



COMPLIANCE AUDIT

ON

**The Government of Montserrat 2010 Agreement with Delta
Petroleum (Montserrat) Limited**



Office of the Auditor General
September 2021



**The Government of
Montserrat's 2010 Agreement
with Delta Petroleum
(Montserrat) Limited**

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

Marsha V. E. Meade
Auditor-General (Ag)
Office of the Auditor General
24 September 2021

PREAMBLE

Vision-Statement

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

Mission-Statement

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

The Goal

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

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INTRODUCTION

Background Information

1. The Trade and Quality Infrastructure (TQI) Division is an interface between the Government of Montserrat (GOM) and the business community, mandated to develop programmes and initiatives, and to provide services that are geared towards adding value to the local business sector. This Department is responsible for the administration of the agreement between the GOM and Delta Petroleum (Montserrat) Limited. At the commencement of this audit, the Trade and Quality Infrastructure (TQI) Division was under the Ministry of Agriculture, Trade, Lands, Housing and the Environment, but it is now under the Office of the Premier.

On 15 July 2010, the Permanent Secretary in the Ministry of Trade and Economic Development, on the behalf of the GOM, and the Managing Director of Delta Petroleum (Montserrat) Limited, signed an Agreement for the purchase and ownership of a 3,500-gallon Tank Wagon. This followed the Cabinet's Decision 150/10 dated 15th April, 2010, in which the Council agreed: [1] to the GOM's purchase of a tank wagon in partnership with Delta Petroleum (Montserrat) Limited at a cost of approximately EC\$450,000, the GOM's share being fifty percent (50%) of the costs; and [2] that the GOM would settle the outstanding LPG losses of approximately EC\$188,886.91 to Delta Petroleum (Montserrat) Limited. The Council also agreed that a cost of approximately EC\$0.06 per gallon be included in the pricing of diesel and gasoline over the next 5 years to finance those costs. The Council further agreed that the GOM should enter into an agreement with Delta Petroleum (Montserrat) Limited for the ownership of the tank wagon.

This audit was intended to provide assurance that the GOM and Delta Petroleum (Montserrat) Limited duly executed the agreement made between them in compliance with Cabinet Decision 150/10 dated 15 April 2010.

Audit Mandate

2. The audit's mandate, as conscribed in the Montserrat Constitution Order, 2010, and Section 42 (1) of the Public Finance (Management and Accountability) Act, No. 7 of 2008, makes the Auditor General responsible (a) for the audit of the Public Accounts, Accounts of Government Ministries or Departments, Statutory Corporations and entities who are receiving or seeking grants from the public purse and (b) to conduct value-for-money audits. Underpinning all this is the need to conduct compliance and/or regulatory audits. The audit work is conducted in accordance with the Public Finance (Management and Accountability) Regulations, 2009.

Audit Objective

3. The aim of the audit was to provide reasonable assurance that the GOM and Delta Petroleum (Montserrat) Limited duly executed the agreement made between them. Reasonable assurance was appropriate since the information required should have been readily available and persons involved with the execution of the agreement were experienced and qualified.

For this purpose, we formulated the following sub-objectives to determine whether we could make an overall conclusion on this process:

- Sub-objective 1 – determine whether (a) the parties purchased a Tank Wagon and (b) the price paid for the Truck.
- Sub-objective 2 – determine whether Delta Petroleum (Montserrat) Limited added six cents (EC\$0.06) charge per gallon, to the costing of Diesel and Gasoline imported by Delta Petroleum for reimbursement by the GOM of 50% of the purchase-price of the tank-wagon and to cover the LPG losses of approximately EC\$188,886.91
- Sub-objective 3 - determine (a) whether Delta Petroleum (Montserrat) Limited recouped the amounts mentioned in sub-objective 2 and (b) whether the \$0.06 charge ceased.
- Sub-objective 4 – to determine whether the GOM entered into an agreement with Delta Petroleum (Montserrat) for ownership of the tank wagon.
- Sub-objective 5 – determine (a) whether Delta Petroleum (Montserrat) Limited insured the Truck and (b) whether the GOM reimbursed 50% of the cost.

Audit Criteria

4. We derived our criteria from the following:

Cabinet Decision 150/10 – Financing of Outstanding Balance Owed to Delta and for the Purchase of a New Tank Wagon.

Agreement made on 15 July 2010 – Between the Government of Montserrat and Delta Petroleum (Montserrat) Limited in respect of the Purchase and Ownership of a (3500-gallon) Tank Wagon Truck.

Audit Scope

5. This audit covered the execution of the agreement between the Government of Montserrat and Delta Petroleum (Montserrat) Limited from 15 July 2010 to 31 March 2019.

FINDINGS

6. As part of the OAG's Annual Audit Work Plan, we conducted an audit of an agreement between the GOM and Delta Petroleum (Montserrat) Limited.

We obtained a signed copy of the agreement made between the Government of Montserrat and Delta Petroleum (Montserrat) Limited. It was agreed that the Truck will be jointly owned by the Parties, each party holding a fifty percent (50%) interest in the Truck.

We requested, but did not receive, a receipt showing payment for the Tank Wagon. We received a copy of an invoice for US\$141,875.00. We were unable to verify whether the amount paid for the truck did not exceed EC\$450,000.00 as specified in the agreement. A letter from Delta Petroleum (Montserrat) Limited to the Permanent Secretary, Ministry of Trade and Economic Development, bearing the Ministry's stamp as at 25th August, 2010, stated that the truck was purchased and should be delivered to Montserrat on or before end of December 2010. No other documentation was presented concerning the arrival of the Truck.

It was determined, from the calculations received from the Department of Trade, that Delta Petroleum (Montserrat) Limited added EC\$0.06 charge per gallon to the costing of Diesel and Gasoline imported for reimbursement by GOM of 50% of the purchase price of the tank wagon and to cover the LPG losses of approximately EC\$188,886.91. The Agreement stated that the reimbursement should be paid over a period of five (5) years from the date of purchase of the Truck. It is evident, therefore, that the surcharge of \$0.06 per gallon that was instituted to recoup the outstanding payments by the GOM should have ceased by year 2015.

A statement of Excess Charge dated 9 March 2021, from the Department of Trade shows that there had been a cumulative overpayment to Delta Petroleum (Montserrat) Limited of \$299,708.00. The statement recorded the cost of the Wagon as \$225,000.00, which would represent 50% of the total cost. The source-document was not seen.

We did not receive proof of insurance paid by Delta Petroleum (Montserrat) Limited and, therefore, we could not determine whether the Government of Montserrat reimbursed 50% of this insurance.

During the period of the audit, we formally requested but did not receive the following documents as at 16 September 2021:

- a. The payment instrument (receipt) for purchase of Tank Wagon
- b. Copy of insurance receipts for the years 2017 to 2019

- c. Records of service and repairs to the vehicle for the years 2017 to 2019.

The auditors were informed by Delta's Management on 1 September 2021 that the source-documents were stored in a container and that, at the time she commenced duties at Delta Petroleum (Montserrat) Ltd., the documents were wet and muddy and had to be discarded.

RECOMMENDATIONS AND CONCLUSION

RECOMMENDATIONS

7. Based on the findings, we recommend the following:

- The Delta Petroleum (Montserrat) Limited cease charging the \$0.06 with immediate effect as the duration specified in the agreement has expired in excess of five (5) years.
- Furthermore, we recommend that the GOM recoup the excess charges from the Delta Petroleum (Montserrat) Limited immediately.

CONCLUSION

BASIS FOR THE ADVERSE CONCLUSION

8. The Agreement stated, “**the sum to be reimbursed shall be paid over a period of five (5) years from the date of purchase of the Truck**”. Since the truck was purchased in year 2010, the surcharge of \$0.06 per gallon, which was instituted to recoup the outstanding payments by the GOM, should have ceased by the end of year 2015. Delta Petroleum (Montserrat) Limited has breached the Agreement by exceeding the time-limit for charging the additional \$0.06 per gallon on the costing of Diesel and Gasoline for the purpose of the GOM’s reimbursement payments.

ADVERSE CONCLUSION

9. Based on the audit work performed, we found that, because of the significance of the matter noted in the Basis for the Adverse Conclusion paragraph above, Delta Petroleum (Montserrat) Limited is not in compliance, in all material respects, with the Agreement between the Government of Montserrat and Delta Petroleum (Montserrat) Limited.

MANAGEMENT RESPONSE

The report, its findings and recommendations have been noted. The Ministry of Finance will follow-up with the Division of Trade and other relevant parties to ensure that arrangements are made to secure the outstanding sums.

Financial Secretary
Ministry of Finance and Economic Management
13 October 2021

ACKNOWLEDGEMENT

- 10.** The Auditor-General (Ag) wishes to express her gratitude to officers in the GOM's Trade and Quality Infrastructure Division, to the staff of Delta Petroleum (Montserrat) Limited, and to all other persons who contributed to the audit in any way, for the assistance and courtesies extended to the auditors during the course of the audit.



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