

REPORT OF THE AUDITOR GENERAL

ON THE

**AUDIT OF THE PUBLIC ACCOUNTS OF
MONTSERRAT, WEST INDIES
and other selected activities**

FOR THE

FISCAL YEAR ENDED 31 DECEMBER 2003



OFFICE OF THE AUDITOR GENERAL

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VISION STATEMENT

Our vision is "to help the nation make good use of its resources".

MISSION STATEMENT

Our mission is "to promote 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 Council".

THE GOAL

Our goal is "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".

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ABBREVIATIONS USED

BOM	Bank of Montserrat
DFID	Department for International Development
DFMC	Development, Finance & Marketing Corporation
CAROSAI	Caribbean Organisation of Supreme Audit Institutions
CFM	Citizen and Friends of Montserrat
ECCB	Eastern Caribbean Central Bank
GAAS	Generally Accepted Auditing Standards
GDP	Gross Domestic Product
GOM	Government of Montserrat
IASC	International Accounting Standards Committee
IDI	INTOSAI Development Initiative
INTOSAI	International Organisation of Supreme Audit Institutions
MASL	Montserrat Aviation Services Limited
MONLEC	Montserrat Electricity Services
MFSC	Montserrat Financial Services Commission
MLDA	Montserrat Land Development Authority
MPA	Montserrat Port Authority
MTB	Montserrat Tourist Board
MWA	Montserrat Water Authority
MVO	Montserrat Volcano Observatory
PAC	Public Accounts Committee
PFM	Public Finance Management
RISC	Regional Institutional Strengthening Committee
SSAP	Statement of Standard Accounting Practice
XCD	Eastern Caribbean Dollars

CHAPTER 1

1.0 INTRODUCTION

1.1 Reporting Authority

1. This Report, for the fiscal year 2003, is submitted to the Honourable Minister of Finance, for onward transmission to the Legislative Council. It is pursuant to Section 26 (1) of the Audit Act 2001, No. 7 of 2001 and Section 17 (3) of the Finance (Administration) Act, No. 3 of 2001.

1.2 General Comments

2. This Report outlines the work of my office. It should cover the audits of all central government operations, statutory bodies and corporations and entities where the Government of Montserrat (GOM) injects substantial sums into their operations.

1.3 Audit Mandate

3. The audit of the Annual Accounts of the GOM for the fiscal year 2003 was conducted in accordance with the provisions of the Audit Act 2001 and Section 17 (3) of the Finance (Administration) Act 2001. These pieces of legislation provide for the preparation and submission of annual statements by the Accountant General, and for examination and audit of those statements.

4. Section (8) of the Audit Act 2001 specifically requires the Auditor General and, by extension, the Office of the Auditor General, to inquire into, audit and report in an impartial manner, on the Public Accounts, and in the audit she shall make such examination as she may deem necessary to satisfy herself whether:-

- (a) accounts have been faithfully and properly maintained in accordance with Generally Accepted Accounting Standards [established by the International Accounting Standards Committee], and that all reasonable precautions have been taken to safeguard the collection and custody of public monies, and that these have been fully accounted for or paid, where so required by law, into the Consolidated Fund;

- (b) monies which have been appropriated and disbursed have been applied to the purposes for which they were appropriated, and that expenditure has been made only as authorized;
- (c) monies other than those which have been appropriated have been dealt with in accordance with proper authority;
- (d) all reasonable precautions have been taken to safeguard the receipt, custody, issue and proper use of cash, stamps, securities and public stores, and that the regulations, directions and instructions relating thereto have been duly observed;
- (e) sufficient, relevant and reliable audit evidence is obtained to support the issue of a professional audit opinion on the financial statements of the organizations subject to audit;
- (f) expenditure is achieving value-for-money;
- (g) adequate regulations, directions or instructions exist for the guidance of Accounting Officers and Accountable Officers, and are complied with;
- (h) proper returns have been submitted by Accounting Officers, in accordance with the Financial (Administration) Act 2001;
- (i) the accounts are in agreement with the books of accounts and returns.

5. The audit programme of work aims to provide sufficient, appropriate audit evidence to afford a reasonable basis for an opinion to be given on the general accuracy and regularity of the Government's financial and accounting transactions. The audit exercise is carried out by way of **test checks**, designed to capture material errors in the accounts, determine adequacy and reliability of internal controls and safeguards, and evaluate compliance with relevant enabling legislation and other Ministry of Finance directives.

1.4 Purpose of Audit Office

6. The Audit Office functions as a safeguard to maintaining financial integrity of Government's operations. The office is therefore independent of the Executive branch of Government for auditing and reporting purposes.

1.5 Reporting Process

7. The Auditor General has discretion as to the form and content of her annual report on the public accounts of Montserrat. It is not the duty or responsibility of the Auditor General to disclose each and every error or irregularity in the accounts. As a general rule, she reports on matters that she considers significant and constitutes an actual or potential loss of public resources, a lack of financial control, an impairment of accountability, a breach of, or non-compliance with, legislative or other requirements.

1.6 Goals of Audit Report

8. The goal of a Public Finance Management (PFM) system is to support the achievement of aggregate fiscal discipline, strategic allocation of funds, value for money, and probity in the use of public funds.¹ Stakeholders therefore questions whether these budgetary outcomes are achieved and seek to hold the Executive, Central Government agencies and public officials accountable for their actions and for the management of public funds entrusted to their care.

9. A critical objective of a good PFM system relates to the provision of Information that would allow dissemination to meet decision-making, control, management and reporting purposes. Another objective is that of Accountability and Transparency that facilitates external transparency and scrutiny of public finances. The timely flow of information coupled with good accountability and transparency practices therefore provides the groundwork whereby stakeholders can independently examine the stewardship of public officials and the overall operations of Central Government agencies.

10. Our mandate provides the authority for us to scrutinize the operation of the Executive and its agents. We are also required to report our findings to the Legislative Council, the body that holds the Executive to account for

¹ Revised Consultative Draft, October 21, 2004: PFM Performance Measurement Framework

the delivery of public policy. Our Audit Report is therefore intended to provide the Legislative Council and the public in general with an independent and objective assessment of the operations of Central Government.

1.7 Submission of Annual Accounts

11. Section 26 (1) of the Audit Act 2001, and Section 17 of the Finance (Administration) Act 2001, states that the Government's Annual Accounts shall be submitted, by the Accountant General, to the Auditor General [for audit] within a period of six months [to 30 June] after the close of each year, unless permission is obtained by a Resolution of the Legislative Council for them to be submitted at a later date.

12. Section 17 (2) of the Finance (Administration) Act 2001 states that the Accountant General ... shall show fully the financial position of the Consolidated Fund on the last day of each financial year and shall include -

- (a) a statement of assets and liabilities;
- (b) an annual abstract of revenue and expenditure by heads;
- (c) a comparative statement of actual and estimated revenue by sub-heads;
- (d) a comparative statement of actual and estimated expenditure by sub-heads
- (e) a statement of balances on advance accounts analyzed under the various categories set out in section 30;
- (f) a statement of balances on deposit accounts;
- (g) a statement of outstanding loans made from the Consolidated Fund, by annual and aggregate receipts and payments;
- (h) a statement of public debt;
- (i) a statement of contingent liabilities;
- (j) a statement of investments showing the funds on behalf of which the investments were made;
- (k) a statement of arrears of revenue by subheads;
- (l) a statement of losses of cash and stores and of abandoned claims;
- (m) a statement of the Contingencies Fund Account;
- (n) other statements as the Legislative Council may from time to time require.

13. The first draft of the 2003 was presented for audit well after the mandated deadline. Final adjustments were presented on 18 July 2006.

1.8 Compliance with Financial Orders

14. As in the previous year, there was good overall compliance with the provisions of Financial Orders. Any exceptions to this will be referred to in subsequent paragraphs, under the respective Ministries/Departments.

1.09 The Public Accounts Committee (PAC)

15. The Chairman's report on decisions taken regarding matters arising out of the Annual Audit Report for fiscal year 2001 was tabled in the Legislative Council on 16 March 2006. The review for the fiscal year 2002 was completed and submitted to the Speaker of the House for tabling.

1.10 Health and Safety of Staff and Public

16. Several categories of workers across the public service perform risky work or work with hazardous materials or chemicals. In several instances, we found that necessary protective gear was not being worn. Accidents on the job could lead to significant expenditures for sick leave payments, provision of substitutes, assistance with health care costs through the Community Services Department, or compensation packages through the Administration Department.

17. An employer should provide safe working conditions for staff. Additionally, safe access to government premises should be provided for all categories of customers. The floor in a number of the buildings and wooden walkways on Government Headquarters compound appear to be unsafe. Attention should also be paid to the hazards posed by the unpaved front parking lot. There is the risk of serious litigation against GOM for compensation for injuries for the risks highlighted. Yet, there is no legislation, policy or procedures in place governing the health and safety of workers or customers visiting government premises. **It is therefore recommended that the relevant authorities seek to introduce policies to mitigate the risks and enact the relevant Health and Safety regulations.**

CHAPTER 2

2.0 FINANCIAL STATEMENTS

2.1 Consolidated Fund

18. The Consolidated Fund consists of all revenues and other monies raised or received for the purposes of the GOM, except revenues or other monies that are payable by or under any law into some other fund. Expenditure from the Consolidated Fund must be authorized by the Constitution of Montserrat, an appropriation ordinance, or any other law in force in Montserrat.

19. The following is a statement of the assets and liabilities outstanding at 31 December 2003, grouped according to the nature of the item. A detailed statement, as presented by the Accountant General, is attached at Appendix 1. The statement records cash assets and liabilities only.

TABLE 1
CONSOLIDATED FUND
STATEMENT OF ASSETS AND LIABILITIES

	2003	2002	Increase/ (Decrease)
Assets			
Cash	16,670,649	1,894,269	14,776,380
Development Capital Fund	(270,423)	11,687,469	(11,957,892)
Investments	2,056,200	1,410,000	646,200
Fixed Deposits	2,432,070	1,031,962	1,400,108
Development Fund Receivable (payable)	(1,083,179)	(1,888,294)	805,115
Advances	3,443,714	3,311,992	131,722
Total	23,249,033	17,447,397	5,801,636
Liabilities and Consolidated Fund			
Deposits	3,648,447	5,147,300	(1,498,853)
Special Funds	569,015	570,589	(1,574)
Consolidated Fund	19,031,571	11,729,508	7,302,063
Total	23,249,033	17,447,397	5,801,636

2.2 Statement of Assets and Liabilities

2.2.1 Assets

Cash & Cash Equivalent Accounts

20. Cash Local recorded a positive balance of \$11,385,775.
21. The balance on the Operating Account ECCB amounted to \$156,156 at the end of the current year. These balances were reconciled with statements submitted by the Eastern Caribbean Central Bank (ECCB).
22. Crown Agents #2 Account is comprised of a Current Account and a Montserrat Local Cost Claim account. The balance of \$2,059,835 recorded on the Crown Agents #2 Account was reconciled against the statements submitted by Crown Agents. The Current Account recorded a decrease of \$142,795.65. There was no movement on the Local Cost Claim Account.
23. The Fiscal Reserve Account is maintained at ECCB to record Government of Montserrat's portion of ECCB profits and interest on the account. The balance on 1 January amounted to \$2,856,496. Income for the year amounted to \$212,387.80 in a balance of \$3,068,883 at the end of the fiscal year under review. The figures were reconciled against statements submitted by ECCB.
24. No movement was recorded on the Fixed Deposits - Barclays Bank (\$712,514) and St Patrick's Credit Union (\$246,880) - Accounts. The Industrial Deposit Account recorded an increase of \$108.
25. As regards the investments, the Equity in the Bank of Montserrat increased to \$1,996,200. The increase of \$646,200 was as a result of prior year adjustments to bring balance in line with Bank of Montserrat records. Additionally, a cash dividend issued in 2002 was converted to shares. The investment in Montserrat Mills remained at \$60,000. The entity has not being in operation since 1996, hence it is difficult to envisage how this investment would be recovered.
26. The Development Capital Fund recorded an overdraft of \$270,423. This balance was reconciled against Bank of Montserrat bank statements.

27. \$1,400,000 was placed in a new Fixed Deposit account at the Bank of Montserrat.

Advances

28. Balances on the Personal and Impersonal Advance accounts amounted to \$836,899, representing an increase of \$63,125. This increase was on the Personal Advances account.

29. Outstanding imprests amounted to \$456,821. Government Departments owed \$161,874 while Government Officers had outstanding imprests totaling \$294,947.

30. Amounts outstanding by Other Governments and Administrations totaled \$1,347,144 representing an increase of \$43,300 when compared to the balance outstanding at the end 2002.

31. The balance on the CDB Student Loans amounted to \$1,103,294, a decrease of \$43,650.

32. The Postmaster Clearance account amounted to (\$301,013) representing a decrease of \$35,648.

33. The balance on the Development Fund Receivable account stood at (\$1,083,179). This represented a decrease of \$805,115 when compared to the 2002 balance.

Liabilities

34. Miscellaneous Deposits were recorded at \$2,885,390. This reflected a decrease of \$1,498,340.

35. There was no movement on the Insurance Company Deposits. However, the Industrial Development Deposits decreased by \$513 to \$50,543.

36. Special Funds reflected a minimal decrease of \$1,574 leaving the account at \$570,589.

2.3 Public Finance Management (PFM) System Outturns

37. These refer to the immediate results of the PFM system in terms of actual expenditures composition, revenues, and deficit, and are assessed by comparison to the original approved budget. The outturns provide a measure of realism of the budget and the extent to which the budget is an authoritative tool of government policy.

2.3.1 Consolidated Fund

38. The Government of Montserrat operates one revenue fund called the Consolidated Fund. Sections 7 - 9 of the Finance (Administration) Act 2001 mandates that all public monies be paid into the Consolidated Fund and all recurrent expenditure be paid from the Fund. Revenue deposited to the Consolidated Fund (including a suspense account of \$253,311 and prior period adjustment of \$646,200) totaled \$89,492,627. Recurrent Expenditure for the year amounted to \$79,849,821. Expenditures for local projects undertaken by the Government of Montserrat during the fiscal year and funded from the Consolidated Fund amounted to \$2,340,744. This brings total payments from the Consolidated Fund to \$82,190,595 and thereby gives a net surplus of \$7,302,062.

39. The following summarizes the movements on the Consolidated Fund for the fiscal year under review.

<u>Expenditure</u>	<u>Authorized</u>	<u>Actual</u>
Consolidated Fund Services	8,779,420	10,709,883
Supply Services	<u>71,268,850</u>	<u>69,139,938</u>
Sub-Total	80,048,270	79,849,821
Less: Revenue	<u>69,801,570</u>	<u>89,492,627</u>
Surplus~/(Deficit*)	<u>(10,246,700)</u>	<u>9,642,806</u>
<i>Consolidated Fund</i>		
Balance b/f 1 January 2003		11,729,508
Surplus for the year	9,642,806	
Less Local Projects Cost	<u>2,340,744</u>	<u>7,302,062</u>
Balance c/f 31 December 2003		<u>19,031,570</u>

~ 43.3% or \$4.1M of the surplus related to carry-overs for continuation of the Ash Clearing exercise in 2004.

* Value of Contingencies Warrants raised during fiscal year.

2.3.2 Recurrent Revenue

40. Recurrent revenue for 2003 was estimated at \$69,801,570. Actual collections totaled \$88,593,116, surpassing the budgeted amount by \$18,791,546.

2.3.3 Revenue Surpluses and Shortfalls

41. The table below highlights the revenue surpluses and shortfalls for the year under review. Seven (7) Revenue Heads recorded significant surpluses, while three (3) recorded shortfalls of more than \$50,000.

**TABLE 2
REVENUE SURPLUSES AND SHORTFALLS**

<i>Recurrent Revenue Head</i>	<i>Budgeted</i> \$	<i>Actual</i> \$	<i>Surplus</i> \$	<i>Shortfalls</i> \$
Taxes on Income, Profits & Gains	10,420,000	12,425,192	2,005,192	0
Taxes on Property	980,000	703,573	0	276,427
Taxes on Domestic Goods & Service	1,215,000	1,128,607	0	86,393
Licences	1,533,100	1,865,947	332,847	0
Taxes on Int'l Trade & Transactions	12,251,000	12,394,640	143,640	0
Fees, Fines and Permits	810,100	765,739	0	44,361
Rents, Interest & Dividends	220,000	1,966,904	1,746,904	0
ECCB Profits	370,000	185,476	0	184,524
Reimbursements	35,000	348,097	313,097	0
Budget and Grants	41,559,370	55,751,182	14,191,812	0
Other Revenue	408,000	1,057,759	649,759	0
Total	69,801,570	88,593,116	19,383,251	591,705
Net surplus			18,791,546	

2.3.4 Total Recurrent Local Revenue

42. Budgeted Recurrent Local Revenue totaled \$28,242,200. Actual Recurrent Local Revenue amounted to \$32,841,934 representing an increase of \$4,599,739 or a 16.29% increase of revenue projections for the year under review.

43. Recurrent Local Revenue for 2003 recorded an increase of \$3.42M, representing an increase of 11.63% on collections for 2002. Table 3 below

provides a comparative summary of actual Recurrent Local Revenue collected during 2002 and 2003.

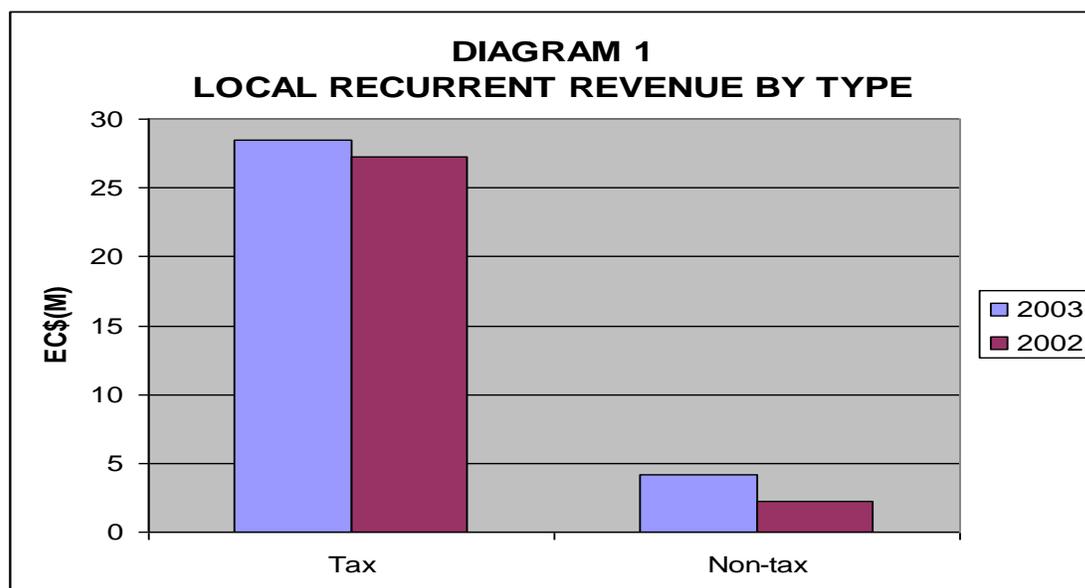
**TABLE 3
COMPARATIVE LOCAL REVENUE SUMMARY**

SOURCE OF REVENUE	ACTUAL 2003	ACTUAL 2002	INCREASE/ DECREASE
Taxes on Income, Profit & Capital Gains	12,425,192	11,027,113	1,398,079
Taxes on Property	703,573	836,458	-132,885
Taxes on Domestic Goods & Services	1,128,607	1,104,458	24,149
Licences	1,865,947	1,775,512	90,435
Taxes on International Trade & Transaction	12,394,640	12,473,347	-78,707
Fees, Fines and Permits	765,739	712,220	53,519
Rents, Interest and Dividends	1,966,904	286,100	1,680,804
ECCB Profits	185,476	265,647	-80,171
Reimbursements	348,097	480,980	-132,883
Other Revenue	1,057,759	458,429	599,330
TOTAL	32,841,934	29,420,264	3,421,670

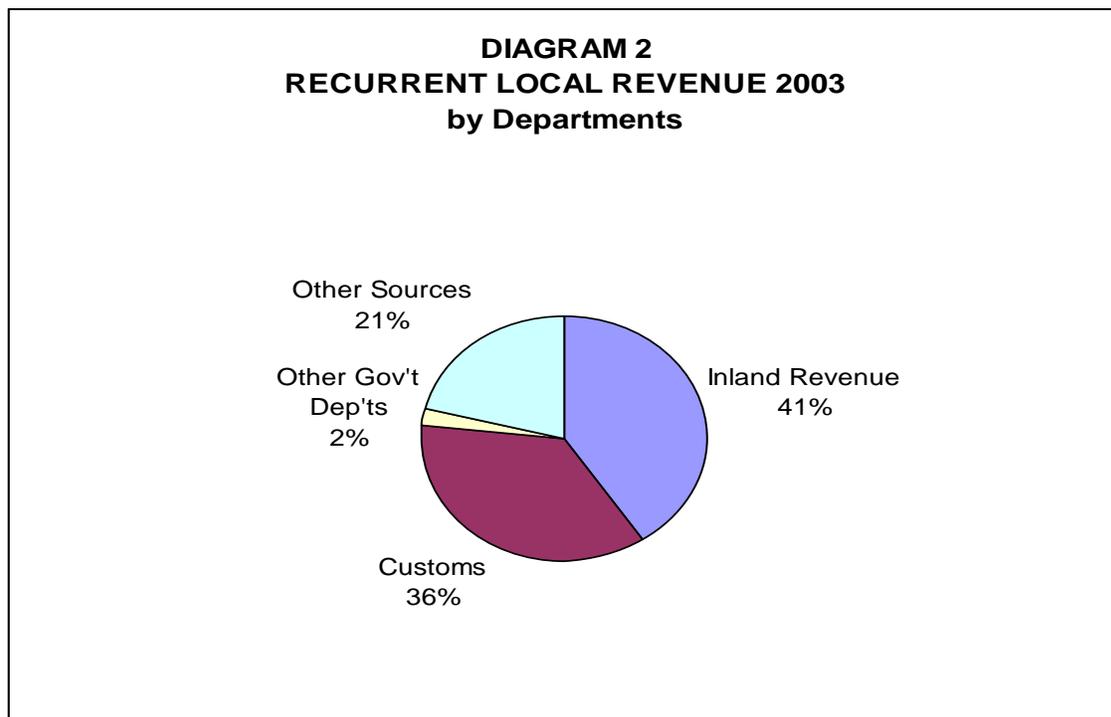
44. As seen from the Table 3 above, three revenue heads recorded increases of over \$400,000 whilst four recorded deficits greater than \$50,000 when compared with revenue collected the previous year.

45. From the fiscal year under review, all revenues collected were re-classified as either Tax or Non-Tax Revenues. Of the \$32,841,934 Recurrent Local Revenue, \$28,517,959 was collected as Tax Revenue.

46. The Diagram 1 below compares actual revenue, by type, for the years 2002 and 2003.



47. Diagram 2 below illustrates the apportionment (by percentage) of revenue generated by various government departments. Revenue from other sources includes, but is not limited to, income received for Telecommunications Licences, Motor Vehicle Licences, and Foreign Currency Levy. These revenue heads were cited since they each contributed half a million dollars towards the public purse.



48. Our major revenue generating departments, the Inland Revenue and the Customs Departments, combined to collect \$25.2M or 77% of revenue collected during 2003. An additional \$1.4M was collected when compared to collections for 2002.

2.3.5 Special Budgetary Assistance

49. Montserrat receives budgetary aid from the British Government to enable it to bridge the gap between recurrent expenditure and recurrent revenue. Revenue projections for 2003 included an amount of \$41,559,370 for Special Budgetary Assistance. Actual revenue for this subhead amounted to \$55,751,182, showing an increase of \$14,191,812. Of the increase, \$13,840,776 was to facilitate ash clean-up.

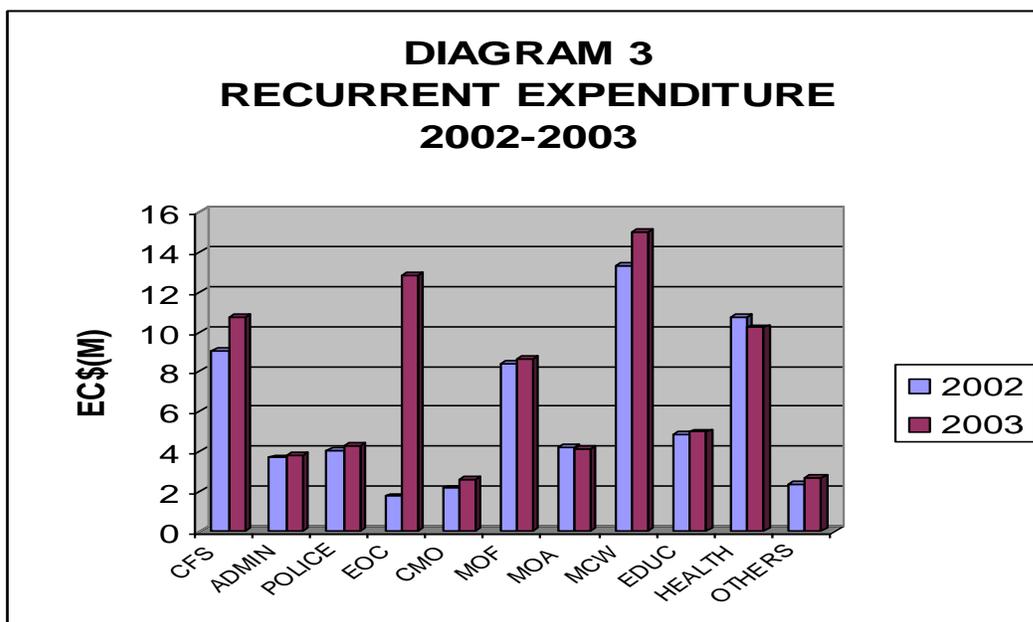
2.3.6 Recurrent Expenditure

50. The budgeted recurrent expenditure as authorized by the Appropriations Act 2003, Ordinance #1 of 2003, amounted to \$69,801,570. Five Contingencies Warrants totaling \$9,900,000 were issued to enable the cleanup of ash deposits after the dome collapse of July 13th. An additional \$346,700 was authorized to meet statutory expenditure from the Consolidated Fund, bringing authorized expenditure to \$80,048,270.

51. Actual expenditure for the year under review amounted to \$79,849,860.

52. Classifying costs by Ministries and Departments, we note that two of them recorded increased expenditure over \$1M when compared with actual expenditure in 2002. The Emergency Department recorded increased expenditure of \$11,123,458 while Ministry of Communication and Works recorded increased expenditure of \$1,689,268. The increases were primarily due to cleanup of ash deposits, subvention to MVO and subventions to support external transportation expenses.

53. The chart below highlights the major areas of actual Recurrent Expenditure incurred by the various Ministries and Departments for the year under review as compared with 2002. All Departments falling under the purview of the Ministry of Finance are grouped together, while other Departments not specifically listed are grouped under Others.



54. Analyzing expenditure by type, it was noted that the major categories were Personal Emoluments, Pension and Gratuities, Goods and Services, Transfers and Subsidies, and Other Expenditure. Personal Emoluments (that is salaries and wages of staff) amounted to \$25,003,400, representing 31.3% of total recurrent expenditure for the year.

55. \$6,708,045 was utilized on Pensions and Gratuities representing 8% of expenditure for the year.

56. 14% of total expenditure was spent on Goods and Services which amounted to \$11,384,948.

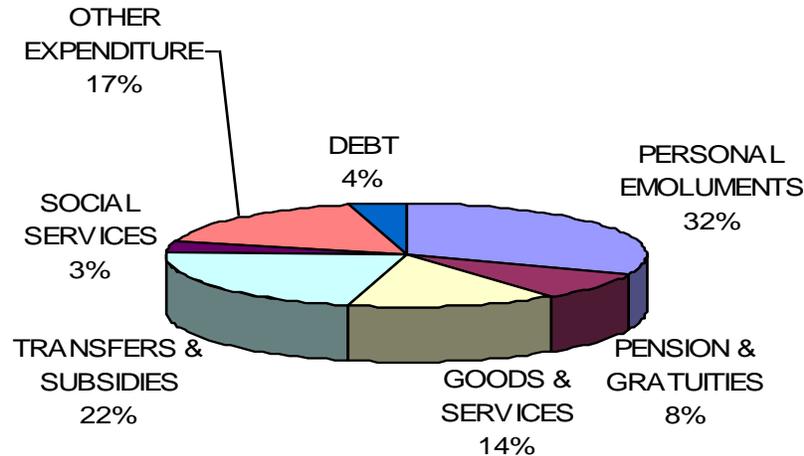
57. Transfers and Subsidies include expenditures on grants and contributions to local and regional institutions, and subventions to quasi-governmental agencies. Total expenditures incurred for Transfers and Subsidies amounted to \$17,808,184 representing 23% of recurrent expenditure for 2003. This category reported increased expenditure of \$3,891,328 over that incurred during 2002.

58. Other Expenditure includes, but is not limited to, Claims against Government, Agricultural Activities, Emergency Expenditure and the Ministry of Communication and Works \$10 Votes. Total expenditure amounted to \$13,164,081. This category recorded a significant movement in expenditure, reporting an increase of \$9,027,263 over that incurred in 2002. Most of this increase was related to emergency expenditure for ash clean up.

59. Social Services and Debt Servicing completes the expenditure categories. 3% or \$2,610,104 was incurred on Social Services. An analysis of expenditure on Debt Servicing is reported elsewhere in this report.

60. The graph below highlights expenditure by cost categories and gives relative percentages used per cost category.

DIAGRAM 4 2003 RECURRENT EXPENDITURE BY COST CATEGORIES



2.3.7 Expenditure Control

61. **Warrants.** During 2003 eight (8) Virement Warrants were approved by the Ministry of Finance to allow ministries and departments to transfer funds from one subhead to another. Five (5) Contingencies Warrant valuing \$9,900,000 were also issued. These were primarily issued to meet emergency expenditure.

62. **Reconciliation Statements.** In several successive reports we have pointed out the need for reconciliations to be conducted since they assist management in monitoring expenditure. Once again, the non-performance of reconciliations resulted in some subheads being overspent.

63. Again, we are emphasizing that this is an important internal control measure. It helps management to monitor their budgets and to take corrective action where necessary. It enables them to comply with relevant legislation thereby negating the need for surcharges to be issued for unauthorized expenditure.

64. **Over-expenditure.** At the end of fiscal year under review, sixteen (16) subheads across twenty-four (24) Ministries/Departments recorded over-expenditure. Four (4) of these over-expended subheads related to Ministry of Communications \$10 Votes. Another four (4) reported over-expenditure on personal emoluments and wages (one had over-expenditure of \$38,018). In two (2) cases goods were procured from overseas without the issuance of a purchase order thereby committing funds. In the other cases, services were procured but the necessary entries to commit the funds were not made.

65. In all cases funds were expended without the necessary approval from the Legislative Council and are thus regarded as unauthorised expenditure. This is contrary to proper control of public money whereby spending should only take place if specifically authorized by Parliament.

66. The use of the commitment system and frequent reconciliations of Votes will prevent most of these over-expenditures. Instituting and monitoring these controls will enable Accounting Officers to keep within funding limits set by Parliament.

2.3.8 Savings

67. Seven (7) Ministries and Departments recorded expenditure under budget by more than \$100,000. These are noted as follows:

Administration Department	138,160
Emergency Department	443,870
Supreme Court	204,576
Ministry of Finance	140,878
Development Unit	140,031
Treasury	460,078
Health	284,650

2.4 Arrears of Revenue

68. The following represents the status of arrears of Revenue as at 31 December 2003: -

**TABLE 4
ARREARS OF REVENUE**

Executing Agency	Arrears at 31 December 2003	Written off during 2004	Cash payments during 2004
Ministry of Agriculture, Lands, Housing & the Environment	468,053	87,696	96,116
Ministry of Communications and Works	97,697	22,919	0
Inland Revenue:-	0	0	0
Income Tax	17,475,049	2,180,735	
Company Tax	4,774,704	620,477	31,547
Property Tax	1,321,806	0	
Broadcasting Services (Radio M/rat)	42,546	23,462	6,021
Customs	41,967	992	40,975
Treasury	888,634	4,850	0
Ministry of Health and Community Serv.	191,601	171,928	5,834
Development Unit	73,584	0	0
Total	25,375,641	3,113,059	

69. Arrears of Revenue recorded an increase of \$6,466,770 being 34.2% of arrears outstanding at end 2002. The majority of this increase is attributable to Inland Revenue Department's efforts to broaden the tax base. It must be noted however that some of these longstanding arrears were uncollectible and, at the end of the fiscal year being reviewed, Ministries/Departments were still awaiting a response to their request for write-offs.

70. A large quantum of revenue remained uncollected despite the Write-off request for portions of revenue deemed uncollected. Greater efforts should be made to collect outstanding revenues. Such efforts should include interventions by the Ministry of Finance and the Attorney General's Chambers.

2.5 Development Fund

2.5.1 Statement of Assets and Liabilities

Assets

(i) British Development Aid Claims

	2003	2002
Balance Outstanding	\$704,075	\$(157,845)

(ii) Donor Agency Expenditure

	2003	2002
Balance Outstanding	\$2,387,140	\$2,411,555

Liabilities

(i) Deposits within the Development Fund

	2003	2002
Balance Outstanding	\$343,734	\$511,341

(ii) Consolidated Fund Payable

	2003	2002
Balance Outstanding	\$(1,083,179)	\$(1,888,294)

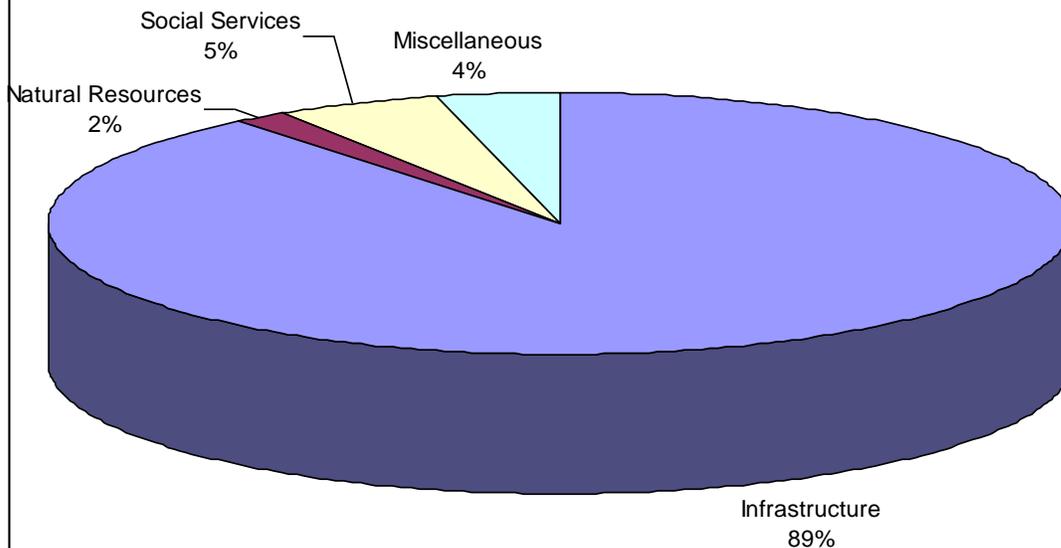
2.5.2 Capital Expenditure

71. The 2003 Appropriations Act authorized expenditure amounting to \$63,366,070. Warrants in the amount of \$521,689 increased authorized capital expenditure to \$63,887,759. Actual expenditure for the year amounted to \$29,380,729 being 46% of authorized expenditure for the year. This indicates that the level of implementation remained constant when compared with 2002 despite Government's efforts to "remain focused on increasing the rate of project implementation".²

72. Capital expenditure can be classified according to the sector on which monies are spent. The 2003 Estimates classified these sectors as Infrastructure, Natural Resources, Social Services and Miscellaneous. Further analysis of actual capital expenditure highlighted that 89% of total expenditure was spent to improve the infrastructure. This is depicted in Diagram 5 below.

² See "The Domestic Economy", Budget Speech and Estimates of Revenue and Expenditure 2003

**DIAGRAM 5
ACTUAL CAPITAL EXPENDITURE 2003
(BY SECTORS)**



73. Again, monies were expended without the relevant warrant being raised. For the 2003 fiscal year, thirteen (13) projects recorded apparent over-expenditure at the end of the period being reviewed. The Executing Agencies for the projects recording apparent over-expenditure are as follows:

- Ministry of Communications and Works
- Ministry of Communication and Works on behalf of other Ministries
- Ministry of Finance and Economic Development
- Ministry of Agriculture, Housing, Lands and the Environment

74. Accounting Officers are reminded that all warrants lapse at the end of a fiscal year. Hence the relevant warrants must be raised during the current year to ensure compliance with public sector accounting policies and practices.

2.5.3 Contracts for Works and Services

75. A sample check of the tendering process revealed that the most popular form of tendering used is open-competitive where all suitable contractors are given an opportunity to compete for the job. A review of board minutes and tender documents revealed that the tender process generally adhered to the guidelines. There was, however, one instance where post-tender negotiations were applied, in the case of the construction of the Warehouse and Port Authority Office. The reason for diversion from the normal process was not clearly stated.

76. **Performance Bond** is a control in place whereby 10% of the aggregate contract value is held by the Bank of Montserrat on behalf of GOM as a guarantee in the event that there is a breach of the contractor's obligations. Liability ends once the contract has been fulfilled satisfactorily. One project had no bonding arrangement in place.

77. **Variation** occurs when for some reason there is a change to the contract. We noted that all the contracts in our sample had variations to the contract amount. None of the projects listed in our sample were completed on time. See some examples in tables 5 & 6 below.

TABLE 5

Project	Contract Sum	Variations	Total Payment	Variation %
Construction of Mortuary	405,570.71	162,719.84	568,290.55	40%
Construction of Airport Terminal	1,666,731.90	341,836.01	2,003,567.91	21%
Construction of Media Centre	314,707.38	49,793.42	346,275.76	16%
Warehouse and Port Authority Office	752,347.00	810,209.00	1,562,556.00	107.7%

TABLE 6

Project	Bonding Arrangements	COMPLETION		Time Overrun
		Due Date	Actual Date	
Construction of Mortuary	YES	27/03/2004	14/5/2004	48 days
Construction of Airport Terminal	YES	26/10/2003	31/01/2004	97 days
Construction of Media Centre	YES	6/4/2005	3/5/2005	27 days

Warehouse and Port Authority Office	NONE	29/3/2003	30/01/2004	338 days
-------------------------------------	------	-----------	------------	----------

2.5.4 Vague Project Deliverables

78. Although Estimated Cost and Timelines are given, the deliverables are sometimes not clearly delineated or are changed without any subsequent documentation being submitted to the Office of the Auditor General. For example, in November 2001, EC\$2.23M was approved for the Extension of Government Headquarters. The project had a completion timeline of end June 2002 and was established as a repair and refurbishment of buildings project. The documentation did not indicate the minimum number of buildings the EC\$2.23M was supposed to renovate. At 31 December 2005, work was still ongoing on this project, with total project cost being EC\$2.31M. One new building was erected and another was in progress. We saw no project documentation indicating that there was a change in emphasis of the project, the size of the buildings to be erected or new guidelines for the completion of the project.

2.6 Other Statements

2.6.1 Statement of Contingent Liabilities

Date	Debtor	Creditor	Liability
December 31, 2003	GSB	SUNDRY	\$21,429,543

2.6.2 Statement of Special Funds

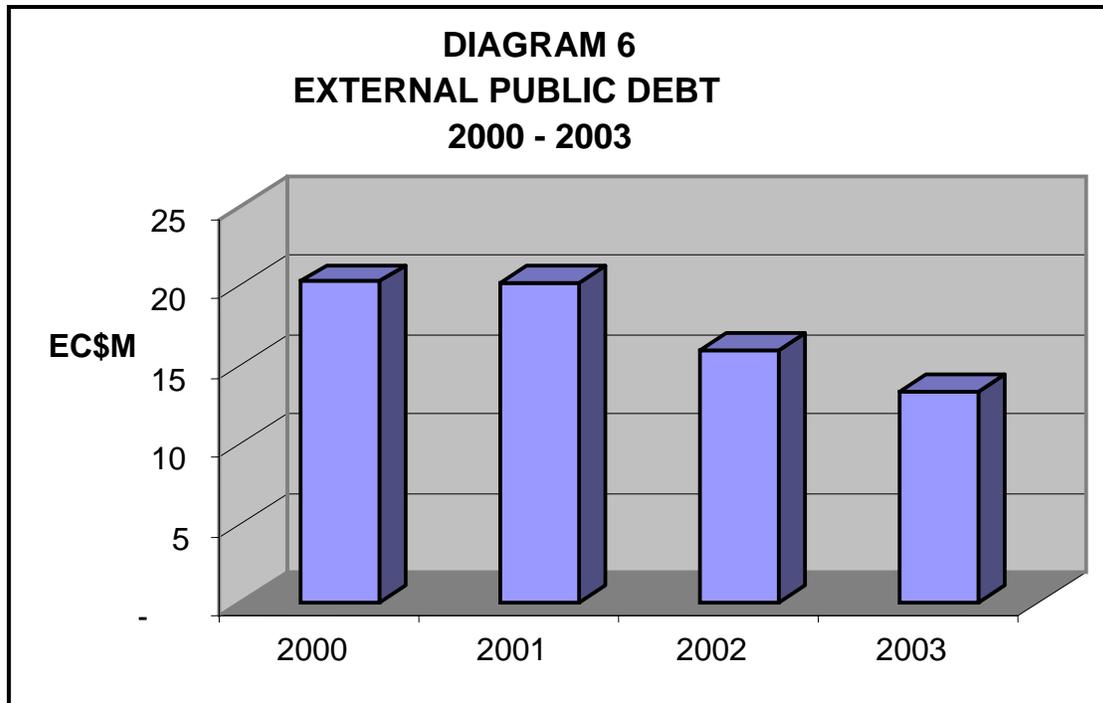
79. There was minimal movement on the Special Funds. Net expenditure amounted to \$1,574 leaving a balance of \$569,016. In 2004, approval was given for the write-off of the outstanding balance of \$10,081 for the Fishhook Snelling Project.

2.6.3 Statement of Public Debt

80. Public debt refers to the cumulative amount a national government has borrowed to finance its expenditures. The Statement of Public Debt therefore outlines the outstanding government debt instruments (primarily external loans and domestic bonds). Other fiscal exposures such as contingent liabilities, government guaranteed loans, statutory non-contributory pension payments, and outstanding contributions to technical

advisory agencies are not included in this Statement. Note however that contingent liability for the Government Savings Bank is detailed elsewhere in the accounts.

81. Six (6) loans were totally repaid during the year hence at 31 December 2003, total External Public Debt stood at \$13,289,508. The graph below compares the movements in the external debt at the end of the years 2000 - 2003.



82. Principal repayments during the period amounted to \$2,744,325 being 8.36% of actual local recurrent revenue recorded for 2003. When compared against GDP³ (in current prices for the year) it represents 2.67%.

83. At the start of the fiscal year, Domestic Debt in the form of Treasury Development Bonds totaled EC\$2.45M. During the year EC\$0.35M of the Treasury Development Bonds were redeemed, leaving an outstanding Domestic Debt of EC\$2.1M. The associated Sinking Fund, held at the Eastern Caribbean Central Bank (ECCB), was reduced to \$1,665,123.

84. At end of fiscal year Total Public Debt stood at EC\$15,389,508. Public Debt per capita⁴ which represents what each person is expected to

³ GDP measures the income generated by the entire economy.

contribute toward the repayment of the debt amounted to \$3,433.63 per person.

85. Interest paid for External Debt totaled \$315,448 being 0.96% of total local recurrent revenue generated for the year. Interest paid on Domestic Debt totaled \$207,899 being \$150,000 on development bonds and \$50,879 on overdraft.

2.6.4 Statement of Loans Outstanding

86. As at 31 December 2003 the total balance outstanding under this account was recorded as EC\$839,871. There has been no movement on these loans for several years. Consequently, in 2004 approval was given for the write-off of \$656,243.

2.7 Losses/Overpayments

87. During 2003, a minimal payment of \$500 was made on the gratuity overpayment to a legislator thereby reducing the balance to \$58,083.

⁴ The Montserrat Statistics Department 2003-population estimate was 4,482.

CHAPTER 3

3.0 MINISTRIES AND DEPARTMENTS

3.1 Administration

3.1.1 Over Expenditure

88. Authorised expenditure for Head 030, Administration Headquarters, Subhead 228 - Supplies, amounted to \$36,300. Actual expenditure for this subhead amounted to \$50,470 resulting in an overspend of \$14,170. Again, over expenditure of \$19,050 was recorded under Head 031, Prison Department, Subhead 228 - Supplies.

3.1.2 Capital Expenditure

89. \$306,450 was allocated for capital expenditure. Actual expenditure for the year amounted to \$333,526 resulting in an overspend of \$27,076.

3.2 Police

3.2.1 Over Expenditure

90. Budgeted expenditure for the operations of Head 05 050 - Fire Department totaled \$782,250. Of this amount \$641,450 was allocated to subhead 210 - Personal Emoluments for salaries and allowances. Actual expenditure on Personal Emoluments amounted to \$679,468 resulting in an over spend of **\$38,018**. Further examination revealed that savings of \$12,622 was realized under salaries. However, an additional **\$50,640** required to pay allowances was omitted from the Nominal Roll.

91. Overall, Head 05 050 - Fire Department was overspent by \$31,584.40.

3.2.2 Capital Expenditure

92. Authorised capital expenditure amounted to \$648,280. Of this amount \$437,759 was spent during the year representing 67.5% of authorized capital expenditure.

3.3 Broadcasting (Radio Montserrat)

3.3.1 Arrears of Revenue

93. At the close of the fiscal year outstanding revenue amounted to \$42,546.23. Of this figure EC\$6,969.63 is revenue outstanding for the 2003.

3.3.2 Fees

94. Despite several requests for an official rate sheet none has been submitted to the Office of the Auditor General. As a result, some of the fees charged do not appear to have been correctly authorized or approved.

3.4 Development Unit

3.4.1 Capital Expenditure

95. The Annual Estimates allocated \$6,367,390 as capital expenditure to be managed by the Development Unit. An additional \$300,000 was authorized during the year bringing total authorized expenditure to \$6,667,390. At the end of the 2003 fiscal year, actual expenditure amounted to \$2,814,242 being 42.2% of authorized capital expenditure.

3.4.2 Arrears of Revenue

96. At the end of the fiscal year being reviewed, outstanding rents amounted to \$73,584.02. The Accounting Officer has again sought legal redress.

3.5 Treasury

3.5.1 Arrears of Revenue

97. At 31 December 2003, outstanding revenue amounted to \$888,634.38. Of this amount, \$3,875 was recorded as outstanding for Trade Licences while \$884,759.38 was recorded under Emergency Fuel Supplies.

3.5.2 Over-Expenditure

98. Head 220, Subhead 275 - Sundry Expenses recorded over expenditure of \$422. This amount is considered immaterial when assessed

against actual expenditure of the Treasury Department. It is however included here as it constitutes a breach of the financial regulations.

3.6 Customs and Excise

3.6.1 Arrears of Revenue

99. At end of fiscal year 2003, revenue outstanding amounted to EC\$43,537. Of this amount some EC\$40,975 was in respect of 2003.

3.6.2 Over-Expenditure

100. Head 230, Subhead 210 - Personal Emoluments recorded over expenditure of \$7,203. This resulted in an overall overspend on Head 230 of \$2,133.

3.7 Inland Revenue Department

3.7.1 Arrears of Revenue

101. At 31 December 2003 Arrears of Revenue in respect of Income Taxes (Personal and Corporate) stood at EC\$22,249,753.00 made up as follows.

Personal Income Tax	\$17,475,049.00
Corporate Tax	\$ 4,774,704.00

102. Ninety-one point six percent (91.6%) or \$4,375,240 of Company Tax Arrears was outstanding to twenty-three (23) companies who had arrears greater than \$50,000. These arrears are broken down as follows:

File Reference	Amount EC\$
CO-0001	53,803.20
CO-0003	204,086.52
CO-0045	649,520.10
CO-0047	101,055.90
CO-0058	242,258.90
CO-0071	72,000.00
CO-0080	57,674.20
CO-0081	75,094.88
CO-0092	127,658.92
CO-0118	83,240.40
CO-0148	271,171.35

CO-0164	212,245.46
CO-0165	163,600.25
CO-0182	119,225.28
CO-0193	141,626.80
CO-0216	60,003.62
CO-0236	168,489.05
CO-0240	91,960.00
CO-0249	158,804.10
CO-0309	77,811.00
CO-0311	717,271.43
CO-0312	84,000.00
CO-0322	299,967.89
CO-0522	53,409.41
CO-0519	89,261.40
Total	4,375,240.06

103. There was no movement on quite a number of these accounts for many years. Consequently, in 2004, permission was granted for write-off of some of these balances.

104. Arrears of Property Taxes amounted to \$1,321,806. This arrears listing was submitted long after the statutory deadline for submission due to a breakdown in the computerized property tax system and a reversion to the manual production of the arrears listing.

105. By the end of 2003, the Inland Revenue Department (IRD) incurred US\$25,532 to procure a computerized Property Tax System that could assist them in generating several reports, including a Property Tax Arrears Report. Several system deficiencies have since come to light. These include the inability of the system to accurately compute interest and penalties on outstanding balances, inability of the system to allow adjustments to correct inaccurate input data, inability of the system to generate some Reports.

106. Additionally, at the time of the audit, the system was still unable to produce several expected deliverables, including the Property Tax Arrears Report, despite several upgrades and, IRD had to revert to the manual production of some items. The computerized Property Tax System is therefore not providing value for the monies spent.

107. The reversion to manual interventions is frustrating the efforts and output of staff. The Comptroller has been unsuccessful in recent attempts to have the situation corrected. Since the system is critical to successful completion to the IRD's work output, **we hereby recommend that greater attempts, including intervention by the Attorney General's Chamber, be made to have the situation address.**

3.8 Agriculture, Lands, Housing And The Environment

3.8.1 Arrears of Revenue

108. Arrears of Revenue outstanding as at December 31, 2003, amounted to EC\$468,532.90, made up as follows:

Gov't Housing Stock	\$462,995.90
Fisheries	4,835.00
Rent of Public Market	222.00
Petty Accounts	160.00
Departmental Accounts	320.00

109. During 2004 approval was given for write-off of \$87,696 deemed to be uncollectible.

3.8.2 Government Housing Stock

110. The Montserrat Land Development Authority (MLDA) manages the government housing stock. During the year 61 houses were sold at Davy Hill, Shinland and Lookout. Uncollected rents increased by \$32,339.70 reflecting a 7.5% increase over arrears recorded for the previous year. Further analysis of the arrears revealed that the major areas of non-collection are LookOut 2 Force 10 (42.2%), LookOut 2 Concrete (15.3%), Davy Hill (12.79%), Caricom (9.29%), and LookOut Warden Support Apartments (8.12%).

111. Outstanding rental was made up as follows:-

Location	Amount Outstanding EC\$
Davy Hill	59,200.00
Davy Hill (E.U.)	9,030.00

Davy Hill (Governor)	200.00
Shinland	450.00
Friths	4,438.00
Hope (Lower)	850.00
Hope (Upper)	2,655.00
Manjack	5,376.00
Sweeney's	850.00
Look Out 1	9,748.30
Caricom	43,016.50
Drummonds	5,700.00
Cheap End	2,100.00
Flemmings	4,880.00
Look Out 2 - 1 bed Concrete	28,331.85
Look Out 2 - 1 bed Force 10	112,860.57
Look Out 2 - 2 bed Concrete	740.00
Look Out 2 - 2 bed Force 10	75,672.18
Look Out 2 - 3 bed Concrete	41,910.00
Look Out 2 - 3 bed Force 10	6,950.00
Look Out Studio Apartments	10,422.50
Look Out Warden-Support Apartments	37,615.00
Total	462,995.90

112. The MLDA continued to encourage delinquent tenants to settle arrears by making payment plans. This included making agreements to settle arrears through salary deductions. Again, the Attorney General's Chambers was being asked to start legal proceedings against persons who failed to make satisfactory arrangements to reduce arrears.

3.8.3 Capital Expenditure

113. Total authorized capital expenditure amounted to \$20,684,630. Actual expenditure amounted to \$8,106,402 being 39.1% of total authorized capital expenditure.

3.8.4 Over-Expenditure

114. Head 300, Agriculture Headquarters, Subhead 212 - Wages recorded over expenditure of \$4,022 whilst Head 303, Physical Planning Unit recorded over expenditure of \$6,412 on its Personal Emoluments sub-head.

3.8.5 Vehicle Log Books

115. Maintenance of a vehicle log book serves multi-purposes. It acts as a control mechanism to deter unauthorized usage leading to excessive and unwarranted wear and tear on vehicles. It also acts as a guide for scheduling preventative maintenance and a record to support replacement requests. This vital control mechanism and source of information is not being maintained as required by Section 48 of Procurement and Stores Regulation 2002.

3.8.6 Tractor Hire

116. Preparation of Works Orders is a control mechanism that allows management to monitor amount of work done, and the quantum of work outstanding at the end of a given period. More than 25% of Works Orders were missing hence could not be verified.

117. There were several instances where fees charged were inconsistent with fees provided on the approved rate sheet resulting in under or over-collection of revenue. These under or over-collections were relatively immaterial ranging from an under-collection of \$161.20 to over-collection of \$90. There is no evidence that the monies collected were verified by a senior officer and constitutes a breakdown in financial control.

3.8.7 Health & Safety

118. The Ministry has a number of employees who work with hazardous materials or chemicals or perform dangerous work. However, the Ministry has no clearly documented procedures governing health and safety of staff neither is there any legislation which addresses such issues.

3.9 Ministry of Communication and Works

3.9.1 Over-Expenditure

119. Excess expenditure in the amount of EC\$141,824 was incurred against the nominal EC\$10 provision of subhead 282, Resaleable Stock, under Head 350, but the overall Head itself was under-spent by some EC\$166,131.

120. Operation of Hot Mix Plant, subhead 27801 under Head 351, a token EC\$10 subhead, was overspent by \$108,243.24 however the overall head was under-spent by \$53,076.

121. Mechanical Spares, subhead 27701 under Head 352, recorded over expenditure of EC\$243,875.27 against its EC\$10.00 provision.

122. Operation of Plant and Workshop, subhead 27901 under Head 352, recorded over expenditure of EC\$26, 320.45.

123. The over-expenditure on the two expenditure lines under Head 352 resulted in the Head being over spent by some \$201,420. This represents an over expenditure of 32% of the Revised Estimates for Head 352.

124. Rental of Assets, subhead 234 under Head 353, was also overspent by \$751.

125. The Ministry of Communications and Works recorded overall over-expenditure of \$94,623.

3.9.2 Arrears of Revenue

126. As at 31 December 2003, total Arrears of Revenue stood at EC\$97,697.00, made up as follows: -

	\$
Landing Fees	5,330.00
Navigational/Communication Charges	11,500.00
Concessions Rental	7,461.00
Rental of Government Quarters	12,645.00
Bill Board/Advertisement Rental Space	7,387.00
Plant Hire - Government Departments	42,292.00
- Statutory Bodies	11,082.00
TOTAL	97,697.00

127. During 2004, approval was given for the write-off of \$22,919 deemed uncollectible.

3.9.3 Plant Hire

128. No formal hire rate was included in the schedule of fees for the diesel lorry hence the auditors were unable to verify that rate used was correct. During the year being reviewed errors in computations resulted in an under-collection of \$4,828. More importantly staff, other than administrative, seems to be allowed to complete plant hire agreement forms and collect revenue on behalf of the Department. This results in use of unauthorized rates, under-collection of revenue and non-compliance with financial regulations (receipts are not issued to clients at time when monies are collected) and presents opportunities for loss, theft and misuse of government funds. Inadequate supervision seems to be the reason for the errors found.

3.9.4 Public Stores and Fixed Assets

129. A physical count of Unallocated Stores for the Mechanical Workshop revealed a number of instances where the items on hand and the accounting record balances did not agree.

130. A report on stock verification of Mechanical Stores..... conducted by Mr Peter J West and dated 1 October 2003, pointed out the less than ideal conditions under which some stores, for example tires and rubber seals, were held. The conditions contributed to stores valuing approximately \$177,782 becoming obsolete or unserviceable.

3.9.5 Capital Expenditure

131. The Appropriations Bill 2002 approved \$19,576,380 for capital project expenditure. An additional \$144,000 was authorized during the year thereby making the total authorized expenditure \$19,720,380. Actual expenditure for the year amounted to \$14,201,237 being 72% of total authorized expenditure.

132. In addition, the Ministry of Communications and Works was authorized to spend \$6,236,160 on behalf of other Ministries and Departments. Of this amount \$1,671,367 was spent, being 26.8% of total authorized expenditure.

3.9.6 Health and Safety

133. There are no clearly documented health and safety procedures and workers were found to have limited knowledge of their existence. Management at Ministry of Communication and Works recognizes the importance of having a safe and healthy working environment and has stated that a draft Health and Safety Plan should be ready for "fine tuning and implementation in 2006".

3.9.7 General

134. There is need for the redeploying or procuring of staff to perform dedicated internal audit services. Such a service would greatly reduce the number of errors found and ensure that corrections/adjustments are undertaken in a timely manner.

3.10 Ministry of Health and Community Services

3.10.1 Arrears of Revenue

135. The total revenue outstanding at the St. John's Hospital as at December 31, 2003, amounted to EC\$191,601, made up as follows:-

<u>Year</u>	<u>Amount</u>
1986	11,513.00
1987	11,853.00
1988	13,303.00
1989	13,756.00
1990	11,757.50
1991	8,177.00
1992	10,228.50
1993	11,762.00
1994	14,701.50
1995	15,618.50
1996	13,925.70
1997	10,898.50
1998	6,389.50
1999	4,534.00
2000	1,727.00
2001	10,049.50

2002	11,255.00
2003	<u>10,151.00</u>
	<u>\$191,600.70</u>

136. In 2004, the Ministry of Health was given permission to write-off \$171,928 deemed uncollectible.

3.10.2 Over-expenditure

137. Over-expenditure of \$1,513.12 was recorded against Head 450, Health Headquarters, Sub-head 222, International Travel and Subsistence. Excess expenditure of \$1,904 was also recorded on Head 450, Subhead 232 - Maintenance Services. However, the overall Head 450 realized savings of \$23,965.71. These over-expenditures on line-items represent breaches in financial regulation.

3.10.3 Capital Expenditure

138. \$5,621,780 was budgeted for capital expenditure under the Ministry of Health and Community Services. An additional \$77,689 was authorized during the year bringing the total authorized expenditure to \$5,699,469. Of this amount 27.2% or \$1,552,061 was spent during the period under review.

3.11 Ministry of Education and Labour

3.11.1 Capital Expenditure

139. The Legislative Council authorized \$3,925,000 to be spent on capital expenditure for this Ministry. Of this amount \$1,075,000 was allocated to the Montserrat Community College. However, expenditure for this project was not paid by the Treasury Department and is therefore not included in the accounts of the Government of Montserrat. Additionally, \$2,500,000 was allocated to the Library Project. No expenditure was incurred on this project.

140. Authorized expenditure on the other projects amounted to \$350,000. Actual expenditure incurred was \$264,136.

3.11.2 Over-Expenditure

141. \$1,432 was recorded as over-expenditure on Head 400, Ministry of Education Headquarters, Subhead 234 - Rental of Assets.

3.12 Chief Minister's Office

3.12.1 Over-expenditure

142. Two subheads under Vote 15, Head 150 - Chief Minister's Office were over-spent. \$1,754.28 was recorded as over-expenditure on Subhead 222 - International Travel whilst \$1,465.43 was recorded on Subhead 262 - Fees and Rewards.

CHAPTER 4

4.0 OTHER FINANCIAL AUDITS

4.1 Montserrat Water Authority (MWA)

143. The 2003 Financial Statements were tabled in the Legislative Council on 16 March 2006.

4.2 Montserrat Land Development Authority (MLDA)

144. The 2000 Financial Statements for the corporate section of MLDA were tabled in the Legislative Council on 30 September 2004.

145. The 2002 - 2003 Financial Statements for the corporate section of MLDA along with the 2001 - 2004 for the MLDA's Government's Housing Stock were submitted to the Minister of Housing for onward submission to the Legislative Council.

4.3 Social Security Fund

146. The 2003 Financial Statements were laid before the Legislative Council on 23 December 2004.

4.4 Montserrat Philatelic Bureau

147. The audit of the 2003 - 2004 Financial Statements was being finalized for submission to the Ministry of Finance.

4.5 Government Savings Bank

148. The 1999 Annual Financial Statements were laid before the Legislative Council on 26 August 2004.

149. The 2000 - 2002 Financial Statements were submitted to Ministry of Finance for onward transmission to Legislative Council.

4.6 Montserrat Aviation Services Ltd (MASL)

150. The Manager has informed that the audit of the Financial Statements for 2003 was completed. These accounts were presented to the Board of Directors for approval.

4.7 Montserrat Port Authority (MPA)

151. The 2003 Financial Statements have been certified, and were submitted to the Ministry of Communication and Works for onward submission to the Legislative Council. We did not however see any evidence that these accounts were tabled in the Legislative Council.

4.8 Montserrat Electricity Services Limited (MONLEC)

152. The 2002 audited Annual Reports and Financial Statements were presented to the Board of Directors and final copies were submitted to the Ministry of Communication. We could not however find any evidence that these accounts were laid before the Legislative Council.

153. Discussions with the Accountant revealed that the company recently received the 2003 audited financial statements. These were awaiting presentation to the Board of Directors.

4.9 Montserrat Tourist Board (MTB)

154. The Accounts for the fiscal year 2003 were laid in before the Legislative Council on 16 August 2005.

4.10 Montserrat Volcano Observatory (MVO)

155. 2001 Financial Statements (Income Summary and Balance Sheet) were laid before the Legislative Council on 30 September 2004.

156. The 2002 Financial Statements were forwarded to the Ministry of Finance for onward transmission to the Legislative Council.

4.11 Annual Government Accounts

157. The Annual Accounts of the Montserrat Government for the year ended 31 December 2002 were certified on 25 August 2004. They were tabled in the Legislative Council on 23 December 2004.

4.12 Montserrat Civil Service Association

158. The Accounts for 2002 - 2004 were audited and submitted to the Ministry of Finance for onward transmission to the Legislative Council.

4.13 Golden Years Foundation for Care of Elderly

159. The 2003 Financial Statements were laid before the Legislative Council on 9 July 2004.

4.14 Montserrat Financial Services Commission (MFSC)

160. Discussions with staff at the Montserrat Financial Services Commission have revealed that the accounts for 2003 were audited and are awaiting submission to the Legislative Council.

4.15 Citizen and Friends of Montserrat

161. Citizen and Friends of Montserrat is a not-for-profit organization established in Antigua in 1997 to represent the broad interests of Montserratians and persons from Montserrat who had relocated to Antigua during the volcanic crisis. Government of Montserrat provides over 75% of its financing hence the Office of the Auditor General was asked to conduct the audit of its affairs.

162. The financial statements for the period 31 December 2000 - 2002 were tabled in the Legislative Council on 22nd December 2005.

4.16 St Augustine Primary School

163. The St Augustine Primary School is a private primary school run by the Roman Catholic Church. The Government of Montserrat provides subvention representing over 40% of their total income hence our office was asked to conduct an audit of its accounts.

164. The financial statements for the years ended 31 August 2001 - 2003 were submitted to the Ministry of Finance for onward transmission to the Legislative Council.

CHAPTER 5

5.0 THE AUDIT DEPARTMENT

5.1 Legislative mandate

165. The Audit's mandate was already outlined in paragraph 3 of Chapter 1 in this Report and is only mentioned here for completeness of this section. Specifically, the mandate as conscripted in the Audit Act 2001 makes me responsible for the audit of the Public Accounts, accounts of government Ministries/Departments, statutory corporations (except where their legislation provides for appointment of another auditor), and entities who are receiving or seeking grants from the public purse.

5.2 Mission

166. Our mission is to conduct independent and objective reviews of the accounts and operations of central government and statutory agencies, and provide a report, on a timely basis, to the Legislative Council to assist accountability and transparency in public finance management.

5.3 Corporate Plan

167. During the year being reviewed, the Government of Montserrat mandated the provision of Strategic Objectives to govern the strategic direction of central government business for the period 2003 - 2006. These were styled "Corporate Plans" and required management to devise Vision and Mission Statements. Management also had to prepare Corporate Goals to provide a framework for the delivery of services. The Corporate Plans were accepted by the Government of Montserrat and tabled in the Legislative Council. However, as this was the first attempt at designing Corporate Plans and as circumstances change, the Plan may need some refining over the coming years.

168. I will detail our key objectives and outline progress made on their achievement in my next Audit Report.

5.3 Auditing Standards

169. Auditing standards contain the postulates and principles for carrying out the audit work. The standards provide a framework for the

establishment of procedures and practices to be followed in the conduct of an audit. They provide guidance for the auditor that helps determine the extent of auditing steps and procedures that should be applied⁵ and is the criteria against which audit services can be evaluated.

170. Montserrat does not as yet have its own Institute of Chartered Accountants. However, the Caribbean Organisation of Supreme Audit Institutions (CAROSAI) has formally adopted the International Organisation of Supreme Audit Institutions (INTOSAI) standards. Montserrat is a member of CAROSAI and hence follows the INTOSAI standards.

5.4 Annual Audit Plan

171. As in previous years, an operational plan was drawn up for the Audit Year. The plan lists the various audits to be carried out, and an estimate of the number of person-days required to complete each. The plan, which has facilitated better planning, allocation, monitoring, controlling and management of the audit, comprised the following:-

- (a) an allocation between productive time and overheads,
- (b) a breakdown of the overhead components,
- (c) an analysis of productive time by assignment, grade, and officer, and
- (d) breakdown of the audit of Government Accounts by category, assignment and productive time.

5.5 Outputs Report

172. For the financial year ending 31 December 2003, we audited:

- a) An aggregate of over \$115M in government revenues and expenditures.
- b) Twenty-two statements included in the Public Accounts. These audits focused on examinations of revenue and expenditure, and verification of assets and liabilities.
- c) Ten Ministries and Departments of Central Government with twenty-two accounting units. These were primarily expenditure, revenue, and cash audits. Systems and compliance audits were also conducted.
- d) Five (5) other financial statements.

⁵ INTOSAI Code of Ethics and Auditing Standards

- e) The pre-audit of pension and gratuity calculations. This activity included the audit of pension and gratuity calculations for mainstream Civil Servants, nurses, teachers, police and members of Parliament.

5.6 Outcomes Report

173. As part of our accountability regime, we have decided to measure the impact of our audits on improving managerial stewardship and increasing effectiveness and efficiency of audited entities.

174. Our recommendations were made on a financial and non-financial basis. Non-financial recommendations included recommendations for improvement to systems or regulations. Some of these are not readily quantifiable in monetary terms. Additionally, it may take sometime for recommendation to be implemented and improvements in these systems and regulations to be felt. It was however gratifying to note that, as a result of our recommendation for increased policing of the Insurance Industry, the Inland Revenue Department was able to collect an amount in excess of \$80,000 in overdue insurance levies.

5.7 Staffing

175. The Office of the Auditor General's personnel establishment comprises of 14 members of staff (12 auditors and two ancillary staff).

176. The office welcomed the addition of the following members during the period being reviewed.

- Mrs *Elfreda Greenaway*, a former employee who had migrated as a result of volcanic activity on Montserrat, rejoined the audit staff in the capacity of Deputy Auditor General on 1st January 2003.
- Miss *Marsha Meade*, a graduate of the Kingston University, London with a Bachelor of Arts Degree in Business Administration, joined the staff as Audit Manager on 1 February 2003.
- Miss *Arketa Duberry*, a University of the West Indies graduate with a Bachelor of Science Degree in Accounting joined the staff as Senior Auditor in July 2003.

177. Miss Glendora Lindsey, Auditor, resigned office on 30 October 2003. We wish her the very best in her future endeavours.

178. The Department's workload is constantly increasing and there is need for additional staff if the Department is to meet its mandate in an efficient and expeditious manner. The need for additional staff was expressed to the relevant authorities and incorporated in the Department's Corporate Plan. However, the recruitment of such staff has been placed on hold pending the results of a general review and assessment of personnel needs across the Public Sector.

5.8 Training

179. In keeping with the terms of the INTOSAI Code of Ethics for Auditors in the Public Sector which requires competent auditors to perform work and a continuous updating and improvement of skills, management has utilized a combination of training strategies to ensure that staff acquires requisite knowledge and skills.

5.8.1 In-house training

180. Senior managers continue to share their knowledge and skills by giving direct guidance on tasks to be undertaken and using their mentoring and coaching skills.

181. During the financial year, eleven (11) members of staff benefited from the following in-house training seminars conducted by a facilitator from the Caribbean Consulting Group of St Kitts:

- Interview Techniques and Negotiating Skills for Auditors
- Developing Audit Findings and Presentation Skills for Auditors

182. Additionally, ten (10) members of staff participated in a one-day workshop on value-for-money auditing facilitated by PriceWaterHouseCoopers of Birmingham, United Kingdom.

183. Staff members were also given a greater appreciation for services provided through-out the public sector by participating in several in-service training sessions/workshops conducted by the Training Division, Department of Administration.

5.8.2 Overseas training

184. Two members of staff were selected to participate in the second phase (Instructional Techniques Workshop) of the IDI Long-term Regional Training Programme (LTRTP) held in St Lucia during the period 12-30 May 2003. One officer upgraded her financial audit skills by attending IDI/CAROSAI sponsored, Regional Audit Workshop in Trinidad in November 2003. Additionally, the Deputy Auditor General honed her skills by attending the NAO International Training Course during the period 10-26 September 2003.

5.8.3 Distance learning

185. Staff members continue to utilize the University of the West Indies (UWI) distance learning programme to acquire managerial and accounting skills.

5.10 Significant Achievements

186. In conjunction with the Administration Department's Training Division, the Office of the Auditor General provided training in auditing for Senior Clerical Officers across the public service. These participants conduct the bulk of the accounting work, thus it is imperative that they understand their role and the impact it has on the reliability of accounting information provided by their departments.

187. During the year being reviewed, I was invited to present papers for discussion at ECCB coordinated meetings to fellow OECS Auditor Generals, Accountant Generals, and Budget Directors.

188. The SAI of Montserrat was selected as a member of CAROSAI's Regional Institutional Strengthening Committee (RISC) with the other member SAIs being Cayman Islands (chair), Antigua and Barbuda, Dominica, Bahamas, St Lucia, and Trinidad and Tobago. This Committee is responsible for developing a strategy for training and capacity building of SAIs within the Caribbean.

5.11 CAROSAI Congress

189. In August 2003, the Auditor General attended the VI Congress of the CAROSAI hosted by the SAI of Bermuda. The theme of the Congress was "Promoting Good Governance" and had the following three sub-themes:

- a. Contributions of SAIs in Preventing Corruption - A Challenge for SAIs in the 21st century.
- b. Promoting Good Governance and Greater Public Accountability through effective Legislative Audits.
- c. Institutional Strengthening - How can SAIs support one another?

190. The Auditor General of Montserrat and the SAI of St Lucia prepared a joint Lead Paper for Sub-theme Two.

191. The main conclusions and recommendations for the sub-themes are highlighted as follows:

Sub-theme 1 - Corruption

- i. Management is primarily responsible for the prevention and detection of fraud and other forms of corruption.
- ii. SAIs need to be in the forefront in the fight against corruption.
- iii. SAIs need to be aware of the common areas of corruption and be associated with its dangers.
- iv. SAIs have to pay constant attention to risk assessment of clients and assess Internal Controls on an on-going basis to determine whether they are appropriate and are being applied properly.
- v. Where Internal Controls are inadequate, SAIs are responsible for making appropriate recommendations to address them.
- vi. SAIs must ensure that their staff are appropriately trained, have the necessary technical expertise and a good understanding as to how fraud is committed, to be able to recognize the indicators of possible fraud.
- vii. The SAI should cooperate with the Police and the Director of Public Prosecutions in the fight against corrupt practices.

Sub-theme 2 - Good Governance

- viii. The services of the SAI are absolutely necessary to assist Parliament in fulfilling its responsibilities of holding the Government to account.
- ix. There must be four main requisites to enable the SAI to conduct its work effectively:
 - 1. Independence
 - 2. Having an appropriate Mandate
 - 3. Having clear reporting obligations
 - 4. Possessing the necessary expertise in public sector matters.
- x. The SAI must be and is seen to independent. Independence takes the following two forms-
 - 1. Professional independence based on objectivity and latitude to determine how audits should be conducted.
 - 2. Financial independence to ensure the appropriate resources to perform the tasks considered necessary.
 - The Legislative mandate should require SAIs to report to Parliament at least once per year.
 - Reports made by SAIs should be tabled in Parliament at its next sitting after their submission and once tabled, they should become public documents. The Congress also agreed that best practice is that the SAI's Reports should be presented directly to the Speaker of Parliament.
 - SAIs should ensure that their Public Accounts Committees are adequately assisted in the effective performance of their duties.
 - Each SAI should encourage its Government to move towards preparing accounts and financial statements on the accrual basis.

Sub-theme 3 - Institutional Strengthening

- Training and development can be utilized for strengthening and support of each other.
- Continuous training and development is mandatory to meet the required auditing standards and to keep abreast of changes

taking place worldwide as they relate to forensic, environmental, IT and value-for-money audits.

- Attachments to other SAIs can be used to upgrade knowledge, skills and technical expertise of staff. Delegates were also reminded of opportunities offered by the UK NAO, the GAO of the USA and the Comprehensive Auditing Foundation of Canada.

192. The Bahamas SAI will host the seventh Congress of CAROSAI in 2006.

ACKNOWLEDGEMENT AND APPRECIATION

The Auditor General expresses sincere thanks to the Treasury Department, all Accounting Officers and the staff of their Ministries/Departments, the staff of Statutory bodies and other organizations, for the co-operation and courtesies extended to the Auditor General's staff during the performance of the various audit assignments.

Appreciation is expressed to the Administration Department, its Training Division, IDI and CAROSAI for their invaluable assistance toward the Department's institutional strengthening, succession planning and training initiatives.

Finally, I wish to extend heartfelt gratitude and appreciation to all members of the Audit Staff, for their hard work, cooperation and assistance, in completing the various assignments. The team effort expended in preparing our first Corporate Plan and the assistance in redesigning audit plans and procedures is hereby acknowledged.

Brades, Montserrat
31 July 2006

Florence A Lee, CPA, BSc, MSc
Auditor General

**GOVERNMENT OF MONTSERRAT
ANNUAL ACCOUNTS FOR FISCAL YEAR 2003**

AUDIT CERTIFICATE

I have examined the Annual Accounts of the Government of Montserrat as at 31 December 2003, together with relevant subsidiary Statements, as required by Section 17 of the Finance (Administration) Act, #3 of 2001.

RESPONSIBILITIES

The Accountant General in the Treasury Department is responsible for the preparation and presentation of the Financial Statements and the information contained therein. My responsibility is to express an independent opinion on those statements based on my audit.

SCOPE

My audit was conducted in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit also includes examination, on a test basis, of evidence supporting the amounts and other disclosures in the accounts, and the evaluation of accounting policies.

OPINION

Except as otherwise stated in my Report dated 31 2004, attached hereto, and subject to the observations and comments contained therein, in my opinion, the Annual Accounts for the Fiscal Year 2003, presents fairly the financial operations of the Government of Montserrat, and the sums expended have been applied for the purposes authorized by the Legislative Council.

**FLORENCE A LEE, CPA, BSc, MSc
AUDITOR GENERAL
OFFICE OF THE AUDITOR GENERAL
MONTSERRAT, WEST INDIES
31 July 2006**

APPENDIX 1
GOVERNMENT OF MONTSERRAT
CONSOLIDATED REVENUE FUND
(with comparative figures for December 31, 2002)

ASSETS	2003	2002
CASH LOCAL	11,385,775	(3,408,263)
OPERATING ACCOUNT - ECCB	156,156	243,441
DEVELOPMENT CAPITAL FUND	(270,423)	11,687,469
CROWN AGENTS # 2 ACCOUNT	2,059,835	2,202,595
FISCAL RESERVE - A/C # 1 TRANCHE ECCB	3,068,883	2,856,496
FIXED DEPOSIT - BARCLAYS BANK	712,514	712,514
FIXED DEPOSIT - ST PATRICKS CREDIT UNION	246,880	246,880
FIXED DEPOSIT - BOM	1,400,000	0
INDUSTRIAL DEPOSIT - BANK OF MONTSERRAT	72,676	72,568
INVESTMENT MONTSERRAT MILLS	60,000	60,000
EQUITY BOM - # 2/SFR-OR-M	<u>1,996,200</u>	<u>1,350,000</u>
SUB TOTAL	20,888,497	16,023,699
 ADVANCES		
PERSONAL	549,978	486,853
IMPERSONAL	286,921	286,921
OUTSTANDING IMPREST	456,821	424,090
OTHER GOVERNMENTS & ADMINISTRATIONS	1,347,144	1,303,845
CDB STUDENT LOANS	1,103,294	1,146,944
SALARY CLEARING A/C	569	0
POSTMASTER CLEARANCE	(301,013)	(336,661)
GOVERNMENT SAVINGS BANK	0	0
DEVELOPMENT FUND RECEIVABLE	<u>(1,083,179)</u>	<u>(1,888,294)</u>
SUB TOTAL	<u>2,360,535</u>	<u>1,423,698</u>
TOTAL ASSETS	<u>23,249,033</u>	<u>17,447,397</u>

Government of Montserrat Annual Accounts for the year ended December 31, 2003

GOVERNMENT OF MONTSERRAT
CONSOLIDATED REVENUE FUND

Statements of Assets and Liabilities as at December 31, 2003
 (with comparative figures for December 31, 2002)

LIABILITIES AND THE CONSOLIDATED FUND

	2003		2002
MISCELLANEOUS DEPOSITS	2,885,390		4,383,730
INSURANCE COMPANY DEPOSITS	712,514	1	712,514
INDUSTRIAL INVESTMENTS DEPOSITS	50,543	1	51,056
SPECIAL FUNDS	569,015		570,589
DFID'S FLOAT	<u>0</u>	1	<u>0</u>
SUB - TOTAL	4,217,463		<u>5,717,890</u>

CONSOLIDATED FUND

BALANCE AT START OF YEAR	11,729,508		6,752,069
REVENUE FOR THE YEAR	88,593,116	69,550,910	
EXPENDITURE FOR THE YEAR	<u>79,849,821</u>	<u>64,573,471</u>	
SURPLUS	8,743,295		4,977,439
SUSPENSE	<u>253,311</u>		
	20,726,114		<u>11,729,508</u>
TRANSFER OF LOCAL COSTS	2,340,744		0
PRIOR YEAR ADJUSTMENT	<u>646,200</u>		<u>0</u>
TOTALS	<u>23,249,033</u>		<u>17,447,397</u>

Violet Johnson
Ag. Accountant General
Montserrat

CONSOLIDATED REVENUE FUND - 2003
Annual Abstract of Receipts and Payments

	ESTIMATE	TOTAL AUTHORISED	ACTUAL REVENUE	SURPLUS (SHORT FALL)
CONSOLIDATED FUND REVENUE:-				
1A. TAX REVENUE				
Taxes on Income, Profits and Capital Gains	10,420,000	10,420,000	12,425,192	2,005,192
Taxes on Property	980,000	980,000	703,573	(276,427)
Taxes on Domestic Goods and Services	1,215,000	1,215,607	1,128,607	(86,393)
Licences	1,533,100	1,533,100	1,865,947	322,847)
Taxes on International Trade & Transactions	12,251,000	12,251,000	12,394,640	143,640
<i>TOTAL TAX REVENUE</i>	<i>26,399,100</i>	<i>26,399,100</i>	<i>28,517,959</i>	<i>2,118,859</i>
1B - NON-TAX REVENUE				
Fee, Fines & Permits	810,100	810,100	765,739	(44,361)
Rents, Interest and Dividends	220,000	220,000	1,966,904	1,746,904
ECCB Profits	370,000	370,000	185,476	(184,524)
Reimbursements	35,000	35,000	348,097	313,097
Budgets and Grants	41,559,370	41,559,370	55,751,182	14,191,812
Other Revenue	408,000	408,000	1,057,759	649,759
<i>TOTAL NON-TAX REVENUE</i>	<i>43,402,470</i>	<i>43,402,470</i>	<i>60,075,157</i>	<i>16,672,687</i>
TOTAL REVENUE	69,801,570	69,801,570	88,593,116	18,791,546

Violet Johnson
Ag Accountant General
MONTSERRAT

Government of Montserrat Annual Accounts for the year ended December 31, 2003

CONSOLIDATED REVENUE FUND - 2003

Annual Abstract of Receipts and Payments

CONSOLIDATED FUND EXPENDITURE:-	ESTIMATE	TOTAL AUTHORISED	ACTUAL EXPENDITURE	(EXCESS) SAVINGS
01 CONSOLIDATED FUND SERV'S	8,432,720	8,779,420	10,709,883	(1,930,463)
02 GOVERNOR'S OFFICE	282,220	282,220	272,062	10,158
03 ADMINISTRATION	3,928,720	3,928,720	3,790,560	138,160
05 POLICE	4,515,200	4,295,200	4,272,172	23,028
06 EMERGENCY CENTRE	4,415,940	13,315,940	12,872,070	443,870
07 LEGAL	662,510	662,510	649,431	13,079
08 MAGISTRATES COURT	130,400	130,400	106,863	23,537
09 SUPREME COURT	762,450	762,450	557,874	204,576
10 LEGISLATURE	627,000	627,000	595,499	31,501
11 AUDIT	524,290	524,290	472,795	51,495
15 OFFICE OF THE CHIEF MINISTER	2,670,690	2,670,690	2,579,762	90,928
20 MINISTRY OF FINANCE	3,730,250	3,625,250	3,484,372	140,878
21 DEVELOPMENT UNIT	1,721,560	2,471,560	2,331,529	140,031
22 TREASURY	1,632,070	1,632,070	1,171,992	460,078
23 CUSTOMS & EXCISE	774,250	774,250	776,383	(2,133)
24 INLAND REVENUE	494,760	494,760	450,863	43,897
25 GENERAL POST OFFICE	431,140	431,140	410,763	20,377
30 MIN. OF AGRI., LANDS, HSG & ENVIR.	4,360,110	4,195,110	4,121,745	73,365
35 MIN. OF COMMS & WORKS	14,197,060	14,937,060	15,031,683	(94,623)
40 MIN. OF EDUCATION	5,005,810	5,007,310	4,975,253	32,057
45 MIN. OF HEALTH & COMM. SERVIC	10,502,420	10,500,920	10,216,270	284,650
TOTAL	69,801,570	80,048,270	79,849,824	198,446

Government of Montserrat Annual Accounts for year ended December 31, 2003

**GOVERNMENT OF MONTSERRAT
DEVELOPMENT FUND**

**STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 2003
(with comparative figures for December 31, 2002)**

<u>ASSETS</u>		2003		2002
BRITISH DEVELOPMENT AID				
CLAIMS OUTSTANDING	(1)	704,075		-157,845
DONOR AGENCIES				
EXPENDITURE OUTSTANDING	(2)	2,387,140		2,411,555
GENERAL LEDGER				
DEVELOPMENT FUND		<u>0</u>		<u>0</u>
TOTAL ASSETS		<u>3,091,215</u>		<u>2,253,710</u>
 <u>LIABILITIES</u>				
DEPOSITS WITHIN THE				
DEVELOPMENT FUND	(3)	343,734		511,341
CONSOLIDATED FUND PAYABLE		-1,083,179		-1,888,294
LOCAL FUNDS	(4)	694,610		494,612
OUTSTANDING FUNDS		0		0
CONSOLIDATED CAPITAL FUND	3,941,165		-1218,330	-1,218,330
ADD: REVENUE OVER				
EXPENDITURE	(805,115)	<u>3,136,050</u>	4,354,381	<u>3,136,051</u>
TOTAL LIABILITIES		<u>3,091,215</u>		<u>2,253,710</u>

NOTES TO THE BALANCE SHEET

(1) SUM OF THE BALANCES FOR BDD AND WISTS (STMENT 16)

(2) SUM OF ALL DEBIT BALANCES EXCEPT BDD AND WISTS.

(3) SUM OF THE CREDIT BALANCES EXCEPT BDD, WISTS & LOCAL PROJECTS.

(4) SEE DETAILS RE: STATEMENT 16.

*Violet Johnson
Ag Accountant General
Montserrat*

Government of Montserrat Annual Account for the year ended December 31, 2003

DEVELOPMENT EXPENDITURE - 2003
Annual Abstract of Receipts and Payments (Cont'd)

	ESTIMATE	TOTAL AUTHORISED	ACTUAL EXPENDITURE	EXCESS (SAVINGS)
01. COMMS & WORKS	19,576,380	19,720,380	14,201,237	5,519,143
02. COMMS & WORKS - O D'S	6,236,100	6,236,100	1,671,367	4,564,793
03. FINANCE & ECONOMICS	6,367,390	6,667,390	2,814,242	3,853,148
04. AGRI. , TRADE, LAND & HOUSING	20,684,630	20,684,630	8,106,402	12,578,228
05. HEALTH AND COMM.	5,621,780	5,699,469	1,552,061	4,147,408
06. MANPOWER & ADMINISTRATION	306,450	306,450	333,526	-27,076
07. EDUCATION	3,925,000	3,925,000	264,136	3,660,864
08. POLICE	648,280	648,280	437,759	210,521
TOTALS	<u>63,366,010</u>	<u>63,887,759</u>	<u>29,380,729</u>	<u>34,507,030</u>

Violet Johnson
Acting Accountant General
MONTSERRAT

Government of Montserrat Annual Accounts for the year ended December 31, 2003

APPENDIX 2

Overview of Government Accounting Policies

1. In keeping with *Generally Accepted Accounting Standards (GAAS)*, in particular, the *Statement of Standard Accounting Practice No. 2 (SSAP2)*, established by the *International Accounting Standards Committee* - which requires that all the accounting policies and accounting bases judged by management to be the most appropriate be disclosed - it is necessary at this juncture to give a brief synopsis of *Government's* accounting policies.

2. The financial information presented in the *Public Accounts* is largely dependent on *Government* accounting policies, as these policies determine how the various transactions are reflected in the accounts. Consequently, an appreciation of how the accounting policies determine the various transactions is necessary, if the *Public Accounts* are to be fully understood. The following are some of the significant accounting policies adopted over the years: -

➤ **Whole of Government Accounts**

3. The Public Accounts prepared by the Treasury relate to the Annual Estimates approved by the Legislative Council for central government operations. The accounts of Statutory Bodies and other *Government commercial* operations are not included. Additionally, transactions directly entered into by DFID, on behalf of the *Government of Montserrat*, are also not included in these accounts. Both set of transactions represent a significant portion of total government operations. Their exclusion from the *Public Accounts* means that the accounts do not truly reflect the whole of government operations.

➤ **Basis of Accounting**

4. The *Public Accounts* are prepared on the cash basis of accounting. Therefore, only those transactions, which involve an exchange of cash, are recognized in the accounts. Consequently, revenue is not recorded until received, and expenditure is only charged to the accounts when payment is made. The *Accounts* are thus presented on a 'receipts and payments' basis

only and provides an opportunity for the manipulation of accounting results by postponing cash payments.⁶

5. Public accountability and transparency requires that a complete picture be given of the status of the public finances. Therefore, the Financial Statements should provide information on the assets and liabilities of the State. (The Statement of Assets and Liabilities included as part of the Public Accounts refers to cash assets and liabilities only). They should also provide information on the country's future expenditure and revenue flows, and their impact on the country's ability to undertake future capital expansion.

➤ **Translation of foreign currencies**

6. The financial statements are reported in Eastern Caribbean Dollars (XCD). Revenues and expenditures transacted in foreign currencies are translated at the exchange rate in effect on the date the specific transaction occurred. Investments and Public Debt obligations are recorded at the exchange rate prevailing at the year-end date.

➤ **Classification of Financial Transactions**

7. All monies received, which are not payable by law into a specific fund, must be paid into the Consolidated Fund. These are reflected as budgetary or "above-the-line" transactions in the Annual Abstract.

8. All other transactions generally fall into the categories of borrowing, lending or investing activities, and result in financial claims on others, or in future claims payable from the Consolidated Fund. With the exception of loan proceeds, most of these transactions are recorded as "below-the-line" or non-budgetary transactions in the Annual Abstract, and are disclosed on a net basis on the Statement of Assets and Liabilities. Monies raised through loans are recorded as revenue when the related expenditure is made. The obligation for future repayment is not recognized as a liability on the Statement of Assets and Liabilities. Rather it forms part of the Statement of Public Debt.

⁶ Public Sector Accounting, 4th Edition, R. Jones & M. Pendlebury, 1996, page 156

