectives and KPIs. Review each objective for greater clarity and in practical terms. Ensure that every objective for the IRD and for the MCRS has KPIs and that all KPIs clearly support objectives. The MCRS and the related Departments/stakeholders should align and coordinate their strategic plans, objectives, KPIs, and targets.</p> <p>3.22 Review and improve KPIs over time. At least annually, the IRD, the MCRS, and the MOFEM should review and assess their KPIs to make them clearer, more measurable, more relevant to objectives, and focused more on strategic outcomes. Add new KPIs where the environment fundamentally changes (e.g., new technologies; COVID-19 or other pandemics; new public-health</p>	<p>These recommendations will be taken into account as there are tangible benefits that can be derived from these proposed measurements.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>regulations; emerging social / economic / business trends and niches; changing demographics; climatic changes and local impacts). Include measures that are client-centric including standards of service for such key areas as (1) average timeframes for tax-assessments, (2) average timeframes for tax-refunds, (3) number of employers/businesses visited each Quarter/year, (4) number of public-education initiatives and, more importantly, their participation, impact, and outcomes, (5) measures of client-satisfaction, and (6) numbers of disputes / complaints / objections (both new and brought forward), as well as average timeframes for resolution, and indicators of satisfactory outcomes (e.g., cases litigated versus cases resolved without litigation; successful cases versus those not completed versus those awarded in favour of the taxpayer).</p>			

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
<p>3.13 The IRD has no dedicated compliance/legal functions.</p> <p>3.14 The Tax Audit Unit was created by taking officers from Tax Assessments.</p> <p>3.15 Tax assessments are adversely affected by absence.</p>	<p>7. (Executive Summary). Strengthen the IRD’s efficiency and revenue capacity: The IRD and the MCRS should advocate through the Financial Secretary and the Minister of Finance for the soonest equipping of the IRD/MCRS with a Compliance Unit and a Legal Unit. Given the tens of millions of dollars of annual revenues at stake, and the estimated large losses of revenues both from tax-delinquency (including non-reporting and under-reporting of assessable incomes) and from uncollected assessed amounts, consistent and effective enforcement requires dedicated professionals in these functional areas. This will help to minimise new arrears of taxes owed, while reducing the large backlog of uncollected taxes assessed in previous years. The experience of other jurisdictions proves that these</p>	<p>Management will need to have discussions with the MoF to get a legal officer assigned to the department to facilitate the processing of these cases.</p> <p>3.14 The Assessment function has been strengthened by the Inspector of Taxes II positioned filled 02/08/23.</p> <p>We need to revisit the organisation structure to ensure that we have adequate staff to perform the different functions. The structure lacks middle management support resulting in total reliance on the managers to</p>		

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	<p>investments quickly repay themselves and become more than self-funding. Having more qualified, experienced, and dedicated officers for each of these major functions will allow the existing staff to refocus on their core areas of responsibility and competence, rather than being split across functions.</p>	<p>authorise the assessments which impacts their ability to function effectively as managers.</p> <p>Efforts will be made to prepare relevant arrears notices for despatching by the Bailiff within two months.</p> <p>Efforts will be made to concentrate on the non-filers given guidelines of previous training by CARTAC.</p>		
<p>3.10 The IRD's backlogs and delays discourage taxpayers' compliance.</p>	<p>3.23 Improve the reporting of performance. The IRD, along with the MCRS and GOM's other revenue Departments, should regularly measure, monitor, assess, and report their actual performance and progress against all of their objectives and KPIs, including public</p>	<p>[Re 3.10] The recommendations as outlined in 3.25 are accepted. We will need to review the processes and establish the turnaround time for</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>Annual Reports. The Quarterly Reports, for instance, should be complete and timely. Go beyond mandatory/statutory reporting (e.g., to the Legislative Assembly) to include broader accountability and transparency to the public. Encourage and enable active participation of stakeholders in understanding, reviewing, and assessing performance. This would help to build trust in public institutions and more confidence about the governance of taxpayers' dollars. It will also contribute to effective and timely Voluntary National Reviews and better interfaces with partners within the O.E.C.S., within the CARICOM, and within the U.K. and British Overseas Territories, as well as regional and international tax-bodies, multilateral agencies, donors, authorities, and regulators.</p>	<p>each step of in the process. Having analyse the matter it is critical that additional staff will be needed to address the relevant operational functions. While we recognized that the delays affect the public we are hampered by the inadequacy of the staff.</p> <p>We agree with the findings and we will undertake to bring the backlog up to 2022 by the end of the fiscal year for PAYE taxpayers. We will review the current work assignment. Analyse with a view to reassigning the available human resources to work on the 2023</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
		assessments for the new fiscal year.		
<p>3.16 Low public profile; No use of online presence, payment and social media.</p> <p>2. (Executive Summary) The actual tax population remains unknown.</p>	<p>3.24 Broaden the scope for feedback from the public/stakeholders and communicate through multiple channels. The IRD/MCRS should periodically seek, document, and report on feedback on its services and encourage inputs from employees, from taxpayers, and from other stakeholders e.g., through annual surveys. Beyond the option of a regular radio programme both for public education and outreach, the IRD/MCRS and other key stakeholders should collaborate in reaching and engaging individual clients, current and potential commercial taxpayers, patrons, promoters, sponsors, hospitality providers, accommodation providers, and other categories of business stakeholders, using a range of available channels: e.g., websites, social media, telephone, mobile marketing, email, radio, news-broadcasts, audio, video, and other media. It is important</p>	<p>This recommendation is taken on board in light of ensuring better and wider stakeholder contact and outreach.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	to have targeted communication for each category of stakeholder, and to address the specific needs, concerns, and issues related to different types of taxpayer, such as those who are affected by different types of taxes (e.g., not all payers of Income Taxes are property-owners; only specific businesses are affected by Insurance Levy, Bank Levy, Interest Levy, withholding taxes).			
<p>3.6 The large years-old backlog of tax-assessments and tax-refund needs urgent attention.</p> <p>3.15 Tax Assessments are adversely affected by absence.</p>	<p>3.25 Reduce the waiting times for processing returns, assessments and issues. The IRD, the MCRS, the MOFEM, and partners such as the DITES should urgently collaborate to review each part of the process for receiving, processing, reviewing, and assessing tax-returns, tax-assessments, and taxpayers’ inquiries, requests for assistance, and issues/disputes. Establish standards for service and measure performance at each stage of each process. Major improvement is needed in shortening</p>	The assessments have been prepared up to 2021 and 2022 for individual taxpayers (mostly PAYE) which were prepared on the system. However, the system is not allowing the authorisation of the assessments in a timely manner thus creating a built up of un-authorized assessments. Currently the Tax Audit Manager		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>the time from receiving forms/requests to giving responses to taxpayers/clients. Improve the communication with taxpayers/clients: e.g., provide frequent updates and timely feedback throughout each stage of the process and not only at the end.</p>	<p>cannot authorise any assessment despite several attempt made by the IT staff. We will have to revert to the old manual system to rectify this issue.</p> <p>Contact was made with DITES to put the unauthorised assessment in a spread sheet to ascertain the number and value of assessments on the system including refunds. A Project will be put in place to ensure that assessments are authorised by the end of the fiscal year.</p> <p>Assessments will be prepared for SEP's and</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
		<p>companies using the interim population.</p> <p>There is a need to review the structure as it lacks middle management in support to provide continued efficiency.</p>		
<p>3.16 Arrangements are in place for logging and processing overtime; however, monitoring and control are inadequate.</p> <p>3.17 The cost of overtime is the equivalent of hiring at least 2 officers.</p>	<p>3.26 Implement a clear policy for overtime, while seeking to reduce it significantly. The IRD, the MCRS, and the MOFEM should urgently review and assess the chronic overtime pattern and consider the evident need for additional posts in its structure. Management should identify the opportunities for change and revised patterns of working. Management should also ensure that appropriate mechanisms are in place to demonstrate that the Division's duty of care is being met in line with health and safety legislation. There is the</p>	<p>Going forward we will ensure that adequate monitoring is in place for overtime work when required.</p> <p>Internal discussion will be conducted to determine the number of posts required and revised structure proposed</p> <p>Management will look at the feasibility of job rotation for officers where possible to</p>		<p>3.16 Arrangements are in place for logging and processing overtime; however, monitoring and control are inadequate.</p> <p>3.17 The cost of overtime is the equivalent of hiring at least 2 officers.</p>

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>opportunity for the implementation of a comprehensive Management of Overtime Policy, which will set out clearly the Department’s approach to approved overtime working, and provide guidance to both Managers and employees as well as make provision for overtime working, where it is either unavoidable or required to deal with an emergency. Every effort should be made to ensure the soonest adequate staffing of the I.R.D. in line with its mandate, and reflecting the growing workload commensurate with the actual trends and the Cabinet’s goal of continually rising local revenues to return the GOM to financial self-sufficiency.</p>	<p>improve their skill sets and to identify where employees work best.</p>		
	<p><i>Chapter 4: Effectiveness: Part 1</i></p>			
<p>4.5 -Mix trend of actual tax-revenues and collections versus budgets.</p>	<p>4.11 Review and Improve planning and budgeting. The IRD, with the support of the MCRS and the MOFEM, should review</p>			

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
<p>4.8 – Outdated arrears, plus current unpaid amounts are large and rising yearly.</p> <p>4.9 Budgeted amounts for taxes revenues showed large swings from year to year.</p> <p>4.11 Large variances of actual tax revenues from budgeted tax revenues.</p>	<p>its approach to planning and budgeting to minimise the large variances and shortfalls of past years: e.g., underspending versus budget; budgeted collections versus actual revenue. Realistic figures should be used for estimating revenues and collections and adequate amounts should be budgeted for agreed activities for the IRD/MCRS to deliver on its mandate. In turn, the IRD should enhance its management of spending to deliver within its budget, while minimising underspent amounts. Therefore, the budgeted costs and revenues should be revised in line with the actual trend, and regularly updated for any available more recent information affecting forecasts.</p>	<p>4.8 Management has recognized this challenge. Cabinet took the decision to write off arrears up to 2016 and that no further assessments be issued for 2016. This will enable IRD to concentrate on reviewing individual taxpayers' debt from 2017 and put suitable arrangements in place to settle outstanding debt.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
<p>4.7 Stand-alone performance is difficult to assess against a consolidated budget.</p>	<p>4.12 - Complement consolidated reporting with entity-level reporting. For greater clarity for policy-makers, for the MOFEM, and for the public, the IRD/MCRS should present separate statements for each Division to complement the consolidated statements of its operations. This would make clear the true net performance of the IRD versus that of the Customs & Excise Division within the MCRS. When all the figures are combined as one entity (MCRS) in current practice, each Division’s accounting, performance, and reporting are not clear for external stakeholders to understand and to assess. Given their different mandates, and given their separate portfolios of taxes to administer, the including of unconsolidated financial reports and budgets will make comparisons with each Division’s budgets and targets much</p>	<p>DG can speak to this and the feasibility in adopting this recommendation. I think it can lend itself to some analysis in terms of how one division is functioning and utilizing its resources when compared to the other.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>easier to achieve, and will improve communication with all stakeholders. Enhanced calculation and analysis of variances, more accurate budgeting, more complete disclosure, and better monitoring and evaluation will be among the benefits from an integrated approach to budgeting, accounting and reporting.</p>			
	<p><i>Chapter 4: Effectiveness: Part 2: Performance Management</i></p>			
<p>4.15 The performance of the IRD 's staff is assessed, but there are gaps in the documentation.</p>	<p>4.22- Regular documented performance & development reviews for all officers. The IRD and the MCRS, together with the MOFEM and the Human Resources Management Unit, should review, document, and monitor procedures for, and the status of, all the employee-assessments within their portfolios to keep them in line with the GOM's standards and best practices. Each year,</p>	<p>The recommendation is taken on board and management do recognize its shortcoming in this area. Every effort will be made to ensure that the officers are evaluated on time so that the</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>compile a prioritised list of items needing to be actioned: e.g., completion of all years' assessments where they have not been done timely, or at all, for some officers, including senior officers; e.g., coaching/mentoring/training and development-planning and support to enhance each officer's performance; e.g., individual career-plans and succession-plans.</p>	<p>increment can be processed expeditiously.</p> <p>In terms of training, mentoring and coaching these have been at the fore of our strategy and have been facilitated to upskill our staff.</p>		
<p>4.16- Extremely long waiting times for tax-assessments.</p> <p>4.17 Extremely long waiting times for tax-refunds.</p>	<p>4.23 - Measure and address issues related to employees'/stakeholders' satisfaction, engagement, and feedback. The IRD and the MCRS, together with the MOFEM and the Human Resources Management Unit, should regularly measure both employees' and stakeholders' satisfaction, identify areas of dissatisfaction or low engagement, and take appropriate actions to achieve documented improvements. E.g., [a] Survey employees and customers (e.g., annually) to measure their engagement, satisfaction, and other key</p>	<p>This recommendation will be taken on board to ensure customer satisfaction and overall improvement of the operations. However, one has to note that there are extenuating circumstances which will delay assessments. These include non-filing of returns, delay in providing relevant information from</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>variables for performance and retention; also include stakeholders' feedback on specific service-experiences and client-employee encounters. [b] Prioritise cases and causes of dissatisfaction (both clients' and employees'), weakness, and underperformance, both individually and organisationally, and implement plans of action to address these areas, and to respond effectively to feedback from employees and other stakeholders. [c] Develop a system to track actions, complaints, and issues from receipt, to planning of responses/interventions, all the way to completion. This should include a monitoring dashboard of progress, actions taken and status of each case/issue. [d] Report to employees and other stakeholders the actions taken to address their concerns and the progress achieved to date.</p>	<p>stakeholders, unavailability of funds, system failures and staff constraints.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
<p>4.19 Lack of interim communication with taxpayers re assessments and refunds.</p>	<p>4.24- Regular visits of all businesses/employers. The IRD should take a proactive approach to client-relations management versus the current reactive problem-solving that prevails. Whilst the IRD generally responds promptly to tax-payers' calls and in-person reports of queries and issues, our survey revealed that most tax-payers are not regularly reaching out to the IRD. They also reported not being regularly reached by the IRD. To ensure that queries and concerns are addressed promptly, helping to prevent/reduce late filing and non-filing, the IRD should institute a regular schedule of visiting every employer/business at least once every year.</p>	<p>There is a need for processing time standards and for taxpayers to be alerted where we are unable to meet those standards.</p>		
	<p>4.25. Enhance public outreach and education for taxpayers. The IRD/MCRS should develop and implement a strategic approach to public education about tax-forms, filing procedures, and tax-processes.</p>	<p>Engaged the FSC through a MOU to ensure that where new registration or changes take place,</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>Surveyed taxpayers indicated that online tutorials (e.g., YouTube videos) would be helpful. This also enhances the IRD's efficiency and effectiveness by allowing in-person training and events to be both live-streamed to a much wider audience than the small numbers of in-person attendees, and then recorded for repeated uses long afterward. Regular updates via mobile phones and email would also keep them informed about changes to tax-laws and regulations, deadlines for various filings, and tips on how to make compliance simpler, easier, and faster.</p>	<p>IRD is provided with the relevant documentation.</p> <p>Sector workshops will be arranged based on interim taxpayer population.</p>		
	<p>4.26 Enhance support services for self-employed persons and small businesses. Given the tens of millions of tax-dollars at stake each year, the IRD, along with the MCRS and other revenue-agencies of the GOM, should pool their efforts to provide a</p>	<p>IRD is aware of the challenges faced by the taxpayers in finding reliable book-keepers and accountants.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>central hub of information and support for taxpayers. Give special attention to micro-enterprises, to unincorporated businesses, and to new entities, as these contribute to the SDP's economic objectives and the Policy Agenda's thrust to empower local entrepreneurs and to develop a thriving private sector. This would allow for economies of scale that would reduce both the cost of implementation, and also the cost to benefitting taxpayers. This, in turn, would address surveyed businesses' complaints about the difficulties they face individually in finding reliable book-keepers and accountants, in affording their services, in keeping reliable service-providers, and in getting timely accounting and audits. In the first instance, targeted support could be provided on a test/pilot basis to evaluate results and to improve the delivery of services before broadening the scope and the scale of these much-needed services, which</p>	<p>Engage/partner with Small Business Association to see how IRD can assist their members to meet their tax obligation.</p> <p>Explore the introduction of minimum tax for this group of taxpayers.</p> <p>Look at filing abridged version of accounts.</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>contribute to timely, complete and accurate tax-compliance. Furthermore, they could be limited to the first 1 to 3 years of the client-relationship. With effective initial support, taxpayers would more likely be able to sustain good practices in record-keeping, basic accounting, and timely tax-reporting and remittances to the IRD (and, in turn, other agencies of the GOM).</p>			
<p>3.18 Low public profile; Little/no use of online presence, payments, and social media.</p>	<p>4.27 – Improve the quality and the frequency of communication. The IRD and the MCRS should develop and implement a strategic Communication Plan along with supporting policies, documented procedures, and appropriate training/re-training of all of their employees. Set standards for the use and the timeliness of each mode of communication: e.g., [a] how incoming postal mail, external e-mails, and telephone-messages should be handled, documented,</p>	<p>Develop and implement a Communication Plan</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	and answered; [b] how customers' complaints, queries, and disputes should be documented and resolved; [c] interim communication to advise taxpayers of the in-process status of their tax-returns, tax-assessments, and pending tax-refunds.			
3.8 The outdated emphasis on in-person visits and physical tax-returns is costly to all stakeholder.	4.28 Implement the full range of telecommunications and electronic channels. Surveyed stakeholders were unanimous in their requests for the IRD, along with other public-service entities across the GOM, to use modern alternatives to [i] manual processes, [ii] in-person visits to the IRD during limited opening hours, [iii] excessive use of paper-based correspondence, and [iv] over-reliance on the postal service. Examples include electronic mail, WhatsApp, text-messages to mobile phones, virtual calls/meetings, online forms, online payments, and online accounts.	The Communication Plan would address some of the issues identified. However, IRD does not have a system to file returns electronically.		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>These methods would allow much faster communication, better measurement of the effectiveness of each channel of communication/operation, and improved client-service. For example, e-mail can confirm the accuracy of clients' addresses, and generate prompt item-received and item-read confirmations, whilst postal mail often achieves neither.</p>			
<p>3.7 The IRD has an electric system for assessments, but perpetuates paper-based filings.</p>	<p>4.29 – Reap the large cost-savings and benefits of minimising paper and postal mail. Whilst the full development of an e-Government platform, including online accounts/website, would require separate planning and resources, we have assessed that many of the widely available electronic channels could be used immediately and with little or no net extra time, costs or effort. (E.g., for communication with taxpayers, for issuing information to the public, for internal document-handling, for taxpayers e-</p>	<p>In regards to communication with taxpayers some of the mediums being suggested have been utilized and continue to be utilized. The payment for Property Tax can be done electronic and over the years we have been utilizing payments through wires for payment of Income tax</p>		

<i>Findings</i>	<i>Recommendations</i>	<i>Management Response</i>	<i>Actions Undertaken To Date & Responsibility</i>	<i>Date of Planned Implementation</i>
	<p>submission of forms, and for online banking for tax-payments.) Indeed, they would provide major opportunities for cost-savings to the IRD, the MCRS, and, in turn, to the whole of GOM. A WhatsApp telephone call, a Zoom meeting, and e-mail cost zero, for example, but allow for immediate and convenient communication with customers, including those who are overseas, or who are not available during the IRD’s limited work-hours. The IRD and other public entities could greatly reduce the time, the cost, and the effort required for paper, stationery, postage, printing, energy, and physical storage.</p>	<p>and other tax types but this was hampered to some degree with the issue of correspondent banking with Bank of Montserrat. Several discussions have been had in light of reducing paper but there needs to be systems, education awareness, legislative amendments, procedures and human capital for this to come to fruition. The long-term goal is for the procurement of a software solution (COTS).</p>		

**The Director General
Montserrat Customs & Revenue Service, MOFEM
September 10th, 2023**

APPENDIX 1: AUDIT FIELDWORK

Background

Taxation is a topic of broad public interest and the IRD was specially requested for study by feedback from a range of stakeholders, given widespread and long continuing concerns: e.g., [a] delays in the processing of tax-returns, [b] the issuing of tax-assessments years after the related tax-returns were submitted, and [c] the GOM's chronic delays in paying tax-refunds. This performance audit focused on (1) the governance and processes of the IRD, (2) the GOM's policy framework for direct taxes, especially income-taxes, and (3) the IRD's efficiency, effectiveness, and accountability in its use of resources. These connected dimensions have implications (a) for governance, (b) for departmental stewardship of public funds and other assets, and (c) for the quality of outputs, of outcomes, and of the delivery of services to the public. In turn, the IRD's and the MCRS's policies and operations impact every public employee (e.g., through payroll-deductions), every business (e.g., taxes on imports, taxes on profits, and remittances on behalf of employees), and every pensioner (e.g., requirement of annual tax-returns). In turn, public services, especially taxation, affect the economy and society of Montserrat. This is important since, in the post-1995 era, the central GOM and the wider public sector constitute, directly and indirectly, 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

Purpose and mandate. This study was one of the topics of interest to the public, arising from years of stakeholders' feedback, including a focus-group in February, 2020, and contributes to the OAG's mandate to provide assurance about the efficiency and the effectiveness of the GOM's spending. This audit sought to examine the efficiency and the effectiveness of the management of tax-collections and tax-assessments by the IRD, including the level of governance, the quality of the processes of planning and budgeting, the use of people and assets, and overall performance. We considered (a) the quality of internal records, monitoring, and reporting, (b) the related management of human, financial, 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/entities. Finally, the study aimed to assess the impact of the IRD in relation to major policies and strategic plans, including [1] the GOM's Consolidated Budget, [2] the Cabinet's Policy Agenda, and [3] the Montserrat Sustainable Development Plan (SDP) 2008 to 2020.

In particular, we sought to identify the major planning challenges, budgeting deficiencies, and operational issues facing the IRD and related stakeholders, and, hence, opportunities and recommendations for improving their outputs and outcomes for all stakeholders [i] in reporting, assessing, and collecting taxes owed by taxpayers and [ii] in paying tax-refunds owed to taxpayers.

Key questions. The overall objective of the audit was to assess whether the IRD is managed efficiently and effectively in providing tax-related services to the public. To answer this overarching question, we considered 4 issues:

[a] Are the objectives of the IRD and related Departments clear?

[b] Do the IRD and related Departments have the governance and organisational structures in place to deliver their objectives?

[c] Have the IRD and related Departments applied good practices in the use of their resources to meet their objectives?

[d] How are the IRD and related Departments performing against their objectives/metrics?

Criteria used.

Criteria used for assessing the strategic objectives in this audit were:

- (1) Are there clear, stated objectives that are aligned to the overall strategy?
- (2) Are there plans detailing how the objectives will be met?
- (3) Are the related KPIs/metrics defined and explained?

Criteria used for assessing the key performance indicators (KPIs) in this audit were:

- (1) Are KPIs clearly stated?
- (2) Are KPIs correctly classified?
- (3) Are KPIs appropriate?

(4) Are KPIs measurable and effective?

Criteria used for assessing the use of information in this audit were:

(1) Is there a clearly defined system of accountability?

(2) Are Departments regularly reporting their progress against budgets and strategic plans?

(3) Do reportees give appropriate and timely feedback to reporters?

(4) Is there evidence of an effective feedback-loop whereby measuring, reporting and monitoring of progress (or lack of it) results in timely actions and better decision-making?

Scope of the Performance Audit

The scope of this performance audit was to examine the history, the performance, and the status of the IRD over the years since the MCRS's mandate and the IRD's structure were amended c. year 2010. We emphasised the past 5 years' trends of planning, budgeting, and use of resources within the IRD and related entities in managing the GOM's portfolio of taxes, with a focus on taxes on incomes (individuals) and profits (businesses). We included the IRD and several related entities in our interviews of stakeholders in order to assess the perspectives and the experiences of stakeholders regarding the IRD vis-à-vis its mandate, structure, efficiency, quality of outputs, communication, quality of service, and overall performance. Financial and other data-analyses focused mostly on the prior 5 years (i.e., fiscal years 2017/2018 to 2021/2022). Where we received information subsequent to our fieldwork, more recent updates are provided in some parts of the report.

Scale of the Performance Audit

The scale of this performance audit included [a] the IRD, [b] the MCRS Commissioners, [c] the Tax Advisory Board, and [d] the relations between the IRD and stakeholders such as the MCRS, MOFEM, and tax-payers. Prior performance audits by the OAG, as well as past audits by the GOM's Internal Audit Department, provided additional data and perspectives of many other stakeholders and other areas relevant to the background of this study.

What We Excluded from this Audit

We excluded data preceding those of the year 2015, except for background knowledge and local context (e.g., the history of IRD/MCRS since their structure evolved and was amended in years following the volcanic crisis since 1995). 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.

Why We Performed This Audit

Accountability to external donors. In Montserrat, the public sector is largely funded by the UK Government through its Foreign, Commonwealth & Development Office (FCDO). Over 60% of the GOM's recurrent spending and about 90% of its capital spending are funded [1] by external aid from the UK Government and [2] by grants from multilateral institutions. Hence, the MPS faces increasing scrutiny and accountability [a] for the management of public funds, [b] for the execution of strategic plans, and [c] for the delivery of programmes, of projects, and of outputs. Therefore, those providing aid have requested a series of performance reviews to provide greater assurance about public planning, budgeting, and implementation, including the efficient and effective use of people and other assets, all of which directly affect both the public sector and the private sector.

Development of Local Revenues. Since most of the island's employment is within or related to the public sector, the SDP aims at developing the private sector. However, a large percentage of the population remains dependent on the Government for locally funded services, including public education, for social housing, for social welfare, and various forms of assistance with building or repairing private homes. As part of the policy towards increasing self-reliance, the GOM desires to grow the local economy, local employment, and local tax-revenues to fund public services. The IRD's mandate is to ensure the collection of a range of direct taxes, which, along with the indirect taxes administered by the MCRS, are the biggest sources of local revenue for the GOM.

Governance & Quality of Public Services. As it is entrusted with the administration of a major portion of local public taxes, and because it is also funded by the GOM's annual grant to the MCRS through the oversight of the MOFEM, the IRD is accountable both for the collection of public revenues and for the use of public funds in each year's budget and operations. Efficient administration and effective collections require adequate attention to the level of front-line staffing, channels for payment, channels for communication with stakeholders, and mechanisms for receiving, documenting, and resolving taxpayers' questions, concerns, and complaints. As the IRD

administers both tax-collections and tax-refunds, a two-way dialogue is essential for a high quality of public services. Tax-payers expect regular communication, prompt responses, timely and reasonable tax-assessments, and timely disbursements of refunds.

How We Performed This Audit

Interviews & site-visits. Initially, we engaged in interviews with employees of the MLDA and with senior public-sector officials across related departments, including site-visits to see the premises that they use and a broad sample of the MLDA's tenanted properties. The list of interviewees is provided at the end of this Appendix. 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 the MLDA and the related Departments, including their strategic planning and budgeting, (ii) the efficiency and the effectiveness of data gathering, reporting, human resources, and interdepartmental communication and co-operation related to the use of resources, and (iii) the recent trends, outputs, and outcomes of their uses of resources.

Reviews of relevant law, regulations and literature. Before and during our fieldwork, we researched the GOM's policies, laws, and regulations related to taxation in order to establish the legislative framework for our performance audit. The programme of research also included literature on such relevant subjects as (a) governance, (b) strategic planning and national budgeting, (c) public sector efficiency and effectiveness, (d) monitoring and implementation, including project management and capital assets, (f) performance benchmarks, and (g) 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 resources in the administration of the various tax-systems and client-services.

Internal & External Evidence. Various requests for information were made during May, 2022, to April, 2023. Site-visits, interviews, and surveys with stakeholders were concluded within this period. Emphasis was placed on factors affecting the IRD's and the related Departments' governance, planning, budgets, implementation, efficiency, and performance. In particular, we sought to know (a) whether there were adequate staffing, skills and other resources during the past several years, (b) issues affecting the IRD's processes, progress, and outputs, (c) the quality of reporting, communication, and co-operation among the stakeholders, and (d) recommendations/opportunities for improvements. Above all, we sought to get the tax-payers' perspectives and experiences in assessing the quality of information, the adequacy of communication, and the overall service that they receive from the IRD and its partners.

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 [a] their governance and [b] their management during the period under review. These standards also require us to communicate with auditees and other stakeholders throughout the stages of each audit. Emerging themes include: [a] gender-equity; [b] multi-stakeholder engagement; [c] effective inclusion, especially vulnerable groups; and [d] fair access to public services. The international standards used to perform this audit-engagement and to assess the findings of this audit include ISSAI-P 12, ISSAI 100, ISSAI 3000, and GUID 3910.

Survey of Citizens & Businesses

In addition to the various in-depth interviews with both internal stakeholders of the IRD and external clients of the IRD, the audit-team did a broader telephonic survey of individuals and businesses spanning a wide range of occupations and industries: e.g., insurance, banking, law, auditing, accounting, wholesale, retail, construction, architecture, engineering, transportation, restaurants, supermarkets, hardware, building supplies, real estate, tourism, and communications. Key questions that we discussed with stakeholders in this outreach were:

[A] The Government recently published proposed changes to tax laws and regulations (e.g., fines for late filing & non-filing). [1] Are you aware of this? [2] If yes, have you read the draft proposals? [3] Have you participated in any discussions and/or given feedback to the Government? [4] Do you have any questions, comments or concerns about this? Or about the existing tax laws, forms, or procedures generally?

[B] [Either as a business or as a personal tax-payer] What has been your experience in completing income-tax forms and filing with the I.R.D.?

[C] [Either as a business or as a personal tax-payer] After filing tax-returns, how long have you had to wait for tax-assessments? (e.g., from shortest/best time to longest time.) How long have you had to wait for Tax-refunds (if any)?

[D] [Either as a business or as a personal tax-payer] Have you ever had an objection to a tax-assessment? Or filed any complaint or dispute with the I.R.D.? If yes, what was the experience? What was the outcome?

Questionnaire for Interviewees

Correspondents & Interviewees

- (1) The Comptroller, IRD
- (2) The Deputy Comptroller, IRD
- (3) The Director General, MCRS
- (4) The Manager, Tax Assessments, IRD
- (5) The Manager, Tax Audits, IRD
- (6) The Senior I.T. Systems Administrator, MCRS
- (7) The Commissioner, Financial Services Commission
- (8) The Secretary, Tax Advisory Board
- (9) The Secretary, MCRS Board of Commissioners
- (10) Other employees of the IRD
- (11) Individual tax-payers
- (12) Employers & Business/Corporation tax-payers
- (13) Self-employed tax-payers

APPENDIX 2: THE MCRS's (including the IRD's) BUDGETS & ACTUALS

MCRS Overtime Expenditure

Table 4.1: Summary of the IRD's Spending on Overtime by Employees: Actual for Years 2017 to 2021 (E.C.\$)

Overtime Allowance	Fiscal Year 2017/2018	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/21	Fiscal Year 2021/22
Actual Expenditure	\$101,924.49	112,806.72	120,262.48	93,214.44	92,167.51

Source: Auditors' analysis of the IRD's internal overtime records.

MCRS Tax & Custom Tax-Revenue Refunds: Estimates versus Actual Expenditure

Table 4.2: Summary of the MCRS's (including the IRD's) Disbursements of Tax-Refunds: Budgeted versus Actual for Years 2017 to 2021 (E.C.\$)

Financial Year	Fiscal Year 2017/2018	Fiscal Year 2018/2019	Fiscal Year 2019/2020	Fiscal Year 2020/2021	Fiscal Year 2021/2022
Revenue Refunds: Approved Estimates	1,500,500	1,500,500	1,500,500	1,200,500	700,500
Revenue Refunds: Revised Estimates	1,500,500	1,725,500	1,500,500	1,300,500	1,212,700
Customs Refund	5,893	-	-	228	-
Revenue Refunds: Applied to Previous Years	1,494,468	1,567,870	1,362,515	1,300,217	1,200,481
(Over-)/ Under-Spent Balance	139.41	157,629.56	137,985.03	286.14	12,219