UK OVERSEAS TERRITORY OF MONTSERRAT

Up-dated Public Finance Management Performance Report (PEFA)

Final Report

March, 2010

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CARTAC

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CURRENCY AND EXCHANGE RATES

Currency Unit – Eastern Caribbean Dollar (EC$)

US$ 1 = EC$ 2.70

FISCAL YEAR

From April 2009: April 1 – March 31

Prior years: January 1 – December 31

ACRONYMS AND ABBREVIATIONS

AD	Audit Department
AG	Accountant General (Treasurer)
AGA	Autonomous Government Agency
ASYCUDA	Automated System for Customs Data
CARTAC	Caribbean Regional Technical Assistance Centre
CAREC	Caribbean Epidemiology Center
CARICOM	Caribbean Community
CDB	Caribbean Development Bank
CPA	Country Poverty Assessment
CTB	Central Tenders Board
DFID	UK Department for International Development
EC	European Commission
ECCB	Eastern Caribbean Central Bank
EDF	European Development Fund
FAA	Finance (Administration) Act
FCO	Foreign & Commonwealth Office
FRA	Fiduciary Risk Assessment
FY	Fiscal Year
GOM	Government of Montserrat
GFS	Government Financial Statistics
HMG	Her Majesty's Government
ISPPIA	International standards for the Professional Practice of Internal Auditors
MOF	Ministry of Finance

MONLEC	Montserrat Electricity Company
MUL	Montserrat Utilities Limited
NAO	National Audit Office
OECS	Organization of Eastern Caribbean States
PAHO	Pan American Health Organization
PE	Public Enterprises
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PS	Permanent Secretary
PSIP	Public Sector Investment Program
SDP	Sustainable Development Plan
TA	Technical Assistance
TOR	Terms of Reference
UNICEF	United Nations Children's Fund
UK	United Kingdom

SUMMARY ASSESSMENT

i. Integrated Assessment of PFM Performance

The PFM system in Montserrat is assessed in summary form below using the six critical dimensions of performance of an open and effective PFM system, in addition recognizing the support of donors for PFM improvement:

- **Credibility of the budget**: GOM generally scores well on this dimension since total spending and the composition of spending are close to the approved budget, supported by the financial discipline asserted by MOF and a good revenue performance. The stock of arrears is presently insignificant, but, if cash constraints on departments increase, the practice of ministries and departments issuing purchase orders to suppliers without first entering these into the Smartstream software system may increase. It is understood that in the new accounting manual the Finance Department has taken steps to resolve this issue. At the same time, as an additional control, it would be prudent to use Smartstream's Accounts Payable module on a more regular basis.
- **Comprehensiveness and transparency in the budget could be considerably improved**. The classification of the budget is reasonably robust, but the comprehensiveness of the information included in the budget documents is minimal. Budget estimates are purely numerical, based on inputs, but what these inputs are supposed to achieve is not made explicit. A simple budget programme structure could resolve this drawback, and should not be too difficult to introduce once the departmental business plans are refined. There is also minimal information on the underlying macro framework or fiscal risks. The extent of unreported government operations should also be reduced, by more comprehensive and timely reporting on the operations of the statutory bodies and greater transparency regarding government investments and guarantees. Generally, the MOF's oversight of aggregate fiscal risk posed by other public entities seems weak, although steps have been taken in this regard in the context of implementing the new 2009 Public Finance Act that extends the powers of the Audit Office. Public access to key fiscal information could be improved through more frequent provision of in-year budget execution reports, year-end timely financial statements, and publication of contract awards.
- **Policy-based budgeting** is assisted by a satisfactory degree of orderliness and participation in the annual budget process. Improvements could be made by an improved budget calendar, and by involving the Executive Council much earlier in the budget preparation cycle in the discussion and approval of new budget initiatives and the subsequent setting of overall allocations. Approval of the budget before the end of the fiscal year would allow execution of approved budget initiatives to start right at the beginning of the new fiscal year, with attendant benefits to public service delivery. However, perhaps the major deficiency in this area that should be addressed is the

lack of a formal multi-year fiscal framework for planning expenditure policy to complement the Social Development Plan.

- **Predictability and control in budget execution is generally good overall** but there are some weaknesses. While the degree of transparency in taxpayer obligations, and effectiveness of taxpayer registration and tax assessment is good, it is recognized that these procedures could be improved by strengthened IT systems. The Inland Revenue Department's collection of arrears has improved, but tax arrears remain a problem and the exact amount of debt recovery is not easily ascertained because of non-computerization. Predictability in the availability of funds for commitment of expenditure is good, aided by dependence on external budget support that has been timely disbursed. Recording and management of cash balances, debt and guarantees is fairly good. This is helped by a small debt stock and minimal number of bank accounts held for government. However, the recent move to quarterly releases has revealed problems in assuming a straight line cash demand by departments, suggesting the need to develop a cash flow management framework as soon as possible. Payroll controls are effective, but procurement procedures need to be improved. The Procurement and Stores Regulations do not provide transparent criteria for use of direct purchase methods in place of competitive tendering mechanisms and do not provide for formal appeals mechanisms or adequate reporting. New regulations intended to address these issues are being drafted. Internal controls are generally effective, but have some weaknesses, and the central Internal Audit Unit, viewed as an important measure to generally strengthen this area, is still not operational due to staff shortages.
- **Accounting, recording and reporting is only adequate**. A major deficiency in this area is the long-standing problem of producing timely annual financial statements of auditable quality. While the government has made great efforts to clear up the backlog, bank reconciliation methodology is flawed, and further compromised by failure in the reconciliation and clearance of deposit and advance accounts, with balances outstanding for many years. On the positive side, ministries possess information on resources received by service delivery units, particularly primary schools and health care units. Additionally, the Finance Department provides comprehensive budget performance reports on the basis of information provided online through Smartstream. This information is comprehensive on expenditures, covering commitments as well as payment stages, and is supplemented by data from Accountant General's Department, as well as from the revenue agencies on details of tax revenues.
- **External scrutiny and audit functions are only partially in effect** due to the delays in presentation of annual financial statements to the Auditor General. Insufficient capacity in the Office of the Auditor General to conduct regular and timely compliance and performance audits of departments means that audits are a few years behind schedule, limiting their usefulness. Partly due to the lack of timely audit reports to review, there is insufficient involvement of the Public Accounts Committee in fulfilling its oversight of departments and other public entities. The new Public

Finance Act should strengthen the PAC and allow it to better direct the work of External Audit. While the Legislative Council appears to take seriously its role of scrutinizing the Budget Statement and the detailed budget estimates tabled before it, it could be argued that it takes too narrow a view of this role.

- **Donor performance in support of the PFM system is generally very good** for the two major donors (providing the bulk of aid) regarding the provision of financial information for budgeting and reporting purposes, and in terms of the use of national procedures. However, in the recent past there have been significant problems of delay in disbursement of EC funds.

ii. Implications for Budgetary Outcomes

Recognizing that the PFM system is a means to attaining certain broad budgetary objectives, it is possible to assess the Montserrat PFM system from this perspective:

- **Aggregate fiscal discipline** is supported by good aggregate revenue and expenditure out-turns compared to the originally approved budget, and the very low level of expenditure arrears. Aggregate fiscal discipline is also reinforced by good quality debt data, and by the fairly good quality and timeliness of budget reports. It is only partially supported by the systems for contracting loans and guarantees, that have displayed some recent weaknesses, and by overly high levels of extra-budgetary expenditures. Aggregate fiscal discipline is considerably weakened by the absence of a macroeconomic and fiscal medium-term framework and the separation of the recurrent and investment expenditure budget processes.
- **Strategic allocation of resources** is enhanced by comprehensive and timely income/expenditure data on donor funded projects, provided by the donors and included in fiscal reports. The existence of a multi-year strategic plan, that is regularly up-dated and forms the basis of ministry business plans, is a strong contributor to the process of strategically allocating resources. This is reinforced by a fairly robust budget classification and fairly comprehensive information included in budget documentation, including aggregate forward estimates. However, the attainment of this outcome is weakened by the absence of a standard functional and programme classifications in the budget. The overall process of allocating resources strategically is further weakened by the significant variance in the composition of expenditure outturn compared to the originally approved budget and by the imperfect linkage between investment budgets and forward recurrent expenditure estimates.
- **Efficient and effective service delivery** is facilitated by the availability of information on resources received by service units, by the considerable proportion of aid managed by use of national procedures, by effective payroll controls, and by fairly good procurement procedures. However, service delivery is undermined by weak internal controls for non-salary expenditure and internal audit systems, made worse by delays in external audit that has excluded legislative scrutiny of audit reports.

Efficiency in service delivery has most likely been weakened by the absence of a cash flow forecasting system and the lack of timeliness and regularity in accounts reconciliation and delays in finalising annual financial statements.

iii. Prospect for Reforms

To summarize, while the current PFM system works reasonably well in terms of budgeting practices and control systems, there are a number of major weaknesses that have been identified in this evaluation of the PFM system. It is to the credit of Montserrat that top policy makers are aware of most of these deficiencies, and are in no way complacent but are deeply committed to further improvement. The Financial Secretary has stressed the goal of strengthening public financial management and bringing it into line with international good practice. This is being reinforced by a major reform programme in the public service, guided by the island's strategic plan, and specific initiatives to improve various PFM functions. The latter has resulted in a new Public Finance Act in 2009 which when implemented will address many of the issues identified in this report.

While it is possible to recognize the political will for reform and to identify progress being made on a number of fronts, there are obvious obstacles still to be overcome. Given the small scale of Montserrat, human resource capacity inevitably limits the speed of change. With such constraints there is always the danger that by attempting reforms on a wide front, and unduly forcing the pace of change, that achievement in any one area will be delayed, that disruptions will be created, and reform fatigue may set in. Ultimately, the reform process will only be judged successful if care is taken to avoid these problems. One safeguard would be to develop a PFM reform action plan with clearly delineated priorities within a realistic time frame.

iv. Summary Assessment of Individual Performance Indicators

PFM Performance Indicator		Scoring Method	Dimension Ratings i.	ii.	iii.	iv.	Overall Rating
A. PFM-OUT-TURNS: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A				**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	B				**B**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A				**A**
PI-4	Stock and monitoring of expenditure payment arrears	M1	A	B			**B+**
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	C				**C**
PI-6	Comprehensiveness of information included in budget documentation	M1	B				**B**
PI-7	Extent of unreported government operations	M1	D	A			**D+**
PI-8	Transparency of inter-governmental fiscal relations	M2	-	-	-		**N/A**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	D	N/A	N/A		**D**
PI-10	Public access to key fiscal information	M1	C				**C**
C. BUDGET CYCLE							
C(i) Policy-Based Budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	D	D		**D+**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	N/A	C	C	**C**
C(ii) Predictability and Control in Budget Execution							
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	B	B		**B**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	D	C	D		**D+**
PI-15	Effectiveness in collection of tax payments	M1	D	A	A		**D+**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	D	A	C		**D+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	B	C	C		**C+**
PI-18	Effectiveness of payroll controls	M1	A	A	A	C	**C+**
PI-19	Competition, value for money and controls in procurement	M2	A	C	D		**C+**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	B	C	B		**C+**
PI-21	Effectiveness of internal audit	M1	D	D	D		**D**
C(iii) Accounting, Recording and Reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	D	D			**D**
PI-23	Availability of information on resources received by service delivery units	M1	A				**A**
PI-24	Quality and timeliness of in-year budget reports	M1	A	B	C		**C+**
PI-25	Quality and timeliness of annual financial statements	M1	D	D	C		**D+**
C(iv) External Scrutiny and Audit							
PI-26	Scope, nature and follow-up of external audit	M1	B	D	B		**D+**
PI-27	Legislative scrutiny of the annual budget law	M1	D	D	B	B	**D+**
PI-28	Legislative scrutiny of external audit reports	M1	D	D	C		**D+**

D. DONOR PRACTICES							
D-1	Predictability of Direct Budget Support	M1	C	B			**C+**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	A	A			**A**
D-3	Proportion of aid that is managed by use of national procedures	M1	A				**A**

1. INTRODUCTION

1.1 Objectives

This report is the result of a joint mission funded by DFID Overseas Territories Department and the Caribbean Regional Technical Assistance Center (CARTAC), which visited Montserrat between September 21, and October 2, 2009. The mission's objective was to deliver an updated Public Expenditure and Financial Accountability (PEFA) and Fiduciary Risk Assessment (FRA) for Montserrat. The FRA is designed to assist DFID, the Government of Montserrat (GOM), and partners, to understand the fiduciary risk environment in Montserrat, ideally based on a robust PEFA Assessment, where one exists[1]. In 2008, as part of the EDF 10 preparation, the EC conducted a PEFA for Montserrat.[2] This exercise is now a little dated, and was largely based on DFID's own 2006 FRA and FRA ASPs. As the PEFA was not submitted to the PEFA Secretariat for review, DFID is unable to use this PEFA as a basis for its FRA. In collaboration with CARTAC, it was agreed that the PEFA should be updated as part of this FRA consultancy. The mission team consisted of two consultants, one contracted by DFID, Mr. John Spurr, and the other by CARTAC, Mr. Jack Diamond. Mr. Kojo Oduro, Crown Agents, UK. Ltd., subsequently visited Montserrat to complete the FRA.

1.2 Process of preparing the report

The Performance Measurement Framework (PMF) finalised by the Public Expenditure and Financial Accountability (PEFA) Secretariat in June, 2005, was used as the assessment framework. The Finance Department in Brades provided strong back-up support, including the provision of office space and the arrangement of meetings. The Ministries of Finance and Economic Development, (through all their departments) significantly assisted and cooperated in the provision of inputs to the report, as did the Director of Audit, the Ministries of Education, and Communication and Works. The mission also met with the Chairman of Cable and Wireless Corporation, Chairman of the Chamber of Commerce, Chairman of the Water Board, and staff in the Public Sector Reform Unit of the Office of the Chief Establishment Officer. A list of people met is provided in Annex III.

The draft report was prepared on the basis of several meetings with officials in the above-named agencies and the documents obtained from those meetings, through the Internet and from GOM publications. Mr. Stephen Turnbull, DFID Audit Advisor, provided useful inputs to this report, and special thanks are due to Mr. Alfred Ryan, Finance Department for his able assistance. The mission presented an interim report to the Secretary of Finance, Mr. John Skerritt, at a meeting in his office on September 29, 2009. It was agreed that before preparing

[1] For financial aid in the form of Poverty Reduction Budget Support (PRBS), it is mandatory to undertake a Fiduciary Risk Assessment (FRA) as part of DFID's PRBS appraisal, and also that DFID put in place reasonable arrangements to monitor the partner Government's financial management.

[2] Preliminary Assessment of PFM and Procurement Procedures and Assessment of the Economic Situation under the 10th EDF, September 29, 2008, author Giovanni Caprio. It should be acknowledged that this up-date incorporates the work and much of the narrative of the 2008 report.

the Executive Summary to this report the authorities should have a chance to make comments. When these are received, a final report will be prepared for CARTAC to forward to the PEFA Secretariat for their review.

1.3 Scope of the Assessment

This report attempts to cover all public expenditures of the general government. The latter spans 21central government units, including ministries and their departments, and specialized functional offices, as well as the operations of the statutory boards, i.e. autonomous agencies of government, among which is the Social Security Fund.

1.4 The Structure of the Report

The report is set out as follows. Section Two provides a brief overview of the economic situation, recent fiscal performance and the legislative and institutional framework for PFM in Montserrat. Section 3 sets out the status of PFM performance against the six core dimensions described in the PMF and summarised in the Summary Assessment. For each indicator, the actual situation and ongoing and planned activities are described. The source of information and the justification for the rating are provided under each indicator matrix in Annex I. The fiscal data sources for some of the calculated indicators are contained in the spreadsheets in Annex II. Annex III lists the people met.

2. Country background information

2.1 Description of country economic situation

Montserrat GDP and GDP per capita are US$ 43.4 million and US$ 9000 respectively (2008). GDP in current prices has gradually increased since 2003, while GDP per capita in constant prices has decreased in real terms. The government services sector continues to be the largest contributing sector to the overall economy. It is also the single largest employer on the island. The construction sector, after the airport project declined in importance with the Little Bay project and private construction activities, continues to remain buoyant, contributing around 9% of GDP in 2008. The other important contributing sectors to the economy (2008) are real estate and housing, bank and insurance, and electricity and water (13%, 11%, and 7% of GDP respectively). The hotel and restaurants sector contributed poorly to the economy (tourism in Montserrat has been adversely impacted by volcanic activity and the number of visitors to the country has been relatively very low, showing few signs of recovery). The agricultural sector (crops and livestock) is practically non-existent.

Table 1. Montserrat: Percentage Contribution of GDP by Economic Activity (in Current Prices)

MAIN SECTORS (MINISTRIES)	2006	2007	2008
Agriculture	1.16%	1.08%	1.36%
Construction	8.77%	8.51%	8.89%
Transport	8.43%	8.16%	7.92%
Banks & Insurance	10.18%	11.85%	11.9%
Real Estate and Housing	13.8%	13.63%	13.52%
Government Services	41.71%	41.61%	41.05%

Source: from data provided by Statistics Division, Development Dept

Montserrat imports mineral fuel, electrical machinery and appliances, and food products and the total value of imports represented approximately 80% of GDP with exports representing less than 5% of GDP in 2008. Overall, the trade balance and the current account are structurally negative and have been negative over the last few years. The capital account and the overall balance of payments were positive in 2008 due to the significant level of capital grants. There have been practically no foreign direct investments in recent years.

2.2 Description of fiscal developments

Since 1995, Montserrat fiscal performance has been characterized by fiscal deficits. This was mainly due to a decline in recurrent revenue triggered by a declining tax base and a reduction in exports, while recurrent expenditure increased dramatically in real terms during this period. An increase in emergency-related expenditure, such as social welfare schemes and emergency shelter management costs, have accounted for this increase in recurrent expenditure. In the last three-year period, 2006–2008, for which actual data are available, (see Annex II Table 1) the aggregate deficit (total expenditures minus own revenue) represented a significant 49%–56% of GDP; an indication of the high dependency on foreign financing (exclusively grants).

Table 2. Montserrat: Central Government Budget (2006–2008)

(in Percent of GDP)

	2006	2007	2008 (Prelim.)
TOTAL REVENUE & GRANTS	**102.46**	**111.5**	**96.91**
- *Own Revenue*	*33.55*	*33.40*	*34.24*
- *Grants*	*68.91*	*78.10*	*62.67*
TOTAL EXPENDITURE	**80.22**	**85.01**	**82.27**
- *Non-interest expenditure*	*80.11*	*84.77*	*82.13*
- *Interest expenditure*	*0.11*	*0.25*	*0.14*
AGGREGATE DEFICIT/SURPLUS (Including grants)	**22.24**	**26.48**	**14.64**
PRIMARY DEFICIT (excluding grants)	**-46.56**	**-51.37**	**-4789**

Source: Own calculations from data provided by Budget Division of the MOF

Of major concern is the Government's inability to generate sufficient revenue to finance its recurrent operations or contribute to its capital program. In the three-year period 2006–2008 government own revenue represented an extremely low percentage of recurrent expenditures and was only enough to cover wages and salaries. Fundamentally, foreign grants (mainly DFID and EC) financed more than 50%–60% of the recurrent expenditures and almost the totality of the capital expenditures (refer to Table 8 Annex II for more details).

The composition of total expenditures in Montserrat reflects the importance of the government sector as the main employer of the island (about 600 jobs). Expenditures on wages and salary are relatively the most important items of recurrent expenditures and of total expenditures. They are of a similar magnitude to capital expenditures for the period 2006–2008. Debt service payments are insignificant, since debt is no more than 8% of GDP as of end-2008.

The major part of recurrent expenditure is spent on social services, of which health and education are the most significant. The total actual cost of the health care budget has risen rapidly from 11% of total expenditure in 2004 to 15% in 2008. Total actual health cost increased yearly between 2004 and 2008, whereas the population was more or less stable during this period[3]. Cost increases in the health sector are linked to the increase of personnel

[3] The population of Montserrat was 4681 inhabitants in 2004, 4785 in 2005 and 4655 in 2006, and estimated at 4,850 mid-2008 (Source: Statistics, Economic Development)

costs and to an ageing of the population[4]. The increase in actual costs of education has also been significant, rising to 8% of total spending in 2008. The Government continues to implement the Montserrat 5-year Education Development Plan. The plan has focused on the improvement of quality in teaching, learning, and special needs, at the primary level and information technology at the secondary level[5]. As a share of total spending, development spending increased from 18 to 27% of total spending in the 2006–8 period. This reflects significant accomplishments in infrastructure including the Airport Development Project (EC$ 4.2 million), the Water Development, Phase III (EC$ 1.3 million) and the Hill View Home Renovation project (EC$ 1.0 million), and the Little Bay project (EC$ 2.4 million 2007, EC$ 7.8 million 2008)[6].

Table 3. Montserrat: Actual Budgetary Allocations by Main Sectors (2006–2008)
(in Percent)

MAIN SECTORS (MINISTRIES)	2006	2007	2008
Education	7.9%	8.5%	8.4%
Health	16.2%	16.8%	16.1%
Communications & Works	11.5%	13.4%	12.7%
Agriculture, Forestry & Fisheries	5.9%	6.2%	6.7%
Emergency Department	8.3%	7.4%	7.2%
TOTAL	49.8%	52.3%	51.1%

Source: Own calculations from data provided by MOF

2.3 Description of the legal and institutional framework for PFM

The 1989 Constitution (amended in 1990 and in the process of being redrafted) provides for a Governor appointed by HM The Queen, an Executive Council and a Legislative Council. H.E. the Governor retains responsibility for internal security (including police), external affairs, defense, the public service and offshore finance. The Executive Council comprises a Chief Minister, three other Ministers and two *ex officio* members, namely the Attorney General and the Hon. Financial Secretary of Montserrat. The Legislative Council consists of nine elected members and two ex officio members, namely the Attorney General and the Hon. Financial Secretary. Elections are held every five years on the basis of universal adult suffrage. The last general election took place on September 8, 2009, two years before

[4] Data are only available until 2004 (but the trend has continued beyond this) and show that between 2001 and 2004, the population over 50 increased from 31% of the total population to 35%. The population over 60% grew from 20% to 23% during the same period. (Source: Statistics, Economic Development, MOF)
[5] *Idem*
[6] Budgeted amounts are EC$ 4.5 million 2009, and EC$ 3.5 million 2010.

schedule, which saw a change in government with the Movement for Change and Prosperity Party winning 6 of the 9 seats in the legislative council.

The Foreign and Commonwealth Office (FCO) is the lead Department for coordinating UK Government policy for Montserrat (and the other Overseas Territories), although other UK departments also play minor roles in discharging the UK's responsibilities. The FCO aims to improve the governance, environment and security of Montserrat (and of the Overseas Territories); to encourage more diverse and sustainable economic development; to enable the Territory to better deal with international crime and natural disasters; and to manage the impact of international obligations. DFID, which has a resident representative in Montserrat as well as an office, monitors public finances and the economic situation. In addition, the territory is normally subject to annual visits by DFID specialized consultants. Detailed annual reports are drafted by DFID and shared with the government.

Montserrat is a full member of the Caribbean Community (CARICOM). It is also a member of the Organization of Eastern Caribbean States (OECS)[7], sharing a single Central Bank, the ECCB, and a common currency, the Eastern Caribbean Dollar (XCD). The ECCB and the Ministries of Finance of Member States determine and monitor monetary policy for the Eastern Caribbean dollar. Montserrat requires prior UK Government approval, in the form of an Entrustment, before undertaking international commitments.

The legal and regulatory framework for PFM in Montserrat is in the process of being revised in order to meet international standards. On the revenue side, the legislative framework for Inland Revenue and Customs is comprehensive. On the expenditure side, a major step forward towards international standards has taken place with the 2009 enactment of the Public Finance (Management and Accountability) Act. It provides for the development of an economic and fiscal policy framework for Montserrat and for more transparent and efficient management of its finances. In addition, the new Act will also provide for the increased control of finances of statutory bodies and other authorities, and for improved internal controls in government departments. However, other aspects of PFM, such as procurement and external audit activities are considered inadequate by international standards and the related legislation is being revised. A new revised Constitution will also emphasize these elements, and accommodate some changes introduced to PFM by the new Public Finance Act, as well as strengthen the office of the Auditor General.

[7] The OECS is a nine-member grouping comprising Montserrat, Antigua and Barbuda, Commonwealth of Dominica, Grenada, St Kitts and Nevis, St Lucia, and St Vincent and the Grenadines. The OECS is a regional institution which contributes to the sustainable development of its Member States by assisting them to maximize the benefits from their collective space by facilitating their intelligent integration with the global economy; by contributing to policy and program formulation and execution in respect of regional and international issues, and by facilitation of bilateral and multilateral co-operation.

Main Laws, Proclamations and Regulations for PFM are presented in Box 1 below:

Box 1: Main Laws & Regulations for Public Financial Management

Existing

- Constitution of Montserrat and related legislation (1990)
- Public Finance (Management and Accountability) Act (2009)
- Public Finance Regulations 2009
- Audit Act (the law as at 1 January 2002)
- Property Tax Act (2007)
- Income and Corporation Tax Act of January 1968 (showing the law as at 2 April 2008)
- Customs Control and Management Act 1994
- Procurement and Stores Regulations (2002)

In preparation

- Revised Constitution (scheduled to be adopted)
- New Audit Act
- Procurement regulations

Further reforms are contemplated. As indicated, a new Constitution with a section on PFM is currently being elaborated to match the requirements of the new Public Finance Act. The ability to have select committees will also be emphasized in the new Constitution. The Audit Act (2002) is currently the legal basis relating to the Office of the Auditor General, the audit of public accounts and related matters. This text is considered not to meet international standards, which call for more independence for the Auditor's Office and for the Auditor General. The Audit Office is expected to become a statutory corporation and the new Auditor General will be expected to report to Parliament. The new act calls also for the Auditor General to be appointed by H.E. the Governor with the Public Accounts Committee. The Procurement and Stores Regulations (2002) are the only formal and specific rules governing procurement in Montserrat (in addition to the already mentioned more general Public Finance Act of 2009 and the associated Finance Regulations). This principal document includes 117 clauses of which the majority deals with stores management and control and about 20 specifically with procurement.

The core public service in Montserrat consists of the 22 main budget entities with budget heads (entities such as the Governor's Office, ministries, agencies and units). They are presented in Box 2 below:

Box 2 : Budgetary Heads and Description

02. Governor's Office
03. Administration (*)
04. Office of the Chief Establishment Officer
05. Police
06. Disaster Management Coordination Agency
07. Legal Department
08. Magistrate's Court
09. Supreme Court
10. Legislature
11. Audit Department
15. Chief Minister's Office
20. Ministry of Finance
21.Ministry of Development, Statistics and Trade(*)
22. Treasury
23. Customs and Excise
24. Inland Revenue
25. General Post Office
30. Ministry of Agriculture, Lands, Housing and the Environment (*)
35. Ministry of Communication and Work (*)
40. Ministry of Education and Labour (*)
45. Ministry of Health and Community Services (*)

(*) *These heads are heads of the Development Fund expenditures*

The Ministry of Finance (MOF) through Treasury, Development, Customs, and Inland Revenue plays the major role in the budget process (preparation, execution, accounting, controls) and in PFM throughout the public service. Within the MOF, the entity "Finance" under the Hon. Financial Secretary is in charge of the recurrent budget, while the entity "Development", under the Permanent Secretary of Development, is responsible for the development budget. The main revenue agencies (Inland Revenue and Customs and Excise) operate as entities under the MOF.

The Governor's Office (H.E. the Governor and H.E. the Deputy Governor) and the Executive Council intervene at the end of the preparation (and approval) process. The line ministries participate in the overall process at the preparatory and execution phase, while the Audit Office is responsible for auditing the yearly financial statements of the Government as well as those of a few statutory bodies. The Legislative Council is legally in charge of approving and adopting the draft Appropriation Bill and of the parliamentary control of the executed budget.

As regards the latter function, the Public Accounts Committee is deemed to play a critical role but has not functioned well in the recent past.

3. Assessment of the PFM Systems, Processes and Institutions

3.1 Introduction

The following paragraphs provide the assessment of the PFM indicators contained in the PEFA PMF. The summary of detailed scores and their justification is attached as Annex I. The scoring methodology does not recognize ongoing reforms or planned activities but these are summarised at the end of the discussion on each section.

Each indicator contains one or more dimensions in order to assess the key elements of the PFM process. Two methods of scoring are used. Method 1 (M1) is used for all single dimensional indicators and for multi-dimensional indicators where poor performance on one dimension of the indicator is likely to undermine the impact of good performance on other dimensions of the same indicator (in other words, by the weakest link in the connected dimensions of the indicator). A plus sign is given where any of the other dimensions are scoring higher.

Method 2 (M2) is based on averaging the scores of individual dimensions of an indicator. It is prescribed for multi-dimensional indicators, where a low score on one dimension of the indicator does not necessarily undermine the impact of a high score on another dimension of the same indicator. A conversion table (Annex to PEFA 2005 Manual) for 2, 3 and 4 dimensional indicators is used to calculate the overall score. In both scoring methodologies, the 'D' score is the residual score if the requirements for any higher score are not met.

3.2 Budget Credibility

Good practice in public financial management emphasises the importance of the budget being credible so that planned government policies can be achieved. Budget credibility requires actual budgetary releases to be similar to voted budgets and for appropriate fiscal discipline to be in place. The indicators in this group assess the extent to which the budget is realistic and implemented as intended, particularly by comparing actual revenues and expenditures with original approved ones, and analyzing the composition of expenditure outturn. The table below summarises the assessment of indicators relating to budget credibility.

No.	Credibility of Budget	Score	Dimensions	Scoring Methodology
PI-1	Aggregate expenditure outturn compared to original approved budget	A	(i) A	M1
PI-2	Composition of expenditure outturn compared to original approved budget	B	(i) B	M1
PI-3	Aggregate revenue out-turn compared to original approved budget	A	(i) A	M1
PI-4	Stock and monitoring of expenditure payment arrears	B+	(i)A (ii)B	M1

During the last two years, 2007, 2008, the deviation for aggregate central government primary expenditure has been below 5 percent, but in 2006 was 6.6%. For the same period, aggregate expenditure was about the same as the approved budget for ministries and agencies, with a deviation of between 1–7% (Table 6 Annex II). As indicated in PI-1, the Government has clearly been successful in controlling aggregate expenditure in line with the amount approved by Parliament.

Where the composition of expenditure varies considerably from the original approved budget, the budget is not a useful statement of policy intent and budget agencies cannot plan for service delivery with confidence that they will receive the resources budgeted for – predictability of the budget is undermined. In this regard, the PI-2 indicator measures the extent to which expenditure composition at sub-aggregate levels deviates from the approved budget. The first step is to calculate the average of deviations between actual and budgeted spending at ministry/department level as a percentage of total budgeted expenditure. The second step is to subtract from this the aggregate deviation, as measured in PI-1. The composition of budgeted and reported expenditure by administrative agency is shown in detail in Table 6, Annex II for 2006–2008, and summarized in the table below. Positive deviations in some ministries and agencies tended to be offset by negative deviations in other ministries and agencies, while composition variances (based on absolute deviations) did not differ from the aggregate figure by more than 6 percent in the last three years, indicating the budget is reasonably predictable and a useful indicator of policy intent.

Table 4. Expenditure out-turns against budget

Year	**PI-1**		**PI-2**
	Total exp. Deviation	total exp. variance	**Variance in excess of total deviation**
2006	**6.6%**	7.1%	**0.5%**
2007	**1.2%**	7.2%	**6.0%**
2008	**2.9%**	5.3%	**2.4%**

PI-3 assesses the quality of revenue forecasting by comparing actual domestic revenue collection with the estimates in the original approved budget. The Finance Department is responsible for revenue forecasting, with inputs from revenue collecting agencies – Inland Revenue Department and Customs and Excise Department, both integral parts of MOF – and the Statistics Office, in the Development Department. The Statistics Office has good statistical coverage of most sectors of the economy on a production basis (both quantities and prices) and of the external sector. Revenue forecasting thus has a reasonably well-developed statistical base. Tax revenue comprises about 90 percent of total domestic recurrent revenue.

For the three-year period 2006–8 actual domestic revenue collections (including non-tax revenues) was above budgeted domestic revenue estimates for 2 years, 2006 and 2007, but in 2008 was 96.65% of budget estimates. (see Table 4, Annex II).

Indicator PI-4 considers to what extent the stock of arrears is a concern as well as to what extent it is addressed and consequently controlled. The Smartstream system can generate age profiles of unpaid invoices on any day of the year for each government entity. The length of the Accounts Payable is based on the date shown on the original supplier's invoice. Unfortunately, this module is not used on a regular basis, except at year-end. Of course, this recorded stock of arrears would be underestimated to the extent that the age profile of Accounts Payables omits invoices that ministries/agencies have yet to input into Smartstream. It is admitted that the latter does occur, but the recorded totals of Accounts Payables at the end of the last three fiscal years were extremely small at around 0.1% of total spending. It is generally agreed that arrears are not a problem in Montserrat, which is not surprising given the heavy involvement of DFID and the EC in funding almost 100% of capital spending, together with the large component of recurrent spending that represents the payroll.

Ongoing and Planned Activities
The MOF has on-going technical assistance from CARTAC on revenue forecasting as an input to improving revenue forecasting for the budget estimates. A new accounting manual presently being finalized will, among other recommendations, specify control procedures to ensure all commitments made are promptly entered into the Smartstream system.

3.3 Comprehensiveness and Transparency

The indicators in the Comprehensiveness and Transparency dimension of PFM assess to what extent the budget and fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The table below summarises the assessment of indicators under this dimension.

No.	B: Cross-cutting issues: Comprehensiveness and Transparency	Score	Dimensions	Scoring Methodology
PI-5	Classification of the budget	C	(i) C	M1
PI-6	Comprehensiveness of information included in budget Documentation	B	(i) B	M1
PI-7	Extent of un-reported government operations	D+	(i) D (ii) A	M1
PI-8	Transparency of inter-governmental fiscal relations	NA	(i) Unscored	
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D	(i) D (ii) N/A	M1
PI-10	Public access to key fiscal information	C	(i) C	M1

PI-5 focuses on the comprehensiveness of information to be derived from budget classifications. Budget formulation and execution is classified on an administrative (ministry and department) and economic basis for the recurrent budget. The costs of each department are broken down first by broad economic classification in terms of Standard Object Codes (SOC). These do not quite match GFS economic classification codes but aggregation can provide the cash basis GFS (1986) broad economic classification (i.e. personnel emoluments, purchases of goods and services, and subsidies and transfers). The SOC are further disaggregated into detailed object codes. COFOG coding is not used, but COFOG functions and sub-functions could probably be derived from the structure used in the department business plans that are defined in terms of broad strategic objectives of the SDP (Strategic Development Plan). Development expenditure is a separate part of the budget estimates and is prepared separately from the recurrent budget on the basis of the three-year SDP. It is classified according to ministry and department, sector, source of funds, and project. Revenue codes are broadly consistent with GFS. Although business plans are becoming increasingly refined, they tend to link activities to SDP strategic objectives rather than to policy programmes and sub-programmes. The lack of a programme and COFOG structure results in a rating lower than B.

Budget documentation currently consists of the Budget Address of the MOF and the Consolidated Fund and Development Fund Estimates. The Budget Statement sets the stage for the Budget Estimates, which consist entirely of tables, covering revenues, recurrent expenditure, capital projects per ministry/department, and classification of posts. The Statement contains little in terms of the macro-fiscal framework and fiscal risks, but focuses mainly on expenditure and tax measures. Forward estimates for two years are presented alongside the budget estimates, although these are not regarded as of high quality. No details are provided of the debt stock (although this is of a low order of magnitude, 8% of GDP), nor of financial assets. As a result PI-6 scores at a B level.

Table 5. Available information from Budget Documentation

Elements of Budget documentation	Availability	Notes
Macroeconomic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate.	Partial	Budget Address mentions real GDP growth projections, and inflation in summary form. The EC$ is pegged to the US$.
Fiscal deficit, defined according to GFS or other internationally defined standard.	Partial	Explicitly mentioned in Budget Address, though not in terms of GDP. In summary table of budget documents but not defined according to GFS.
Deficit financing, describing anticipated composition.	Yes	In both Budget Address and Estimates
Debt stock, incl. details at least for the beginning of the current year.	No	Budget Address details aggregate debt stock of Dec. 31.
Financial Assets, incl. details at least for the beginning of the current financial year.	No	No information is included in the budget documents. For example, substantial investments in local insurance companies and a local bank were not reported.
Prior year's budget out-turns, presented in the same format as the budget proposal.	Yes	Along with two forward years.
Current year's budget (revised or estimated outturn), presented in the same format as the	Yes	

budget proposal		
Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year.	Yes	
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes, and/or major changes to expenditure programs.	Yes	Budget Address mentions cost of new initiatives, though linkage to formal policies/strategies could be made clearer.

One element of government operations affecting the efficient allocation of resources is reflected in unreported government operations. In PI-7 the extent of un-reported government operations is assessed against two dimensions: (i) unreported extra-budgetary expenditure,[8] and (ii) income/expenditure information on donor-funded projects, which is included in fiscal reports. In respect of the first dimension, there are two major problems: the first is the fact that Statutory Bodies are not included in government consolidated reports, representing around 10% of total spending; and the second is the failure to report on significant investments in two local insurance companies and a bank.

(i) There are several statutory bodies that are basically autonomous agencies. They execute their budget outside the treasury system of the central government. Following the passing of the Public Finance Act these entities are to be included in the government accounts and their accounts are to be subject to audit by the Auditor General. Expenditure data for some of the statutory bodies are available for 2007 and 2008 (following table). Although expenditure for some statutory bodies are not currently available, the available (partial) data show that expenditure of a few statutory bodies already represent over 10% of total expenditures in 2005 and 2006 respectively;

There are large investments (approximately 16 million USD in total) in both insurance companies and a local bank[9] which are unreported and these investments will represent losses to the government.

Table 6. Extra-Budgetary Expenditures and Yearly Expenditure

(in EC$)

[8] Extrabudgetary activity in Montserrat covers all statutory bodies. Some of these entities function as public corporations, collecting fees and charges related to their services. Strictly, by GFS standards, they would be outside general government but in the greater public sector. This implies their expenditures would be offset by revenues.

[9] Based on a telephone interview with a DFID official. Investments have been made from three government sources: General Budget; Government Savings Bank and the Social Security Fund. Investments were made in the BICO and CLICO Insurance companies and the St Patrick's Credit Union.

STATUTORY BODIES	2005	2006	2007
Community College	N.A.	N.A.	N.A.
Financial Services Commission	481,096	549,868	551,061.
Land Development Authority (LDA)	1,945,413	817,029	2,055,811
Montserrat Port Authority (MPA)	3,176,750	2,216,255.	2,961,262
Montserrat Tourist Board (MTB)	1,305,131	N.A.	N.A.
Montserrat Volcano Observatory (MVO)	N.A.	N.A.	N.A.
Philatelic Bureau	N.A.	N.A.	N.A.
Social Security	3,513,178	6,966,954	5,619,863
Water Corporation (*)	N.A.	3,039,244	3,427,531
Electricity Corporation (*)			
I. TOTAL EXPENDITURE OF STATUTORY BODIES (**)	10,421,568	13,589,168	14,615,528
II. TOTAL GOVERNMENT EXPENDITURE	101,940,681	103,662,000	121,160,000
III. EXPENDITURE OF STATUTORY BODIES AS A % OF TOTAL EXPENDITURE (=I/II)	**10.22%**	**13.11%**	**12.06%**
IV. EXPENDITURE OF STATUTORY BODIES EXCL. WATER & ELECTRICITY CORPS., AS % OF TOTAL EXPENDITURE	**10.22%**	**10.17%**	**9.23%**

(*) Since July 1, 2008, the Water Corporation and MONLEC joined to form a company (Based on a Company Act 100% Government of Montserrat owned)

(**) This is the total expenditures of statutory bodies for which (expenditure) data are available and Indicated in the above table

Source: Own Calculations from data provided by the Internal Audit Unit of MOFDT and from budget estimates of revenues and expenditures (2005, 2006, 2007 & 2008).

(ii) Since 2005 DFID is basically the only donor that funds projects (the EC is now involved in budget support). The complete development budget is also maintained at a single central unit. Therefore, it is very easy to track income/expenditure of these projects and the related information is very well known and comprehensive. It is included in the Development Fund Expenditure section of the Budget Speech and Estimates of Revenue and Expenditures. The notes to the annual financial statements also includes a detailed breakdown of receipts and expenditures by source and project.[10] Reports are produced periodically, six monthly in 2009. Hence the second dimension poses no problems, and is rated A.

[10] In year fiscal reports for the recurrent budget do not currently include the development budget, however, it is provided on request. The authorities have indicated that they have plans to produce a more systematic report, on a quarterly or monthly basis.

In rating PI-7, given the M1 methodology employed, precedence is given to the score for dimension (i), the overall score is D+.

PI-8 does not apply to Montserrat because there are no sub-national elected bodies.

PI-9 (i) assesses the extent to which the central government monitors the fiscal position of autonomous government agencies (AGA), public entities (PE), and sub-national (SN) governments. In Montserrat, the statutory bodies do pose a problem since their operations are not closely monitored by the Ministry of Finance. They are required to forward their forecast of revenues and expenditures to the appropriate Minister, who has to approve them. After approval, the appropriate minister lays the estimates before the Legislative Council. According to the same Act, the statutory body is also required to submit audited annual reports to the appropriate Minister who shall lay the estimates before the Legislative Council. New financial regulations based on the Public Finance Act of 2009 continue this procedure. Not all statutory bodies comply with this obligation annually or in a timely manner. The information received by the ministers is not consolidated, and audited accounts are often late. Regarding the main public enterprise, the Hon. Financial Secretary (or his delegate) is on the board of all statutory bodies as well as the utilities company, MONLEC. This could be a potential conflict of interest. Regarding MONLEC reporting, these obligations are also regularly fulfilled. As there is now only one PE, consolidation is not an issue. Little attention appears to be paid to the risk posed by financial institutions, such as the Government Savings Bank., or the two insurance companies (CLICO and BICO). PI-9(ii), regarding information on sub-national governments, does not apply to Montserrat (refer to above PI-8).

The overall score for PI-9 is D.

Transparency will depend on whether information on fiscal plans, position and performance of the government is easily accessible to the general public or at least interested groups. PI-10 is based on a checklist of different types of information that it would be desirable for the public to have access to. As indicated in the table below, Montserrat scores poorly on this indicator because of a lack of in-year budget progress reports, the lack of timely financial statements, delayed audit reports, and no information on contract awards for the large tenders.

Table 7. Public Access to Information

ELEMENTS OF INFORMATION FOR PUBLIC ACCESS	AVAILABILITY	MEANS
(i) Annual budget documentation when submitted to the legislature	Yes	Statement available on website; all documents in the public library
(ii) In-year budget execution reports within one month of their completion	No	This information is not public but available from Smartstream

(iii) Year-end financial statements within 6 months of completed audit	No	Financial statements prepared up to end-2007, but audited year-end financial statements as of date are only available for 2005. Present audit law requires statements only with relatively long period of 9 months after year-end.
(iv) External audit reports within 6 months of completed audit	No	
(v) Contract awards (app. USD 100,000) published at least quarterly	No	Contracts awarded are not published
(vi) Resources available to primary service unit at least annually	Yes	The 4 public elementary schools (5–11 years) and the 3 primary health clinics receive this information from the Min of Education and from the Min of Health respectively.

Ongoing and Planned Activities

Although there are no plans to change the present budget classification, the on-going programme of reform in the public service aims to improve the business plans, and hence the quality of the data, indirectly improving information included in the budget estimates. The requirement of the new Public Finance Act, that will bring the statutory boards into the treasury system, should significantly reduce the extent of unreported government operations. The requirement that their audits will be more closely supervised by the Auditor General should also improve the oversight of fiscal risk from this source.

3.4 Policy-based Budgeting

The indicators in this group assess the extent to which the central budget is prepared with due regard to government policy. This is rated by: (i) orderliness and participation in the budget process, and (ii) the degree of multiyear perspective in fiscal planning and budgeting. The table below summarises the assessment.

No.	C Policy–based budgeting	Score	Dimensions	Scoring Methodology
PI-11	Orderliness and participation in the annual budget Process	D+	(i) C (ii) D (iii) D	M2
PI-12	Multiyear perspective in fiscal planning, expenditure policy and budgeting.	C	(i) C (ii) N/A (iii) C (iv) C	M2

Indicator PI-11 reflects the organisation, clarity and comprehensiveness of the annual budget process, as well as participation of Ministries and Departments. The dimensions to be assessed are: (i) existence and adherence to a fixed budget calendar; (ii) clarity/comprehensiveness of and political involvement in the guidance on the preparation of submissions (budget circular or equivalent); and (iii) timely budget approval by the legislature or similarly mandated body (within the last three years). The Government does not perform well in this area.

(i) The budget process (recurrent and development) in Montserrat does not follow a specific invariable written calendar. However, each year the Budget Circular indicates a time schedule for the main milestones for budget preparation dictated by MOF internal management requirements. This schedule is followed, and is generally adhered to, with no delays (or very short ones) that may occur for its implementation. This is facilitated by the relatively small geographical area where government institutions are located.

In the past, budgetary preparation activities (for the recurrent budget) began in the first-half of the year (year *n* for the budget of year *n+1*) – generally around April and May – although the main activities were concentrated in the second-half of the year (from July on). The participation of the Executive Council and of the Legislative Council was also taken into consideration in the Circular. Budget entities had at least four weeks to prepare their estimates. This system has been changed to accommodate the new financial year beginning in April. The Budget Circular of August 7, 2009 indicates a transition period whereby ministries will be issued with a general warrant for three months for the period January to March 2010 – which represents approximately a quarter of the 2009 approved estimates. In October, ministries will be expected to prepare their 2010 budget estimates.

For the development budget, given that there is practically one main donor (DFID) that funds projects and a limited number of projects, estimates are made based on the expenditure plan of each project. Projects over one million EC$ must be approved by the Executive Council. In the majority of cases the projects are approved in the context of the ministry business plans as part of the budget preparation cycle. Sometimes, however, this approval process is not always synchronized with the budget cycle, and then projects are covered by a supplementary process fully financed with donor funds. Overall, PI-11(i) is rated a C.

(ii) The budget circular indicates no ceilings but broad guidelines. In addition, the Executive Council participates very late in the budget process and only after the estimates have been completed by the budget entities. This dimension is scored a D;

(iii) The Finance (Administration) Act of 2001 indicates (Art 20-1) that "The Minister shall cause to be prepared and laid before the Legislative Council, not later than ninety days after the commencement of each financial year, estimates of revenue and expenditure for that financial year". The new Public Finance Act has extended this period to four months (Section 6 of the new regulations). The 2006 budget was approved by the Legislative Council on March 21, 2007. The 2007 budget was approved by the Legislative Council on March 22, 2008. The 2008 budget was approved by the Legislative Council on March 31, 2009. Although the existing legislation allows the draft Budget Law to be adopted by the Legislative Council after the end of the financial year, in Montserrat in the last three years the budget was approved as indicated after December 31. This dimension is rated D.

Overall, the score is D+ for PI-11, using M2 methodology.

Indicator PI-12 looks at the link between budgeting and policy priorities from the medium-term perspective and the extent to which costing of the implications of policy initiatives are integrated into the budget formulation process. In particular, it assesses the following: (i) multi-year fiscal forecast and functional allocations; (ii) scope and frequency of debt sustainability analysis; (iii) existence of costed sector strategies; and (iv) linkages between investment budgets and forward expenditure estimates.

(i) The SDP has increasingly been seen as a facilitator of multi-year fiscal planning. The SDP gives a long-run strategic perspective to 2017, that is broken down in three-year medium-term steps. These three-year SDP action plans have now begun to be reviewed and updated annually, and should form the basis for ministry corporate and business plans that, when costed, are expected to form a ministry's budget. As part of the budget process, forward estimates for recurrent expenditures are also prepared and presented in the budget document for the budget year and two forward years, and are supposed to match the action plans, although this is difficult to verify. In addition, the Montserrat Sustainable Development Plan (2008–2010) includes a costed Sector Investment Programme for the same period[11]. The absence of a formal medium term fiscal framework means this dimension is scored as a C;

(ii) The public debt in Montserrat is relatively low (as of December 31, 2008, EC$ 9.15m or about 8% of GDP) and there are no concerns about the country being at risk of excessive debt service. In addition, given the particular status of the territory after the volcano, the financing of the budget is based mainly on foreign grants from DFID and the EC). Although a Treasury Bills Act and the Development Bonds Act allows the Government to raise funds on the Regional Securities Exchange, additional indebtedness is being considered with great moderation and can only be sought with the approval of H.E. the Governor[12]. Therefore, debt sustainability analysis is not an issue and this dimension has not been scored;

(iii) As indicated above, the Montserrat Sustainable Development Plan (SDP) for 2008–2010 includes complete detailed costed sector strategies for the period. The costing covers investment expenditures only, but the SDP action plans are supposed to be reflected in the budget and forward estimates for the same period. Unfortunately, Montserrat is lacking a medium-term economic and fiscal framework that shows these expenditure plans are sustainable. In the past, with assistance from the ECCB, financial programming exercises have provided this national macroeconomic and fiscal policy framework for Montserrat. The last such exercise was for 2005, but the Finance and Development Departments hope to resume this work in the near future when officers are suitably trained. At present this dimension is scored as C;

(iv) Within the SDP (2008–2010), planned investments were selected on the basis of relevant sector and overall country strategies. While recurrent cost implications are

[11] MOF and SDP (March 2008)
[12] Constitution (1990), 16 (1) c

supposed to be included in forward budget estimates for the SDP period, it appears this is not done consistently. The authorities are moving, however, to integrate the two processes of preparing capital and recurrent estimates through the preparation of business plans. At present there is a lack of evidence to judge how well this is being accomplished, hence this dimension is rated C.

Overall, PI-12 is rated a C using the M2 methodology.

Ongoing and Planned Activities
The new Public Finance Act clarifies many aspects of the budget schedule as well as the responsibilities of the various bodies in the process. Part II of the Act also requires the Finance Department to prepare a macro and economic framework and lay this before the Legislative Council by January 1, before the beginning of the fiscal year – changed by the Act to commence April 1. The Finance Department is planning to develop this capability, perhaps with technical assistance.

3.5 Predictability and Control in Budget Execution

This set of indicators reviews the predictability of funds for budget execution and the internal controls and measures in place to ensure that the budget is executed in an accountable manner.

No.	C(ii) Predictability, Control and Budget Execution	Score	Dimensions	Scoring Methodology
PI-13	Transparency of tax payer obligations and Liabilities	B	(i) B (ii) B (iii) B	M2
PI-14	Effectiveness of measures for taxpayers registration and tax assessment.	D+	(i) D (ii) C (iii) D	M2
PI-15	Effectiveness in collection of tax payments	D+	(i) D (ii) A (iii) A	M1
PI-16	Predictability in the availability of funds for the commitment of expenditures.	D+	(i) D (ii) A (iii) C	M1
PI-17	Recording and management of cash balances, debt and guarantees.	C+	(i) B (ii) C (iii) C	M2
PI-18	Effectiveness of payroll controls	C+	(i) A (ii) A (iii) A (iv) C	M1
PI-19	Competition, value for money and controls in Procurement	C+	(i) A (ii) C (iii) D	M2

PI-20	Effectiveness of internal controls for non-salary expenditure	C+	(i) B (ii) C (iii) B	M1
PI-21	Effectiveness of internal audit	D	(i) D (ii) D (iii) D	M1

The assessment of tax liabilities is subject to the overall control environment that exists in revenue administration (PI-13) but is also very dependent on the direct involvement and cooperation of taxpayers. Their contribution to ensuring overall compliance with tax policy is encouraged and facilitated by a high degree of transparency of tax liabilities, including transparency of legislation and administrative procedures, access to information in this regard, and the ability to contest administrative rulings on tax liability. This indicator assesses the transparency of tax administration by reviewing: (i) clarity and comprehensiveness of tax liabilities; (ii) taxpayer access to information on tax liabilities and administrative procedures; and (iii) existence and functioning of a tax appeals mechanism.

(i) Legislation and procedures on income and profits, and on international trade (these generate a significant amount of revenue collections)[13], are clear and comprehensive. The existing legislation is specific and allows fairly limited discretionary powers of the government entities involved[14]. The Customs and Revenue Department, with the introduction of a more up-dated ASYCUDA, plan to update the legislation, as well as harmonize their legislation with CARICOM requirements. This dimension is rated B;

(ii) There is a Customer Service Unit (3–4 employees liaise with the public) at the Inland Revenue Department that provides detailed information to taxpayers. There are no brochures on taxes but some hand-outs. The department regularly utilizes the local radio station to alert taxpayers of important tax dates and requirements. The department has also organised a seminar on small businesses with the Montserrat Development Corporation. At the Department of Customs, there is a helpdesk that provides detailed information on all tariffs to importers. Additionally, their website provides information and readily available brochures are provided to the public[15]. This dimension is rated B;

(iii) The new Income and Corporation Tax (2008) has an entire section on objections and appeals (Part X) with very clearly detailed procedures for tax payers to appeal. Revision of assessment and re-assessment (Art. 66) as well as objections to revised assessments (Art. 67) are dealt with. Basically, the appeal mechanism focuses on the department where the Comptroller deals with the complaint. If no agreement is reached, the taxpayer may appeal the decision of the Comptroller to a Tax Commissioner, and if unsatisfied, then on to a judge of the High Court (Art 68).

[13] In 2006, actual revenue on income and profit and on international trade represented about 42.5% and 39.2% of total actual revenue respectively. In 2008, the proportions were 39.7% and 36.7% respectively.
[14] Property Tax Act (2007), Income and Corporation Tax Act (originally 1968 and showing the law as at 2 April 2008), Customs Control and Management Act (1994)
[15] The CED has been chosen as a pilot for GOM's e-government initiative.

The procedures for appeal to Customs in the case when amounts due are in dispute are dealt with in the Custom Control and Management Act (1994), Part XII. In this case also, the matter is considered first by a senior officer and, if unresolved, by the Customs Comptroller. The next stage is referral to an appeals committee and then to court if not resolved. Overall appeals are not very frequent in both cases at the Inland Department and Customs and are generally dealt with within the department, but they can be drawn out if they are not resolved at this level. The current procedures at Customs are functioning satisfactorily, with only one appeal to the court in the last three years. For the new procedures introduced at the Department of Inland Revenue with the Income and Corporation Tax Act (2008), it appears that these have been effective in clarifying tax obligations, eliminating numerous loopholes and misinterpretations. This dimension is rated B.

For PI-13 Montserrat scores consistently well as a B.

Effectiveness in tax assessment (PI-14) is ascertained by an interaction between registration of liable taxpayers and correct assessment of tax liability for those taxpayers. Effectiveness is determined by reviewing three dimensions: (i) controls in the taxpayer registration system; (ii) effectiveness of penalties for non-compliance with registration and declaration obligations; and (iii) planning and monitoring of tax audit and fraud investigation programs.

(i) At Inland Revenue, there is no computerized database except for property tax[16]. The Inland Revenue Department uses a reference number for each tax payer and the information is dealt with manually. Customs uses the ASYCUDA 2.7 (an extremely old version, dating to 1991), each importer having its own registration number with no linkages to other systems. The Customs Department plans to introduce a more modern ASYCUDA-World system, with easier access that will enable them to improve their risk assessment and generally enhance department efficiency by having more timely information. Both the Department for Inland Revenue and the Department for Customs have access to Smartstream. Given the limitations and lack of linkage in databases this dimension scores as a D;

(ii) Penalties for non-compliance with tax declaration are clearly dealt with in the Income and Corporation Tax Act (2008)[17] and are a maximum of EC $ 2000. In default of payment the person can be sent to court, fined or may be imprisoned for a maximum of four months. For the property tax, given that all properties are registered, if the tax is not paid, the person can be taken to court and the property or other assets may be seized and auctioned[18]. Overall, the penalties at the Department of Inland Revenue are not always effective due to limited capacity to administer them. Within Customs, if the importer does not pay the duties, generally, the goods are sold at public auction[19]. For import violations this may be dealt with directly by the Comptroller or referred for prosecution depending on the nature and value of the

[16] Actual revenue from the property tax represented a little less than 5% of total actual revenue in 2006
[17] Art 51(3), and Part XII (Penalties)
[18] Communication of the Department of Inland Revenue
[19] Customs Control and Management Act (1994), Part XI

goods involved[20]. The past use of tax amnesty may have undermined present compliance and as a result this dimension is scored as a C;

(iii) The Inland Revenue Department has an audit section which carries out *ad hoc* audits during the year although this capacity has been weakened by the vacancy of a qualified chief auditor. There are few businesses in Montserrat and audits are not based on clear risk assessment criteria. The preventive branch at Customs carries out fraud investigation. General weakness in this dimension merits a D score.

Overall, with D, C and D scores on the three dimensions, PI-14 scores a D+ using the M2 methodology.

PI-15 addresses collection efficiency, determined by reviewing the following dimensions: (i) collection ratio for gross tax arrears (percentage of tax arrears at the beginning of a fiscal year, collected during that fiscal year); (ii) effectiveness of transfer of tax collections to the Treasury by the revenue administration; and (iii) frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.

(i) The way the Inland Revenue Department keep their records it is not possible to isolated arrears retrieved in any year, but only the increments in the total stock. In 2005, 2006, 2007 and 2008 respectively, total arrears for the property tax, the income and company tax represented 22.7%, 9.1%, 6.9% and 8% of total annual collections for these years[21], (this average of 8%, indicates an unacceptably significant level). The Customs and Excise Department admits that they suspect there are problems of tax evasion through under valuation and false invoicing, but have no way of confirming the extent of these problems. Using the last two years of debt collection, arrears averaged 8% of annual collections, indicating a score of D;

(ii) There is no cashier at the Department of Inland Revenue and taxes are paid directly (in cash or check) at the cashier of the Treasury Department. Treasury transfers the funds received to the government EC $ account at the Bank of Montserrat[22] daily. Customs duties are paid directly at the cashier at Customs and Customs transfers the funds received to the government EC $ account at the Bank of Montserrat daily. The department keeps a daybook of all collections and manually reconciles this with reports from the Accountant General on receipts at the bank. While there may be a problem of delays in ministries transferring non-tax revenues, since this dimension is scored on tax collections this dimension rates an A;

(iii) Inland Revenue maintains a record for each taxpayer of their schedule of payments due. They monitor these due dates and follow-up if they see problems. They have the option of “garnishing” an individual’s wage to pay taxes due. At the same time, the Treasury reports daily[23] to Inland Revenue on its collections, with a listing of all

[20] *Idem* and working session with the Comptrollers of Inland Revenue and Customs
[21] Own calculations based on data on arrears provided by the Department of Inland Revenue and data on actual revenue collection of the budget estimates (2005, 2006, 2007).As of end September final data on tax arrears were not available for 2008. See Table 7 Annex II.
[22] The Bank of Montserrat is a private bank with the government of Montserrat having minority control
[23] Due to capacity problems within the Treasury, in the past there have been delays in receiving this information.

collections identifying the taxpayer. With this information the Inland Revenue department up-dates its taxpayer records. In the case of profits tax, when no final accounts exist, assessments are based on estimates by department staff. Within the Department of Inland Revenue, reconciliation of tax assessments with what the Treasury collects occurs on a daily basis. This is possible due to the limited number of operations[24]. This dimension is rated A.

Overall, using the M1 methodology PI-15 is rated a D+.

Budget execution is more effective when there is a reasonable degree of predictability in the availability of funds. Indicator PI-16, therefore, assesses: (i) the extent to which cash flows are forecast and monitored; (ii) reliability and horizon of periodic in-year information to departments on ceilings for expenditure commitment; and (iii) the frequency and transparency of adjustments to budget allocations.

(i) Cash flow planning is extremely limited; although day-to-day the Treasury monitors the cash position of the Government and attempts to smooth out any short-run mismatch between revenues and expenditures. This is usually accomplished by delaying payments, although sometimes they have recourse to an overdraft. There is a EC $ 5m limit placed on the recurrent overdraft, and, although they are not supposed to use an overdraft on development expenditure, this sometimes occurs. This dimension is scored D;

(ii) In the recent past, Departments received their budget release up front by a general warrant. Due to funding restrictions, in 2009, departments received 7/12ths of the total up front in April, and then 3/12ths in July, with 2/12ths planned for October. This new system of releases restricts departments in planning and committing their expenditure. This dimension is rated an A.

(iii) As far as rules for in-year budget amendments by the executive are concerned, the *Finance (Administration) Act* (2001) establishes the rules for *Virements*[25]. The Hon. Financial Secretary: "…*may direct by means of a virement warrant that there shall be applied in aid of any purpose for which the sum assigned may be deficient or in aid of any new purpose a further sum out of any surplus arising from under-expenditure on any item within the same supply vote*". When a *virement* occurs, the sum appropriated for any supply vote by the Appropriation Act should not be exceeded. In addition, any new purpose to which a sum is assigned should be within the ambit of the vote. The Public Finance Act of 2009 continues the same procedure. These rules for in-year adjustments to budget allocations are not always enforced but undertaken in a transparent manner[26]. The in-year budget adjustments themselves are significant and frequent. As a result this dimension scores a C.

[24] Working session with the Comptroller of Inland Revenue
[25] Art 25 (1) and (2)
[26] The Auditor's General report notes the use of the use of funds to cover over expenditures of 5 departments (totaling EC$ 0.95 million) not regularized by a supplementary appropriation (Source: Annual Statement of Progress 2007-DFID Fiduciary Risk Assessment Table # 8).

Overall, PI-16 is scored as D+, using the M1 methodology.

Indicator PI-17 assesses: (i) the quality of debt recording and reporting; (ii) the extent of consolidation of cash balances; and (iii) the systems for contracting loans and issuing guarantees.

(i) Since the volcano eruption, debt data for Montserrat are held at the Eastern Caribbean Central Bank (ECCB), and, thereafter, there has been practically no additional debt. There is no reason to believe that the debt data are not of good quality since reconciliation is easy and carried out between the ECCB and the Caribbean Development Bank (CDB), the main creditor of Montserrat (there is no domestic debt and debt has not grown in recent years). Information on debt servicing is available in the Budget Estimates of Revenue and Expenditure (yearly), but not the stock of debt. Since there are no comprehensive quarterly reports, this dimension is rated a B;

(ii) There are two government accounts employed in government operations at the Bank of Montserrat[27]: (1) one for the consolidated funds; and (2) one for development expenditure (Development Fund). The statutory bodies and PE have their own separate accounts for: (1) cash balances calculated daily; and (2) exercise carried out monthly. This would be sufficient for a B rating, but due to the exclusion of the statutory boards, and due to problems in bank reconciliation (and hence verification of the cash balances), this dimension's rating is reduced to a C. It is noted that the new Public Finance Act requires the statutory bodies to be brought within MOF financial regulations.

(iii) The contracting of debt and guarantees and the application for advances are clearly regulated by the *Finance (Administration) Act*[28] and now by the *Public Finance Act*. Basically, debt and guarantees have to be authorized by the Legislative Council. In addition, because a debt of Montserrat is a contingent liability on the UK, the approval of the UK Secretary of State (through a delegation to H.E. the Governor) is needed[29] However, without a macroeconomic framework the government's contracting of loans and guarantees cannot be made against fiscal targets, and there has been evidence of excessive guarantees being made recently to insurance companies. As a result, this dimension is rated a C.

The overall rating for PI-17 is a C+, using the M2 methodology.

[27] The Bank of Montserrat is a private commercial bank, with the GOM a minority shareholder.
[28] FAA (2001), Part IX, Art.36-41
[29] Constitution (1990), Art 16

As a major component of expenditure, effective control of the payroll is an important indicator of sound financial management. The assessment of PI-18 looks in particular at the following dimensions: (i) the degree of integration/reconciliation between personnel and payroll databases; (ii) timeliness of changes to personnel records and the payroll; (iii) internal controls of changes to personnel records and the payroll; and (iv) existence of payroll audits to identify control weaknesses and fraud.

(i) There is one system for payroll within Smartstream with two databases: one for human resources (personnel) located at the Department of Administration and managed by the latter; and, one for payroll located at the Treasury Department and managed by Treasury. The two databases are directly linked and each Department can access the information in the database of the other department. The Auditor General has noted that in the past there have been some discrepancies whereby HR has approved a position but Finance has not been informed to provide the funding, so the entity technically overspends on their payroll. However, generally the overall payroll system is effective and operations are transparent, and this dimension is rated an A;

(ii) Required changes to personnel records and payroll are usually updated on an on-going basis and immediately (within a few days delay in worst cases). Retroactive adjustments are occasional, and typically occur when notification for the change to be made is given at the end of the month. In this case the adjustment is made immediately the following month. This Dimension is rated an A;

(iii) Both databases, for Human Resources and Payroll, and the system itself are secured. Changes can only be made by authorised employees. Each single change in one of the database results in an audit trail. This dimension rates an A;

(iv) The External Audit Office carries out audit of central government entities in stages including their payrolls. This is done as a routine exercise yearly, but not specifically targeting the payroll. Statutory bodies have their own payrolls that are audited by private companies (now by agreement of the Auditor General), and report these audits to the Auditor General. The absence of a specific regular payroll audit reduces this dimension to a C.

The overall score for PI-18 is a C+ using the M1 methodology.

A well-functioning procurement system ensures that money is used efficiently and effectively. Indicator PI-19 assesses: (i) the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases; (ii) justification of use of less competitive procurement methods; and (iii) existence and operation of a procurement complaints mechanism.

Public procurement in Montserrat is primarily and formally governed by the *Procurement and Stores Regulations* (2002)[30]. Currently, there is not a separate procurement function in the Government of Montserrat and the Hon. Financial secretary is the main officer with specific responsibility for procurement. For example, he authorizes the procurement of goods from sources overseas. He is currently the Chairman of the Central Tenders Board (CTB)[31] who reports to the Minister[32]. The existing legislation authorizes H.E the Governor to issue directions for the procurements of goods and services by tender or direct purchase[33].

The role of the CTB is to evaluate tenders for the procurement of goods or services with a value of EC $ 100,000 and over (and to accept or reject them). Currently, there is no Central Contract Register and within the CTB there is no formal tender opening register to record prices – delivery dates and principal qualifications signed at the time of opening. In addition, written justifications for decisions of the CTB are not clearly and completely recorded.

The CTB is a relatively efficient and respected body and there are no indications that it has not applied proper procurement standards to most and to the major procurement actions that it has been in charge of[34]. The presence of a local DFID representative on the CTB is an additional indication that the procurement process is also transparent. Moreover, this represents an independent opinion that can only contribute to increasing the credibility and accountability of the CTB.

Below the threshold of EC $ 100,000 the CTB delegates its role to departmental tenders boards as is mainly the case for construction works of the Public Works Department. Departmental tender boards are appointed by the Hon. Financial Secretary and have the power of also accepting or rejecting tenders. Where the value of any single item of goods exceeds EC $ 20,000, price quotations from at least three different suppliers are to be obtained. For orders exceeding EC $ 50,000 (but below EC $ 100,000) the authorization of the accounting officer is needed[35].

Regarding the rating of the dimensions indicated:

(i) For 2007, 32 contracts were awarded by the Central Tenders Board (CTB). All these contracts were awarded on the basis of open competition. Given the composition of the CTB with an external DFID representative as a member, there is no reason to believe that these data are not accurate[36]. Accordingly, this dimension is rated A;

(ii) In the existing *Procurement and Stores Regulations* (2002) detailed and clear justification for use of less competitive methods is missing. In addition, they do not clearly state that open competition is the preferred method of procurement (there is

[30] Two other documents, *the Finance (Administration) Act* of 2001 and the *Finance Regulations* of 2002 also include formal complementary rules for dealing with procurements

[31] Others members of the CTB are the Internal Auditor, a local representative of DFID and Accounting Officers of most ministries

[32] *Procurement and Stores regulations* (2002) Art 13 (2)

[33] *Idem* Art 8 (1)

[34] This has been corroborated by the Review of Procurement Procedures and Practices (a DFID financed review) of 2004 carried out by Nigel Shaw, page 9.

[35] *Procurement and Stores regulations* (2002) Art 10 (1a & 1b)

[36] The information to evaluate this dimension has been forwarded by the internal auditor (MOF)

no requirement to achieve best value for money). Despite this omission, in practice, for the use of non competitive procurement methods a waiver must be requested to the Executive Council. This dimension is rated a C;

(iii) No written process is defined in the law to enable submitting and addressing complaints regarding the implementation of the procurement process. In practice, complaints, if any, are sent to the Hon. Financial Secretary. Complaints can also be sent to H.E the Governor who can set up a Commission of Enquiry. Apparently, this has never happened in practice. However, the absence of a formal appeals process results in a D score on this dimension.

Overall the score for PI-19 is C+, using the M2 methodology.

Indicator PI-20 assesses the internal control mechanisms in place by reviewing: (i) the effectiveness of expenditure commitment controls; (ii) comprehensiveness, relevance and understanding of other internal control rules/procedures; and (iii) degree of compliance with rules for processing and recording transactions.

(i) In Montserrat, each budget entity is in charge of commitment control. In practice, the Smartstream system does not allow funds to be committed and paid if budget allocations are not approved and if there is no availability of funds. In addition, in each entity and for each transaction the accounting officer is required to check the transaction and authorises payment for approved budget allocations only if funds are available. Moreover, a last check is carried out by Treasury prior to payment. Basically the current system effectively limits commitments to actual cash availability and approved budget allocations for most types of expenditures. The weakness in the system is that entities can hold back in entering the commitments in Smartstream if they know the funds are unavailable but feel the expenditure is unavoidable. Such activity has been noted by the Auditor General, but the practice usually takes place at year-end, and is not widespread but appears to be increasing with the use of quarterly cash limits. This dimension is scored as a B;

(ii) In general, management teams and their members understand the existing rules for processing and recording transactions. Due to lack of capacity and rotation in personnel, overall, internal controls are undermined, and as noted elsewhere, internal audit is still deficient[37]. This dimension is scored as a C ;

(iii) Compliance with rules is fairly high and public service officials are committed to their work. Overall, there is a culture of honesty and transparency within the public sector[38]. However, emergency/simplified procedures do occur. For example, the use of advance warrants has been a way of providing funds for unappropriated spending without obtaining prior Parliamentary approval via a supplementary appropriations bill. This dimension is scored a B.

[37] Working session with Financial Secretary and with Internal Auditor
[38] These observations are corroborated by DFID (2007). Working session with Treasury.

Overall the score for PI-20 is a C+ using the M1 methodology.

Internal control mechanisms can be improved through the effective use by management of internal audit. PI-21 assesses internal audit capability by reviewing: (i) its coverage and quality; (ii) the frequency and distribution of reports; and (iii) the extent of management response to internal audit findings. Note that the internal audit function under this indicator is defined in the modern sense. In Montserrat, there has been a recent attempt to develop a central inspectorate function in the Department of Finance, as a way of introducing internal audit skills in government. In 2008, the MOF benefited from an internal auditor funded by DFID who began to train an internal audit unit and produced a manual for internal audit that met international standards for the Professional Practice of Internal Auditors (ISPPIA). In 2008, internal audit activities focused on systemic issues 75% of the time, with a number of reports produced and a local counterpart trained. Due to budget constraints, no personnel were hired for the proposed Internal Audit Unit, the DFID advisor left at the end of 2008 and internal audit activities suffered, with no follow-up on previous reports. Internal audits in the MOF in 2009 were few and almost entirely investigative and dependent on the work of external audit. Without the pressure of an Internal Audit Unit in the MOF the internal audit function has not been developed in the ministries.

Given the infancy of this function all three dimensions are rated a D.

Ongoing and Planned Activities

While Inland Revenue has no plans to computerize their operations, they are considering software to assist in forecasting their estimates. The Customs Department plans to introduce a more modern ASYCUDA-World system, with easier access that will enable them to improve their risk assessment and generally enhance department efficiency by having more timely information.

New procurement regulations are being prepared that make reference to the need for value for money. Several issues dealing with documentation, training, transparency and complaint mechanisms will also be dealt with in the new regulations.

The Public Finance Act stresses the importance of introducing internal audit in the government sector. Part III 8(3) of the Act gives the Accountant General the responsibility of ensuring adequate internal controls in the ministries, and ensuring that the internal audit function is appropriate and conforms to international standards. The Financial Secretary is also tasked to establish an internal audit in the MOF. Technical assistance is being sought both from DFID and CARTAC to assist with this.

3.6 Accounting, Recording and Reporting

This set of indicators assesses the timeliness of accounting, recording and reporting. A summary of the scores is tabulated below.

No.	Accounting, Recording and Reporting	Score	Dimensions	Scoring Methodology
PI-22	Timeliness and regularity of accounts reconciliation	D	(i) D (ii) D	M2
PI-23	Availability of information on resources received by services delivery units	A	(i) A	M1
PI-24	Quality and timeliness of in-year budget reports	C+	(i) A (ii) B (iii) C	M1
PI-25	Quality and timeliness of annual financial statements	D+	(i) D (ii) D (iii) C	M1

Indicator PI-22 is assessed (i) on the basis of regularity of bank account reconciliations and (ii) regularity and clearance of suspense accounts and advances. Bank reconciliation for the two main government bank accounts at the Bank of Montserrat (Consolidated Fund and Development Fund), is carried out manually every month, about 5 working days after the end of the month. Unfortunately, this exercise does not reconcile the treasury cash book to Smartstream data. Since there may be discrepancies between the cash book on Smartstream and the manual cash book in the Treasury that is used to check against the bank statements, the integrity of the bank reconciliation is heavily compromised. Indeed it could be argued that if there are differences between the manual cash book, the Smartstream cash book and the bank account data it is not possible to say that reconciliation is complete. In addition, advance accounts and deposit accounts present a problem, with outstanding balances over a considerable time period that have not been cleared. Given these weaknesses both dimensions are scored D. Problems can arise in front-line service delivery units providing services at the community level in obtaining resources that were intended for their use. Indicator PI-23 is assessed on the basis of: (i) collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focusing on primary schools and primary health clinics) in relation to the overall resources available to the sectors. There are four public elementary schools (5–11 years) and five primary health clinics in Montserrat. Resources (there are no in-kind resources) received by these entities are well-known, documented and reported. This indicator is scored an A.

Indicator PI-24 focuses on the ability to produce comprehensive reports from the accounting system on all aspects of the budget implementation. It assesses (i) the scope of reports, (ii) their timeliness, and (iii) the quality of information on actual budget implementation.

(i) In-year budget execution statements are available from Smartstream. They allow comparisons of the actual revenue and expenditures with the estimates as well as with the actual expenditures of the previous year for each of the 21 budget entities. Commitments are recorded and expenditure is captured at the payment stage[39]. This dimension is rated A;

(ii) In-year budget execution reports are usually available monthly and quarterly, and are issued within a couple of days of end of period[40]. However, there does not appear a regular schedule required for issue, and these are mainly internal MOF management reports. This dimension is rated B;

(iii) Budget execution data used for the in-year reports come from Smartstream. In principle, it can generate monthly reports for management on recurrent and capital expenditure by department and compares actuals with the budget. Revenue data is also available in real time, but only from cashflow data and not by type of revenue (Smartstream does not have a revenue module). The Finance Department receives monthly reports from IRD, CED and Treasury on a timely basis and in detail. The only concern is that lack of internal audit and absence of final audited accounts raises issues of the reliability of the data that is reported. Overall, in-year execution reports can be considered useful. This dimension is rated a C.

Overall indicator PI-24 is rated C+ using method M1.

The dimensions to be assessed in PI-25 are: (i) completeness of the financial statements; (ii) timeliness of the submission of the financial statements; and (iii) accounting standards used.

(i) Until April 2009, the *Finance Administration Act* regulated the quality and timeliness of annual financial statements[41]. This requires financial statements to include, with a few exceptions, information on revenues, expenditures, assets and liabilities. Unfortunately in recent years there have been considerable delays in completing financial statements, so that it cannot be said that these statements are prepared annually. The problems appear to arise from lack of capacity in the Treasury, difficulties in bank reconciliation, the below-the-line accounts, which have proliferated and have balances brought forward every year, in contravention of financial regulations. Due to this lack of evidence for annual statements, this dimension is scored as a D;

[39] Working session with Treasury
[40] *Idem*
[41] FAA (2001), Part IV Accounts, Art 17

(ii) Article 17 (1) of the above mentioned Act requires the Accountant General, within a period of six months after the end of every financial year, to prepare, certify and submit statements to the Auditor General[42]. As indicated, this legal requirement has not been followed up to now. A backlog of accounts has existed in recent years, but the backlog appears to have been considerably reduced. The last GOM financial statements finalised were for the year 2007. They were signed by the Accountant General in May 2009 and submitted to the Audit Office, this lag of 11 months would qualify for a C rating. Unfortunately, if one takes the lag of the last three years, the lag is so great to merit a D;

(iii) Overall, the statements are presented in consistent format over time but accounting standards are not disclosed. This dimension is scored a C

The overall score for PI-25 will be D+ using method M1.

Ongoing and Planned Activities

The Treasury has plans to activate the bank reconciliation module in Smartstream. This has fallen behind schedule because of the requirement first to cleanse data in the system and the incompatibility between it and the system used at the Bank of Montserrat. Work continues to resolve these issues.

The Treasury has been working consistently to clear the backlog of accounts. The statements for 2007 have been finalized, and they are working on 2008 statements.

3.7 External Scrutiny and Audit

This set of indicators looks at the quality and timeliness of external scrutiny of the government's budget estimates as well as the public accounts. A summary of the scores is tabulated below.

No.	External Scrutiny and Audit	Score	Dimensions	Scoring Methodology
PI-26	Scope, nature and follow-up of external audit	D+	(i) B (ii) D (iii) B	M1
PI-27	Legislative scrutiny of the annual budget law	D+	(i) D (ii) D (iii) B (iv) B	M1
PI-28	Legislative scrutiny of external audit reports.	D+	(i) D (ii) D (iii) C	M1

[42] The new Public Finance Act of 2009 shortens this period to 4 months.

A high quality external audit is an essential requirement for creating transparency in the use of public funds. The dimensions of PI-26 to be assessed are: (i) scope/nature of audit performed; (ii) timeliness of submission of audit reports to the legislature; and (iii) evidence of follow-up on audit recommendations.

External audit is the responsibility of the Auditor's Office, a department (#11) of the central government. The Audit Act (2002) provides the legal framework in which external audit activities are carried out. The Auditor General is appointed by H.E. the Governor with the prior approval of the Secretary of State in London[43]. Accounts of Public Bodies, Statutory Bodies and Government Companies are subject to examination by the Audit Office[44]. Montserrat is a member of CAROSAI (Caribbean Organization of Supreme Audit Institutions).

(i) All central government entities (including most of the statutory bodies)[45], covering a good 75% of total expenditures, are audited (because of the cash accounting system in Montserrat, assets and liabilities are not audited). Financial audits are mainly performed with some performance audits as well, although there is no consistent methodology for the latter. The Audit Office in Montserrat uses INTOSAI audit standards and systemic issues are addressed. This dimension is rated B;

(ii) According to the Audit Act (2002), the Auditor General should examine and audit the public accounts within a period of 9 months after the end of the financial year, and forward them to the Minister/Executive Council (Art 26). The latter shall cause a copy of the document transmitted to him by the Auditor General: "*…to be laid before the Legislative Council at its next meeting following the date on which such documents were received by him*." (Art 27). In practice, this obligation of the law has not been fulfilled. As of end September 2009, only the 2004 public accounts have been audited and sent to Finance. It is hoped to complete 2005 and 2006 accounts fairly soon thereafter. The Auditor General is working on the 2007 accounts, and hopes to complete these by October 2009. Due to this backlog, this dimension is rated D.

(iii) In general, recommendations are formulated by the Audit Office on the audits of the entities of central government (and statutory bodies). In general, a formal response is also made but there is no structured mechanism (therefore no evidence) to ensure that the auditor's recommendations are carried out, made worse by the lack of timeliness in obtaining final accounts from the Accountant General. There is no evidence that previously noted systemic issues are addressed. This dimension is rated B.

Overall, PI-26 scores a D+, using the M1 methodology.

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[43] Audit Act (2002), Art 3
[44] *Idem*, Art 8.1 and Art 29
[45] Presently, only the Tourist Board, the Land Development Authority, the Volcano Observatory, the Philatelic Bureau and Community College are audited by the Audit Office. The Commission for Financial Services, Social Security, the Port Authority and the Water Corporation are audited by private audit companies. The government- owned Electricity Company is also audited by a private audit company.

The power to give the Government authority to spend rests with the legislature, and is exercised through the passing of the budget law. In assessing how well this power is exercised the dimensions to be assessed in PI-27 are: (i) scope of the legislature's scrutiny; (ii) extent to which the legislature's procedures are well-established and respected; (iii) adequacy of the time for the legislature to provide a response to budget proposals; and (iv) rules for in-year amendments to the budget without ex-ante approval by the legislature.

(i) The present Constitution (Standing Order 66) regulates the presentation of the Appropriation Bill. In practice, each member of the House receives a copy of the draft bill. There is no review of fiscal policies, medium-term fiscal framework or medium-term priorities. Expenditures and revenue are not reviewed either. Basically the legislative review of the Appropriation Bill is very limited due to the technical nature of the bill, and this dimension is rated D;

(ii) There are no written procedures for the review of the Appropriation Bill by the House, resulting in a rating of D;

(iii) The legislature generally has a minimum of one month for reviewing the Appropriation Bill, resulting in a B rating;

(iv) The introduction of Supplementary Appropriations Bills is authorized by law[46] and, basically, the existing rules for in-year budget amendments by the executive are clear rules and are respected. These rules do not set strict limits on the extent and nature of the Appropriation Bill amendments. Notwithstanding, significant extensive administrative reallocations have not taken place in the past four years. This dimension is rated B.

Overall PI-27 is scored a D+ based on the M1 methodology.

The legislature has a key role in exercising scrutiny over the execution of the budget that is approved. The PI-28 indicator assesses: (i) timeliness of examination of audit reports by the legislature (for reports received within the last three years); (ii) extent of key hearings on key findings undertaken by the legislature; and (iii) issuance of recommended actions and implementation by the legislature.

In the UK OT of Montserrat, the Constitution (1989) calls for a Public Accounts Committee (PAC)[47]. Its duties and power are clearly stated. Usually the PAC has six members, two of which are nominated by H.E. the Governor. At present, the PAC is not constituted following the September 8, 2009 elections.

(i) The last public accounts reviewed by the PCA were the accounts for the financial year 2003 (received in 2006). It took the PCA a little less than 6 months to review them. The 2004 accounts are available, but are awaiting the reconstitution of the

[46] Constitution 1990 (Standing Orders 66, 67, 68, 69 and 70) and Finance (Administration) Act 2001, Part V (Art 20.2 and 22)
[47] Standing Order 65

PAC. Due to the delay in audited accounts the PAC did not perform its review function within the last three years as required to evidence this dimension. As a result this dimension is scored a D.

(ii) In-depth hearings are conducted, but given that the last public accounts were laid before the PAC in 2006 and since then no accounts for the following years were laid down, these hearings can be considered as occasional. They involved public servants from a few entities and statutory bodies. Basically, the capacity of the PCA to conduct hearings has been curtailed by the lack of public accounts. This dimension is rated D;

(iii) The legislature, through the PCA, has in the past issued recommendations for actions. There is no mechanism to establish how thoroughly they have been acted upon although they have been considered by the executive. This dimension is rated C.

The overall score for PI-28 using the M1 methodology is D+.

Ongoing and Planned Activities

There is on-going work to strengthen the external audit function. Alongside the new draft Constitution there is a draft Audit Act that will increase the independence of the Auditor's Office. The Audit Office will become a statutory corporation (as opposed to a government corporation) and the new Auditor General will report to Parliament (as opposed now to the executive). Moreover he/she will have the authority to audit all statutory bodies and public corporations. With the Auditor General reporting directly to the Legislative Council, the PAC's role should be considerably strengthened.

Moreover, the new Public Finance (Management and Accountability) Act redefined procedures on authorization of expenditures. It should be noted that the new Public Finance (Management and Accountability) Act redefines the entire part V on authorization of expenditures. The procedures to lay down estimates of revenue and expenditure (19.1-, 2-, 3-, 4-, 5- & 6-) as well as supplementary estimates (20.1- & 2-) are much more detailed than in the existing Finance (Administration) Act (2002). If complied with, this should considerably strengthen legislative oversight. Also, as previous noted, a medium-term fiscal framework will have to be presented to the Legislature before the beginning of the fiscal year to be reviewed separately from the estimates. The present Constitution is being redrafted, and will need to accommodate the procedural changes introduced by the new Public Finance Act. Evidence of how these new procedures operate is not available.

3.8 Donor Practices

D-1: Predictability of direct budget support

The dimensions to be assessed are (i) the deviation of actual donor support from the forecast provided by the donor agencies prior to submission of budget for legislative approval, and (ii) in-year timeliness of the disbursements.

Currently, only two main donors are present in Montserrat: The UK's DFID and the EC which assist with grants. They provide the most significant proportion of foreign assistance to the territory. DFID provides funding for the recurrent budget and for projects and is the main provider of funds (about 60% of recurrent expenditures and over 85% of total aid). The data are shown in Table 8 Annex II.

(i) For the last three fiscal years (2006, 2007 and 2008), budget support was provided by DFID in 2007 and 2008 by the EC. Budget support by DFID did not fall short of the forecast over 2005–2007, and quarterly disbursements have been timely. No information was available on EC disbursements.[48] As EC financing represents just 15% of total donor financing, even if the full amount was not disbursed, the authorities can be assessed as meeting a C rating.

(ii) The EU did fall short of forecasted disbursements in total and there were delays in in-year disbursements. The EC first tranche of the TSSP (Euro 3.0 million) to be disbursed in 2006 (following the signing of the Financing Agreement) was not disbursed until January 2007, representing a one quarter delay. This amount represents more than 20% (but less than 25%) of the total amount of budget support due in 2006. In 2007, the second tranche of Euro 4.0 million to be disbursed in September 2007 was not disbursed until August 2008. This also represented more than 20% (but less than 25%) of the total amount of budget support expected due in 2007 warranting a B rating.

Accordingly, dimension (i) is scored C and dimension (ii) is scored B, implying an overall score for D-1 of C+, using the M1 methodology.

D-2: Financial information provided by donors for budgeting and reporting on project and programme aid

The dimensions to be assessed are: (i) completeness and timeliness of budget estimates by donors for project support; and (ii) frequency and coverage of reporting by donors on actual donor flows for budget support.

(i) Since 2005, DFID is basically the only donor that gives project aid, providing more than 99% of total project aid to Montserrat. The EC provided project aid until 2004[49]. The other donors are marginal (refer to Table 8 Annex II). DFID presents

[48] Written response received from the authorities, December 09

[49] In 2006, an EC financed Sector Policy Budget Support for the Trade in Services Sector Programme (TSSP) was initiated. The first tranche of the programme was disbursed in January 2007. From a technical point of view, the EC budget support is deposited in the development account of the Government of Montserrat at the Bank of Montserrat and is accounted for in the development budget. The DFID budget support (to the recurrent budget) is deposited in the Government account for recurrent expenditures at the Bank of Montserrat.

budget estimates for disbursement of project aid at stages consistent with the government's budget calendar and with a breakdown consistent with the government development budget classification;

(ii) Since DFID is the major contributor to project aid, reporting on the execution of DFID financed projects is easy. Detailed information on disbursements are provided monthly, quarterly and yearly with a breakdown consistent with the government development budget classification;

Accordingly both dimensions are scored A, reflected in the overall D-2 rating of A.

D-3: Proportion of aid that is managed by use of national procedures

The dimension to be assessed is the overall proportion of aid funds to central government that are managed through national procedures (banking, authorisation, procurement, accounting, audit, disbursement and reporting). The totality of the aid received by Montserrat can now be said to be 'on budget' (2007). For procurement of DFID budget support to the recurrent budget and DFID project aid[50], and EC budget support, GOM systems are used.

Accordingly, the D-3 indicator is scored as an A.

4. Government Reform Process

Following the first volcanic activity in 1995–1996, a Sustainable Development Plan (SDP) for the period 1998–2002 was elaborated and implemented. After the devastation of the south of the island by the eruption of the Soufrière Hills volcano, Montserrat began the immense task of rebuilding. During this period, the Government of Montserrat (GOM) and Her Majesty's Government (HMG) implemented policies, programmes and projects to lay the foundation on which Montserrat could re-establish its socio-economic structures and restore confidence in the future. Progress was achieved in several key areas such as the provision of housing, the reinstatement of education and health facilities as well as the construction of an emergency jetty during the SDP period. A new SDP was elaborated for the period 2003–2007 and implemented. This SDP was designed to consolidate progress attained under the previous SDP. It sought to strengthen and consolidate these earlier achievements by developing Montserrat into a largely service oriented export-led economy, reduce its current dependency on grant aid and ultimately achieve self-sufficiency.

[50] Most of the procurement funded by DFID is, in fact, managed through GOM systems. However, there are occasions when DFID takes responsibility for identifying and contracting consultants for short-term assignments to deliver technical inputs to projects. This form of funding is commonly known as Technical Co-operation and contract payments are directly managed by DFID in London. The same occurs for technical assistance financed by the EC.

After reviewing the SDP 2003–2007, a consensus was reached among stakeholders that Montserrat should continue with the strategic objectives in the areas of economic management, human development, environmental management and disaster mitigation, and population. It was also decided to create an expanded governance strategic objective based on a merging of the 2003–2007 strategic objectives. These strategic objectives are the long term objectives or goals that guide the sustainable development of Montserrat over the period 2008–2010 and beyond to 2017. They are as follows:

- Economic Management – To create an environment that fosters prudent economic management, sustained growth, a diversified economy and the generation of employment opportunities;
- Human Development – To enhance human development and improve the quality of life of all people of Montserrat;
- Environmental Management and Disaster Mitigation – To conserve Montserrat natural resources; ensure that development is environmentally sustainable, and that appropriate strategies for disaster mitigation are in place;
- Governance – To develop an efficient, responsive and accountable system of governance and public service;
- Population – To achieve sustainable population growth.

The current SDP (2008–2010) represents the island's strategic objectives and hence encompasses all the reforms the GOM intends to implement during the period and beyond. Within the SDP specific PFM reforms are not directly indicated, but one strategic action refers to strengthening public financial and economic management systems to improve efficiency and reduce risks[51]. Hence PFM reforms can be considered as an integral part of the overall strategic plan, although the GOM has not yet presented in written format an overall program of PFM reforms. Notwithstanding the lack of such a document, the public sector reform program aims at improving the delivery, accountability and productivity of public services through the introduction of a performance management culture within the public sector. Specifically, significant recent achievements include: passing the new Public Finance (management and accountability) Act, the establishment of the Public Sector Reform Unit along with the creation and appointment of a Chief Establishment Officer, to develop and implement a fundamental programme of civil service reform.

4.1 Description of Recent and On-going Reforms

As indicated previously, the GOM is pursuing a number of on-going reforms that directly impact the PFM area, including strengthening the legislative basis for these reforms:

[51] Government of Montserrat, *Montserrat sustainable development plan (2008-2010),* the Development Unit, Ministry of Finance, Economic Development and Trade, March 2008, page 28

a) *Constitution*. The existing 1989 Constitution is being revised, with the revised sections on PFM to include specific provisions for strengthening the PAC and greater independence for external audit;

b) *Audit Act*. In tandem with the redrafting of the constitution, a revised *Audit Act* is being elaborated to make this function more consistent with international standards. The new *Audit Act* calls for a more independent Auditor's Office. In this context, the new Auditor's office, which is now a government entity, will become a statutory corporation (or an autonomous agency) with increased independence. With the new Act, the Auditor General will also be more independent and will need to report to the Legislative Council instead of reporting to the Executive (as it does now). According to the new Act, the Auditor General will be appointed by H.E. the Governor with the Public Accounts Committee. The Auditor General will have the authority of hiring its own staff and will not need to follow the current administration procedures of the central government (as now) with the new Act. The new *Audit Act* will increase coverage of its activities because the Auditor General, according to the new Act, will have the authority to audit all statutory bodies and public corporations;

c) *Procurement Regulations.* New procurement regulations are being elaborated. The principle underpinning them is the "*pursuit of best value for money*" (which implies among other things a better interaction between the Government and local suppliers regarding price, quality and time). Other practices relating to transparency and probity will be considered in the new regulations – important considerations given the limited local procurement environment on the island;

d) *Accounting Manual.* An accounting manual is being prepared. It includes procedures for strengthening internal controls and accounting practices with respect to commitments. The manual is intended to be a supporting document for public officers (particularly budget officers), and is viewed as an important element towards more transparent and (accountable) PFM practices;

e) *Internal audit activities*. Since end-2007/start-2008, with the financial assistance of DFID, procedures for and training in internal audit within the MOF has been undertaken. The ultimate objective is to establish an operational internal audit unit. MOF awaits permission to hire suitable staff, but is optimistic that this unit can become operational in the near future, and the Government is considering further technical assistance in this area.

f) *Public service reform program.* This project started in 2005, with the overall aim of promoting the delivery of public services in a more equitable, efficient and cost-effective way. Three main focal areas are: performance, including improved ministry corporate plans to ensure better linkage between budget outputs and outcomes; HR development, including issues of recruitment, retention and motivation and overall improvement of capacity to deliver work plan objectives; and effective organization, emphasizing organization reviews of departments, divestiture and customer service. This fundamental reform initiative, that cross-cuts many of the purely PFM reforms, is discussed further in section 4.2 below.

g) *Improved governance*. A Code of Ethics for government officers has been finalized and will be introduced into the General Orders by end-November 2009. A Code of Consultation has also been prepared, governing officers' interaction with the public. Both codes should considerably improve procedures to ensure greater accountability and transparency. A Register of Interests Act is in the process of being finalized that will address a gap in anti-corruption legislation.

4.2 Institutional Factors Supporting Reform Planning and Implementation

In Montserrat, the Development Unit (headed by the Permanent Secretary, Development) has the responsibility to monitor the implementation of the SDP. On an annual basis, a group made up of the Chief Establishment Officer, the Hon. Financial Secretary, the Permanent Secretary ,Development, representatives of funding agencies, and private sector and civil society groups, review progress made by the lead implementing agencies/organisations in the implementation of the various components of the SDP for which they are responsible. PFM reforms are planned and monitored by the Hon. Financial Secretary (in interaction with the Permanent Secretary, Development). At the donor level, the EC participates in the process on a regular basis, and DFID provides TA for the elaboration of annual economic and budgetary analysis as well as for annual fiduciary risk assessment.

A public service review to assess the capacity of the public service to implement the SDP and to identify reforms needed in the public service structure was carried out in 2005[52]. According to the review, there was a need in some Ministries and Departments to strengthen capacity at senior technical or administrative levels to support policy making and strategic planning capacity[53]. The review also identified the need to take work forward in a number of areas, in particular: a) additional policy capacity building and customer service pilots; b) the roll-out of development of competence frameworks; and c) support for ongoing implementation of the organization reviews[54].

To address these issues, the Chief Establishment Office has been strengthened. In addition to the HR Unit and the Public Service Reform Unit (PSRU), a new Performance Management Development Unit has been established. The work programme of the new Unit will be to develop guidelines for, and training in, constructing and implementing the SDP work and business plans, and in this context, to develop performance indicators for monitoring achievements against plan. This will be more fully integrated with the continuing review of organizations and systems within government entities. Training has already taken place for improving policy development, and progress made in revamping government websites (i.e. moving some towards e-commerce such as the Customs and Excise Department). The Code

[52] Government of Montserrat: *Public Sector Review, Report and Implementation Plan*, Atos consulting, October 2005

[53] Assuming that up to four additional posts are required across GOM, the review estimated additional costs of up to EC$ 235,000 per year (*Idem,* page 39).

[54] The review has estimated a budget of EC$ 590,000 for these activities (mainly regional consulting) (*Idem*, page 42).

of Consultation developed for government officers' interaction with the public, is soon to be circulated on their website. In this way, the CEO has become the project manager of public service reform with a fully institutionalized reform plan.

Several factors support the PFM process while others represent impediments that slow down both the PFM reforms and the overall reform process. The positive drivers of reform are:

Political will of the Government to move forward with the overall reform process. The political will for reforms is strong and the Government regularly points out clearly its detailed development priority in the budget statements[55]. This support for reform covers the political spectrum, so that the recent change in government is unlikely to affect political commitment to reform.

An executive apparatus, tasked with pursing reforms in the government sector. The reform process has been institutionalized and has recently been strengthened under the Office of the CEO. Key reform entities such as the PSRU, the HR functions, and a newly created Performance Management Development Unit are in the process of being consolidated within the Office of the CEO, to give a more unified approach to implementing the ambitious public service reform agenda.

These positive factors must overcome two pervasive constraints:

Limited capacity to carry out and monitor reforms. There is a clear limitation in the institutional capacity to carry out PFM reforms in the departments of government. Sustainability of reform will require long-term training and HR development, and ultimately relies on the success in attracting a more sustainable population base.

Absence of specialized skills on the island. This poses an immediate barrier to the speed of reform. Within the PFM area, an obvious gap is in accounting skills that is constraining improvements in treasury operations, and internal and external audit. It is difficult to see how this barrier can be overcome without the recruitment of outside skills and/or a larger programme of technical assistance.

[55] *2006 Budget Statement*, page 2, *2007 Budget Statement*, pages 2 & 3 and *2008 Budget Statement*, pages 4 & 5.

Annex I. Performance Indicators Summary

The assessment of the individual PFM indicators, and justification following PEFA requirements, is summarised below.

PI-1: Aggregate expenditure outturn compared to original approved budget

(i) As can be seen in Table 1 Annex II, the deviation of total primary expenditure outturn from budgeted primary expenditure was below 10% for the three-year period (2006–2008)[56].

Score	Minimum Requirements	Justification
A	i) In no more than one out of the last three years has the actual expenditure deviated from budgeted expenditure by an amount equivalent to more than 5% of budgeted expenditure	The deviation has been calculated based on data shown in the annual budget estimates for 2006–8. The deviation has been calculated for primary expenditure (excluding debt service and donor funded investment spending) against the approved budget. Audited annual financial statements are not yet available for these years and neither are unaudited consolidated annual financial statements. Nevertheless, the financial management information system (Smartstream) permits the extraction of the expenditure data that appear in the budget estimates.

PI-2: Composition of expenditure out-turns compared to original approved budget.

The data to prepare this assessment is contained in Annex II Table 6. It should be noted that the variances are calculated by major head of expenditure as against budget out-turns. There is evidence that variances between subheads is much wider, especially in-year, since cash releases to budget entities anticipates a straight line profile of spending. The sub-head variances narrow closer to the end of the fiscal year.

The resulting score is shown in the following table.

Score	Minimum Requirements	Justification
B	i) Variance in expenditure composition exceeded overall deviation in primary recurrent expenditure by 5 percentage points in no more than one of the last three years..	The variance in expenditure composition is calculated on the basis of the absolute difference between actual and budgeted expenditures of each ministry/agency in 2006–2008 as indicated in Annex II Table 6, based on the annual budget estimates. Budgeted expenditures are those shown in the original approved budget, the overall deviation is shown under PI-1 above.

[56] Primary expenditures equal total expenditures (recurrent and capital) minus: 1) interest on the public debt; 2) grants; 3) foreign project loans.

PI-3: Aggregate revenue outturn compared to original approved budget

Based on Table 4 Annex II data, the resulting score is shown in the following table.

Score	Minimum Requirements	Justification
A	i) Actual domestic revenue collection was below 97% of budgeted domestic revenue estimates in no more than one of the last three years.	The calculation is based on recurrent and non-recurrent revenue (tax and non tax). Non-recurrent revenue (asset sales) performance is not reported, but is a very small proportion of total revenue. Total recurrent revenue collections exceeded budgeted estimates by 4.56% and 1.71%, but were 3.34% below budget in 2006, 2007, and 2008 respectively. In the same period, taxes were 3.3 % above, 0.62% above and 2.36% below budget in the same period (Annex II, Table 4)

PI-4: Stock and monitoring of expenditure payment arrears

There are few problems with arrears and unauthorized expenditures in Montserrat.

Score	Minimum Requirements	Justification
A	i) The stock of arrears is very low, less than 2% of total expenditure.	The stock of unpaid commitments at the end of a fiscal year indicates a high probability that these are below 2% of total expenditure. Interview with the Chairman of the Chamber of Commerce suggests arrears are not prevalent in the system. It is likely that the stock of year-end outstanding commitments has diminished over the last two years, due to MOF monitoring. Given capital expenditure is 100% donor financed, and the local DFID office closely monitors project implementation, it is considered unlikely that there are any arrears in this category of spending.
B	(ii) Data on the stock of outstanding commitments is generated annually, and is considered complete except for a few identified expenditure categories or specified institutions, such as the statutory boards.	Smartstream system does allow for a precise estimate of the stock of overdue bills, through the aged payables module but is not regularly used. The MOF continuously monitors budget execution and the cash position of budget entities to ensure there are few overdue bills.

PI-5: Classification of budget

Score	Minimum Requirements	Justification and Data sources
C	i) The budget formulation and execution is based on administrative and economic classifications using GFS standards or a standard that can produce consistent documentation according to those standards.	A score of C normally would be too low, given that the budget is based on a strategic development plan with clearly costed strategic activities underlying budget entities' business plans, which include both recurrent and capital expenditures. However, this arises largely as a result of the absence of a COFOG classification and the fact that business plans are not formally structured into programs and subprograms.

PI-6: Comprehensiveness of information included in budget

Elements of Budget documentation	**Availability**	**Notes**
Macroeconomic assumptions, incl. at least estimates of aggregate growth, inflation and exchange rate.	Partial	Budget Address mentions real GDP growth projections, and inflation in summary form. The EC$ is pegged to the US$.
Fiscal deficit, defined according to GFS or other internationally defined standard.	Partial	Explicitly mentioned in Budget Address, though not in terms of GDP. In summary table of budget documents but not defined according to GFS.
Deficit financing, describing anticipated composition.	Yes	In both Budget Address and Estimates
Debt stock, incl. details at least for the beginning of the current year.	No	Budget Address details aggregate debt stock of Dec. 31.
Financial Assets, incl. details at least for the beginning of the current financial year.	No	No information is included in the budget documents. For example, substantial investments in local insurance companies and a local bank were not reported.
Prior year's budget outturn, presented in the same format as the budget proposal.	Yes	Along with two forward years.
Current year's budget (revised or estimated outturn), presented in the same format as the budget proposal	Yes	
Summarised budget data for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year.	Yes	
Explanation of budget implications of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes, and/or major changes to expenditure programs.	Yes	Budget Address mentions cost of new initiatives, though linkage to formal policies/strategies could be made clearer.

Score	Minimum Requirements	Justification
B	i) Recent budget documentation fulfils 5–6 of the 9 information benchmarks.	As indicated above.

PI-7: Extent of unreported government operations

Score	Minimum Requirements	Justification
D	i) The level of unreported extra-budgetary expenditure is significant (more than 10% of total expenditure).	As indicated in Table 6, Annex 2. Source of Information MOF and interviews.
A	(ii) Complete income/expenditure information is included in fiscal reports for all externally financed projects (that are entirely grant-financed).	As indicated above.

PI-8: Transparency of Inter-Governmental Fiscal Relations

Not Scored

[This indicator assesses the fiscal relations between the central government and the sub-nationals entities (regions, states, provinces and municipalities). It does not apply to Montserrat because there are no sub-national elected bodies.]

PI-9: Oversight of aggregate fiscal risk from other public sector entities

Score	Minimum Requirements	Justification and data sources
D	(i) Most major AGAs do not submit fiscal reports to central government at least annually, a consolidated overview is missing or is significantly incomplete. Audited accounts of these bodies are not timely.	*Source of Information:* Interviews with Finance and Treasury Departments.
N/A	(ii) N/A	

PI-10: Public access to key fiscal information

Score	Minimum Requirements	Justification and data sources
C	(i) The government makes available 1–2 of the 6 listed types of information.	Source of information. Government internet sites and printed documents.

PI-11 Orderliness and participation in the annual budget process

Score	Minimum Requirements	Justification and data sources
C	(i) An annual budget calendar exists, but is rudimentary and substantial delays may often be experienced in its implementation, and allows MDAs so little time to complete detailed estimates, that many fail to complete them timely.	*Sources of Information:* Budget Call Circular, No. 7/2009, August 7, 2009. Interview with Budget Division. Interviews with Min. Of Communications and Works, and Education.
D	(ii) A budget circular is issued to budget entities without ceilings for individual administrative units or functional areas. The budget estimates are reviewed and approved by Exec Council only after they have been completed in all details by budget entities, thus seriously constraining Exec Council's ability to make adjustments.	*Sources of information*: Budget Call Circular (BCC), August 2009.
D	(iii) The legislature has, in two of the last three years, approved the budget more than two months after the start of the fiscal year.	Source: Budget Addresses.

PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

Score	Minimum Requirements	Justification and data sources
C	(i) Forecasts of fiscal aggregates (on the basis of the main categories of economic classification) are prepared for at least two years on a rolling annual basis.	*Sources of Information:* Interviews, SDP and Budget Estimate documents, Department of Finance.
NA	(ii) DSA for external and domestic debt is undertaken annually.	*See above discussion on low level of debt.*
C	(iii) Statements of sector strategies exist for several major sectors, following SDP framework, but are not consistent with aggregate fiscal forecasts.	*Source of information:* SDP 2008–12, discussion with Development Secretary. There is no overall fiscal framework. Sector strategies were based on a clearly defined programme structure.
C	(iv) Many investment decisions have weak links to sector strategies and their recurrent cost implications are included in forward budget estimates only in a few but major cases.	*Source of information: SDP 2008–12, discussion with Development Secretary.* Recurrent and Investment budgets remain separate processes, imperfectly unified through ministry business plans based on the SDP, which is still work in progress.

PI-13: Transparency of taxpayer obligations and liabilities

Score	Minimum Requirements	Justification and data sources
B	(i) Legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.	Sources of Information: The various tax legislation (Income and Corporation Tax, 2008; Property Tax, 2004, Customs Control and Management, 1994) and interviews with IRD and CED.
B	(ii) Taxpayers have easy access to comprehensive, user friendly and up-to-date information on tax liabilities and administrative procedures for all major taxes, and the revenue agencies supplement this with active taxpayer education campaigns.	Sources of information: Interviews with IRD and CED. Access is through the internet websites, ASYCUDA (soon to be upgraded so as to be accessible by registered users), GOM radio and printed documents.
B	(iii) A tax appeals system of transparent administrative procedures with appropriate checks and balances, and implemented through independent institutional structures, is completely set up and effectively operating with satisfactory access and fairness, and its decisions are promptly acted upon.	Source of information: Tax legislation (as above). In practice, nearly all disputes are resolved by the IRD and CED before they reach the appeals stage.

PI-14: Effectiveness of measures for taxpayer registration and tax assessment

Score	Minimum Requirements	Justification and data sources
D	(i) Taxpayer registration is not subject to any effective controls or enforcement systems	*Sources of Information:* Interviews with IRD and CED. Taxpayers registered under IRD and CED have different tax identification numbers, and the two are not linked. I should be noted that although there are no links formally with other registrations, due to Montserrat's size it is easy to identify potential taxpayers.
C	(ii) Penalties for non-compliance generally exist but substantial changes in level of administration required to give them real impact on compliance..	*Sources of information:* Tax Acts and interviews with IRD and CED. The penalties for non-compliance are weaker in the case of IRD than CED, because compliance is more difficult to enforce and the penalties for non-compliance are lower.
D	(iii) Tax audits and fraud investigations are managed and reported on according to a documented audit plan, with clear risk assessment criteria for audits in at least one	*Source of information*: Interviews with IRD (Comptroller) and CED (Comptroller), The Enforcement Division of CED conducts fraud

Score	Minimum Requirements	Justification and data sources
	major tax area that applies self-assessment.	investigations. The new ASYCUDA system will allow risk measurement to help auditors select areas for audit.

PI-15: Effectiveness in collection of tax payments

Score	Minimum Requirements	Justification and data sources
D	(i) The average debt collection ratio in the most recent year was below 60%, and the total amount of tax arrears is significant (i.e. more than 2% of total collections). .	*Sources of Information:* Interviews with IRD and CED, and Budget Estimates. CED has few arrears and a high level of debt collection; IRD has made considerable improvement in debt collection and in curtailing arrears from 22% in 2005 of total collections to 7% in 2007, and 8% the last year available. However, this remains unacceptably high.
A	(ii) All tax revenue is paid directly into accounts controlled by the Treasury or transfers to the Treasury are made daily.	Sources of information: Interviews with IRD, CED and Accountant General's Department and supporting documentation. Revenues administered by IRD and CED are paid to AGD daily, but ministries may delay transfers of their non-revenues. .
A	(iii) Complete reconciliation of tax assessments, collections, arrears, and transfers to Treasury takes place at least monthly within one month of the end of the month.	Source of information: Interviews with IRD (Comptroller), CED (Comptroller), and Accountant General's Department. Both CED and IRD attempt daily reconciliation, sometimes delayed by reports from the Accountant General, and both have access to Smartstream.

PI-16: Predictability in the availability of funds for the commitment of expenditures

Score	Minimum Requirements	Justification and data sources
D	(i) No cash flow forecast is prepared for the fiscal year (and for recurrent expenditure a straight-line cash demand is assumed).	*Sources of Information*: Budget Division, MOF and Budget Circular.
A	(ii) Budget entities are able to plan and commit expenditure for at least six months in advance in accordance with the budgeted appropriations;	*Sources of information:* Budget Division, MOF and Budget Circular. A system of quarterly releases has been put in place, Ministries are expected to keep within their budget ceilings, and the MOF through Smartstream continuously monitors this throughout the year.
C	(iii) Significant in-year adjustments to budget allocations take place throughout the year, but are done in a fairly transparent way.	*Sources of information:* Budget Division. In recent years, virements have increased in number and amounts.

PI-17: Recording and management of cash balances, debt and guarantees

Score	Minimum Requirements	Justification and data sources
B	(i) Domestic and foreign debt records are complete, updated and fully reconciled quarterly, with data considered of high integrity. Comprehensive reports are produced at least annually.	*Sources of Information*: MOF.
C	(ii) Calculation and consolidation of most cash balances take place at least monthly, but system used does not allow consolidation of bank balances.	*Sources of information:* Interview AG's office. Confirms that all cash balances are calculated and consolidated, except for statutory bodies, There are problems in the method of verification of balances due to bank reconciliation problems.
C	(iii) Central government's contracting of loans and issuance of guarantees are always approved by a single responsible government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.	*Sources of information:* The Minister of Finance has sole authority under the Finance (Administration) Act for contracting loans and issuing guarantees (with prior approval of Executive Council and UK Government). But not within a fiscal framework.

PI-18: Effectiveness of payroll controls

Score	Minimum Requirements	Justification and data sources
A	(i) Personnel database and payroll are directly linked to ensure data consistency and monthly reconciliation.	*Sources of Information:* Interviews officer in charge of payroll in AG Department, Office of the Chief Establishment Officer, and Auditor General.
A	(ii) Required changes to the personnel records and payroll are updated monthly, generally in time for the following month's payments. Retroactive adjustments are rare.	*Interviews, CEO, payroll unit in Treasury.* Any correspondence from MPS concerning hirings, firings, promotions etc. are hard-copied to payroll unit in AG's office, which can take immediate action, even before MPS formally enters changes into Smartstream.
A	(iii) Authority to change records and payroll is restricted and results in an audit trail.	*Interviews (as above).*
C	(iv) Partial payroll audits or staff surveys have been undertaken within the last 3 years.	Interview, Auditor General

PI-19: Competition, value for money and controls in procurement

Score	Minimum Requirements	Justification and data sources
A	(i) Accurate data on the method used to award public contracts exists and shows that more than 75% of contracts above the threshold are awarded on the basis of open competition.	*Sources of Information:* Procurement and Stores Regulations (Statutory Instrument, 1997, No.37) and interview with Department of Finance, MOF (in charge of Central Tender Board). While the thresholds for competitive tendering are well-defined, no central repository of information exists which indicates the actual method of tendering for each and every procurement (the relevant data are available but are not kept in one place).
C	(ii) Justification for use of less competitive methods is weak or missing.	*Source of Information:* Interview, Office of the Director of Finance. Direct purchase methods are used from time to time instead of competitive tendering on the basis of: emergency situations, the existence of only one supplier, and unforeseen circumstances, but the criteria are not transparent and publicly available.
D	(iii) No process is defined to enable submitting and addressing complaints regarding the implementation of the procurement process.	*Source of information:* Procurement and Stores Regulations and Financial Secretary. MOF is drafting improved procurement legislation that would provide for a complaints mechanism.

PI-20: Effectiveness of internal controls for non-salary expenditure

Score	Minimum Requirements	Justification and data sources
B	(i) Expenditure commitment controls are in place and effectively limit commitments to actual cash availability and approved budget allocations, for most types of expenditure.	*Sources of Information*: SIGFIS, Financial Regulations, and interviews in Finance Dept. and Accountant General's Office. In principle, expenditure commitment controls cover all expenditure and SIGFIS refuses any purchase orders not in the budget and with no fund cover. In practice, there may be short-run "stops" on payments if cash position dictates, even when the expenditure item is on budget and quarterly allocations are supposed to cover it. There is also some evidence that departments are avoiding the commitment control by not entering their commitments into Smartstream in a timely fashion.
C	(ii) Other internal rules and procedures consist of a basic set of rules for processing and recording transactions, which are understood by those who directly apply them. Some may be excessive, others deficient..	*Source of Information*: Financial Regulations, Staff Orders and interview. The Financial Regulations outline financial internal controls in detail. Sometimes these can lead to delays in payment, for

Score	Minimum Requirements	Justification and data sources
		example, through the lengthy certification process for utility and communications bills for health centres and schools. It could be argued that spending ceilings at detailed object code level represent excessive control.
B	(iii) Rules are complied with in a significant majority of transactions, but use of simplified/emergency procedures occurs occasionally without adequate justification.	*Source of information:* Interviews. The use of advance warrants has been a way of providing funds for unappropriated spending without obtaining prior Parliamentary approval via a supplementary appropriations bill.

PI-21: Effectiveness of internal audit

Score	Minimum Requirements	Justification and data sources
D	(i) There is little or no internal audit focused on systems monitoring.	*Sources of Information*: Interview with acting internal auditor, MOFED
D	(ii) Reports are either non-existent or very irregular.	*Source of Information:* as above
D	(iii) Reports are usually ignored (with few exceptions).	*Source of Information:* as above

PI-22: Timeliness and regularity of accounts reconciliation

Score	Minimum Requirements	Justification and data sources
D	(i) Bank reconciliation for all Treasury-managed bank accounts takes place at least monthly, usually within 4 weeks from the end of the month, but accounts never fully reconciled due to methodological problems.	*Sources of Information*: Financial Regulations and interview with AG. GOM has only a few accounts in two commercial banks, simplifying reconciliation. Bank reconciliation is complicated by: delays by ministries in reporting of revenues to AGD; below-the-line accounts; and the non-functioning of the reconciliation module in Smartstream.
D	(ii) Reconciliation and clearance of suspense accounts and advances takes place less frequently than annually.	*Source of Information:* Interviews, Accountant General and Auditor General. Suspense accounts, deposit accounts and advances are permitted and frequently used but are not cleared in a timely way.

PI-23 Availability of information on resources received by service delivery units

Score	Minimum Requirements	Justification and data sources
A	(i) Routine data collection/accounting systems provide reliable information on all resources received by service delivery units.	*Source of information:* Interviews, Budget Division, MOF and PS, Ministry of Education.

PI-24: Quality and timeliness of in-year budget reports

Score	Minimum Requirements	Justification and data sources
A	(i) Classification of data allows direct comparison to the original budget. Information includes all items of budget estimates. Expenditure is covered at both commitment and payment stages.	Source of information: Interview Finance Department. Comparison to budget is only possible for the main administrative heads; commitments are recorded and expenditure captured at the payment stage.
B	(ii) Reports are prepared quarterly or more frequently, and issued within 6 weeks of the end of the period.	Source of information: Office of Budget and AG Office. Reports can be generated daily, if required, but there does not seem to be a regular reporting schedule or formal reports to the Executive Council.
C	(iii) There are some concerns about accuracy, and data issues not always highlighted in the reports, but these do not compromise overall/usefulness.	See earlier: Coding errors can arise, these tend to be picked up only with some delay.

PI-25: Quality and timeliness of annual financial statements

Score	Minimum Requirements	Justification and data sources
D	(i) A consolidated government statement is not prepared annually.	*Source of information*: Statement of Financial Accounts 2004. This represents the latest set of audited accounts available. There are statements up to 2007 awaiting audit.
D	(ii) Annual statements generally not submitted for external audit within 15 months of the end of the year.	Source: Interview, Accountant General
C	(iii) Statements are presented in a consistent format over time even though accounting standards are not completely disclosed.	Source: As above

PI-26: The scope, nature and follow-up of external audit

Score	Minimum Requirements	Justification and data sources
B	(i) Central government entities representing at least 75% of total expenditures are audited annually, at least covering revenue and expenditure. A wide range of audits are performed generally adhering to audit standards.	*Source of information:* Audit Office. These types of audits are mainly compliance or special audits, as annual audited financial statements have not been submitted to MOF for several years. Resource constraints preclude wider coverage.
D	(ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered.	*Source of information:* Audit Office. The reason for the delays is resource constraints. Audit reports on statutory bodies, prepared by private companies, are submitted in a timelier manner.
B	(iii) A formal response is made in a timely manner, but there is little evidence of systematic follow-up.	*Source of information: Audit Office*. Recommendations of previous reports are referred to in the audit study currently being prepared, but follow-up to comments of the Public Accounts Committee (PAC) lacks relevance because of the delay in the accounts.

PI- 27: Legislative scrutiny of the annual budget law

Score	Minimum Requirements	Justification and data sources
D	(i) The legislature's review is extremely limited.	Only the detailed budget estimates are submitted to Legislative Council, but the Minister's Budget Address, which refers to fiscal policies and priorities may also be referred to in the debate on the Appropriations Bill and accompanying draft estimates.
D	(ii) Procedures for the legislature's review are non-existent.	*Source of information*: Standing Orders, Clerk of Council.
B	(iii) The legislature has at least one month to review the budget proposals.	*Source of information: Constitution, Finance Act, the Clerk of Council*
B	(iv) Clear rules exist for in-year amendments to the budget by the executive with ex-ante approval by the legislature, and are usually respected.	*Source of Information: Public Finance Act, and MOF.* Virements, reallocations and advances are permitted without ex-ante legislature approval. Monies spent in excess of the amounts appropriated are supposed to be regularised ex-post through supplementary estimates and a supplementary appropriations bill. This requirement has generally been followed.

PI 28: Legislative scrutiny of external audit reports

Score	Minimum Requirements	Justification and data sources
D	(i) Examination of audited reports by the legislature does not take place.	*Source of information*: Clerk of Council, Meeting with the chairman of PAC to collaborate this could not be arranged because PAC disbanded after the general elections. In the past, examination of audit reports by the legislature usually took place within 6 months of the receipt of the reports. But in recent years due to absence of audited accounts the PAC has not met..
D	(ii) No in-depth hearings are conducted by the legislature.	Source: As above.
C	(iii)Recommendations are issued by the legislature, but rarely acted on.	Source: As above.

D-1: Predictability of direct budget support

Score	Minimum Requirements	Justification and data sources
C	(i) In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 15%.	*Source of information*: Development secretary and Budget Estimates.
B	(ii) Quarterly disbursement estimates agreed with donors at or before fiscal year, and actual disbursement delays have not exceeded 25% in 2 of the last 3 years.	As above. Source of fund codes are provided in the Chart of Accounts.

Comment [MS1]: Changed to a C

D-2: Financial information provided by donors for budgeting and reporting on project and programme aid

Score	Minimum Requirements	Justification and data sources
A	(i) All donors provide budget estimates for disbursements of project aid at stages consistent with the budget's calendar and with a breakdown consistent with the budget classification.	*Source of information*: Finance Dept; Development Dept., interview with Secretary Development.
A	(ii) Donors provide quarterly reports within one month of end-quarter on all the disbursements made for at least 85% of the externally-financed project estimates in the budget, with a breakdown consistent with the government budget classification.	As above. Source of fund codes are provided in the Chart of Accounts.

D-3: Proportion of aid that is managed by use of national procedures

Score	Minimum Requirements	Justification and data sources
A	(i) 90% or more of aid funds to central government are managed through national procedures	*Source of information*: Finance Dept; Development Dept., interview with Secretary Development.

Annex II. Montserrat Fiscal Data for PEFA Indicators

Sources of data for the below tables: Own calculations and data provided by MOFED, Budget estimates for 2005, 2006, 2007 and 2008. Data for 2007 and 2008 not audited.

TABLE 1. MONTSERRAT: CENTRAL GOVERNMENT OPERATIONS (m EC$)										
		2006	2006	Deviation	2007	2007	Deviation	2008	2008	Deviation
		Budget	Outturn	%	Budget	Outturn	%	Budget	Outturn	%
Total Rev. & Grants		116.11	107.41	-7.49	122.52	122.43	-0.07	147.65	113.65	-23.03
Own Revenue		33.61	35.17	4.64	35.73	36.67	2.65	41.54	40.15	-3.34
Grants		82.50	72.24	-12.44	86.79	85.76	-1.19	106.11	73.50	-30.73
Total Expenditures		90.03	84.09	-6.59	94.50	93.35	-1.22	99.32	96.48	-2.86
Non-interest		89.84	83.98	-6.53	94.23	93.08	-1.22	99.04	96.32	-2.75
Interest		0.18	0.12	-37.07	0.27	0.27	0.00	0.28	0.16	-41.50
Aggregate Deficit		26.08	23.32	-10.61	28.01	29.08	3.81	48.34	17.17	-64.47
Primary Deficit(EXCL. GRANTS)		-56.23	-48.81	-13.20	-58.50	-56.41	-3.58	-57.50	-56.16	-2.32
Net Financing		1.29	1.05	-18.73	0.82	0.68	-16.92	0.85	0.05	-94.10
External		1.29	1.05	-18.73	0.82	0.68	-16.92	0.85	0.05	-94.10
Domestic										
GDP (m. EC$)		104.83	104.83		109.81	109.81		117.28	117.28	

TABLE 2. MONTSERRAT: CENTRAL GOVERNMENT OPERATIONS (as % of GDP)										
		2006	2006	Deviation	2007	2007	Deviation	2008	2008	Deviation
		Budget	Outturn		Budget	Outturn		Budget	Outturn	
Total Rev. & Grants		110.76	102.46	-8.30	111.57	111.50	-0.07	125.90	96.91	-28.99
Own Revenue		33.61	33.55	-0.06	32.53	33.40	0.86	35.42	34.24	-1.18
Grants		49.90	68.91	19.01	79.04	78.10	-0.94	90.48	62.67	-27.81
Total Expenditures		85.88	80.22	-5.66	86.06	85.01	-1.05	84.68	82.27	-2.42
Non-interest		89.56	80.11	-9.45	85.81	84.77	-1.05	84.45	82.13	-2.32
Interest		0.18	0.11	-0.07	0.25	0.25	0.00	0.24	0.14	-0.10
Aggregate Deficit		24.88	22.24	-2.64	25.51	26.48	0.97	41.21	14.64	-26.57
Primary Deficit		-53.64	-46.56	7.08	-53.28	-51.37	1.91	-49.03	-47.89	1.14
Net Financing		1.23	1.00	-0.23	0.74	0.62	-0.13	0.72	0.04	-0.68
External		1.29	1.00	-0.29	0.74	0.62	-0.13	0.72	0.04	-0.68
Domestic			0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

TABLE 3. MONTSERRAT: CENTRAL GOVERNMENT AND CONSOLIDATED GENERAL GOVERNMENT (M EC$)										
			2006			2007			2008	
			Outturn			Outturn			Outturn	
Total Revenue and Grants			**135.03**	**128.81**		**150.18**	**136.77**		**121.12**	**103.28**
Central govt. rev.			35.17			36.67			40.15	
Soc.Sec. total rev.			11.03			7.62			[redacted]	
Less:transfer from c.govt			-1.17			-1.52			-1.69	
Stat/ Bods. total rev.			9.31			12.81			[redacted]	
Less: transfer from c.govt			-6.11			-5.80			-5.78	
Cons. General Gov.Sector			62.79	**59.90**		64.42	**58.67**		47.62	**40.61**
Grants			72.24			85.76			73.50	
Total Expenditures			**104.89**	**100.06**		**112.82**	**102.74**		**89.74**	**76.51**
Central Govt.			80.22			85.01			82.27	
Less:transfers to SocSec.			-1.17			-1.52			-1.69	
Less: transfers to Stat. Bods			-6.11			-5.80			-5.78	
Soc.Sec. total expend.			6.97			5.62			[redacted]	
Stat.Bods total expend.			10.43			14.87			[redacted]	
Cons. General Gov. Sector			104.89			112.82			89.74	
Overall Balance			**30.14**	**28.75**		**37.36**	**34.02**		**31.39**	**26.76**
Central govt.			27.19			37.42			31.39	
Soc.Security			5.24			3.52			1.69	
Stat.Bodies			4.99			3.75			5.78	
Cons. Nonfin. Pub.Sector			-42.10	**-40.16**		-48.40	**-44.07**		-42.11	**-35.91**

TABLE 4. MONTSERRAT: REVENUE PERFORMANCE (M EC$)										
		2006	2006	Deviation	2007	2007	Deviation	2008	2008	Deviation
		Budget	Outturn	%	Budget	Outturn	%	Budget	Outturn	%
Tax Revenue		30.30	31.30	3.30	32.10	32.30	0.62	36.02	35.17	-2.36
Income and profits		13.40	13.50	0.75	14.31	14.40	0.63	15.23	14.96	-1.74
Property		1.30	1.50	15.38	1.39	1.40	0.72	1.19	0.99	-16.66
International trade		13.60	13.80	1.47	12.40	12.40	0.00	14.74	14.75	0.13
domestic goods and serv.		1.00	1.40	40.00	1.30	1.30	0.00	1.22	1.34	10.09
Other		1.00	1.10	10.00	2.70	2.80	3.70	3.65	3.12	-14.45
Nontax revenue		3.27	3.80	16.07	3.89	3.96	1.73	5.23	4.28	-18.25
licenses		2.00	2.10	5.00	2.10	2.10	0.00	1.97	2.38	20.53
rents,interest and divs.		0.27	0.60	118.98	0.39	0.86	118.50	2.04	0.75	-63.16
fees and fines		1.00	1.10	10.00	1.40	1.00	-28.57	1.22	1.15	-5.83
ECCB profits		0.00	0.00		0.00	0.35		0.20	0.57	
Reimbursements		0.07	0.07	3.70	0.06	0.06	0.35	0.09	0.13	53.69
TOTAL REVENUE		33.64	35.17	4.54	36.06	36.67	1.71	41.54	40.15	-3.34
Budget Support		49.90	53.44	7.09	57.96	57.96	0.01	56.68	54.60	-3.66
TOTAL REVENUE & GRANTS		83.54	88.61	6.06	94.02	94.64	0.66	98.22	94.75	-3.52

TABLE 5. MONTSERRAT: EXPENDITURE PERFORMANCE (M EC$)										
		2006	2006	Deviation	2007	2007	Deviation	2008	2008	Deviation
		Budget	Outturn	%	Budget	Outturn	%	Budget	Outturn	%
Total recurrent expend.		89.56	84.84	-5.27	90.00	93.33	3.70	99.20	94.70	-4.54
o/w debt service		0.18	0.11	-38.89	0.21	0.25	19.05	0.24	0.14	-41.67
o/w wages		33.27	32.29	-2.93	35.47	34.08	-3.92	35.81	34.25	-4.37
Total primary expend.		121.98	103.53	-15.13	128.61	120.85	-6.03	148.39	130.06	-12.35
Total development exp.		32.60	18.80	-42.33	38.82	27.77	-28.46	49.43	35.50	-28.18
Total expenditure		122.16	103.64	-15.16	128.82	121.10	-5.99	148.63	130.20	-12.40

TABLE 6. MONTSERRAT: BUDGET ALLOCATIONS AND OUT-TURNS BY MAIN SECTORS (M EC$)										
		2006	2006	Deviation	2007	2007	Deviation	2008	2008	Deviation
HEAD		Budget	Outturn		Budget	Outturn		Budget	Outturn	
1. Consolidated Fd. Serv.		15.61	13.37	2.243639	12.42	15.06	2.6371	15.94	16.04	0.1
2. Gov. Office		0.47	0.30	0.171177	0.36	0.27	0.083661	0.29	1.41	1.12
3. Admin.		5.76	5.49	0.269698	6.07	6.00	0.0744	6.24	5.48	0.76
4. Office of CEO		0.44	0.09	0.351576	0.83	0.66	0.172202	1.27	0.60	0.67
5. Police		6.29	6.05	0.238022	6.17	6.36	0.185479	7.01	6.96	0.052461
6. Emergency Dept.		7.03	7.01	0.019328	7.03	6.37	0.660001	5.80	5.62	0.18
7. Legal		1.28	0.86	0.419209	1.20	0.93	0.268682	1.45	1.34	0.11
8. Magistrates Court		0.16	0.14	0.022395	0.16	0.12	0.039378	0.15	0.13	0.021177
9. Supreme Court		0.87	0.69	0.176638	0.82	0.75	0.077289	0.81	0.79	0.02
10. Legis./Audit		1.74	1.51	0.235234	1.82	1.66	0.157357	1.88	1.68	0.204
11. Chief Min. Office		3.27	3.12	0.152697	4.00	3.86	0.142	4.08	3.94	0.1387
12. MOF		5.54	4.92	0.620117	5.01	4.28	0.7305	5.06	4.83	0.23
13. Development Unit		2.78	2.68	0.108784	2.87	2.73	0.135	2.72	2.50	0.22
14. Treasury		1.15	0.91	0.241659	0.98	0.82	0.1618	0.91	0.82	0.09
15. Customs & Excise		1.04	1.02	0.023448	1.14	1.03	0.1138	1.09	1.07	0.02
16. Inland Revenue		0.64	0.57	0.075416	0.74	0.66	0.085727	0.77	0.70	0.07
17. General PO		0.50	0.48	0.02018	0.47	0.42	0.0505	0.43	0.40	0.03
18. Agriculture		5.11	4.96	0.14513	5.84	5.56	0.2779	6.56	6.39	0.17
19. Communications & Works		9.43	9.66	0.229097	12.65	12.44	0.214	12.47	12.25	0.22
20. Education		6.76	6.66	0.108251	8.01	7.78	0.2255	8.28	8.13	0.15
21. Health		14.14	13.62	0.519202	15.88	15.58	0.3012	16.10	15.40	0.7
TOTAL=		90.03	84.09	6.39	94.50	93.35	6.79	99.32	96.48	5.28
Average % Deviation				7.10			7.19			5.31
check		0.00	0.00		0.00	0.00		0.00	0.00	

TABLE 7: TAX ARREARS DATA FOR PI 15				
Collections	**2008**	**2007**	**2006**	**2005**
Income tax	11,439,867.69	17,340,671.71	11,336,877.71	11,015,455.00
Company tax	1,760,809.14	3,692,401.87	1,760,809.14	1,764,889.00
Property tax	1,448,198.78	1,773,702.40	1,448,198.78	1,377,278.00
Total	14,650,883.61	22,806,775.98	14,547,891.63	14,159,627.00
Arrears @ y/e	**2008**	**2007**	**2006**	**2005**
Income tax		771,581.48	557,126.15	1,489,032.84
Company tax		707,549.24	110,940.35	961,139.43
Property tax		790,985.62	656,653.64	763,175.25
Total	-	1,562,567.10	1,326,726.14	3,213,347.52
Percentage arrears on collections		6.85	9.12	22.69
Average 2005-7	12.89			

TABLE 8: TOTAL AID FLOWS IN EC $ (2005-8)										
				2005		**2006**		**2007**		**2008**
				Actual		Actual		Actual		Budget Est.
1. Budget Aid				48.961176		53.435		57.96375		56.67541
% of total revenue						151.9		158.1		141.1
%of total recurrent expend.						63.0		62.1		59.8
2. Development (Project) Aid				18.511994		13.684461		27.77311		46.103129
% of development Expend.						72.79		100.0		129.9
o/w DIFID				18.506704		13.654335		15.08416		31.458517
Share DIFID (%)				99.97		99.78		54.31		68.24
o/w EU				0		0.030126		2.528482		10.867175
Share of EU (%)				0		0.22		9.10		23.57
o/w Others				0.0053		9.85323E-16		10.16047		3.777437
Share others (%)				0.0286		7E-15		4E+01		8E+00
3. Total Aid (1+2)				67.47317		67.119461		85.73686		102.77854
% of total expenditure						79.8		91.8		103.5
% of GDP						64.0		78.1		87.6

Source: Government of Montserrat, Budget Speech and Estimates of Revenue and Expenditure, 2005, 2006, 2007, 2008; also from data Division of Statistics, and DFID Office in Montserrat.

Additional data to assess Statutory Board finances

2008

	Income	Expenditure	Assets	Liabilities
MDC	1,027,438.00	460,721.00	704,589.00	137,872.00
FSC				
MVO	3,880,000.00	3,880,000.00		
MonLec				
Mon Water				
LDA GoM Housing				
LDA Non GoM Housing				
MPA				
MTB	1,290,000.00	1,290,000.00		
Mont Philatelic				
social security				
Total	**6,197,438.00**	**5,630,721.00**	**704,589.00**	**137,872.00**

	Statutory Body not yet created
	Accounts not available - unaudited

2007

	Income	Expenditure	Assets	Liabilities
MDC				
FSC	793,062.00	551,061.00	1,444,539.00	151,096.00
MVO	3,900,000.00	3,900,000.00		
MonLec				
Mon Water	3,281,914.00	3,427,531.00	3,970,167.00	1,843,968.00
LDA GoM Housing	(169,468.00)	1,593,608.00	43,655,420.00	603,353.00
LDA Non GoM Housing	466,010.00	462,203.00	1,959,380.00	1,588,093.00
MPA	2,961,262.00	3,353,214.00	16,379,522.00	9,477,440.00
MTB	1,580,000.00	1,580,000.00		
Mont Philatelic				
social security	7,618,090.00	5,619,863.00	43,449,057.00	231,258.00
Total	**20,430,870.00**	**20,487,480.00**	**110,858,085.00**	**13,895,208.00**

	Statutory Body not yet created
	Accounts not available - unaudited

2006

	Income	Expenditure	Assets	Liabilities
MDC				
FSC	692,733.00	549,868.00	1,358,792.00	307,096.00
MVO	407,000.00	407,000.00		
MonLec				
Mon Water	3,039,244.00	3,600,296.00	3,792,636.00	1,493,451.00
LDA GoM Housing	659,527.12	1,498,730.32	27,682,717.31	152,486.69
LDA Non GoM Housing	481,071.08	474,138.19	433,121.77	65,640.83
MPA	2,351,238.00	2,216,255.00	17,167,013.00	1,143,870.00
MTB	1,680,000.00	1,680,000.00		
Mont Philatelic				
social security	11,032,488.00	6,966,154.00	41,632,458.00	97,301.00
Total	20,343,301.20	17,392,441.51	92,066,738.08	3,259,845.52

Statutory Body not yet created

Accounts not available - unaudited

2005

	Income	Expenditure	Assets	Liabilities
MDC				
FSC	692,733.00	549,868.00	1,358,792.00	307,096.00
MVO				
MonLec				
Mon Water	3,039,244.00	3,600,296.00	3,792,636.00	1,493,451.00
LDA GoM Housing	659,527.12	1,498,730.32	27,682,717.31	152,486.69
LDA Non GoM Housing	481,071.08	474,138.19	433,121.77	65,640.83
MPA	2,351,238.00	2,216,255.00	17,167,013.00	1,143,870.00
MTB				
Mont Philatelic				
social security	11,032,488.00	6,966,154.00	41,632,458.00	97,301.00
Total	18,256,301.20	15,305,441.51	92,066,738.08	3,259,845.52

Statutory Body not yet created

Accounts not available - unaudited

Annex III: List of People Consulted

Organization	Name	Designation
Ministry of Finance	Mrs Lindorna Brade	Policy Analyst
	Miss Annesta James	Budget Analyst
	Mr. Stephen Turnbul	Internal Audit Advisor
	Mr. Alfred Ryan	Internal Auditor
Treasury Department	Miss Violet Johnson	Accountant (Records)
	Mr Darrell Herbert	Accountant (Payroll)
Inland Revenue Department	Miss Violet Silcott	Comptroller
Office of the Auditor General	Miss Florence Lee	Auditor General
	Miss Marsha Meade	Deputy Auditor General
Customs Department	Mr. Melroy Meade	Comptroller
	Mrs. Amelda Winsoeare	Deputy Comptroller
	Mr Hewlett Williams	Senior Customs Officer
	Miss Juliana Sweeney	Customs Officer (III)
Development Unit, Statistics & Trade	Mrs Anjela Greenaway	Permanent Secretary
Ministry of Communications & Works	Mr Philip Chambers	Permanent Secretary
Office of the Chief Establishment Officer/PSRU	Mrs. Delmaude Ryan	Head, Public Service Reform
Montserrat Stationary Centre	Mr Kenneth Cassell	Manager
Government Information Systems	Mr. Denzil West	Director
Cable & Wireless	Mr Joseph Cassell	Manager
Montserrat Chamber of Commerce	Mr Joseph Cassell	Chairman
Montserrat Utilities Ltd	Mr Peter White	Manager
Ministry of Education	Mrs Daphne Cassell	Permanent Secretary
Ministry of Finance	Mr John Skerritt	Financial Secretary
	Mr Reuben Meade	Chief Minister